EL.EN. GROUP

CONSOLIDATED STATEMENT AS OF DECEMBER 31st 2006

COMPANY OFFICERS

Board of Directors

PRESIDENT
Gabriele Clementi

BOARD MEMBERS AND DIRECTORS
Barbara Bazzocchi
Andrea Cangioli

BOARD MEMBERS
Paolo Blasi
Angelo Ercole Ferrario
Michele Legnaioli
Stefano Modi (*)
Alberto Pecci

Board of Auditors

PRESIDENT
Vincenzo Pilla

ACTING AUDITORS
Paolo Caselli
Giovanni Pacini

SUPPLEMENTARY AUDITORS
Lorenzo Galeotti Flori
Manfredi Bufalini

Auditing Company

Reconta Ernst & Young S.p.A.

(*) Appointed up until the assembly convenes for the approval of the budget on December 31st 2006, in accordance with art. 2386, I comma c.c.

MANAGEMENT REPORT

Management Report for the financial year ending on December 31st 2006

To our shareholders:

The financial year closed on December 31st 2006 with net income of the Group for an amount of 1.638 thousand Euros, after taxes for an amount of 4.541 thousand Euros.

The outcome for this year can be considered generally favourable, with a major increase in the business volume of the Group, and consequently, of its importance on the market, and with particularly brilliant results obtained by some of the subsidiary companies which reached their maximum levels ever in profits and sales volume.
Despite this general affirmation, the comparison of these results with those of last year reveals a worsening of all the revenue indexes; in fact, while in 2005 the quotation of the subsidiary Cynosure on Nasdaq had made it possible to earn capital gains and positive rectifications on the book value of the equity for an amount of approx. 20 million Euros, in 2006 Cynosure had to sustain the expense of a one-time payment in accordance with the agreement stipulated with their competitor, Palomar Technologies Inc. (NASDAQ:PMTI), for the granting of licenses on patents on some laser hair removal devices. As a result of this agreement, Cynosure Inc. had to enter into accounts a non-repeatable cost of 10 million US dollars (using the exchange rate used for the annual Profit and Loss Account, a sum equal to 7,9 million Euros, or 5,1% of the annual consolidated sales volume) and has also agreed to the payment to Palomar of a royalty on all the laser systems for hair removal sold by Cynosure.
The analysis of the consolidate Profit and Loss Account which is shown below must be considered therefore in the light of this non-repeatable cost, entered among the costs of services and operating charges, as well as the effects of the earlier large amount of capital gains, entered for an amount of 20 million Euros under the heading of "Other net income and charges".

Adoption of international accounting principles

The consolidated Annual Report closed on December 31st 2006 was drawn up in conformity with the International Financial Reporting Standard (IFRS) issued by the *International Accounting Standard Board* (IASB) and approved by the European Union, including among these, the *International Accounting Standards* (IAS)which are still in force, as well as all of the interpretative documents issued by the *International Financial Reporting Interpretation Committee* (IFRIC), previously known as the *Standing Interpretations Committee* (SIC).
The El.En. Group adopted the IFRS starting on January 1st 2005, after the European Regulation 1606 of July 19th 2002 came into force. The information sheet required by the IFRS 1 – First use of IFRS, relative to the effects of the transition to the IFRS was included in "Appendix 1" of the consolidated statement on December 31st 2005, which should be referred to for details.
Moreover, in relation to the regulations described in Legislative Decree n. 38/2005, starting with the financial year 2006, the Parent company El.En. S.p.A. will also be required to draw up an individual report in conformity with International Accounting Principles (IFRS).

The accounting principles and evaluation criteria used for this document have not undergone any changes with respect to those used for the previous consolidated annual report closed on December 31st 2005.

All amounts are shown in thousands of Euros unless otherwise indicated.

Description of the Group

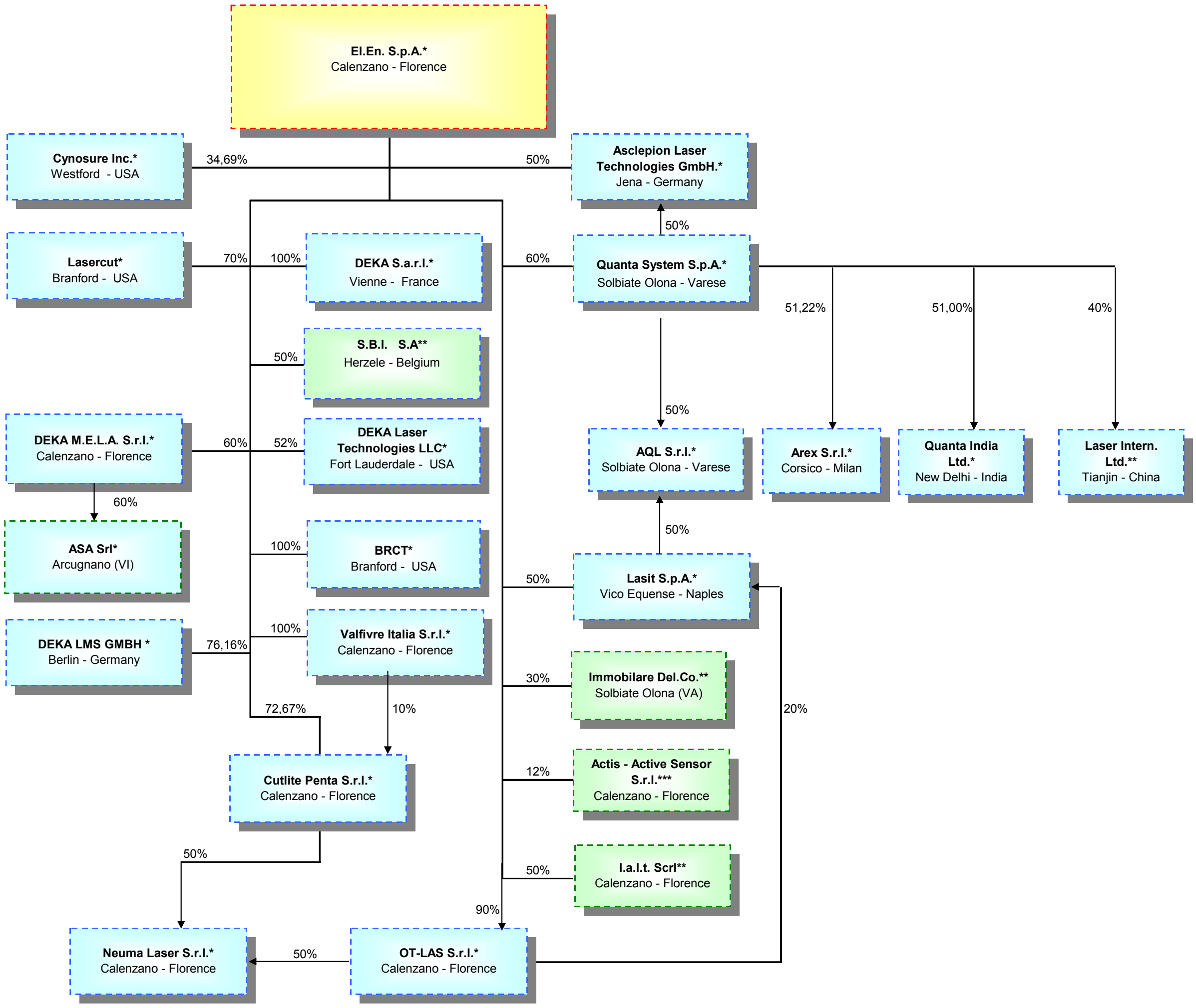
El.En. SpA controls a group of companies operating in the laser sector, to each of which they have assigned a special field of application and particular market function. The structure of the Group consists of companies active in the engineering, manufacture and distribution of laser sources and systems for use in a wide variety of applications. Each of these companies carries out a specific role which depends on the market segment and geographical area in which it operates: Cynosure Inc. and Asclepion Laser Technologies GmbH develop, manufacture, and distribute medical laser systems, ASA Srl produces laser equipment for physical therapy, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, Deka Laser Technologies LLC distribute medical laser equipment, Arex is involved in the management of a medical center, Cutlite Penta Srl and Lasercut Inc. create laser systems for flat cutting, Ot-Las Srl creates systems for marking large areas, Lasit SpA for marking of small surfaces, Neuma Laser Srl conducts sales and service activities abroad, Valfivre Italia Srl engineers and develops special laser systems for industrial cutting applications of cutting, marking and welding, AQL Srl designs, manufactures and distributes laser systems for the industrial business sector, Quanta System SpA develops, manufactures and distributes laser systems for medicine, industry and scientific research.

As of December 31st 2006 El.En. SpA also holds equities in companies like Immobiliare Del.Co. Srl, I.A.L.T. Scrl and SBI – Smartbleach International SA, directly and Laser International Ltd, indirectly, which, however, it does not control; for this reason, the earnings of these companies have not been wholly consolidated in the statement of the Group, but consolidated using the stockholders' equity method.

The equity in Actis Srl has been entered at cost since its inclusion in the area of consolidation would be irrelevant for the purpose of representing the financial situation of the Group.

During the period to which this report refers, no changes have occurred in the activities of the companies of the El.En Group.

As of December 31st 2006 the structure of the Group was as follows:



* *Entirely consolidated*
** *Consolidated using the equity method*
*** *Kept at cost*

Cynosure Inc., a company quoted on the American stock market Nasdaq (NASDAQ:CYNO) controls in turn five companies which distribute their products, and which they own 100% in Germany, France, Great Britain, Japan and China.

Main economic and financial data

During the financial year 2006 there were no structural modifications in the activities of the Group, which continued to operate in the field of design, manufacture and distribution of laser sources and systems; the main selling markets were, as in previous years, those of medical and aesthetic laser equipment and laser systems for industrial operations. Along with the manufacture of laser systems, as in previous years, the Group offered after-sales technical assistance and supplied spare parts to their clientele, a significant activity also from the point of view of revenue; research and development also contributed to the business volume with revenue for research projects and income from reimbursements for expenses.

Revenue registered for 2006 was 154 million Euros, an amount which exceeded expectations (140 million Euros) by about 10% and showed an increase of 30% with respect to the previous year; this growth has been achieved almost entirely without the benefit of acquisitions and therefore represents an outstanding achievement.

The operating result felt the strong negative impact of the non-repeatable cost sustained by Cynosure during the third quarter of the year. Net of this cost in any case, the operating result exceeded forecasts, despite the other important events which had a negative impact on the Profit and Loss Account (the insolvency of Cynosure's client, Sona International, and the accruals for the future re-organization of Lasercut Inc.).

The chart below shows the sub-division of the sales volume by sectors of activity of the Group during 2006, in comparison with the same subdivision for the same period last year.

	31-Dec-2006	Inc%	31-Dec-2005	Inc%	Var%
Industrial systems and lasers	22.932	14,85%	19.395	16,39%	18,23%
Medical and aesthetic lasers	113.267	73,37%	84.017	70,99%	34,82%
Consulting and Research	101	0,07%	87	0,07%	16,98%
Service	18.072	11,71%	14.845	12,54%	21,74%
Total	**154.372**	**100,00%**	**118.343**	**100,00%**	**30,44%**

The medical sector shows an increase of approx. 35% thanks also to the exceptional growth rate registered in the fourth quarter of the year. The most reliable studies recognize an annual growth rate for this specific market of 20-25%; therefore, the Group was able to increase their quota of the market.
There was also a growth in the industrial sector of almost 20% which was well in excess of the overall growth of the specific market, which is that of machine tools for manufacturing.
The sales volume of technical assistance, accessory services and spare parts increased by 22% thanks to the rise in the number of installations to which these services are supplied, and despite the break in relations with Sona International which, in 2005, had developed approx. 1,2 million dollars in sales volume for the rental of laser equipment for hair removal.
The residual category "Consulting and research" is negligible for this period, however we are keeping the heading because this entry is integrated with the entries, as revenues for research activity, under the heading of other income. During the financial year 2006 the income from research activity was 921 thousand Euros as opposed to 1.200 thousand Euros for last year.

The results for this year based on the geographic distribution of sales are shown in the chart below.

	31-Dec-2006	Inc%	31-Dec-2005	Inc%	Var%
Italy	29.051	18,82%	20.769	17,55%	39,88%
Europe	49.767	32,24%	35.514	30,01%	40,13%
Rest of the world	75.555	48,94%	62.060	52,44%	21,75%
Total	**154.372**	**100,00%**	**118.343**	**100,00%**	**30,44%**

The growth rate is high in all marketing areas, and the European and Italian rates are the highest. The weakness of the US dollar favoured the exports of Cynosure towards Europe, and the excellent results of the European subsidiaries of Cynosure are the basis for the increase in sales volume in Europe. The sales volume for the rest of the world, which increased "only" 22%, continues in any case to represent approx. 50% of the consolidated sales volume.

In the medical/aesthetic sector, which represents more than 70% of the sales of the Group, the results of sales in the various segments are shown in the table below:

	31-Dec-2006	Inc%	31-Dec-2005	Inc%	Var%
Surgical CO2	2.589	2,29%	2.345	2,79%	10,41%
Physiotherapy	4.381	3,87%	1.049	1,25%	317,70%
Aesthetic	86.213	76,11%	66.004	78,56%	30,62%
Dental	8.673	7,66%	6.797	8,09%	27,60%
Other medical lasers	10.699	9,45%	7.232	8,61%	47,95%
Accessories	711	0,63%	590	0,70%	20,58%
Total	**113.267**	**100,00%**	**84.017**	**100,00%**	**34,82%**

Once again the growth of the medical sector involves all the other segments, which show two figure increases.

The physical therapy sector is the only area which has benefited from an acquisition, i.e., that made at the end of 2005 by DEKA M.E.L.A. Srl which brought ASA Srl into the Group. Products for high intensity laser therapy , Nd:YAG Hiro 1.0 and Hiro 3.0 laser systems for physical therapy, and the traditional range of ASA products moreover had a particularly brilliant year during 2006, thanks in part to some exceptional orders, which determined a four-fold increase in their sales volume.

The second highest growth rate was registered for the residual sector "Others", an area in which a major role was played by the new Cynergy systems, laser Dye (with colouring agents) a new concept developed by Cynosure, which, thanks to this range of systems and to the innovative Multiplex type of emission has now reappeared as leader in the market segment where it had started.

Growth in the aesthetic sector was over 30%; an increase which is the result of the success of the strategy followed by the Group which has created an intensely ramified and extended network by using four independent companies: Deka, Cynosure, Asclepion and Quanta System, each one able to win a share of the market thanks to a complementary variety of products which differ in type and price range. Among the most successful laser products during this quarter, the Affirm system for "skin tightening", is worth mentioning, but, above all, the Smart Lipo system for laser lipolysis, produced by El.En. SpA and distributed by Cynosure in the United States. This system, which obtained FDA clearance at the end of 2006, met with an excellent reception during the AAD (American Academy of Dermatology) convention, which is one of the key events for the distribution of medical and aesthetic laser systems in the United States and around the world.

Excellent results were also achieved in the dental sector, thanks to the position acquired in the United States with the CO_2 systems distributed by Deka Laser Technologies, but also the positive trend of sales in OEM by Asclepion and the semi-conductor systems manufactured by Quanta System.

Growth of sales of accessories and of CO_2 laser systems for surgery amounted to 20% and 10% respectively. These two types of systems have results which are closely related to each other and for which recent developments in the improvement of the application procedures for special CO_2 laser system accessories would tend to indicate a very positive outlook for the future development of this market.

The table below illustrates in detail the sales volume for the industrial applications sector, divided according to the market segments in which the Group operates.

	31-Dec-2006	Inc%	31-Dec-2005	Inc%	Var%
Cutting	9.869	43,04%	9.244	47,66%	6,77%
Marking	8.526	37,18%	6.841	35,27%	24,62%
Laser sources	4.078	17,78%	2.869	14,79%	42,12%
Welding, other industrial systems	459	2,00%	441	2,27%	4,16%
Total	**22.932**	**100,00%**	**19.395**	**100,00%**	**18,23%**

Growth in the industrial sector reaches almost 20%; this represents an important result for a sector in which the Group maintains a position of leadership in some of the market segments and re-enforces its position as a manufacturer of power sources.
It is, in fact, in the manufacture of power sources that the highest growth rates have been recorded, thanks to the concrete relations which have been established with systems integrators who believed in the capacity of the Group to supply effective and competitive systems, in particular in the CO_2 sources manufactured by El. En, but also thanks to the high-powered solid state sources developed by Quanta System.

The marking sector, both with standard manufacturing applications as well as the special ones for large surfaces, also did very well.

Growth in the cutting sector, which in any case remains the principal sector in this area, was more limited, as was that in the sectors of welding and conservation of works of art.

Reclassified consolidated Profit and Loss Account as of December 31st 2006

The chart below shows the reclassified consolidated Profit and Loss Account closet on December 31st 2006 compared with that for 2005.

Profit and loss account	31-Dec-06	Inc.%	31-Dec-05	Inc.%	Var.%
Revenues	154.372	100,0%	118.343	100,0%	30,4%
Change in inventory of finished goods and WIP	6.547	4,2%	4.003	3,4%	63,6%
Other revenues and income	1.837	1,2%	1.978	1,7%	-7,1%
Value of production	**162.757**	**105,4%**	**124.324**	**105,1%**	**30,9%**
Purchase of raw materials	64.959	42,1%	50.220	42,4%	29,3%
Change in inventory of raw material	(1.121)	-0,7%	(1.722)	-1,5%	-34,9%
Other direct services	16.571	10,7%	10.929	9,2%	51,6%
Gross margin	**82.348**	**53,3%**	**64.897**	**54,8%**	**26,9%**
Other operating services and charges	38.600	25,0%	23.420	19,8%	64,8%
Added value	**43.748**	**28,3%**	**41.477**	**35,0%**	**5,5%**
For staff costs	33.072	21,4%	26.589	22,5%	24,4%
EBITDA	**10.676**	**6,9%**	**14.888**	**12,6%**	**-28,3%**
Depreciation, amortization and other accruals	5.214	3,4%	4.938	4,2%	5,6%
EBIT	**5.461**	**3,5%**	**9.950**	**8,4%**	**-45,1%**
Net financial income (charges)	2.126	1,4%	923	0,8%	130,4%
Share of profit of associated companies	(31)	-0,0%	4	0,0%	
Other net income (expense)	(375)	-0,2%	19.643	16,6%	
Income before taxes	**7.182**	**4,7%**	**30.520**	**25,8%**	**-76,5%**
Income taxes	4.541	2,9%	4.407	3,7%	3,0%
Income for the financial period	**2.641**	**1,7%**	**26.113**	**22,1%**	**-89,9%**
Minority interest	1.003	0,6%	1.409	1,2%	-28,8%
Net income	**1.638**	**1,1%**	**24.704**	**20,9%**	**-93,4%**

The gross margin was 82.348 thousand Euros, an increase of 27% with respect to the 64.897 for the same period last year, despite a decrease in terms of incidence on the sales volume which fell to 53,3% from 54,8% in 2005. This decrease was due to the particular mix of products and markets which determined a combination which was less favourable than last year from the point of view of profitability, also on account of some unusual events. In any case, during the year the profitability of the sales improved and by the end of the year it was close to the percentage registered for 2005.

The gross margin, moreover, reflected the impact of some devaluations on inventory made by the American subsidiaries Cynosure, on account of the insolvency of their client Sona International with whom they had deposited some of the equipment registered as inventory, and Lasercut, which effected some “write offs” in view of the future re-organization of the operating activity of the company.

The costs for services and operating charges was 38.600 thousand Euros, an increase of 64,8% with respect to 2005, and with an incidence on the sales volume which rose to 25% compared with the 19,8% for the same period last year. The cost of the Palomar transaction for the granting of licenses for patent rights, which has been mentioned several times previously, had an incidence of approx. 7,9 million Euros, net of which the annual increase would have been proportional to the increase in sales volume, and the incidence of this cost entry on the sales volume essentially the same as last year.

The costs for staff were about 33.072 thousand Euros, showing an increase (+24,4%)over the 26.589 thousand Euros registered on December 31st 2005, with a slight drop on the incidence on the sales volume which decreased from 22,5% to 21,4%. The figurative costs entered into accounts in relation to the stock options assigned to employees are considered part of staff costs. In 2005 these costs were 1.104 thousand Euros and they rose to 2.414 thousand Euros in 2006; of these, 1.970 thousand Euros were referred to the stock options issued by the subsidiary Cynosure Inc.
Continuing the tendency to increase, on December 31st 2006, the number of employees in the Group was 635 in comparison with 548 employees at the end of 2005.

A large portion of the personnel expenses is directed towards research and development, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. These grants make it possible to amplify the range of research activity since they limit their economic impact; the grants entered into accounts during this year were for an amount of 921 thousand Euros.

The EBITDA was 10.676 thousand Euros as opposed to the 14.888 thousand Euros for the same period last year with an incidence on sales volume which fell from 12,6% to 6,9%.

The costs for amortizations and accruals was 5.214 thousand Euros, an increase of 5,6% with respect to the same period last year, with a decrease in the incidence on the sales volume which fell from 4,2% to 3,4%. The complete devaluation of the goodwill related to the German subsidiary Deka Lms and the accruals for product guarantees are also entered under this heading.

The EBIT was 5.461 thousand Euros with respect to the 9.950 thousand Euros registered on December 31st 2005 and with an incidence on the sales volume which fell to 3,5% with respect to the 8,4% of last year. If we remove the effects of the "Palomar" agreement, the EBIT would be 13.426 thousand Euros with an incidence of 8,7% on the sales volume and a growth of 29,7% with respect to December 31st 2005.

The results of the financial management were 2.126 thousand Euros with respect to the 923 thousand Euros for last year, an increase which is mostly due to the obvious benefits which the cash held by Cynosure after the IPO have on this entry.

The other income and charges did not undergo significant changes this year, whereas during 2005 the heading included the capital gains for approx. 20 million Euros registered for the sale of stock made as part of the IPO of Cynosure, as described in detail in the statement closed on December 31st 2005.

Earnings before taxes were registered for an amount of 7.182 thousand Euros; again in this case, if we remove the "Palomar" effect, earnings before taxes would be 15.147 thousand Euros and the incidence on the sales volume would be 9,8%.

The fiscal load for this year is negatively effected by the lack of some of the facilitations from which the earnings before taxes had benefited last year, like the application of deferred income tax assets by Cynosure Inc. which, now that it is turning a profit again, could have put in evidence, among other things, the effects of the fiscal losses brought forward; the "PEX" exemption which had benefited most of the capital gains earned from the sale of the Cynosure stock; and the neutrality for tax purposes of the rectification of value representing the increase in the stockholders' equity in the quota of Cynosure shares held by El.En. SpA. The tax rate for this year was 63,22% as opposed to 14,44% for last year.

Consolidated balance sheet and net financial position as of December 31st 2006

The reclassified balance sheet below shows a comparison between this years results and those of last year.

	31-Dec-2006	31-Dec-2005	Var.
Balance Sheet			
Intangible assets	7.192	7.354	-162
Tangible assets	13.696	11.322	2.375
Equity investments	505	774	-269
Deferred tax assets	4.140	3.466	674
Other non current assets	239	193	45
Total non current assets	**25.773**	**23.109**	**2.664**
Inventories	38.573	32.797	5.776
Accounts receivables	36.711	30.587	6.124
Tax receivables	6.566	2.963	3.602
Other receivables	3.848	1.876	1.971
Financial instruments	34.011	467	33.544
Cash and cash equivalents	24.361	77.071	-52.711
Total current assets	**144.069**	**145.763**	**-1.694**
TOTAL ASSETS	**169.841**	**168.872**	**970**
Common stock	2.443	2.437	6
Additional paid in capital	35.607	35.324	283
Other reserves	12.940	7.998	4.941
Retained earnings / (deficit)	19.424	3.275	16.149
Net income / (loss)	1.638	24.704	-23.066
Parent stockholders' equity	**72.052**	**73.738**	**-1.686**
Minority interests in consolidated subsidiaries	47.680	50.385	-2.704
Total equity	**119.732**	**124.123**	**-4.391**
Severance indemnity	2.582	2.173	409
Deferred tax liabilities	617	723	-106
Other accruals	4.189	4.046	143
Financial liabilities	1.930	1.961	-31
Non current liabilities	**9.318**	**8.904**	**415**
Financial liabilities	1.301	2.192	-891
Accounts payables	23.606	20.251	3.355
Tax payables	3.088	3.680	-593
Other payables	12.796	9.722	3.075
Current liabilities	**40.791**	**35.845**	**4.946**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	**169.841**	**168.872**	**970**

Net financial position		
	31-Dec-2006	**31-Dec-2005**
Financial mid and long term debts	(1.930)	(1.961)
Financial mid and long term debts	*(1.930)*	*(1.961)*
Financial liabilities due within 12 months	(1.301)	(2.192)
Cash and cash equivalents	58.372	77.539
Net financial short term position	*57.071*	*75.346*
Total financial net position	**55.141**	**73.385**

The chart below shows the Profit and Loss Account for this year and the net financial position of the Group, excluding the subsidiary Cynosure from the area of consolidation.

Profit and loss account	**31-Dec-06**	**Inc.%**	**31-Dec-05**	**Inc.%**	**Var.%**
Revenues	95.450	100,0%	75.822	100,0%	25,9%
Change in inventory of finished goods and WIP	3.224	3,4%	1.040	1,4%	210,0%
Other revenues and income	1.508	1,6%	1.731	2,3%	-12,9%
Value of production	**100.182**	**105,0%**	**78.594**	**103,7%**	**27,5%**
Purchase of raw materials	46.301	48,5%	34.719	45,8%	33,4%
Change in inventory of raw material	(1.704)	-1,8%	(1.562)	-2,1%	9,1%
Other direct services	10.250	10,7%	7.592	10,0%	35,0%
Gross margin	**45.335**	**47,5%**	**37.845**	**49,9%**	**19,8%**
Other operating services and charges	14.823	15,5%	12.246	16,2%	21,1%
Added value	**30.512**	**32,0%**	**25.600**	**33,8%**	**19,2%**
For staff costs	18.671	19,6%	15.103	19,9%	23,6%
EBITDA	**11.840**	**12,4%**	**10.496**	**13,8%**	**12,8%**
Depreciation, amortization and other accruals	2.841	3,0%	3.266	4,3%	-13,0%
EBIT	**8.999**	**9,4%**	**7.231**	**9,5%**	**24,5%**
Net financial income (charges)	(557)	-0,6%	782	1,0%	
Share of profit of associated companies	(31)	0,0%	4	0,0%	
Other net income (expense)	(222)	-0,2%	7.586	10,0%	
Income before taxes	**8.189**	**8,6%**	**15.603**	**20,6%**	**-47,5%**
Income taxes	4.766	5,0%	4.641	6,1%	2,7%
Income for the financial period	**3.423**	**3,6%**	**10.961**	**14,5%**	**-68,8%**
Minority interest	1.306	1,4%	455	0,6%	187,2%
Net income	**2.117**	**2,2%**	**10.507**	**13,9%**	**-79,9%**

Net financial position		
	31-Dec-2006	**31-Dec-2005**
Financial mid and long term debts	(1.118)	(1.271)
Financial mid and long term debts	*(1.118)*	*(1.271)*
Financial liabilities due within 12 months	(841)	(1.806)
Cash and cash equivalents	14.903	22.726
Net financial short term position	*14.062*	*20.920*
Total financial net position	**12.944**	**19.649**

Chart showing reconciliation between the annual report of the Parent company and the consolidated annual report

	Profit and loss account 31-Dec-2006	**Capital and reserves 31-Dec-2006**	**Profit and loss account 31-Dec-2005**	**Capital and reserves 31-Dec-2005**
Balance as per statement of the parent company El.En.	**624.283**	**52.744.882**	**8.188.870**	**53.965.386**
Elimination of investments in:				
- Companies entirely consolidated	1.425.836	20.505.547	16.973.423	20.753.625
- Companies consolidated with the shareholders' equity method	-25.407	-42.232	4.202	-2.200
Elimination of dividends	-238.404		-426.747	
Elimination of intercompany profits on inventory (*)	-156.788	-1.146.739	-65.301	-958.786
Elimination of intercompany profits from sales of fixed assets (*)	8.947	-9.452	29.767	-19.682
Effect of early amortisations (*)				
Other				
Balance as per consolidated statement – Group quota	**1.638.467**	**72.052.006**	**24.704.214**	**73.738.343**
Balance as per consolidated statement – Third party quota	**1.002.774**	**47.680.061**	**1.408.535**	**50.384.545**
Balance as per consolidated statement	**2.641.241**	**119.732.067**	**26.112.749**	**124.122.888**

(*) net of relative fiscal effects

Results of the Subsidiary companies

El.En. SpA controls a Group of companies which operate in the same overall area of lasers, and to each of which a special application niche and particular function on the market has been assigned.
The chart below contains a summary of the results of the companies belonging to the Group that are included in the area of consolidation. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the financial year 2006.

	Net Turnover 31-dic-06	Net Turnover 31-dic-05	Var. %	Net income 31-dic-06	Net income 31-dic-05
Cynosure (*)	62.107	44.960	38,14%	-520	2.970
Deka Mela Srl	18.655	19.731	-5,46%	428	536
Cutlite Penta Srl	9.380	8.218	14,13%	1.013	11
Valfivre Italia Srl	387	420	-7,72%	-15	17
Deka Sarl	1.053	1.238	-15,00%	-277	-147
Deka Lms GmbH	1.651	1.169	41,22%	-308	-212
Deka Dls GmbH (**)	0	435	-100,00%	0	-93
Deka Laser Technologies LLC	2.571	2.118	21,41%	151	192
Quanta System SpA	14.343	10.368	38,34%	584	417
Asclepion Laser Technologies GmbH	17.093	11.140	53,43%	1.451	171
Quanta India Ltd	58	0		9	0
Asa Srl (***)	4.657	629	639,82%	418	29
Arex Srl	843	811	3,95%	43	7
AQL Srl	1.392	1.723	-19,23%	-74	-9
Ot-Las Srl	4.165	2.786	49,50%	325	5
Lasit Spa	3.889	3.791	2,59%	-142	-9
Lasercut Inc.	2.811	2.279	23,35%	-1.083	-518
BRCT Inc.	0	0		15	841
Neuma Laser Srl	268	230	16,55%	40	59

(*) Consolidated data
(**) Incorporated with Deka Lms GmbH as of 01/01/2006
(***) Consolidated since November 2005

Cynosure Inc.
This company operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications. Cynosure is one of the world leaders in the filed of medical lasers and has achieved this position thanks to the superior performance and high quality of its products, in particular the DYE laser with colouring agents for vascular applications and the alexandrite lasers for hair removal.
The company manages directly its own sales and marketing activities on the US market and on international markets through its own subsidiaries and its distribution network. Manufacture and research and development are conducted at Westford.
Cynosure Inc. controls its own network for world distribution also through subsidiary companies of which it has 100% control and which have been specifically created for this purpose in France, Great Britain, Germany, Japan and China. From this latter company, in 2006, Cynosure acquired the minority share from the shareholder who had initially been their partner in a Joint Venture.
After the IPO which occurred in December of 2005, the year 2006 was a period of exceptional growth for Cynosure as a consequence of the expansion of the American market for aesthetic laser applications, and this helped consolidate the competitive positions also on the markets. The increase in sales volume was close to 40%. From the point of view of revenue, the financial year was characterized by a major non-repeatable expense of 10 million US dollars which Cynosure paid to their competitors Palomar Technologies Inc. for the granting of licenses for patent rights on laser hair removal devices; this expense cancelled all profits for the year, but rapidly and at pre-determined cost, removed a potential source of legal expenses and market agitation.
The net financial position of the company is still decidedly in the black, and the financial funds are available for development plans which the management will implement in order to guarantee the company a constant growth in the market for aesthetic laser applications, which offers remarkable development opportunities.

Deka M.E.L.A. Srl
The company conducts activity in Italy and abroad related to the distribution of medical laser equipment manufactured by El.En. SpA, particularly in the fields of dermatology, aesthetics, and the surgery sector, where it operates directly,

and it has established profitable relations of collaboration in the dental sector in Italy (Anthos Impianti). The company has also acquired control (60%) of ASA Srl, the Group company to which the physical therapy sector has been assigned.
During 2006 the company worked hard in an attempt to counteract the sudden loss of its major client, the distributor for Japan, which first had gone through a financial crisis and then finally went bankrupt. With the fall in the volume of business in Japan, the company reacted with an intensified activity on the other markets, particularly the European and extra-European ones, thus limiting the decrease in sales volume to 5%. The fall in operating profit and earnings after taxes was greater, also as a consequence of a slight drop in the sales margins and the obvious negative effect which derived from the decrease in sales volume.

Cutlite Penta Srl
This company is active in the manufacture of laser systems for industrial cutting applications and installs the laser power sources produced by El. En. SpA on movements controlled by CNC
In 2006 the company again starter to turn a satisfactory operating profit thanks to more favourable market conditions, but also to an efficient internal organization of work and opportune positioning on the market.
The structure, in fact, was able to develop an increase of 14% in their sales volume and to increase their sales margins slightly and to exploit the production incentive so as to considerably improve the amount of EBIT. In order to concentrate exclusively on the market for cutting systems and play a fundamental role on the world markets, the company initiated an important investment in China by constituting a joint venture for the purpose of manufacturing systems for the local market; this business will also be able to take advantage of the support of the Parent company El.En. as supplier of sources for power lasers.
The financial support for this initiative was procured by selling the equity in the subsidiary Ot-las Srl to El.En. Spa, and consequently earning a considerable capital gains and generating cash for an amount of approx. 850 thousand Euros, thus balancing a financial situation which otherwise would not have allowed an investment which was vital for the development of future activities.
During 2006, the Parent Company increased the amount of its equity in Cutlite Penta, by acquiring shares for 19,17%; so that the equity now held by El.En. S.p.A. increased to 72,67%.

Valfivre Italia Srl
As in last year, this company conducted manufacturing activity and provided technical assistance for special laser systems for industrial applications besides service activity for the companies of the Group
The year ended with a minor loss which was due to the slight drop in the sales margins. At the end of 2006 El.En. Spa acquired the residual shares from the minority shareholder, this acquiring complete possession of the company.

Deka Sarl
In France Deka Sarl distributes the medical-aesthetic laser equipment and relative accessories manufactured by El.En. and provides after-sales service for medical and aesthetic lasers. The changes in structure which were made during 2006, with the replacement of the sales manager, and, later, the administrator of the company (Gérant) were not enough to develop a sales volume sufficient to break even; on the contrary, the increases in the structure and the personnel costs combined with the drop in sales volume comported a further decline, with operating losses registered for 277 thousand Euros. By re-ordering of the structure and better organization, the management expects to be able to break even in 2007.

Deka Lms GmbH
In Germany Deka Lms GmbH distributes the medical and aesthetic laser equipment manufactured by El.En. SpA. The retirement of the founder of the company and minority shareholder, and the change over to a new manager have considerably penalized the results of the company, also on account of the difficulties encountered by the new General Director, who was replaced at the end of 2006. In March of 2006 the headquarters of the company were transferred to Berlin. Further losses were absorbed by the merger with the subsidiary Deka DLS, which is also in a phase of material transition which caused some shortages related to the previous management to emerge.
The results of the ordinary management registers a loss of 162 thousand Euros and reflects the operating activity in the aesthetic, medical and dental sector (ex Dls) for the year 2006; the exceptional loss of another 145 thousand Euros approximately reflects the debt from the merger with Deka DLS, or rather, the recognition, in the financial statement of LMS, of the operating losses of Deka DLS from the previous years.
During the first quarter of 2007, when the company was under the direction of a new manager with long experience in the sector, it still showed considerable losses, though a recovery in sales volume and profitability is hoped for.

Deka Dls GmbH
Deka Dls GmbH, controlled by Deka Lms, distributed laser systems for the dental sector in Germany. During 2006 the minority shareholder and administrator of the company retired, and his shares were sold to the Parent company, Deka LMS, which later merged Deka DLS by incorporation with Deka LMS.

Deka Laser Technologies LLC
This company uses a particularly efficient distribution system to market the laser systems manufactured by El.En. SpA for the dental market in the United States and has gradually amplified its position. Its growth on the American market, with a highly organized distribution network, numerous installations, and a prestigious position on the market has determined positive revenue results, to the satisfaction of El. En. SpA which is the majority shareholder and main supplier of Deka LLC.

Quanta System SpA
Quanta System became part of the area of consolidation of the Group in 2004 and continues its phase of expansion and excellent revenue results. Quanta System is one of the most exciting realities in the Group because of its innovative activity, and technological research in the laser sector conducted by a highly qualified research team which participates in important development projects, some of which are conducted in collaboration with other companies in the Group and with the most prestigious Italian and European research institutes.

Asclepion Laser Technologies GmbH
This company, which was acquired from Carl Zeiss Meditec has its headquarters in Jena, the birthplace of electro-optics and one of the most important international centers for this kind of technology. After the initial phase of integration in the Group, in which the operating difficulties for the change in management had been financially supported by the favourable conditions for the purchase of the inventory, and after a stage of adjustment at the beginning of 2005, the company began a period of rapid development of its market position both in Germany and on the international markets with excellent revenue outcome. The results obtained in 2006, with a growth of over 50%, EBIT of 13,5% of the sales volume and net profits of 8,5% on the sales volume represent the best individual result in 2006 among the companies of the Group, and is a particular source of satisfaction for the Italian and German managers of the company in Jena.
During 2006 the company moved its headquarters to another site in the city of Jena.
The company is owned 50% by El.En. SpA and 50% by the subsidiary Quanta System SpA.

Quanta India Ltd
This company, founded in India by Quanta System, carries on activities as an intermediary and supplies technical assistance for the purpose of facilitating the introduction of some of the laser systems produced by Quanta System in specific areas of the local market.

ASA Srl
Control of this company was acquired in November of 2005; it operates in the field of physical therapy . ASA obtained important results during 2006, thanks to a successful sales and marketing policy which spread an awareness of the capacity of some of the treatments offered with ASA products, and thanks to some exceptional orders, unlikely to be repeated, which were received from the Central American market. These orders represented a decisive contribution of approx. 50% to the increase in sales volume. As a result, the profitability also showed a marked increase, with net profits registered at approx. 420 thousand Euros.

Arex Srl
The company became part of the Group in April of 2004, and is involved in the management of a medical center in Milano; it has obtained good results thanks to the increase in revenue from the services it offers.

AQL Srl
AQL Srl, is a company that was created in Milan in June of 2004, for the design, manufacture and sale of laser systems for the "Industrial business" sector, as well as research and development of industrial processes and products, manufacturing processes and creation of new technologies in the photonic sector. Its activity is limited to the Italian market where, however, it has achieved modest results and, in fact, showed losses this year. The Board of Directors of the company and the partners (Quanta System Spa and Lasit Spa) have been studying a re-organization plan for the activities which should become more effective so as to bring it up to the level of profitability and to the operating range that the group had intended it for.

Ot-Las Srl
Ot-Las designs and manufactures special laser systems for CO_2 laser marking of large surfaces, a field where it operates by offering the advanced technological solutions thanks to its close technical collaboration with the parent company, El.En. for the development of strategic components.
The amplification of the clientele for their sophisticated systems and a general improvement in the market situation, have brought about a significant increase in sales volume of about 50%, and the revenue which is equal on an operating level, to 11,8% of its business volume. These results are particularly satisfying especially in consideration of the mediocre results of the previous years.
During 2006 the Parent company acquired shares for 21% and then the controlling share of Cutlite Penta Srl, so that its equity in the company is now 90%.

Lasit SpA
The company designs and manufactures laser marking systems complete with controls and software which can be used for marking not only metals, but also wood, glass, leather, and fabrics.
The creation of a new line of innovative products absorbed all of the energies of the company and the increase in sales volume does not do justice to the efforts made, which, among other things were conducted together with a important mid- and long-term development projects. Consequently, the operating results showed a decrease, while the net earnings also registered a loss, due to the devaluation of the equity in AQL as a result of the losses of this company during the year.

Lasercut Inc.
The American company with headquarters in Branford (CT), acquired in April of 2003, is active in the design, manufacture and sale of laser systems for cutting on flat surfaces. The company continues to register negative results, and in the beginning of 2007 was restructured in the hope of minimizing the operating expenses for the purpose of maintaining an operating base in the US for industrial activities without running up excessive costs. The plan to restructure the company comported the elimination of some entries in the assets related to receivables and inventory, cashing-in of which were in any case doubtful in view of the planned restructuring.
It should be remembered that the weakness in the exchange rate of the dollar has undermined from the very beginning the strategic plan that the Group was pursuing when it opened these American headquarters for activities in the industrial sector, which essentially cancelled the margins on the distribution of laser systems manufactured in Italy. During 2006, the return of the exchange rate to around 1.3 again worsened the situation.

BRCT Inc.
BRCT Inc. is the owner of the real estate in Branford, Connecticut, previously held by El.En. SpA, which is the property where the premises of Lasercut Inc. are located. BRCT also holds an equity in the Japanese company With US, acquired in January of 2007 and intended for the distribution in Japan of the medical and aesthetic laser products manufactured by El.En. Spa under the DEKA brand.

Neuma Laser Srl
Neuma Laser conducts activity of after-sales technical assistance as well as a service of technical support in the Far East and in South America, for the laser equipment and industrial systems sold by the Group and in particular on the systems manufactured by the controlling companies, Cutlite Penta Srl and Ot-Las Srl.
The positive results of the Group on the specific markets of Neuma have brought the company to achieve a net profit this year. In December 2006 the company was liquidated because the two partners decided that they were going to conduct the activities of Neuma on their own, in consideration of the development plans of the company and of the Group in South America and in China.

Research and Development activities

In 2006 the Group conducted intense Research and Development activities for the purpose of creating new applications for laser technology both in the medical and industrial sector and to place innovative products on the market.

The global market requires, especially for highly technological products, 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 research and development programs must be conducted and organized according to brief and mid-term schedules.
Research which is conducted in order to obtain results according to a mid-term schedule is characterized by the fact that it is oriented towards higher risk subjects inspired by intuitions which arise within the company and by prospects indicated by the scientific work in our laboratories and in advanced research centres around the world some of which we collaborate with.
On the other hand, research which is dedicated to achieving results according to a short-term schedule, above all for new products and applications, work 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 characteristic and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists working for 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.

The research which is conducted is mainly applied and forms the foundation for some of the specific subjects. Both the applied research and the development of the pre-prototypes and prototypes are sustained by the Group's 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 Instruction and Research (MIUR) and the European Union, as well as directly with the Research and Institutions or local structures .

A brief summary of the research activities conducted by the Group is shown below:

<u>Laser systems and applications in medicine</u>

The activity for the development of equipment and devices for mini-invasive micro-surgery assisted by a robot continued; this activity is developed as part of the a project on the New Medical Engineering program of FIRB (Investment Fund for Basic Research) financed in part by MIUR (*Ministero Istruzione Università e Ricerca*) after a selection process based on the opinions of a jury of international experts.
Experimental studies were started to determine the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels.
Studies are now in progress for the development of a prototype directable micro-tweezer and a multiple-way catheter for endoscopes, endoluminal photo-dynamic therapy

We continued our collaboration with the Laboratory of Ultra-sound and Non-destructive Testing of the Department of Electronics and Telecommunications of the University of Florence to determine the technologies for new optical-acoustical and acoustical-optical micro-probes for minimally invasive diagnostics; these probes will be used for the early diagnosis of the malignant nature of small-sized lesions.
We have reached an agreement with the prestigious American eye clinic (Bascon Palmer of Miami) to conduct activity involving operations on live animals and subsequently on patients, using lasers to glue on the cornea without the use of stitches. This activity is a result of the developments achieved, in collaboration with IFAC of the CNR, by the associated company Actis Active Sensors.
In collaboration with IFAC of the CNR an important research project was conducted for the development of a technique and for the relative devices for performing the anastomosis of blood vessels assisted by laser.

We continued the development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics and agreements were made with for conducting research in the USA in collaboration with the Rizzoli Institutes of Bologna, who has been our partner now for several years.

Research is also now being conducted on new devices and methods for the percutaneous laser ablation of the liver and thyroid, as part of the cooperative activity with IALT (Image Aided Laser Therapy) established between El.En. and Esaote.
A project financed by the European Union on new methods of diagnosis using nano-particles and laser systems with ultrasound inter-agents continued. For this project we are collaborating with prestigious European institutions like Fraunhofer IBMT.

We have continued experiments with a new laser for use with a new technique for the conservation therapy of the saphena vein, for which a new European patent has recently been granted.

We concluded experiments on a new laser system for hair removal; for its high performance, this device can be considered at the top of the range of similar products on the international market.

At the same time, active clinical experimentation has continued in Italy and in qualified European and American centres in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odontostomatology, gasteroenterology, oculistics, phlebology, eco-located interstitial hyperthermia, dermatology and aesthetics.

The research activity aimed at developing a diode laser for neurosurgery applications with mini-invasive techniques was continued.
With a grant from the European Union a research program on mechatronic and micro-technological applications for the biomedical industry is now in progress.
Now in progress we also have the development of a new solid state laser source with programmable duration of the impulse and superior in size with respect to that for a Q-switch laser; we have obtained the first positive results for particular technologies for the creation of hollow reflectors and we are developing the manufacturing technologies and programming of the verification of the maximum energy per impulse according to the manufacturing technologies used.

We have started tests on the effect of photo-mechanic stimulation of the Condrocites. We have made contacts for the conduction of experiments on animal models in the United States for the regenerative therapy of cartilage.

At Cynosure, defractive lenses have been developed for applications for laser rejuvenation of the skin and a patent has been applied for.
At Cynosure they have just completed experiments on laser-lipolysis.
The ultra-compact olmium laser system has just been completed.
We have continued the activities aimed at augmenting the intellectual property of the Group by applying for international patents and assistance for granting them at an international level.

Laser systems and applications for industry

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

Experimental testing is now in progress for the development of the electronics based on a Digital Signal Processor for settings on line and numerical control of galvanometers for scansion heads.

Studies continued for the development of algorithms, calculus programs and hardware were developed for artificial vision systems to be used for the decoration of leather and other materials using laser marking and for cutting and marking of various objects laid out on a work table.
Experimental testing of a new ultra compact CO_2 laser source pumped by radio frequency are now in progress.
Research activity as part of a project for a solid state high power laser source with active material in an amorphous ceramic support is now in progress.
The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.

As part of the same program, we have started the experimentation of a new system of sensors and memorization of environmental stress on works of art while being moved from a museum to a place of display; this “black box” for the transport of works of art was developed by the associated company Actis Active Sensors; this instrument has been tested during the moving of important works of art from the Vatican Museums to the Uffizi and currently two models are being experimented at the Louvre.
A new system for representing thermal transistors for the study of the sate of conservation of works of art and of industrial products in the start-up phase of the manufacturing process is now being experimented.

A project regarding the diagnosis of works of art using fluorescent induced spectrometry has been approved.
Work on the development of a new diagnostic system using lasers on the paper of antique books has continued and recently been granted a patent.
We have modified the mechanical interfaces for the nozzles of Hypertherm cutting heads in order to improve the fluid-dynamics for cutting steel and alloys of exceptional thickness.
An electronic system for tele-diagnosis and tele-assistance for industrial machinery is now being developed, with the prospect that it may also be used for medical purposes.

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

thousands of euros	**31/12/2006**
Costs for staff and general expenses	7.684
Equipment	222
Costs for testing and prototypes	1.157
Consultancy fees	490
Other services	91
Intangible assets	4
Total	**9.648**

As for the entries for sales volume and revenue, the contribution of Cynosure is considerable also in the case of research and development expenses, considering the intense activity which they conduct in this sector. The amount of the expenses for research and development incurred by Cynosure during this financial year was about 4,7 million dollars.

As has always been the policy in the past, the expenses listed in the table have been entirely entered into the operating costs.
The amount of expenses incurred corresponds to 6% of the consolidated sales volume of the Group. The amount spent by Cynosure, as mentioned above, was for 4,7 million dollars, which is 6% of its sales volume; the rest of the expenses were sustained almost entirely by El.En. SpA and amounts to 11% of its sales volume.

Equities held by administrators, auditors and general directors

In conformity with art. 79 of the Consob regulations approved with vote no. 11971 of May 14th 1999, the equities held in the company by the administrators, auditors and their relatives are shown on the chart below.

Name	*Company*	*No. of shares on 31-Dec-2005*	*No. of shares acquired*	*No. of shares sold*	*No. of shares on 31-Dec-2006*
Andrea Cangioli	El.En. S.p.A.	624.460			624.460
Barbara Bazzocchi	El.En. S.p.A.	494.824			494.824
Gabriele Clementi	El.En. S.p.A.	495.650			495.650
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	312.412			312.412
Lucia Roselli	El.En. S.p.A.	350			350
Paolo Caselli	El.En. S.p.A.	300			300
Vincenzo Pilla	El.En. S.p.A.	300			300
Michele Legnaioli	El.En. S.p.A.	160			160
Stefano Modi	El.En. S.p.A.	1.200			1.200
Paola Salvadori	El.En. S.p.A.	300			300
Alberto Pecci	El.En. S.p.A.	354.427	45.825		400.252

(*) Immobiliare del Ciliegio Srl is a company with headquarters in Prato, with a capital stock of 2.553.776 Euros. Andrea Cangioli is the outright owner with a quota of 25% of the capital stock.

On December 31st 2006 there were 4.698.404 shares of ordinary stock in circulation. The nominal value of each share is 0,52 Euros.

Debenture Loan

On November 7th 1996 the Special Assembly of the Parent company voted in favour of the emission of a debenture loan for an amount of up to 619.748 Euros through the issue of 120.000 bonds with a nominal value of 5,16 Euros each. The entire debenture loan was underwritten by: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Stefano Modi, Carlo Raffini and Gabriele Clementi for an amount of 433.824 Euros; by Gabriele Clementi and his wife for an amount of 123.950 Euros ; by Sig. Carlo Raffini and his wife for an amount of 10.329 Euros. The residual portion of the loan, for an amount of 51.645 Euros was underwritten by a third party. The duration of the loan was ten years, with reimbursement by December 31st 2006 at an interest rate of 9,75% payable in deferred annual instalments January 1st of each year. On maturity, the bonds were reimbursed at their nominal value.

Procedures for the management of financial risks

For an analysis of the procedures used for management of financial risks, please refer to the specific paragraph in the comments on the consolidated annual report.

Events of importance which occurred after the closing of the financial year

On February 2nd 2007 El.En. SpA announced the acquisition, effected through its subsidiary BRCT Inc, of a controlling share (51,25%) of With Us Co., a Japanese company involved in the local distribution of laser systems for medical and aesthetic applications and relative accessories. El.En Group contributed to the launching of the company by assigning to them the distribution of the DEKA products. With this company it is hoped that the Group can recover the market position which had been achieved in the past by the previous distributor which serviced thousands of systems installed in Japanese territory and which failed in February of 2006.
On February 27th 2007 the Group announced that, through their subsidiary Cutlite Penta Srl, they had founded Penta-Chutian Laser Technology (Wuhan) Co., Ltd., a joint venture for the distribution and the production of laser systems for industrial applications. The company obtained the business licence in Wuhan, in central China, the most important center in China for electro-optical technologies, and can make use of the facilitations offered by being located in the so-called “Optics Valley of China” as well as in the Wuhan East Lake Hi-tech Development Zone.
The partner in the joint venture is the Wuhan Chutian Industrial Laser Equipment Co., Ltd, a company of the Wuhan Chutian Group, the leader on the Chinese market in the manufacture of laser systems for welding and marking, and also present in the sector of medical lasers and of production with laser systems for other manufacturers. For the past 18 months, the Chutian Group has been the distributor of laser systems for industrial applications for the El.En. Group, and they will bring to the company its particular competence in organizing an effective production structure and a capillary distribution network throughout the Chinese territory. Cutlite Penta Srl holds 55% of the capital of the company, which is set at one million Euros. In the first phase, they will deposit half of their respective quotas of capital, for an overall capitalization of the company of 500 thousand Euros, representing a payment on the part of the El.En. Group of 275.000 Euros. No payments of capital in kind are allowed at this time.

Predictable trends for the financial year now in progress

The market situation for 2007 would still appear to be favourable as far as the medical sector is concerned, and in particular for the aesthetic portion, whereas the industrial sector appears to be promising though not as exciting. The Group is counting on making use of the opportunities offered by this favourable situation, thanks to the re-enforcement of the Group structure as evidenced by the operations concluded in China by Cynosure and in Japan by El.En. The management consequently expects to be able to reach a consolidated sales volume of 185 million Euros (+ 20%) with operating result of 19 million Euros (10% on the sales volumes and +42% with respect to 2006 net of the costs for the Palomar agreement). These forecasts have been made on the basis of a hypothetical exchange rate of 1,30 US dollars per Euro.

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

EL.EN. GROUP

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

Consolidated balance sheet

	Notes		31-Dec-2006		31-Dec-2005	Var.
Balance Sheet						
Intangible assets	1		7.191.856		7.354.173	-162.317
Tangible assets	2		13.696.330		11.321.697	2.374.633
Equity investments:	3					
- in associates		443.779		428.241		
- other investments		61.714		345.809		
Total equity investments			505.493		774.050	-268.557
Deferred tax assets	4		4.140.446		3.466.113	674.333
Other non current assets	4		238.503		193.052	45.451
Total non current assets			**25.772.628**		**23.109.085**	**2.663.543**
Inventories	5		38.572.805		32.797.138	5.775.667
Accounts receivables:	6					
- from third parties		36.513.198		30.569.776		
- from associates		197.432		17.293		
Total accounts receivables:			36.710.630		30.587.069	6.123.561
Tax receivables	7		6.565.631		2.963.348	3.602.283
Other receivables:	7					
- from third parties		3.737.007		1.783.784		
- from associates		110.523		92.682		
Total other receivables			3.847.530		1.876.466	1.971.064
Financial instruments	8		34.011.333		467.233	33.544.100
Cash and cash equivalents	9		24.360.779		77.071.374	-52.710.595
Total current assets			**144.068.708**		**145.762.628**	**-1.693.920**
TOTAL ASSETS			**169.841.336**		**168.871.713**	**969.623**
Common stock	10		2.443.170		2.436.963	6.207
Additional paid in capital	11		35.607.012		35.324.009	283.003
Other reserves	12		12.939.594		7.998.342	4.941.252
Retained earnings / (deficit)	13		19.423.763		3.274.815	16.148.948
Net income / (loss)			1.638.467		24.704.214	-23.065.747
Parent company stockholders' equity			**72.052.006**		**73.738.343**	**-1.686.337**
Minority interests in consolidated subsidiaries			47.680.061		50.384.545	-2.704.484
Total equity			**119.732.067**		**124.122.888**	**-4.390.821**
Severance indemnity	14		2.582.226		2.173.430	408.796
Deferred tax liabilities	15		616.814		722.923	-106.109
Other accruals	16		4.188.955		4.046.235	142.720
Financial liabilities:	17					
- to third parties		1.930.395		1.960.970		
Total financial liabilities			1.930.395		1.960.970	-30.575
Non current liabilities			**9.318.390**		**8.903.558**	**414.832**
Financial liabilities:	18					
- to third parties		1.300.795		2.192.170		
Total financial liabilities			1.300.795		2.192.170	-891.375
Accounts payables:	19					
- to third parties		23.473.550		20.098.929		
- to associates		132.552		152.210		
Total accounts payables			23.606.102		20.251.139	3.354.963
Tax payables	20		3.087.500		3.680.064	-592.564
Other payables:	20					
- to third parties		12.796.482		9.721.894		
Total other payables			12.796.482		9.721.894	3.074.588
Current liabilities			**40.790.879**		**35.845.267**	**4.945.612**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY			**169.841.336**		**168.871.713**	**969.623**

Consolidated Profit and Loss Account

Profit and loss account	**Note**		**31/12/06**		**31/12/05**
Revenues:	21				
- from third parties		154.192.996		118.331.383	
- from associates		179.469		11.678	
Total revenues			154.372.465		118.343.061
Other revenues and income:	22				
- from third parties		1.831.835		1.969.059	
- from associates		4.800		8.912	
Total other revenues and income			1.836.635		1.977.971
Total revenues and income			**156.209.100**		**120.321.032**
Purchase of raw materials:	23				
- to third parties		64.894.355		50.199.133	
- to associates		64.310		20.550	
Total purchase of raw materials			64.958.664		50.219.683
Change in inventory of finished goods and WIP			(6.547.478)		(4.002.923)
Change in inventory of raw material			(1.121.376)		(1.721.746)
Other direct services:	24				
- to third parties		16.543.715		10.929.454	
- to associates		27.600			
Total other direct services			16.571.315		10.929.454
Other operating services and charges:	24				
- to third parties		38.524.776		23.343.080	
- to associates		75.354		76.750	
Total other operating services and charges			38.600.130		23.419.830
For staff costs	25		33.072.115		26.588.832
Depreciation, amortization and other accruals	26		5.214.280		4.938.251
EBIT			**5.461.450**		**9.949.651**
Financial charges:	27				
- to third parties		(1.215.942)		(907.545)	
Total financial charges			(1.215.942)		(907.545)
Financial income	27				
- from third parties		3.340.373		1.828.350	
- from associates		2.000		2.000	
Total financial income			3.342.373		1.830.350
Share of profit of associated companies			(30.636)		4.202
Other net income (expense)	28		(374.909)		19.643.242
Income before taxes			**7.182.336**		**30.519.900**
Income taxes	29		4.541.095		4.407.151
Income for the financial period			**2.641.241**		**26.112.749**
Minority interest			1.002.774		1.408.535
Net income			**1.638.467**		**24.704.214**

Basic net (loss) income per share		0,35	5,30
Diluted net (loss) income per share		0,34	5,20
Basic weighted average common shares outstanding	31	4.690.488	4.662.999
Diluted weighted average common shares outstanding		135.980	88.986

(*) In accordance with Delibera Consob 15519 of 27th July 2006, the amounts related to significant non-recurring events are listed in note (32). In particular, for the financial year 2006, in the "Costs for operating services and charges" non-recurring costs have been entered for an amount of 7.965 thousand Euros; for the financial year 2005, non-recurring income was entered into the "Other net charges and income" for an amount of 20,162 thousand Euros.

Financial statement (cash flow)

Financial statement (cash flow)	31-Dec-2006	31-Dec-2005
Cash flow generated by operating activity:		
Profit (loss) for the financial period	1.638.467	24.704.214
Amortizations and depreciations (26)	3.352.569	2.825.694
Devaluations of equity investments	62.634	93.580
Stock Options	2.413.805	1.269.079
Change of employee severance indemnity (14)	408.796	256.924
Change of provisions for risks and charges (16)	142.720	1.242.532
Change of provisions for deferred income taxes	-780.442	-1.969.241
Stocks (5)	-5.775.667	-6.883.178
Receivables (6)	-6.123.561	-7.967.719
Tax receivables (7)	-3.602.283	-262.105
Other receivables	-1.713.398	441.898
Payables (19)	3.354.963	3.911.338
Tax payables (20)	-592.564	-36.602
Other payables (20)	3.074.588	2.879.892
	-5.777.840	-4.197.908
Cash flow generated by operating activity	-4.139.373	20.506.306
Cash flow generated by investment activity:		
(Increase) decrease in tangible assets	-5.432.677	-3.651.098
(Increase) decrease in intangible assets	-132.208	4.148.114
(Increase) decrease in equity investments and non current assets	160.472	-161.112
Increase (decrease) in financial receivables (7)	-257.666	-39.117
(Increase) decrease investments which are not permanent (8)	-33.544.100	211.668
Cash flow from purchase of subsidiary companies		-266.891
Cash flow generated by investment activity	-39.206.179	241.564
Cash flow from financing activity:		
Increase (decrease) in non current financial liabilities (17)	-30.575	-643.449
Increase (decrease) in current financial liabilities (18)	-891.375	-1.866.726
Change in Capital and Reserves	-3.161.051	1.103.770
Change in Capital and Reserves of third parties	-2.704.484	44.291.876
Dividends distributed (30)	-2.577.558	-1.631.785
Cash flow from financing activity	-9.365.043	41.253.686
Increase (decrease) in cash and cash equivalents	-52.710.595	62.001.556
Cash and cash equivalents at the beginning of the financial period	77.071.374	15.069.818
Cash and cash equivalents at the end of the financial period	24.360.779	77.071.374

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.

Interest earned during this financial period amounts to 2,4 million Euros.

Current taxes for this financial year were 5,6 million Euros.

The devaluation of the dollar during 2006 produced a negative effect on the cash held by the Cynosure Group for 1,2 million Euros.

Table of Variations in the Stockholders' Equity

STOCKHOLDERS' EQUITY:	**Balance 31-Dec-2004**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31-Dec-2005**
Common stock	2.424.367				12.596	2.436.963
Additional paid-in capital	34.954.351				369.658	35.324.009
Legal reserve	537.302					537.302
Own shares	-255.937				255.937	
Other reserves:						
Extraordinary reserves	6.069.661	269.390				6.339.051
Reserve for contribution on capital account	426.657					426.657
Reserve for translation adjustments	-579.791				919.262	339.471
Other reserves	38.686				317.175	355.861
Retained earnings	31.471	4.376.908	-1.631.785		498.221	3.274.815
Profits (loss) of the year	4.646.298	-4.646.298			24.704.214	24.704.214
Parent company's stockholders' equity	48.293.065	-	-1.631.785	-	27.077.063	73.738.343
Capital and reserves of third parties	3.849.531	1.760.958	-259.172		43.624.693	48.976.010
Profit (loss) of third parties	1.760.958	-1.760.958			1.408.535	1.408.535
Minority interests	5.610.489	-	-259.172	-	45.033.228	50.384.545
Total Stockholders' equity	53.903.554	-	-1.890.957	-	72.110.291	124.122.888

STOCKHOLDERS' EQUITY:	**Balance 31-Dec-2005**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31-Dec-2006**
Common stock	2.436.963	-	-	-	6.207	2.443.170
Additional paid-in capital	35.324.009	-	-	-	283.003	35.607.012
Legal reserve	537.302	-	-	-	-	537.302
Own shares	-	-	-	-	-	-
Others reserves:						
Extraordinary reserves	6.339.051	6.988.600	-	-	-	13.327.651
Reserve for contribution on capital account	426.657	-	-	-	-	426.657
Reserve for translation adjustments	339.471	-	-	-	-2.504.302	-2.164.831
Other reserves	355.861	13.392	-	-	443.562	812.815
Retained earnings	3.274.815	17.702.222	-2.577.558	-	1.024.284	19.423.763
Profits (loss) of the year	24.704.214	-24.704.214	-	-	1.638.467	1.638.467
Parent company's stockholders' equity	73.738.343	-	-2.577.558	-	891.221	72.052.006
Capital and reserves of third parties	48.976.010	1.408.535	-301.441	-	-3.405.817	46.677.287
Profit (loss) of third parties	1.408.535	-1.408.535	-	-	1.002.774	1.002.774
Minority interests	50.384.545	-	-301.441	-	-2.403.043	47.680.061
Total Stockholders' equity	124.122.888	-	-2.878.999	-	-1.511.822	119.732.067

EXPLANATORY NOTES ON THE FINANCIAL TABLES

INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTAX which is managed by Borsa Italiana SpA.
The Consolidated Financial Statement for the El.En. Group was examined and approved by the Board of Directors on March 30th 2007.
The amounts shown in this statement are in Euros, which is the working currency of the Parent Company and many of its subsidiaries.

EVALUATION CRITERIA

The consolidated financial statement has been drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments, the evaluation of which has been conducted on the basis of the principle of *fair value*.

This consolidated statement for the financial year ending December 31st 2006 has been drawn up in conformity with the International Accounting Principles approved by The European Union, including all the international principles which are subject to interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the preceding Standing Interpretations Committee (SIC), as well as the regulations issued in accordance with Art. 9 of D.lgs 38/2005, with the exception of the following IFRS , the following interpretations of the IFRIC and the revised principles. The adoption of these revised principles and interpretations had no significant effect on the financial statements of the Group.

IFRS 6 Exploration and evaluation of mineral resources
The principle is not applicable to the activities of the Group.

IFRIC 4 Determine if an agreement contains a leasing
The principle has not had significant effects on the Group.

IFRIC 5 Rights deriving from participation in funds for dismantling, restitution or improvements related to the environment.
The principle is not applicable to the activities of the Group.

IFRIC 6 Liabilities deriving from participation in a specific market – Refuse from electric and electronic equipment.
The principle is not applicable to the activities of the Group.

IAS 19 Benefits to employees
Starting on January 1st 2006 the company adopted the modifications of IAS 19 but was not influenced in terms of effects or evaluations since the group did not apply the new option which would allow them to set aside actuarial earnings and losses in a reserve of the stockholders' equity.

IAS 21 Effects of the variations in the exchange rates of foreign currency
The modification of the principle had no significant effects on the financial statement of the Group.

IAS 39 Fair value option
The principle is not applicable to the activities of the Group.

IAS 39 Coverage of highly probable future inter-Group operations
The amendment modified IAS 39 in such a way that it made it possible for the risk of change, in the exchange rate related to a highly probable future transaction between two members of the Group, to be qualified as a covered element in a covering of cash flow, on the condition that the transaction be conducted in a currency which is not the usual working currency of the company which enters into the transaction and that the currency risk will generate effects on the Profit and Loss Account. Since, at this time the Group does not have this type of transaction in progress, the modification had no effect on the financial statement.

IAS 39 Financial instruments: reporting and measuring and IFRS 4. Modifications for financial guarantee contracts
The principle is not applicable to the activities of the Group.

IFRS and IFRIC Interpretations not yet in force

The Group did not apply the IFRS, the IFRIC Interpretations and the amendments listed below, which have been published but are not yet in force:

IFRS 7 Financial instruments: additional information
Requires an information sheet which enables the users of the statements to evaluate the significance of the financial instruments of the Group and the nature of the risks associated with these instruments.

IFRS 8 Operating segment
Requires additional information which will enable the users of the statement to gain a better understanding of the management reporting methods. The Group is still evaluating the effects of these interpretations and is not yet able to determine the effects of the new principle on its statement.

IFRIC 7 Application of the redetermination method according to IAS 29 "Accounting information in hyper-inflated economies"
The principle is not applicable to the activities of the Group.

IFRIC 8 Purpose of the IFRS 2
The interpretation clarifies some aspects of IFRS 2 (payments based on stocks)

Amendments to IAS 1 Presentation of the financial statement
This modification requires that the Group supply additional information which will allow users of the financial statements to evaluate the objectives, the polices, and the procedures that the Group uses for the management of their capital.
The Group is still evaluating the effects of these interpretations.

No exceptions to the the International Accounting Principles have been applied in drawing up this consolidated financial statement.

This consolidated Annual Report consists of:
- the Balance Sheet,
- the Profit and Loss Account,
- the Financial Statement (Cash Flow)
- the Table of Variations in the Stockholders' Equity,
- the following Explanatory Notes.

The economic information which is provided here is related to the financial years 2006 and 2005. The financial information, however, is supplied with reference to December 31st 2006 and December 31st 2005.

As far as the kind of financial charts are concerned, the Company decided to present the following types:

Consolidated Balance Sheet
The consolidated balance sheet is presented in individual sections with separate indications of Assets, Liabilities and Stockholders' equity. The Assets and Liabilities are then shown in the accounting situation on the basis of their classification as current or non-current.

Consolidated Profit and Loss Account
The consolidated Profit and Loss Account is presented as a classification by type. It shows the EBIT, which includes all the components of the income and costs, independent of the number of times they are repeated or of their being or not being characteristic of the management, with the sole exception of the components of the financial management entered between the EBIT and Income before taxes.
Moreover, the components of the income and expenses which are derived from activities which will soon be interrupted or cease, including any capital gains or capital losses net of fiscal effects, have all been entered under a specific heading which precedes the Profits which are to be attributed to the stockholders of the Parent Company and the minority stockholders.

Consolidated Financial Statement (Cash Flow)
The financial statement (cash flow) is presented in sections divided according to the area of formation of the cash flow. The type of table used by the El.En Group for the financial statement (cash flow) has been drawn up applying the indirect method for cash flow generated by operating activities. Cash in hand included in the financial statement

includes the financial balances for this item on this date. Income and expenses related to interests, dividends received and income taxes are included in the cash flow generated by the operating management.

Table of Variations in the Consolidated Stockholders' Equity
This prospectus shows the variations in the consolidated stockholders' equity in accordance with International Accounting Principles, showing separately income for the financial period, all profits and earnings, charges and expenses which were not listed in the Profit and Loss Account, but directly involved in the consolidated stockholders' equity according to the specific accounting principles IAS/IFRS.

The parent company, El.En. SpA has engaged the auditing firm of Reconta Ernst & Young SpA. to audit the consolidated financial statement dated December 31st 2006.

AREA OF CONSOLIDATION

SUBSIDIARY COMPANIES

The consolidated statement of the El.En Group includes the statements of the Parent Company and of the Italian and foreign companies that El.En. controls directly or indirectly through a majority of votes in the ordinary assembly, or, in the case of Cynosure Inc., where they have the power to appoint and to remove the majority of members of the Board of Directors. The companies that are currently included in the area of consolidation are shown on the chart below.

Company name:	Notes	Headquarters	Currency	Subscr. capital	Percentage held: Direct	Indirect	Total	Consolidated Percentage
Parent company:								
El.En. SpA		Calenzano (ITA)	EURO	2.443.170				
Subsidiary companies:								
Deka M.E.L.A. Srl		Calenzano (ITA)	EURO	40.560	60,00%		60,00%	60,00%
Cutlite Penta Srl	1	Calenzano (ITA)	EURO	103.480	72,67%	10,00%	82,67%	82,67%
Valfivre Italia Srl		Calenzano (ITA)	EURO	47.840	100,00%		100,00%	100,00%
Deka Sarl		Vienne (FRA)	EURO	76.250	100,00%		100,00%	100,00%
Deka Lms GmbH		Berlin (GER)	EURO	51.129	76,16%		76,16%	76,16%
Quanta India Ltd	2	New Delhi (IND)	INR	100.000		51,00%	51,00%	30,60%
Deka Laser Technologies LLC		Fort Lauderdale (USA)	USD	1.000	52,00%		52,00%	52,00%
Ot-las Srl	3	Calenzano (ITA)	EURO	57.200	90,00%		90,00%	90,00%
Lasit SpA	4	Vico Equense (ITA)	EURO	1.000.000	50,00%	20,00%	70,00%	68,00%
Neuma Laser Srl	5	Calenzano (ITA)	EURO	46.800		100,00%	100,00%	86,34%
Lasercut Inc.		Branford (USA)	USD	1.000	70,00%		70,00%	70,00%
BRCT Inc.		Branford (USA)	USD	no par value	100,00%		100,00%	100,00%
Quanta System SpA		Solbiate Olona (ITA)	EURO	1.500.000	60,00%		60,00%	60,00%
Asclepion Laser Technologies GmbH	6	Jena (GER)	EURO	1.025.000	50,00%	50,00%	100,00%	80,00%
Arex Srl	7	Corsico (ITA)	EURO	20.500		51,22%	51,22%	30,73%
AQL Srl	8	Solbiate Olona (ITA)	EURO	100.000		100,00%	100,00%	64,00%
ASA Srl	9	Arcugnano (ITA)	EURO	46.800		60,00%	60,00%	36,00%
Cynosure Inc.		Westford (USA)	USD	11.210	34,69%		34,69%	34,69%
Cynosure GmbH	10	Langen (GER)	EURO	25.565		100,00%	100,00%	34,69%
Cynosure Sarl	10	Paris (F)	EURO	114.336		100,00%	100,00%	34,69%
Cynosure KK	10	Tokyo (JAP)	YEN	10.000.000		100,00%	100,00%	34,69%
Cynosure UK	10	London (UK)	GBP	1		100,00%	100,00%	34,69%
Suzhou Cynosure Medical Devices Co.	10	Suzhou (China)	YUAN	no par value		100,00%	100,00%	34,69%

(1) owned by Elen SpA (72,67%) and Valfivre Italia Srl (10%)
(2) owned by Deka Lms GmbH
(3) owned by Elen SpA (90%)
(4) owned by Elen Spa (50%) and Ot-las (20%)
(5) owned by Cutlite Penta Srl (50%) and Ot-las Srl (50%)
(6) owned by Elen SpA (50%) and Quanta System SpA (50%)
(7) owned by Quanta System SpA
(8) owned by Quanta System SpA (50%) and Lasit Srl (50%)
(9) owned by Deka Mela Srl
(10) owned by Cynosure Inc.

On April 27th 2006 the subsidiary Deka Lms Gmbh completed the purchase of 100% of the shares of its subsidiary Deka Dls GmbH,by acquiring them from the minority shareholder at the nominal value. On the same day, the two

companies voted for the merger through incorporation of Deka Dls into its parent company. The merger, which occurred on August 1st , 2006 upon completion of the documents required by German law, had retroactive effect starting December 31st 2005.
On May 2nd the company acquired from third parties a quota of 21% of Otlas Srl and a quota of 16,34% in Cutlite Penta Srl, for a total amount of 550.000,00 Euros. This transaction was initiated as a consequence of the sudden death of Sandro Favilli, a partner in the subsidiary companies as well as President of the Board of Directors of Otlas Srl.

On July 5th 2006 the subsidiary Quanta System SpA acquired an equity 51% of the capital of "Quanta Laser System India Private Limited" a commercial company with headquarters in New Delhi. The purchase is aimed at expanding the Indian market though a local structure.
On September 28th 2006 El.En. SpA, from third parties, acquired an additional quota of 2,83% in Cutlite Penta Srl, for a total amount of approx. 106 thousand Euros, thus re-enforcing the position of the Parent company among the companies of the Group operating in the industrial sector.
On November 23rd 2006 El.En. SpA acquired from third parties, at the nominal value, 2% of the capital of the French subsidiary Deka Sarl; as a result of this purchase the subsidiary now owned 100%.
On December 13th 2006 El.En. SpA also acquired from third parties 1% of the capital of the subsidiary Valfivre Italia Srl for an amount of 2 thousand Euros; with this purchase, Valfivre Italia Srl is now owned 100%.
On the same day, December 13th 2006 El.En. SpA acquired from Cutlite Penta Srl an equity of 54% in Ot-las Srl, for an amount of 900 thousand euros, so that its equity in the company is now 90% .

ASSOCIATED COMPANIES

El.En. SpA holds equities directly and indirectly in several companies, which, however it does not control. These companies are evaluated according to the stockholders' equity method. Equities in associated companies are shown in the chart below.

			Percentage held:			Consolidated
Company name:	Headquarters	Subscr.capital	Direct	Indirect	Total	percentage
Immobiliare Del.Co. Srl	Solbiate Olona (ITA)	24.000	30,00%		30,00%	30,00%
Actis Srl	Calenzano (ITA)	10.200	12,00%		12,00%	12,00%
SBI S.A.	Herzele (BELG)	300.000	50,00%		50,00%	50,00%
Laser International Ltd	Tianjin (CHINA)	1.256.408		40,00%	40,00%	24,00%
IALT Scrl	Calenzano (ITA)	10.000	50,00%		50,00%	50,00%

Capital stock is expressed in Euros with the exception of Laser International Ltd expressed in Yuan.

On October 27th 2006, Laser International Ltd., a company with headquarters in China, was founded. The subsidiary Quanta System SpA holds 40% of the capital stock.

The statement amounts of the equities in associated companies are as follows:
Immobiliare Del.Co. Srl: 257 thousand Euros
Actis Srl: 2 thousand Euros
SBI S.A.: 132 thousand Euros
Laser International Ltd: 48 thousand Euros
IALT Scrl: 5 thousand Euros

PRINCIPLES OF CONSOLIDATION

The statements used for the consolidation of the annual report are those of the individual companies. These statements are opportunely reclassified and rectified in such a way as to make them uniform with the accounting principles and IFRS evaluation criteria selected by the Parent Company.
In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.
The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the stockholders' equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Profit and Loss Account.
The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the stockholders' equity titled "Capital and Reserves of third parties"; the portion of the consolidated economic result which corresponds to the equities of third parties is entered into accounts under the heading "Profit (loss) this year pertaining to third parties".

CONVERSION OF AMOUNTS IN FOREIGN CURRENCY

The accounting situation of each consolidated company is drawn up in the working currency of the particular economic context in which each company operates. In these accounting situations, all of the transactions which take place using a currency that is different from the working currency are recorded applying the exchange rate that is current at the time of the transaction. The monetary assets and liabilities listed in a currency which is different from the working currency are subsequently adapted to the exchange rate current on thedate of closure of the period being presented.

CONVERSION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCY

For the purposes of the Consolidated Financial Statement, results, assets, and liabilities are expressed in Euros, the working currency of the Parent Company, El.En. SpA. For drawing up the Consolidated Financial Statement, the accounting situations with a working currency which is different from the Euro are converted into Euros using, for the assets and liabilities, including goodwill and the adjustments made at the time of consolidation, the exchange rate in force on the date of closure of the financial period being presented and, for the Profit and Loss Account, the average exchange rates for the period which approximate the exchange rates in force on the date of the respective transactions. The relative differences in exchange rates are shown directly in the stockholders' equity and are displayed separately in a special reserve of the same. The differences in the exchange rate are shown in the Profit and Loss Account at the time that the subsidiary is sold.

The first time that the IFRS were applied, the cumulative differences generated by the consolidation of the foreign companies with a working currency different from the Euro were reclassified into Retained earnings, as is allowed by the IFRS 1; consequently, only the differences in conversion accumulated and entered into accounts after January 1st 2004 are involved in the determination of the capital gains and losses deriving from their possible sale.
The Euro/Dollar exchange rates used for converting the statements of Cynosure, Lasercut and Deka Laser Technologies are: final rate: 1,317; average rate: 1,2556.
The rupee/Euro exchange rates used for the conversion of the statement of Quanta India are: final rate: 58,30; average rate; 56,91.

SECTORIAL INFORMATION

A sector is a distinctly identifiable part of the Group which supplies a set of products and services of the same type (activity sectors) or supplies products and services in a specific economic area (geographic sector). In the El.En. Group two primary areas of activity can be identified i) medical and ii) industrial and a third residual area iii) others. On a secondary level, the division of the geographical area has constituted the basis on which the net sales revenue is divided according to the geographical location of the clients.

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Consolidated Annual Report requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization, devaluation of assets, stock options, employee benefits, taxes and other provisions in funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Profit and Loss Account. Goodwill is annually subjected to an impairment test in order to determine any loss in value.

EVALUATION CRITERIA

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency, able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The Group has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.

The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the Group to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Profit and Loss Account in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.

Goodwill and other activities which have an indefinitive life are not subject to systematic amortization but to an annual impairment test.

Goodwill

All acquisitions are entered into accounts applying the *"purchase method".*

Goodwill derived from the acquisition of subsidiary or associated companies or *joint ventures,* rappresents the excess in the purchase price with respect to the *fair value* of the activities acquired, net of the current and potential liabilities taken on and it is placed in each of the *"cash generating units"* (CGU) which has been identified. The identification of the CGU coincides with each juridical subject. After the first entry, the goodwill is not amortized and is reduced on the bases of expected reductions in value, which are determined according to the methods described below. Goodwill which is related to equities in associated companies is included in the charge value of each company. Should a negative goodwill arise, this is immediately entered in the Profit and Loss Account.

Goodwill which derives from the acquisitions made before January 1st 2004, is entered at the value registered under this heading in the last consolidated statement drawn up using the earlier accounting principles (December 31st 2003).

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of amortization. Ordinary maintenance expenses have been entirely entered in the Profit and Loss Account. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortized according to the residual possibility of use of the said item.

The Group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such principles, the value of land and of the buildings constructed on it is separated and only the building is amortized.

The aliquots used for amortization are shown on the chart below:

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

C) FINANCIAL CHARGES

Financial charges are registered in the Profit and Loss Account at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.

The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Profit and Loss Account wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES

Financial assets which consist of equities in associated companies are evaluated according to the stockholders' equity method, that is to say, for an amount equal to the corresponding fraction of the stockholders' equity shown in the last financial statement of the companies, after having subtracted the dividends and after having made the rectifications required by the accounting principles used for drawing up the consolidated statement in conformity with the IFRS to make them compatible with the accounting principles used by the Parent Company.

joint-venture companies are evaluated in the consolidated statement with the stockholders' equity method, starting on the date in which the joint control is initiated up to the date on which it ceases to exist.

F) FINANCIAL INSTRUMENTS

Equities in other companies

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) are classified at the time of purchase, among the financial assets "available for sale" or among the assets "evaluated at fair value through the Profit and Loss Account with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the stockholders' equity which will be entered into the Profit and Loss Account at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Profit and Loss Account are entered directly into the Profit and Loss Account. These equities are evaluated at cost according to IAS 39.

Financial instruments

The financial assets other than equity investments classified among the current assets are included in the category " held for negotiation" and estimated at fair value by means of the Profit and Loss Account.

Commercial receivables

The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

Other financial assets

Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.

Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Profit and Loss Account under the heading "Financial Revenue (Charges)" or in a special reserve of the Stockholders' equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents

This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock

Treasury stock is entered against stockholders' equity. No profit/loss is shown in the Profit and Loss Account for the purchase, sale, issue or cancellation of treasury stock.

Commercial payables

Commercial payables, the due date of which falls within the normal commercial terms, are not discounted and are entered at cost (identified as their nominal value).

Financial liabilities

Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortized cost, using the effective original interest rate method

G) INVENTORY

Stocks of raw materials and finished products are evaluated at the cost or market value whichever is less; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the direct costs of the raw materials and the labour and the indirect costs of production (variable and fixed). Devaluation funds are also set aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.

Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) EMPLOYEE BENEFITS

SEVERANCE INDEMNITY.

Severance indemnity may be classified as a "post-employment benefit" of the "defined benefit plan" type, the amount of which already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently analysed, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.

By means of the actuarial estimate the current service cost which defines the amount of rights matured during the financial year by employees is entered under the "labour costs" heading of the Profit and Loss Account and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial Revenue (Charges)".

The actuarial profits and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, are entered pro-quota in the Profit and Loss Account for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeds the value of the liability by 10% (so-called corridor method).

STOCK OPTION PLANS

The costs of staff labour remunerated by means of a *stock option plan* is determined on the basis of the fair value of the options granted to the employees at the date of assignment

The calculation method for the determination of *fair value* bears in mind all the characteristics of the options (duration of the option, price and conditions for exercising the options etc), as well as the value of the stock at the date of assignment, of the volatility of the stock and of the interest rate curve again at the date of assignment consistently with the duration of the plan. The Black & Scholes pricing model is used.

The cost is shown in the Profit and Loss Account during the period in which the rights granted mature, considering the best possible estimate of the number of options becoming exercisable.

In conformity with the IFRS 1, the said principle has been applied to all the assignments subsequent to November 7th 2002 which had still not matured by January 1st 2005.

I) PROVISIONS FOR CONTINGENCIES AND LIABILITIES

The Group has shown the funds for future contingencies wherever, in the face of a legal or implicit obligation to third parties, it is probable that the Group will have to use its resources to honour such an obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the Profit and Loss Account for the financial year in which the variation takes place.

L) RECOGNITION OF REVENUE

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped. Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT

Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Profit and Loss Account at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Profit and Loss Account in relation to the period of amortization of the assets they refer to.

Contributions for the fiscal year are shown entirely in the Profit and Loss Account at the moment in which the conditions for entering them are satisfied.

N) FINANCIAL LEASING

Financial leasing operations are entered into accounts using the financial methodology which stipulates that the fixed asset acquired and its relative financing be entered into accounts. The relative amounts of depreciation and financial charges are entered in the Profit and Loss Account.

O) TAXES

Current taxes on income for the financial year have been entered according to the regulations currently in force on the basis of a realistic estimate of taxable income.

Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference.

Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets.

The possibility of recuperating assets for deferred tax assets is re-examined at the closing of each financial year.

On the labour costs shown with regard to the retribution plan in the form of equity in the capital of the Parent company El.En., no fiscal effects have been registered inasmuch as the shares which will be assigned to employees will derive from the increase of capital.

P) EARNINGS PER SHARE

The basic earnings per ordinary share are calculated by dividing the portion of the Group's net profit attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year, excluding treasury stock. For the purposes of calculating the diluted earnings per share, the weighted average of the shares in circulation is modified by assuming the subscription of all the potential shares deriving from the conversion of stock options having a diluting effect. The net result of the Group is also adjusted to take into account the effect of such operations, net of tax.

STOCK OPTION PLANS

Stock option plans were implemented within the company with the aim of providing the Group with an instrument for encouraging employee loyalty.

El.En. SpA

The chart below shows the key elements of the stock option plan for El.En shares during 2006

	Max. expiration date	Existing options 01.01.06	Options issued 01.01.06 - 31.12.06	Options cancelled 01.01.06 - 31.12.06	Options picked up 01.01.06 - 31.12.06	Expired options not picked up 01.01.06 - 31.12.06	Existing options 31.12.06	Options which can be picked up 31.12.06	Pick up price
Plan 2006/2007	July, 16th 2007	140.000	0	0	11.936	0	128.064	58.064	€ 24,23
		140.000	0	0	11.936	0	128.064	58.064	

For the 2006/2007 stock option plan purposes of determining the fair value using the “Black & Scholes” pricing model the following hypotheses were formulated :

- Market interest rate for risk free investments: 2,5%
- Historic volatility: 26,20%
- Time interval used for calculating volatility: 1 year prior to the date of issue

The overall fair value of the stock option is 1.038 thousand Euros.

During 2006 the average price registered for the El.En. S.p.A. stock was approx. 29 Euros.
With regard to the characteristics of the individual stock option plan adopted by El.En. S.p.A, as well as the increases of capital decided on to implement it, please refer to the description contained in chapter on the composition of the capital.

Cynosure Inc.

The chart below shows a summary of the main elements of the Cynosure stock option plan during 2006

Existing options 01.01.06	Options issued 01.01.06 -31.12.06	Options cancelled 01.01.06 -31.12.06	Options picked up 01.01.06 -31.12.06	Expired options which were not picked up 01.01.06 -31.12.06	Existing options 31.12.06	Options which can be picked up 31.12.06
1.821.178	522.150	0	144.842	43.824	2.154.662	909.907

The chart below shows the pick-up price and the average lifespan of the options in circulation on December 31st 2006

Pick up price Average	Existing Options 31.12.06	Options which can be picked up 31.12.06	lifespan Average
$6,46	2.154.662		8,18
$4,15		909.907	7,88
	2.154.662	909.907	

Comments on the Main Assets

Non-current assets

Intangible fixed assets (note 1)

Breakdown of changes occurring in intangible fixed assets during the period is shown on the chart below:

Categories	**Balance 31/12/05**	**Variation**	**Revaluation (Devaluation)**	**Other Operations**	**(Amortizations)**	**Translation Adjustments**	**Balance 31/12/06**
Goodwill	6.274.088	191.949	-228.724				6.237.313
Costs of research, development	17.520				-9.120		8.400
Patents and rights to use patents of others	277.011	12.386		-1	-60.342	-23.935	205.119
Concessions, licences, trade marks and similar rights	465.967	365.642			-210.858	-5.399	615.352
Other	15.517	10.500			-14.205	-35	11.777
Intangible assets in progress and payments on account	304.070	-51.608	-112.083			-26.484	113.895
Total	**7.354.173**	**528.869**	**-340.807**	**-1**	**-294.525**	**-55.853**	**7.191.856**

The amount entered under the heading of "Goodwill" includes:
a) the amount which was a result of the purchase, by the Parent company, during the financial year 2002, of 60% of the Cynosure Group. This amount was later adjusted on account of the sale of 2,5% of the capital stock of Cynosure by El.En. SpA as part of the operation for the acquisition of Quanta System SpA; the entry was also effected by the increase in the equity as a consequence of the operations on the capital which were made at the end of 2004, and the effects of the sale of part of the stock to the management of the company and to subjects close to the management and the subsequent sale of 1.000.000 shares, as described in detail in the explanatory notes of the financial statement for the financial year closed on December 31st 2005. On December 31st 2006 this amount was approx. 3.277 thousand Euros.
b) the amount which was a result of the purchase of 30% of the shares of Quanta System SpA made by the Parent company during 2004. The amount entered on December 31st 2006 was approx. 2.079 thousand Euros.
c) the amount which was the result of the purchase made by the subsidiary Valfivre Italia Srl during the financial year 2004 of a quota of 6% of Cutlite Penta Srl. The amount entered on December 31st 2006 was approx. 211 thousand Euros.
d) the amount paid for goodwill by the subsidiary Asclepion Laser Technologies GmbH for the purchase of the dermatological and dental business belonging to Carl Zeiss Meditec. The amount entered on December 31st 2006 was approx. 73 thousand Euros;
e) the amount which was the result of the purchase of two branches of the company operating in the same sector of the Arex Srl company made during last year. The amount entered on December 31st 2006 was 55 thousand Euros.
f) the amount which was the result of the purchase made by the Parent company, El.En. SpA during 2005 of 15% of Ot-Las Srl. The amount entered on December 31st 2006 was approx. 7 thousand Euros;
g) the amount which was the result of the purchase of ASA Srl by the subsidiary Deka MELA Srl. The amount entered on December 31st 2006 was approx. 439 thousand Euros.
h) the amount which was the result of the purchase made during 2006 by the Parent company El.En. SpA of 19,17% of Cutlite Penta Srl from third parties. The amount entered on December 31st 2006 was approx. 96 thousand Euros;
In the Revaluation/Devaluation column the devaluation of the goodwill attributed to CGU Deka Lms which emerged as a consequence of the annual impairment test, has been included.

The estimate of the recoverable value of the goodwill entered into accounts has been made on the basis of the *Discounted Cash Flow* model which, in determining the use value of an asset, is calculated on an estimate of the future cash flow and the application of an appropriate actualization rate. In this particular case, the rate used (WACC) was 8,6% and the explicit temporal term of reference was 5 years. In the model, a further period of 5 years is contemplated (for a total of 10 years), during which the growth rate of the revenue and the margins hypothetically remain constant.

The "Costs of research and development" are related to the capitalization of the costs sustained over the last years by the subsidiary companies ASA Srl, Quanta System SpA and by its subsidiary Arex Srl.

The “Industrial patent rights and rights to use patents of others” are related to the capitalization of the costs sustained by Cynosure Inc., Deka Laser Technologies, Asa Srl and Arex Srl for patents and license agreements.

The entry “Concessions, licenses, trademarks and similar rights” includes, among other things, the overall expenses sustained by the Parent company for the implementation of new management and administrative software. Brands for a residual value of approx. 234 thousand Euros have been entered by the subsidiary ASA Srl.

The residual heading “Others” includes the entry of the costs sustained, particularly by the Parent company, for the purchase of “generic software”.

Tangible fixed assets (note 2)

Breakdown of changes occurring in the tangible fixed assets during the period is shown on the chart below:

Cost	Balance 31/12/05	Increments	Revaluations and devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/06
Lands	1.412.008	405.000				-19.840	1.797.168
Buildings	3.096.028	1.020.901				-55.300	4.061.629
Plants and machinery	1.087.639	241.946		132.969	-10.049	-7.697	1.444.808
Industrial and commercial equipment	10.376.715	2.602.294		20.886	-958.699	-684.902	11.356.294
Other goods	7.256.209	1.218.766		46.564	-414.994	-288.678	7.817.867
Tangible assets under construction	249.696	428.348		-176.562		-115	501.367
Total	**23.478.295**	**5.917.255**		**23.857**	**-1.383.742**	**-1.056.532**	**26.979.133**

Amortization provisions	Balance 31/12/05	Amortizations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/06
Lands							
Buildings	486.697	89.871				-2.011	574.557
Plants and machinery	544.567	157.287		-3.206	-6.697	-4.210	687.741
Industrial and commercial equipment	6.881.031	1.844.274		19.603	-866.553	-523.004	7.355.351
Other goods	4.244.303	966.612		2.975	-382.096	-166.640	4.665.154
Tangible assets under construction							
Total	**12.156.598**	**3.058.044**		**19.372**	**-1.255.346**	**-695.865**	**13.282.803**

Net value	Balance 31/12/05	Increments	Revaluations and other operations	(Amortizations and devaluations)	(Disposals)	Translation Adjustments	Balance 31/12/06
Lands	1.412.008	405.000				-19.840	1.797.168
Buildings	2.609.331	1.020.901		-89.871		-53.289	3.487.072
Plants and machinery	543.072	241.946	136.175	-157.287	-3.352	-3.487	757.067
Industrial and commercial equipment	3.495.684	2.602.294	1.283	-1.844.274	-92.146	-161.898	4.000.943
Other goods	3.011.906	1.218.766	43.589	-966.612	-32.898	-122.038	3.152.713
Tangible assets under construction	249.696	428.348	-176.562			-115	501.367
Total	**11.321.697**	**5.917.255**	**4.485**	**-3.058.044**	**-128.396**	**-360.667**	**13.696.330**

In accordance with the current accounting principles, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands as of December 31st 2006 was 1.797 thousand Euros.

During this financial year an important acquisition was made by the Parent company El.En. SpA with the purchase of real estate in the city of Torre Annunziata for an overall amount of 1.350 thousand Euros, plus accessory charges. Of this amount, 405 thousand Euros represent the value of land where the building is situated.

The heading of “Buildings” also includes the building complex in Via Baldanzese a Calenzano (FI), where the company operates along with the three subsidiaries Deka M.E.L.A., Cutlite Penta and Valfivre Italia and the building located in Branford, Connecticut, which the subsidiary BRCT possesses after the transferral of title by the Parent company in 2005 and where Lasercut Inc. operates. Among these assets, the sales demonstration equipment owned by Cynosure continues to have an important role.

In general, in order to support their research and development, manufacturing and marketing structures, the Group maintains a sizeable volume of investments which, considered singularly, are of negligible value. For the research laboratories, the Group acquires measuring instruments, microscopes, equipment, computers and relative software for use in design (mechanical, electronic and optical). For manufacture, measuring instruments, generic and specific equipment, and computers are required. For marketing and sales, we capitalize the laser systems used by the sales network for sales demonstrations at the clients' and those used for clinical medical experiments or industrial processes, as well as the vehicles used by the sales personnel (the minivans used in the USA by Cynosure, for example).
The heading of "Tangible assets under construction" includes the costs sustained by the Parent company El.En SpA as of December 31st 2006 for the architectural and structural planning, building permits, and related charges for the first phase of work for the enlargement of the factory in Via Baldanzese at Calenzano (Florence).
The intangible assets held in leasing amount to 1,3 million Euros and are mostly entered among the industrial and commercial equipment and other goods.

Equity investments (note 3)

The chart below provides information on the equity investments:

	31-Dec-06	31-Dec-05	Variation	Var. %
Equity investments in:				
associated companies	443.779	428.241	15.538	3,63%
other companies	61.714	345.809	-284.095	-82,15%
Total	505.493	774.050	-268.557	-34,70%

The associated companies Immobiliare Del.Co. Srl, SBI SA, IALT Scrl and JV Laser International LTD have been consolidated using the stockholders' equity method.

The chart below shows a summary of the associated companies:

	Assets	Liabilities	Profit(+)/Loss(-)	Revenue and income	Costs and Charges
Immobiliare Del.Co. Srl	150.932	37.353	1.533	51.829	50.296
S.B.I. SA	528.437	263.953	-36.047	238.716	274.763
Actis Active Sensors Srl	227.156	233.400	-6.244	247.016	253.260
IALT Scrl	181.173	171.173	0	105.367	105.367
JV Laser International Ltd	122.383	1.588	-31.830	0	31.830

Among the "Other companies", the equity in RTM SpA, entered at cost, has been the subject of a direct devaluation for the purpose of adapting the value entered into accounts to the best estimate of fair value as of December 31st 2006.

Deferred tax assets/Other non-current assets (note 4)

Other non current assets	31 Dec. 2006	31 Dec. 2005	Variation	Var. %
Deferred tax assets	4.140.446	3.466.113	674.333	19,46%
Other non current assets	238.503	193.052	45.451	23,54%
Total	4.378.949	3.659.165	719.784	19,67%

For a breakdown of the entry "Deferred tax assets" see the chapter below on the analysis of deferred tax assets and liabilities.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

Stocks:	**31-Dec-06**	**31-Dec-05**	**Variation**	**Var. %**
Raw materials and consumables	14.621.108	13.778.952	842.156	6,11%
Work in progress and semi finished products	7.033.296	6.269.023	764.273	12,19%
Finished products and goods for sale	16.918.401	12.749.163	4.169.238	32,70%
Total	38.572.805	32.797.138	5.775.667	17,61%

A comparison between the final inventories, and in particular between the raw materials and the finished products shows the increase in their quantity which is an effect of the considerable increase in the manufacturing volume. In particular, the increase in finished products is a result of the desire to increase the number of products made available to the sales network for trial sales demonstrations.

Commercial receivables (note 6)

Receivables are composed as follows:

Debtors:	**31-Dec-06**	**31-Dec-05**	**Variation**	**Var. %**
Trade debtors	36.513.198	30.569.776	5.943.422	19,44%
Associated debtors	197.432	17.293	180.139	1041,69%
Total	36.710.630	30.587.069	6.123.561	20,02%

Trade debtors:	**31-Dec-2006**	**31 Dec-2005**	**Variation**	**Var. %**
Italy	11.738.370	9.620.210	2.118.160	22,02%
European Community	10.883.539	8.263.108	2.620.431	31,71%
Outside of European Community	15.817.463	14.868.750	948.713	6,38%
Minus: Devaluation provision for debtors	-1.926.174	-2.182.292	256.118	-11,74%
Total	36.513.198	30.569.776	5.943.422	19,44%

The rapid growth of the sales volume of the Group, and especially that of Cynosure, determined an increase in receivables as shown in the tables above. In particular, the excellent results of the sales volume in December had an obvious influence on the dynamics of the receivables from clients. The accrual in the fund for the devaluation of receivables was 329.122 Euros; 585.240 Euros of the fund were used.

Tax receivables/Other receivables (note 7)

The chart below shows a breakdown of tax receivables and other receivables:

	31-Dec-2006	31 Dec-2005	Variation	Variation %
Tax debtors				
VAT credits	3.310.658	2.634.983	675.675	25,64%
Income tax credits	3.254.973	328.365	2.926.608	891,27%
Total tax debtors	6.565.631	2.963.348	3.602.283	121,56%

Financial credits				
Financial credits v. third parts	239.825		239.825	0,00%
Financial credits v. associated companies	110.523	92.682	17.841	19,25%
Total	350.348	92.682	257.666	278,01%
Other credits				
Security deposits	223.908	156.140	67.768	43,40%
Down payments	1.105.920	466.945	638.975	136,84%
Other credits	2.167.354	1.160.699	1.006.655	86,73%
Total	3.497.182	1.783.784	1.713.398	96,05%
Total financial and other credits	3.847.530	1.876.466	1.971.064	105,04%

For a detailed analysis of the financial credits towards associated companies, please refer the following chapter regarding Related Parties.

The financial year closed with a VAT credit of over 3 million Euros which was mostly a result of the intense export activity of the Group. The income tax credits are essentially a result of the difference between the pre-existing tax credit/ down payments made and the tax debt which had matured by the date of this financial statement.

Financial instruments (note 8)

Investments which are not permanent:	31-Dec-2006	31-Dec-2005	Variation	Var. %
Other investments	34.011.333	467.233	33.544.100	7179,31%
Total	34.011.333	467.233	33.544.100	7179,31%

The amount entered under the heading of “Other investments” consists of temporary uses of cash.
This category is constituted mainly by investments in treasury bonds, certificates of deposit and company debenture loans which have an expiration date before July 1st 2008, which were made by the subsidiary Cynosure for an amount of approx. 33 million Euros, using a part of the cash received as a result of the IPO of 2005.
The entry also includes investments in securities made by the subsidiary BRCT for an amount of approx. 432 thousand Euros, investment in monetary funds made by the subsidiary Lasit SpA for approx. 57 thousand Euros, and investments in CCT and BOT bonds made by the subsidiary ASA Srl for approx. 450 thousand Euros.

As required by the accounting principle IAS 39 “other investments” are measured at fair value. The “fair value” is the market value. The effects of the “fair value” evaluation on the financial instruments are not very significant.

Cash at Bank and on Hand (note 9)

Cash at bank and on hand is composed as follows:

Cash at Bank and in hand:	31-Dec-2006	31-Dec-2005	Variation	Var. %
bank and postal current accounts	24.306.208	77.020.977	-52.714.769	-68,44%
cash in hand	54.571	50.397	4.174	8,28%
Total	24.360.779	77.071.374	-52.710.595	-68,39%

For an analysis of the variations in cash at bank and in hand, please refer to the table of the financial statement (cash flow).

Net financial position as of December 31st 2006

The net financial position of the Group as of December 31st 2006 was as follows:

Net financial position		
	31-Dec-2006	**31-Dec-2005**
Financial mid and long term debts	(1.930)	(1.961)
Financial mid and long term debts	*(1.930)*	*(1.961)*
Financial liabilities due within 12 months	(1.301)	(2.192)
Cash and cash equivalents	58.372	77.539
Net financial short term position	*57.071*	*75.346*
Total financial net position	**55.141**	**73.385**

The cash received from the IPO of Cynosure in December 2005 created a situation in which the financial situation remained in the black for over 55 million Euros.
The most sizeable portion of cash in the Group is held by Cynosure, after the IPO of December 2005. The company has made no major investments, and for this reason the cash received at the time remains essentially in tact.
During the fourth quarter 2006 Cynosure made the payment related to the Palomar transaction for an amount of approx. 8 million Euros.
During this year the net financial position showed a decrease of approx. 18 million Euros, to which the payment of dividends by El.En. SpA, Deka M.E.L.A. Srl, ASA Srl and Deka Lms GmbH also contributed for a total amount of 2,8 million Euros paid to third parties, the purchase by third parties of equities in Otlas Srl and Cutlite Penta Srl for an amount of 656 thousand Euros, besides the above mentioned Palomar agreement for approx. 8 million Euros.
The increase in net working capital, in any case, contributed considerably to the use of cash, in particular for Cynosure Inc. and El.En. SpA, which were heavily involved, with their manufacturing and distribution structures, in sustaining the high growth rate and the necessary inventory required to meet the needs of this growth.
Besides the ordinary and extraordinary cash flow, an important role was played by the devaluation of the US dollar, especially on the considerable quantity of cash held by Cynosure Inc.

Comments on the main liabilities

Capital and Reserves

The main components of the stockholders' equity are shown on below:

Capital stock (note 10)

On the 31st of December the capital stock of the El.En. Group, which coincides with that of the Parent company, was as follows:

Authorised	Euros	2.509.763
Underwritten and deposited	Euros	2.443.170

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

Categories	**31-Dec-2005**	**Increase.**	**(Decrease.)**	**31-Dec-2006**
No. of Ordinary Shares	4.686.468	11.936		4.698.404
Total	**4.686.468**	**11.936**		**4.698.404**

The increase in the number of shares with respect to December 31st 2005, is a result of the underwriting of the capital stock following the picking up of the stock options by the employees, as part of the 2006/2007 incentive plan, which is described in detail in the chapter dedicated to the increase in capital.

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

Increase in capital for use in the stock option plan
The special assembly of El.En. SpA held on July 16th 2002 voted to authorize the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of 124,800 Euros through the issue of a maximum of 240,000 ordinary shares with a nominal value of euro 0.52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code. – that is considering the stockholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, equal to the greater of the following:
a) the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical mean of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options; d) the arithmetical mean of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the period of time before the assignment of the options decided by the Board of Directors in the regulations of the incentive plans.

On September 6th 2002 the Board of Directors voted to implement in part the decision of the Shareholders' assembly of July 16th 2002 to increase the share capital by 31,817.76 Euros for use in the 2003/2004 stock-option plan and approved the relative regulations.

The option rights were assigned exclusively to the Group's Executives, Managers and White collars workers who at the time of the assignment were employed by the Group in a subordinate position. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 30,600 shares, was exercisable by the assignees from November 18th to December 31st 2003, from August 15th to the September 30th 2004 and from November 18th to the December 31st 2004; the second phase, for a maximum of 30,588 shares was exercisable by the assignees from August 15th to the September 30th 2004 and from November 18th to the December 31st 2004.
With reference to this vote, as of December 31st 2004 (the deadline for the exercising of such rights) of the 61,188 option rights assigned, all of them were picked up.
Moreover, on November 13th 2003, the Board of Directors voted to partially implement the decision of the shareholders' assembly convened on July 16th 2002 to increase the share capital by euro 13,145.60 to be used for the 2004/2005 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's executives, managers and White collars workers who at the moment of assignment were employed by the Group in a subordinate position. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 12,640 shares, exercisable by the assignees from November 18th to December 31st 2004, from August 15th to the September 30th 2005 and from November 18th to December 31st 2005; the second phase, for a maximum of 12,640 shares was exercisable by the assignees from August 15th to the September 30th 2005 and from November 18th to December 31st 2005.
With reference to this vote, as of December 31st 2005 (the deadline for picking up the options) of the 25.280 option rights assigned, all of them were picked up.

In conclusion, on May 13th 2005, and later modification made on March 30th 2006, the Board of Directors voted to partially implement the vote of the Shareholders' assembly convened on July 16th 2002, to increase the Capital stock to 72.800 Euros for use in the stock-option plan of 2006/2007 and to approve the relative regulations. The option rights were assigned exclusively to the Group's executives, managers and White collars workers who at the moment of assignment were employed by the Group in a subordinate position. The above mentioned plan is divided into two phases, one for each year. The first phase, for a maximum of 70.000 shares, is exercisable by the assignees from May 16th 2006 to the date of approval of the annual report, and from May 29th 2007 to July 16th 2007; the second phase, for a maximum of 70.000 shares is exercisable by the assignees from May 29th 2007 to July 16th 2007.

Additional paid in capital (note 11)

As of December 31st 2006 the share premium reserve, coinciding with that of the parent company, amounted to 35.607 thousand Euros, an increase compared to December 31st 2005, as is evident in the chart showing the Stockholders' equity in the "Other operations" column, as a result of the increase in capital stock after the picking up of the stock options described in note 10.

Other reserves (note 12)

Other reserves	**31-Dec-2006**	**31-Dec-2005**	**Variation**	**Var. %**
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	13.327.651	6.339.051	6.988.600	110,25%
Reserve for translation adjustments	-2.164.831	339.471	-2.504.302	-737,71%
Stock options reserve fund	799.423	355.861	443.562	124,64%
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Other reserves	13.392		13.392	0,00%
Total	12.939.594	7.998.342	4.941.252	61,78%

As of December 31st 2006 the "extraordinary reserve" was 13.328 thousand Euros; the change which has occurred la during this year is related to the accrual of the residual profits for 2005, as per the vote of the shareholders' assembly on May 9th 2006.

The reserve "for stock options" includes the counterpart of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned by El.En. SpA, for the quota which matured on December 31st 2006. The change of 443 thousand Euros, with respect to December 31st 2005 is entered in the chart of the stockholders' equity in the "Other operations" column.

The amount entered in "Other reserves" is related to the accrual in the "reserve of assets and liabilities in foreign currency ex art. 2426 c.c. b. 8-bis)" as per the vote of the shareholders' assembly of the Parent company El.En. S.p.A. on May 9th 2006.

The conversion adjustments reserve summarizes the effects of the variations in the exchange rate on the investments in foreign currency. As of December 31st 2006 the value can be attributed essentially to the devaluation of the dollar. The effects for the year 2006 are shown in the column "Other operations" in the stockholders' equity chart.

In conformity with fiscal regulations, in the past the Parent Company has taken advantage of the possibility of suspending contributions on capital account, either entirely or for 50%, in a reserve of the stockholders' equity. Since 1998 these have been entirely entered into the Profit and Loss Account. The relative reserves can be considered reserves of profits.

Profits/losses brought forward (note 13)

This category includes a synthesis of the contribution of all the consolidated companies to the stockholders' equity of the Group. During this financial year the variation is due to the clearance account of the profits from last year, the payment of dividends and the entering into accounts of the Cynosure stock options according to IFRS 2.

Non-current liabilities

Severance indemnity fund (note 14)

The chart below shows the operations which have taken place during this financial period.

Balance 31-Dec-2005	Provision	Utilization	Other	Balance 31-Dec-2006
2.173.430	666.838	-204.574	-53.468	2.582.226

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment»; this is an obligation of the "defined benefit " type which entails entering a liability similar to that entered for defined benefit pension plans.

It should be remembered that the company has used the so-called "corridor method" in which the net cumulative value of the actuarial surplus and deficit is not shown until it exceeds in absolute terms 10% of the current value of the obligation. As of December 31st 2006 the net cumulative value of the actuarial profits and losses which were not registered was approx. 108 thousand Euros. The current value of the obligation as of December 31st 2006 is 2.690 thousand Euros.

The hypotheses used to establish the indemnity plan are summarized in the chart below.

Financial hypotheses	Year 2005	Year 2006
Annual implementation rate	4,00%	4,25%
Annual inflation rate	2,00%	2,00%
Annual growth rate of severance indemnity	3,00%	3,00%
Annual increase rate of salaries (including inflation)	Executives 4,50% White collar workers 3,00% Blue collar workers 3,00%	Executives 4,50% White collar workers3,00% Blue collar workers3,00%

Analysis of deferred tax assets and liabilities (note 4) (note 15)

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for tax purposes and those entered into accounting.

The breakdown is as follows:

	Balance 31-Dec-2005	Provision	(Utilization)	Other	Conversion Adjustments	Balance 31-Dec-2006
Deferred tax assets on loss account from subsidiary companies						
Deferred tax assets on stock devaluations	605.283	213.715	-6.597	282.844	-668	1.094.577
Deferred tax assets for provisions on guarantee products	96.105	200.431		501.803	-7.359	790.980
Deferred tax assets on credit devaluation	303.859	135.805	-136.936	201.346	-4.148	499.926
Deferred tax assets on loss brought forward from the previous years	772.252	5.574	-26.276	-668.184	-77.792	5.574
Deferred tax assets on intercompany profits	600.287	93.076	-7.018			686.345
Deferred tax assets on actualization of severance indemnity accruals	9.823	3.793	-3.490			10.126
Other deferred tax assets	1.078.504	629.305	-157.527	-378.692	-118.672	1.052.918
Total	3.466.113	1.281.699	-337.844	-60.883	-208.639	4.140.446
Deferred tax liabilities on advanced amortizations	270.905	123.023	-20.800	-1.858		371.270
Other deferred tax liabilities	452.018	26.536	-234.866	1.856		245.544
Total	722.923	149.559	-255.666	-2	0	616.814
Net amount	2.743.190	1.132.140	-82.178	-60.881	-208.639	3.523.632

Deferred tax assets amounted to approx. 4.140 thousand Euros. Among the main changes which occurred during this financial year, the most noteworthy are the increase in assets for deferred tax assets calculated on the devaluations of inventory, on the elimination of inter-Group profits effected in the consolidation and on the stock options entered by Cynosure.
Among the decreases, the most noteworthy are related to assets for deferred tax assets calculated on the fund for devaluation of credits, as a result of its being used as a consequence of the definition of a contest procedure. A further decrease was due to the payment this year of a special remuneration to two administrators and the President of the technical-scientific committee which had been approved last year by El.En. S.p.A., the fiscal deductibility of which follows the cash criteria. The other operations refer mostly to a reclassification made on the deferred tax assets of Cynosure.

Deferred taxes liabilities were 616 thousand Euros; the use of these is related in particular to the variation in the differences in the exchange rate which were not realized and to the variations, which occurred after the financial year 2005 was closed, in the fiscal treatment of commission liabilities, which, by the end of last year had comported the entry of deferred tax liabilities.

Other accruals (note 16)

The chart below shows the operations made in the other reserves.

	Balance 31-Dec-2005	Provision	(Utilisation)	Other	Conversion Adjustments	Balance 31-Dec-2006
Reserve for pension costs and similar	229.535	65.471	-36.402			258.604
Others:						
Reserve for guarantee on the products	2.115.204	673.983	-3.227		-210.254	2.575.706
Reserve for risks and charges	1.236.749	517.803	-415.507			1.339.045
Other minor reserves	464.747		-24.000	-425.147		15.600
Total other reserves	3.816.700	1.191.786	-442.734	-425.147	-210.254	3.930.351
Total	4.046.235	1.257.257	-479.136	-425.147	-210.254	4.188.955

The clients' agents' indemnity fund included in the entry "Reserve for pension costs and similar" on December 31st 2006, amounted to 265 thousand Euros as opposed to 228 thousand Euros on December 31st 2005.
According to IAS 37, the amount owed must be calculated using the actualization techniques to estimate as precisely as possible, the overall cost sustained for the payment of benefits to the agents after the termination of employment.

The technical evaluations were made on the basis of the hypotheses described below.

Financial hypotheses	**Year 2005**	**Year 2006**
Annual rate of implementation	2,00%	3,00%
Annual rate of inflation	2,00%	2,00%

The reserve for product guarantees is calculated on the basis of the costs for spare parts and servicing under warranty incurred in the previous financial year, adjusted to the volume of sales of the current financial year.

The use of the fund for "Other risks and charges" included, mostly an accrual made in 2005 by the Parent company El.En. SpA related to a special remuneration paid to two of the administrators and the President of the Technical-Scientific Committee .

The entry "Other minor reserves" shows an accrual made by the subsidiary Quanta System S.p.A., in response to demands made by the tax administration for the issuance of a tax folder.

Other potential debts and liabilities

All of the companies in the Group are subject to the risks of disputes and contentious procedures which may arise during normal business activity. The subsidiary company Cynosure Inc., as part of its 10-K related to the year 2006, supplied information on some of the contentious situations now in progress, in particular a lawsuit involving the use of the fax without the permission of the receiving party, a series of disputes with managers of centers held in franchising from Sona International, which had once been a subsidiary and later became a client, and which is now also involved in a lawsuit with Cynosure after a financial crisis in March of 2006. In all of these cases the company is firmly opposed to the requests advanced by the counterparts and has declared in any case, that they are unable to determine the eventuality or the entity of the amounts that they would have to pay should they lose the suit.

Amounts owed and financial liabilities (note 18)

Financial m/l term debts	31-Dec-2006	31-Dec-2005	Variation	Var. %
Bonds				0,00%
Amounts owed to banks	12.614	24.908	-12.294	-49,36%
Amounts owed to other financiers	1.917.781	1.936.062	-18.281	-0,94%
Total	1.930.395	1.960.970	-30.575	-1,56%

The non-current "Amounts owed and financial liabilities" includes amounts owed to other financers consisting, among other things, in the quotas which are not payable within the year for:

a) Facilitated financing IMI for applied research, reference DIFF 3 granted to the Parent company El.En. S.p.A. for an amount of 487.095 Euros at a fixed annual rate of' 3,70% , last instalment July 1st 2008.

b) Facilitated financing MPS for applied research, reference TRL01granted to the Parent company El.En. S.p.A. for an amount of 681.103 Euros at a fixed annual rate of' 2% , last instalment July 1st 2012.

c) Facilitated financing IMI for applied research, granted to the subsidiary company Quanta System SpA for an amount of 929.157 Euros at a fixed annual rate of' 2% ,payable in 16 semi-annual deferred instalments starting on July 1st 2003

d) Amounts owed to leasing companies for an amount of 950 thousand Euros (807 thousand Euros on December 31st 2005).

Debts guaranteed by real estate property
The property located in Via Baldanzese, 17 at Calenzano was bound by a mortgage, now being cancelled, which was used as a guarantee for the ten-year loan issued by the Cassa di Risparmio di Firenze and extinguished during 2006.

Current liabilities

Financial debts (note 18)

Below, a breakdown of the financial debts is given:

Financial short term debts	31-Dec-2006	31-Dec-2005	Variation	Var. %
Bonds		619.748	-619.748	-100,00%
Amounts owed to banks	620.584	800.617	-180.033	-22,49%
Amounts owed to other financiers	680.211	771.805	-91.594	-11,87%
Total	1.300.795	2.192.170	-891.375	-40,66%

Under the heading of "Bonds", the item entered on December 31st 2005 for 619 thousand Euros is related to the debenture loan issued and repaid in a single instalment on December 31st 2006.
The entry "Amounts owed to banks" is related to the overdrafts on a checking accounts which was granted by credit institutions to subsidiary companies.
The decrease with respect to 2005 is a result, among other things, of the extinguishing of the ten-year mortgage loan issued by the Cassa di Risparmio di Firenze to the Parent Company.

The entry "Amounts owed to other financers" includes the short-term quotas of the financings described in the preceding note; the change which is shown with respect to December 31st 2005 is related, among other things, to the extinguishing of the IMI facilitated financing for applied research, reference TMR 4, granted to the Parent company El.En. S.p.A. for an amount of 492.431 Euros at the fixed annual rate of 3,70% . This entry also includes the short-term quotas of amounts owed to leasing companies for an amount of 356 thousand Euros (335 thousand Euros on December 31st 2005).
The Group presents a positive net financial position. Financial debts are exposed to the changes in interest rates since no coverage operations have been effected.

Amounts owed for supplies (note 19)

Trade debts:	31-Dec-2006	31-Dec-2005	Variation	Var. %
Amounts owed to suppliers	23.473.550	20.098.929	3.374.621	16,79%
Amounts owed to associated companies	132.552	152.210	-19.658	-12,92%
Total	23.606.102	20.251.139	3.354.963	16,57%

Tax debts/Other short term debts (note 20)

The subdivision of tax debts and other debts is shown in the chart below:

	31-Dec-2006	31-Dec-2005	Variation	Variation %
Tax debts				
Taxes on profit	1.753.213	2.412.303	-659.090	-27,32%
Debts owed to tax administration for VAT	488.479	526.109	-37.630	-7,15%
Debts owed to tax administration for deductions	845.808	741.652	104.156	14,04%
Other tax debts			-	0,00%
Total tax debts	3.087.500	3.680.064	-592.564	-16,10%

Social security debts				
Debts owed to INPS	985.604	955.556	30.048	3,14%
Debts owed to INAIL	111.864	94.773	17.091	18,03%
Debts owed to other Social Security Institutions	61.302	50.114	11.188	22,33%
Total	1.158.770	1.100.443	58.327	5,30%
Other debts				
Owed to staff for wages and salaries	4.125.920	3.238.282	887.638	27,41%
Down payments	1.864.754	1.480.167	384.587	25,98%
Other debts	5.647.038	3.903.002	1.744.036	44,68%
Total	11.637.712	8.621.451	3.016.261	34,99%
Total Social security debts and other debts	12.796.482	9.721.894	3.074.588	31,63%

The “Debts for income tax” which have matured on some of the companies of the Group have been entered net of the relative down pre-payments and deductions withheld .
The “Debts owed to staff for wages and salaries” includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2006.
The entry “Down payments” includes pre-payments made by clients for an amount of 1.652 thousand Euros.

The entry “Other debts” includes, among other things, the anticipated revenues related to the subsidiary Cynosure Inc. for service contracts entered with the revenues in proportion to the duration of the contracts.

SECTORIAL INFORMATION

Primary information

31-Dec-06		Total	Medical	Industrial	Other
Revenues		154.372	127.669	26.687	16
Other revenues and income		1.837	663	247	926
Gross Margin		82.348	70.595	10.980	773
	Inc.%	*53%*	*55%*	*41%*	*82%*
Margin		15.109	13.349	987	773
	Inc.%	*10%*	*10%*	*4%*	*82%*
Not assigned charges		9.648			
EBIT		5.461			
Net financial income (charges)		2.126			
Share of profit of associated companies		(31)	(18)	(13)	0
Other Income (expense) net		(375)			
Income before taxes		7.182			
Income taxes		4.541			
Income for the financial period		2.641			
Minority interest		1.003			
Net income		1.638			

31/12/05		Total	Medical	Industrial	Other
Revenues		118.343	96.225	22.041	77
Other revenues and income		1.978	541	236	1.201
Gross Margin		64.897	54.634	9.522	740
	Inc.%	*54%*	*56%*	*43%*	*58%*
Margin		17.862	16.501	620	740
	Inc.%	*15%*	*17%*	*3%*	*58%*
Not assigned charges		7.912			
EBIT		9.950			
Net financial income (charges)		923			
Share of profit of associated companies		4	0	0	4
Other Income (expense) net		19.643			
Income before taxes		30.520			
Income taxes		4.407			
Income for the financial period		26.113			
Minority interest		1.409			
Net income		24.704			

The gross margin is calculated as follows: [Revenue + Income] – [Purchases ± Variations in inventory + Direct costs of manufacture and sale].

31-Dec-2006	Total	Medical	Industrial	Other
Assets assigned	150.948	127.460	23.488	
Equity investments	248	137	111	
Assets not assigned	18.645			
Total assets	169.841	127.597	23.599	0
Liabilities assigned	31.877	25.087	6.790	
Liabilities not assigned	18.232			
Total liabilities	50.109	25.087	6.790	0

31-Dec-2005	Total	Medical	Industrial	Other
Assets assigned	142.580	120.151	22.429	
Equity investments	502	373	129	
Assets not assigned	25.790			
Total assets	168.872	120.524	22.558	0
Liabilities assigned	25.928	18.469	7.459	
Liabilities not assigned	18.821			
Total liabilities	44.749	18.469	7.459	0

31-Dec-2006	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	760	742	18	0
- not assigned	1.453			
Total	2.212	742	18	0

31-Dec-2005	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	(2.215)	(2.645)	430	0
- not assigned	(333)			
Total	(2.548)	(2.645)	430	0

Secondary information

31/12/06	Total	Italy	Europe	Row
Revenues	154.372	29.051	49.767	75.555

31/12/05	Total	Italy	Europe	Row
Revenues	118.343	20.769	35.514	62.060

31-Dec-2006	Total	Italy	Europe	Row
Assets assigned	169.336	72.745	9.946	86.645
Equity investments	505	505		
Assets not assigned	0			
Total assets	169.841	73.250	9.946	86.645
Liabilities assigned	50.109	27.634	4.766	17.709
Liabilities not assigned	0			
Total liabilities	50.109	27.634	4.766	17.709

31-Dec-2005	Total	Italy	Europe	Row
Assets assigned	168.098	71.958	6.152	89.987
Equity investments	774	556		218
Assets not assigned	0			
Total assets	168.872	72.514	6.152	90.205
Liabilities assigned	44.749	27.427	2.354	14.968
Liabilities not assigned	0			
Total liabilities	44.749	27.427	2.354	14.968

31-Dec-2006	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	2.212	1.501	(4)	715
- not assigned	0			
Total	2.212	1.501	(4)	715

31-Dec-2005	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	(2.548)	(4.179)	(138)	1.769
- not assigned	0			
Total	(2.548)	(4.179)	(138)	1.769

COMMENTS ON THE MAIN ENTRIES IN THE PROFIT AND LOSS ACCOUNT

Revenue (note 21)

The sales volume for this year exceeds 154 million Euros, an increase of 30% with respect to the same period last year, and approx. 10% above the 140 million Euros forecast by the management.

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Sales of industrial laser systems	22.931.743	19.395.203	3.536.540	18,23%
Sales of medical laser systems	113.267.324	84.016.513	29.250.811	34,82%
Consulting and research	101.392	86.673	14.719	16,98%
Service and sales of spare parts	18.072.006	14.844.672	3.227.334	21,74%
Total	154.372.465	118.343.061	36.029.404	30,44%

The medical sector shows an increase of approx. 35% thanks also to the exceptional growth rate registered in the fourth quarter of the year, which contributed significantly to the overall increase in the sales volume.
There was also a growth in the industrial sector of almost 20% which was well in excess of the overall growth of the specific market, which is that of machine tools for manufacturing.
The sales volume of technical assistance, accessory services and spare parts increased by 22% thanks to the rise in the number of installations to which these services are supplied, and despite the break in relations with Sona International which, in 2005, had developed approx. 1,2 million dollars in sales volume for the rental of laser equipment for hair removal.
The residual category “Consulting and research” is negligible for this period, however we are keeping the heading because this entry is integrated with the entries, as revenues for research activity, under the heading of other income. During the financial year 2006 the income from research activity was 921 thousand Euros as opposed to 1.200 thousand Euros for last year.

With regard to the seasonal nature of our business, no particular oscillations occur during the course of the year , except for the fact that there is usually a concentration of business volume in the fourth quarter.

Other revenue and income (note 22)

The analysis of the other income is as follows:

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Recovery for accidents and insurance reimbursements	24.850	77.420	-52.570	-67,90%
Expense recovery	708.348	554.279	154.069	27,80%
Capital gains on disposal of fixed assets	126.946	86.815	40.131	46,23%
Other income	975.591	1.252.045	-276.454	-22,08%
Contribution on fiscal year account and on capital account	900	900	-	0,00%
Total	1.836.635	1.977.971	-134.824	-6,82%

Under the heading of “Other revenue and income” the Parent company El.En. SpA has entered grants towards research projects for the amount of approx. 817 thousand Euros. The heading “Expense recovery” refers mostly to expenses for shipment.

Costs for the purchase of goods (note 23)

The analysis is shown on the following table:

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Purchase of raw materials and finished products	63.528.424	49.069.888	14.458.536	29,47%
Purchase of packaging	454.267	336.764	117.503	34,89%
Shipment of purchases	617.931	492.988	124.943	25,34%
Other purchase expenses	138.306	143.213	-4.907	-3,43%
Other purchases	219.736	176.830	42.906	24,26%
Total	64.958.664	50.219.683	14.738.981	29,35%

The increase of purchases is a direct consequence of the increase in the business volume which is also reflected in the increase in final inventory registered at the end of the year.

Other direct services/ operating services and charges (note 24)

Breakdown of this category is shown on the chart below:

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Direct services				
Expenses for work in progress at third parties'	4.397.490	2.645.178	1.752.312	66,25%
Technical services	1.325.963	434.639	891.324	205,07%
Shipment on sales	1.204.539	988.339	216.200	21,88%
Commissions	7.977.810	5.063.746	2.914.064	57,55%
Royalties	143.727	160.421	-16.694	-10,41%
Travel expenses	1.248.308	1.172.850	75.458	6,43%
Other direct services	273.478	464.281	-190.803	-41,10%
Total	*16.571.315*	*10.929.454*	*5.641.861*	*51,62%*
Operating services and charges				
Maintenance	165.879	160.144	5.735	3,58%
Services and commercial consulting	1.714.922	1.083.041	631.881	58,34%
Insurances	1.285.823	860.960	424.863	49,35%
Travel and overnight expenses	2.731.762	2.074.673	657.089	31,67%
Promotional and advertising expenses	5.552.587	3.996.622	1.555.965	38,93%
Utility charges	1.255.797	1.015.551	240.246	23,66%
Other taxes	341.233	193.919	147.314	75,97%
Expenses for vehicles	714.281	393.863	320.418	81,35%
Rent	3.046.547	2.820.616	225.931	8,01%
Other operating services and charges	21.791.299	10.820.441	10.970.858	101,39%
Total	*38.600.130*	*23.419.830*	*15.180.300*	*64,82%*

The most significant amounts entered under the heading of "Other operating services and charges" is represented by the salaries paid to members of the Board of Directors and the Board of Auditors, for an amount of approx. 900 thousand Euros. Costs for legal advice, and for accounting audit for a total of 2,3 million Euros loss on receivables for an amount of approx. 1 million Euros. This heading includes a one-time costs of 8 million Euros for the agreement between Cynosure and Palomar mentioned above.
For the activities and the costs related to Research and Development, please refer to the management report.

Personnel costs (note 25)

The chart below shows the costs for staff.

For staff costs	31-Dec-2006	31-Dec-2005	Variation	Var. %
Wages and salaries	25.498.416	21.104.129	4.394.287	20,82%
Social security costs	4.585.170	3.927.676	657.494	16,74%
Accruals for severance indemnity	574.724	452.877	121.847	26,91%
Stock options	2.413.805	1.104.150	1.309.655	118,61%
Total	33.072.115	26.588.832	6.483.283	24,38%

Depreciation, amortization and other accruals (note 26)

The table below shows the breakdown for this category.:

Depreciations, amortizations, and other accruals	31-Dec-2006	31-Dec-2005	Variation	Var. %
Amortization of intangible assets	294.525	229.032	65.493	28,60%
Depreciation of tangible assets	3.058.044	2.596.662	461.382	17,77%
Devaluations of fixed assets	340.803		340.803	0,00%
Accrual for risk on receivables	329.122	810.082	-480.960	-59,37%
Other accruals for risks and charges	1.191.786	1.302.475	-110.689	-8,50%
Total	5.214.280	4.938.251	276.029	5,59%

The entry under the heading of "Devaluation of fixed and non-fixed assets" is related mostly to the devaluation of the goodwill attributed to CGU Deka Lms as a results of the annual impairment test.

The accrual for risks and charges is also related to product guarantees.

Financial incomes and charges (note 27)

The breakdown of the category is as follows

	31-Dec-2006	31-Dec-2005	Variation	Var.%
Financial incomes:				
Interests from banks	2.399.583	306.872	2.092.711	681,95%
Interests from associated companies	2.000	2.000	-	0,00%
Interests on investments	11.618	11.706	-88	-0,75%
Income from negotiations	40.481	622	39.859	6408,20%
Foreign exchange gain	794.994	1.466.804	-671.810	-45,80%
Other financial incomes	93.696	42.346	51.350	121,26%
Total	3.342.373	1.830.350	1.512.023	82,61%
Financial charges:				
debenture loans	-60.425	-60.425	-	0,00%
bank debts for account overdraft	-115.814	-183.120	67.306	-36,76%
bank debts for medium and long - term loans	-36.690	-46.355	9.665	-20,85%
losses from negotiation-investments	-456		-456	0,00%
Foreign exchange loss	-888.890	-456.976	-431.914	94,52%
other financial charges	-113.667	-160.669	47.002	-29,25%
Total	-1.215.942	-907.545	-308.397	33,98%

The heading of "Interests from banks", which has increased considerably with respect to last year, has benefited from the considerable amount of cash held by Cynosure as a result of the IPO in 2005.
Interest and profits from the negotiations related to temporary investments of the cash are entered.

The interest payable on current account overdrafts refer mainly to overdraft facilities granted by banks to the subsidiaries while the interest payable to banks for mortgages and for medium and long term loans refers, among other things, to the loan granted to the Parent company El.En. SpA by the Cassa di Risparmio di Firenze and to the facilitated financing granted by MIUR (formerly MURST) and issued by IMI and by MPS.

The heading "Other financial charges" includes the amount of approx. 92 thousand Euros related to the entry of interest owed as a result of the application of accounting principle IAS 19 to the severance indemnities.

Other net income and charges (note 28)

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Other incomes or charges				
Loss on equity investments	-246.540	-232.642	-13.898	5,97%
Profit on equity investments	94.868	20.394.611	-20.299.743	-99,53%
Accrual for losses in group companies		-425.147	425.147	-100,00%
Revaluation (Devaluation) of equity investments	-62.634	-93.580	30.946	-33,07%
Taxes related to the previous years	-160.603		-160.603	0,00%
Total	**-374.909**	**19.643.242**	**-20.018.151**	**-101,91%**

The entry under "Loss on equity investments" quantifies the effects of the dilution of the value of the equity in Cynosure Inc. following the increase in capital for use in the stock option plans in favour of third parties.
The "Taxes related to previous years" are related, among other things, to the entry of what was requested from the subsidiary Quanta System SpA by the Financial administration through the issuance of tax folder.

The heading of "Profit on equity investments" includes the capital gains registered for the sale of stock made by the Group as part of the IPO of Cynosure, on December 31st 2005. In order to facilitate the quotation on Nasdaq of the subsidiary company, the Group, in 2005, in fact sold one million ordinary shares of Cynosure, Inc., and for this sale showed a capital gains of approx. 7 million Euros. Moreover, the Profit and Loss Account includes the capital gains generated by the increase in capital which occurred in Cynosure Inc. after the IPO, which, according to the prevalent interpretation, in accounting should be equivalent to a partial sale to the minority shareholders of quotas of subsidiary companies of which control was kept. The capital gains, which amounted to approx. 13 million Euros, derived in fact from the increase in the capital stock of Cynosure entirely underwritten by third parties, and recognized the increase in the stockholders' equity per share which occurred for the remaining shares due to the deposit in cash of the increase in capital by third parties.

Income Taxes (note 29)

Description:	31-Dec-2006	31-Dec-2005	Variazione	Variazione %
IRES and other foreign income taxes	4.633.760	5.664.149	-1.030.389	-18,19%
IRAP	957.297	805.301	151.996	18,87%
IRES and other foreign income taxes - Deferred (Advanced)	-1.051.918	-2.033.416	981.498	-48,27%
IRAP - Deferred (Advanced)	1.956	-28.883	30.839	-106,77%
Total income taxes	4.541.095	4.407.151	133.944	3,04%

The tax load for this year was considerably influenced by the lack of certain tax facilitations which had benefited the earnings before taxes last year, like the application of deferred tax assets by Cynosure inc. which, again turning a profit, could have revealed among other things the effect of the fiscal losses brought forward; the "PEX" exemption which benefited a large part of the capital gains earned with the sale of the Cynosure stock; and the neutrality, for tax purposes, of the rectification of the value representing the increase in the stockholders' equity in the quota of the Cynosure shares held by El.En. SpA. The tax rate for this financial year was 63,22% as opposed to 14,44% for last year.

The chart below shows the reconciliation between the theoretical fiscal aliquots and the actual aliquot limited to the income tax of the company (IRES) and similar.

	2006	2005
Profit/loss before taxes	7.182.336	30.519.900
Theoretical IRES Aliquot	33%	33%
Theoretical IRES	2.370.171	10.071.567
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	637.421	-622.639
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical 'aliquot	608.226	-1.313.932
Higher (lower) fiscal incidence due to the effects of consolidation	-33.976	-4.504.262
Actual IRES	3.581.842	3.630.733
Actual IRES aliquot	50%	12%

Dividends distributed (note 30)

The shareholders' assembly held on May 13th 2005 voted to distribute 1.631.785,40 Euros as dividends paying 0,35 Euros a share for each of the 4.662.244 ordinary shares.
The shareholders' assembly held on May 9th 2006 voted to distribute 2.577.558 Euros as dividends paying 0,55 Euros a share for each of the 4.686.468 ordinary shares.
The dividend proposed by the Board of Directors, subject to the approval of the shareholders' assembly which will approve the annual report for 2006, is 0,30 Euros a share for each of the 4.736.768 ordinary shares.

Profits per share (note 31)

The chart below illustrates the method used to calculate the weighted average number of shares in circulation.

Shares	**31/Jan/06**	**31/May/06**	**30/6June06**	**30/Sept/06**	**31/Oct/06**	**30/Nov/06**	**31/Dec/06**
Variation number of shares		2.736	50	600	6.500	2.050	
Shares	4.686.468	4.689.204	4.689.254	4.689.854	4.696.354	4.698.404	4.698.404
Average weighted shares	**4.686.468**	**4.687.015**	**4.687.388**	**4.688.077**	**4.688.905**	**4.689.768**	**4.690.488**

In order to establish the diluted profit for each share, the value of the diluting effect of the options in circulation was added to the average weighted number of shares in circulation.

Non-recurring significant events and operations (note 32)

The chart below shows the effects of significant non-recurring operations which took place in 2005 and 2006:

Non-recurring significant events and operations in 2006	Other operating services and charges		Net income		Consolidated stockholders' equity	
	Amount €/000	**%**	**Amount €/000**	**%**	**Amount €/000**	**%**
Book Value	38.600		2.641		119.731	
Effects of the Palomar operation	(7.965)	-21%	5.177	196%	5.177	4%
Book Value without the Palomar operation	30.636		7.818		124.908	

The agreement between Cynosure Inc. and Palomar for the granting of licenses on some patents for laser hair removal devices comported the entry in the consolidated statement of a non-repeatable cost of 10 million US dollars (at the exchange rate used for the annual Profit and Loss Account, equivalent to 7,9 million Euros or 5,1% of the annual consolidated sales volume) and will comport the payment by Cynosure to Palomar of a royalty on all the laser systems for hair removal sold starting October 1st 2006.

The negative effect on the net financial position on December 31st 2006 was 7,9 million Euros.

Non-recurring significant events and operations in 2005	Other net income and charges		Net income		Consolidated stockholders' equity	
	Amount €/000	**%**	**Amount €/000**	**%**	**Amount €/000**	**%**
Book Value	19.643		26.113		124.123	
Effects of Cynosure IPO	(20.162)	-103%	(20.012)	-77%	(20.012)	-16%
Book Value without the Cynosure IPO	(519)		6.101		104.111	

As already mentioned in Note 28, with the other net income and charges for 2005, we entered the capital gains registered for the sale of shares by the Group as part of the Cynosure IPO.

The positive effect on the net financial position on December 31st 2005 was 65,8 million Euros.

Information about related parties

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

One of the deputy board members, the majority shareholder of the Parent company, has an outright ownership of a 25% quota of Immobiliare del Ciliegio Srl, also a shareholder of the Parent Company.

All the transactions with related parties took place at normal market conditions.

In particular, the table below shows important information about the related parties.

The Members of the Board of Directors and the Board of Auditors and other strategic executives

The Members of the Board of Directors and the Board of Auditors of the Parent company receive the salaries indicated below:

Person	***Appointment description***		***Salary***			
Name	*Position*	*Term duration*	*Perquisites*	*Non monetary benefits*	*Bonus and other incentives*	*Other rewards*
Gabriele Clementi	President of the Board of Directors	Until the date of the assembly for the approval of the financials for 31.12.08	90.000			6.500
Barbara Bazzocchi	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.08	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.08	90.000			6.500
Francesco Muzzi	Member	Outgoing on 23 May 2006	4.701			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the financials for 31.12.08	4.241			
Paolo Blasi	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Angelo Ercole Ferrario	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Alberto Pecci	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Stefano Modi	Member	From 4 August 2006 until first assembly in accordance with art. 2386 Civil Code	4.932			
Vincenzo Pilla	President of the Board of Statutory Auditors	for three years from Nov. 6th, 2003	15.952			
Giovanni Pacini	Statutory Auditor	for three years from Nov. 6th, 2003	11.279			
Paolo Caselli	Statutory Auditor	for three years from Nov. 6th, 2003	12.632			

Board member Stefano Modi during 2006, as an employee of the company, received a salary of approx. 104 thousand Euros. The salaries of the administrators of the parent company, for their functions in other companies included in the area of consolidation, are as follows: Barbara Bazzocchi, as sole administrator of Cutlite Penta Srl received from that company a salary of 12.000 Euros; Gabriele Clementi as sole administrator of Valfivre Italia Srl received from that company a salary of 12.000 Euros, Angelo E. Ferrario as President of the Board of Directors of Quanta System SpA received a salary from that company of 108.000 thousand Euros and as a board member of Arex Srl he received a salary from that company of 10.000 Euros.

The salaries of members of the Board of Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Auditors of Deka Mela Srl and Lasit SpA and actual Auditor of Cutlite Penta Srl received from these companies a total salary of 22.291 Euros; Giovanni Pacini, as actual Auditor of Deka Mela Srl and Cutlite Penta Srl received from these companies a total salary of 14.332 Euros; Paolo Caselli as President of the Board of Auditors of Cutlite Penta Srl and actual Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 20.706 Euros; Manfredi Bufalini as actual Auditor of Quanta System Spa received from this company a salary of 5.972 Euros.

Prof. Leonardo Masotti, President of the Scientific Committee received a salary of 8.400 Euros.

The Parent company does not have a general director.

Legal bodies in which the members of the Board of Directors, the Board of Auditors and other strategic administrators have equities
The members of the Board of Directors and the Board of Auditors possess the equities shown in the management report.

Physical persons possessing an equity in El.En. SpA
Besides the members of the Board of Directors, the Board of Auditors and the President of the Technical-Scientific Committee, partners Carlo Raffini and Pio Burlamacchi also received salaries, as follows:
a) Mr. Carlo Raffini, to whom El.En. SpA has assigned a series of professional tasks, received a salary of 34.292 Euros;
b) Prof. Pio Burlamacchi, who, on the basis of a specific contract, is the owner of an industrial right consisting of a patent pending for the invention of a "Support of an optical cavity for lasers with regulation of the alignment of the ray" received a salary of 6 thousand Euros.

Associated companies
All of the transactions involving payables and receivables, costs and revenue, and all financing and guarantees granted to the associated companies during 2006 are clearly shown in detail.
The prices for the transfer of goods are determined in accordance with what normally occurs on the market. The above mentioned inter-Group transactions therefore reflect the trends in market prices although they may differ slightly from them depending on the commercial policy of the Group.

The tables below show an analysis of the transactions which occurred between associated companies both as regards commercial exchanges as well as payables and receivables.

	Financial credits		**Commercial credits**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
SBI SA			176	
Actis Srl	40		15	
Immobiliare Del.Co. Srl	14			
IALT Scrl	57		7	
Total	**111**		**197**	

	Financial payables		**Commercial payables**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
IALT Scrl			53	
Actis Srl			17	
SBI SA			62	
Total			**133**	

Associated companies:	**Sales**	**Service**	**Total**
SBI S.A.	178		178
IALT Scrl	1		1
Total	179	0	179

Associated companies:	**Other revenues**
IALT Scrl	2
Actis Srl	2
Total	5

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	2	50		52
SBI S.A.	62			62
IALT Scrl		53		53
Total	**64**	**103**		**167**

The amounts shown in the tables above refer to operations which are inherent to the characteristic management of the company.
The table below shows the incidence which transactions with related parties has had on the economic and financial situation of the Group.

Impact of related party transactions	Total	Amount	%
a) Impact of related party transactions on the balance sheet			
Equity investments	505.493		0,00%
Accounts receivables	36.710.630	197.432	0,54%
Other receivables	3.847.530	110.523	2,87%
Non current financial liabilities	1.930.395		0,00%
Current financial liabilities	1.300.795		0,00%
Accounts payables	23.606.102	132.552	0,56%
Other payables	12.796.482		0,00%
b) Impact of related party transactions on the profit and loss			
Revenues	154.372.465	179.469	0,12%
Other revenues and income	1.836.635	4.800	0,26%
Purchases of raw materials	64.958.664	64.309	0,10%
Other direct services	16.571.315	27.600	0,17%
Other operating services and charges	38.600.130	75.354	0,20%
Financial charges	-1.215.942		0,00%
Financial income	3.342.373	2.000	0,06%

Procedures for the management of financial risks

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities and leasing. Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to the market (currency) and credit.

Currency risks
In 2006, approx. 50% of consolidated sales were made in markets outside of the European Union; most of the transactions were conducted in US dollars. It should be pointed out that the presence of stable structures in the United States, in particular Cynosure, make it possible to have a partial coverage of these risks since both the costs and the revenue are in the same kind of currency.

Credit risks
As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance.

Financial Instruments

Fair value

The table below shows a comparison by category between book value and fair value of all the financial instruments of the Group.

	Book value	Book value	Fair value	Fair value
	31-Dec-2006	31-Dec-2005	31-Dec-2006	31-Dec-2005
Financial assets				
Financial mid and long term receivables				
Financial receivables within 12 months	350.348	92.682	350.348	92.682
Financial instruments	34.011.333	467.233	34.011.333	467.233
Cash and cash equivalents	24.360.779	77.071.374	24.360.779	77.071.374
Financial liabilities				
Financial mid and long term debts	1.930.395	1.960.970	1.930.395	1.960.970
Financial liabilities due within 12 months	1.300.795	2.192.170	1.300.795	2.192.170

Other information

Average number of employees divided by category

	Average 2006	31-Dec-2006	Average 2005	31-Dec-2005	Variation	Var. %
Total	483,0	418	506,0	548	-130	-23,72%

The increase in the number of employees in the Group reflects the increase in the volume of business.

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

REPORT ON THE SYSTEM OF CORPORATE GOVERNANCE OF EL.EN. CORPORATION AND COMPARISON WITH THE REGULATIONS CONTAINED IN THE SELF-DISCIPLINING CODE FOR COMPANIES QUOTED ON THE STOCK MARKET

In conformity with the regulations set forth in Articles 124-*bis* of the Legislative Decree, of February 24th 1998, n. 58 ("TUF"), and modifications as L.of December 28th 2005, n. 262 and later modifications ("Laws on Saving"), and IA.2.6 of the Instructions on the Regulation of the Markets organized and managed by Borsa Italiana SpA with this document we intend to give information on the system of corporate governance and on the adhesion to the Self-disciplining Code elaborated by the Corporate Governance Commission of the companies quoted on the market (hitherto referred to as the Code).

Premise;

- Since December 11th 2000, with the admission of its ordinary stock to the MTAX (formerly Nuovo Mercato) organized and managed by Borsa Italiana SpA – to which the qualification of TechStar and later Star followed, it has always been the intention of El.En. ("the Company"), apart from any legal obligations and/or regulations, to follow, maintain and perfect the alignment of its own system of corporate governance in conformity with the suggestions and recommendations of the Code - both in the original version of 1999, revised in 2002, and in the current edition of March 2006, and identified as the *best practice*, since it represents a unique opportunity to increase their reliability and reputation in relation to the market.

In the paragraphs which follow, El.En. describes, in the first section, the system of company governance which is currently in use and, in the second section, for the first time, makes a comparison between its own system of corporate governance and the model of Corporate Governance suggested by the Code in the version published in March of 2006 which indicated the numbers of the articles of the Code related to each specific subject and, where necessary, the reasons for the lack of conformity to the recommendations, as of this writing.

It should be pointed out that, at the time of this writing, the Company, following a process of maturation that began during 2006, is currently in a phase of transition from conformity to the recommendations of the Self-disciplining Code of 2002 to those issued by the Borsa Italiana in March 2006.

* * *

I – GENERAL INFORMATION ON CORPORATE GOVERNANCE

The corporate governance of El.En. consists of an administrative body, a managing body and an assembly.

During the phase of adaptation to the regulations set forth by Legislative Decree n. 6 of January 17th 2003, and the later amendments and modifications, the shareholders of El.En. voted to keep the traditional system of administration and management.

Consequently, the company is currently administered by a Board of Directors which is regulated, in all of its aspects (composition, functions, salaries, powers, representation of the company), by Articles 19 and 23 of the company by-laws and is subject to the control and surveillance of a Board of Auditors which is governed in every aspect by Art. 25

of the by-laws.

Board of Directors

The Board of Directors holds full powers for the ordinary and extraordinary administration of the activities related to the pursuit of the aims of the company.

The current Board of Directors is constituted by eight members.

The Board Members were elected by the shareholders' assembly held on May 9th 2006 and, after the vote of approval of the Board of Directors on May 15th 2006, is made up of executive and non-executive members organized so as to carry out consulting and executive functions in support of the Board, in three committees: for internal control, for remuneration, and for appointments.

Two of the Board members were elected since they possessed the independence requirements as per art. 148-ter TUF in conformity with the recent amendments as per "Laws on Saving".

As of December 31st 2006 the Board was composed as follows:

Name	Position	End of term	Place and date of birth
Gabriele Clementi	President and deputy member	Approval of the financials for the year 2008	Incisa Valdarno (FI), July 8th 1951
Barbara Mazzocchi	Deputy member	Approval of the financials for the year 2008	Forlì, June 17th 1940
Andrea Cangioli	Deputy member	Approval of the financials for the year 2008	Firenze, December 30th 1965
Stefano Modi**	Board member	Approval of the financials for the year 2006	Borgo San Lorenzo (FI), January 16th 1961
Paolo Blasi*	Board member	Approval of the financials for the year 2008	Firenze, February 11th 1940
Michele Legnaioli*	Board member	Approval of the financials for the year 2008	Firenze, December 19th 1964
Angelo Ercole Ferrario	Board member	Approval of the financials for the year 2008	Busto Arsizio, June 20th 1941
Alberto Pecci	Board member	Approval of the financials for the year 2008	Pistoia, September 18th 1943

* Independent administrators in conformity with article 147-ter TUF and art. 3 of the Code

** Drafted by the Board of Directors on August 4th 2006 and in conformity with art. 2386 c.c. to replace the outgoing member, Ing. Francesco Muzzi. Modi will remain on the Board until the assembly convened on April 30th /May 15th 2007.

Board members have their legal domicile at El.En. company headquarters. in Calenzano (FI), Via Baldanzese 17.

The shareholders' assembly which convened for the approval of the financials on December 31st 2006 was required to elect a new member to replace the outgoing member Francesco Muzzi, who was substituted in conformity with art. 2386 of the Civil Code by the Board of Directors on August 4th 2006 with Stefano Modi, or, as an alternative, to reduce the number of Board Members to seven.

The deputy Board Members retain, in accordance with the vote of the Board of Directors held on May 15th 2006, separately from each other and with independent signature, all of the ordinary and extraordinary administrative powers for achieving all of the aims included in the company purpose, excluding only the attributions which are prohibited from being object of proxy in conformity with art. 2381 of the civil code and the company by-laws.

As of September 5th 2000 the Board has instituted amongst its members the following committees which are composed for the most part, of non-executive members and regulated by special rules which were approved in a preliminary version on September 5th 2000 and then revised in December of 2003 to adapt them to the 2002 version of the Code.

a) *Nominations Committee for the appointment of the administrator*, which currently has the task of nominating candidates, receiving proposed nominations from the shareholders, and verifying that the procedure for the selection of candidates respects the company by-laws.
b) *Remuneration Committee*, which has the task of formulating proposals for the amount of remuneration to be paid to the deputy Board Members and to those that have particular responsibilities, and, in response to the indications given by the delegated commissions, to determine the criteria for the remuneration of the top executive officials of the company;
c) *Internal Control Committee*, which has consulting, executive and sustaining functions for the Board of Directors in the realization and the surveillance of the internal control systems and of the evaluations of the proposals of the auditing companies.

On March 30th the Board of Directors proceeded with the revision of the regulations of the three committees with an aim to adapting their functions and tasks in conformity with Code 2006; a detailed description of the current structure, functions and tasks is given in the second section which contains a comparison between the individual regulations of the Code.

On September 5th 2000 the Board also appointed a provost for internal control.

The Board of Directors convenes at least once every quarter in order to guarantee adequate information for the Board of Auditors related to the activities and the most important transactions conducted by the Company and its subsidiaries.

The administrators of the Company participate as members of the administrative organs of the subsidiary companies or else have the position of sole administrator, otherwise the administrative organ of the subsidiary companies supply complete detailed information required for the organization of the activities of the Group and the accounting statements necessary for conformity with the relative legislation; normally, the usual policy in the past has been for the subsidiary companies to supply all of the information necessary for the preparation of the consolidated financial and economic reports before the end of the month following the closing of the quarter.

On December 31st 2006 the following members of the Board of Directors were members of the administrative organs of the following subsidiaries:

Name	Activities
Gabriele Clementi	- Sole administrator of Valfivre Italia Srl (company in which El.En. SpA holds a 100% equity.) - Board member of Quanta System SpA (company in which El.En. Spa holds an equity of 60%) - President of the Board of Directors of AQL Srl (company controlled indirectly through Quanta System SpA e Lasit SpA) - Member of the Board of I.A.L.T. Scrl (consortium company in which El.En. Spa holds an equity of 50%.)
Barbara Bazzocchi	- Sole administrator of Cutlite Penta Srl (company in which El.En. Spa holds an equity of 72,67%) - President of the Board of Directors of Actis – Active Sensor Srl (company in which El.En. Spa holds an equity of 12,00%)
Andrea Cangioli	- Sole administrator of Neuma Laser Srl (a company controlled indirectly through Cutlite Penta Srl and Ot-Las Srl) - Deputy Board Member of Quanta System SpA (company in which El.En. Spa holds an equity of 60%) - Board Member of Cynosure Inc. (company in which El.En. Spa holds an equity of 34,69%) - Board Member of Ot-las Srl (company controlled directly and indirectly through Cutlite Penta Srl) - Board Member of A.S.A. Srl (company in which the subsidiary Deka M.E.L.A. Srl holds an equity of 60%) - Sole administrator of Asclepion Laser Technologies (company in which El.En. SpA holds an equity of 50% and an equity of 50% is held by Quanta System SpA) - Sole administrator of Deka Lms GmbH (company in which El.En. SpA holds an equity of 76,16%) - Board Member of Lasercut Inc. (in which an equity of 70% is held) - President of the Board of Directors of S.B.I. SA (company in which El.En. SpA holds an equity of 50%)
Angelo E. Ferrario	- President of the Board of Directors of Quanta System SpA (company in which El.En. Spa holds an equity of 60%) - Member of the Board of AREX Srl (company controlled indirectly through Quanta System SpA) - Board Member of AQL Srl (company controlled indirectly through Quanta System SpA and Lasit SpA)

The company by-laws concerning the appointment of administrators, the composition of the Board and their related areas of competency are currently being revised: in particular, the Board has proposed, to the assembly convened for the approval of the financials for 2006, the modification of articles 19, 21 and 22 for the purpose of adapting them to the extent required and not already included, to the new TUF and to the Code.

The Board of Auditors

The Board of Auditors is entrusted with the surveillance of conformity to the laws and company by-laws, of respect of the principles of correct administration, of the adequacy of the company organizational set-up related to the specific tasks, systems of internal control and accounting administration system used by the company and its concrete functioning.

This Board is also entrusted with the supervision of the adequacy of the instructions given to the subsidiary companies so that they supply all the information necessary in order to be in compliance with the communication obligations required by law.

The current Board of Auditors, elected by the Assembly which convened on November 6th 2003, the term of which expired with the approval of the financials on December 31st 2006, is composed of three acting auditors and two supplementary auditors:

Name	Position	Residence	Place and date of birth
Vincenzo Pilla	President	Firenze, Via Crispi, 6	S. Croce di Magliano (CB), May 19th 1961
Paolo Caselli	Acting auditor	Pistoia, Via Galvani, 15	Firenze, April 14th 1966
Giovanni Pacini	Acting auditor	Firenze, Via Crispi, 6	Firenze, December 10th 1950
Lorenzo Galeotti Flori	Supplementary auditor	Firenze, Borgo Pinti, 80	Firenze, December 9° 1966
Manfredi Bufalini	Supplementary auditor	Firenze, Piazza S. Firenze, 2	Firenze, August 24th 1966

Company by-laws establish a limit in the accumulation of assignments, in conformity with 148-bis TUF, so that the appointment of a candidate or auditor who already functions as acting auditor in more than five listed companies is considered ineligible or invalid.
As far as any other limitations are concerned, the Board is waiting for the CONSOB to issue a definitive text.

On December 31st 2006 the members of the Board of Auditors of the Company also participated in the controlling organs of the following subsidiary companies:

Nome e Cognome	Attività
Vincenzo Pilla	- President of the Board of Auditors of Lasit SpA since December 3rd 2003 (ex acting auditor) - President of the Board of Auditors of Deka M.E.L.A. Srl - Acting auditor of Cutlite Penta Srl
Paolo Caselli	- Presidentof the Board of Auditors of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl - Acting auditor of Lasit SpA
Giovanni Pacini	- Acting auditor of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl

The shareholders' assembly which convened for the approval of the financials for 2006 also had to proceed with the election of a new Board of Auditors using the mechanism included in the company by-laws since at least the year 2000, with a voting list and the reserve of an acting auditor who had been voted first in the minority list.
The Board had already deliberated on March 30th 2007 and proposed, for the approval of the assembly which had convened, the specification to be inserted in art. 25 of the company statutes, that the acting auditor extracted from the minority list resulting first, be elected, in conformity with. 148, comma 2*bis*, president of the Board of Auditors.

Auditing of accounts, in conformity with art. 155 ss. TUF is entrusted to an auditing company: the assembly held on May 9th 2006 conferred this task of auditing the anuual report and the consolidated annual report of the company for the financial years 2006-2011, in conformity art. 159 TUF to RECONTA ERNST & YOUNG SpA.

Other information

On February 24th the original shareholders who had adhered to the pact stipulated in 2000 and later renewed in 2003, decided unanimously to terminate the Pact in advance with effect to take place immediately.

Internal dealing

Up until March 30th 2006, for the relevant definable subjects in accordance with and in conformity with articles 2.6.3 and 2.6.4. of the "*Regolamento dei Mercati organizzati e gestiti da Borsa Italiana SpA*" since January 1st 2003 there had been in force a "Ethics Code" which, with reference to operations made by those subjects, regulated the obligations of information and the types of behaviour to be observed with an aim to guaranteeing the maximum transparency and informational homogeneity in relation to the market.

On account of the modifications determined by the TUF of the EU law 2004 (L. April 18th 2005, n. 62), in consideration of the EU directives concerning market abuse, and of the later regulating activity in conformity with the CONSOB, since April 1st 2006 the company is required to conform to the regulations on the subject of internal dealing in particular to articles 114, comma 7, *Testo Unico sulla Finanza* and 152-sexies a 152-octies *Regolamento Consob* 11971/1999, as amended with vote 15232 of November 29th 2005.

Since April 1st , therefore, it has become obligatory to communicate to the public all the operations made on the financial instruments of the company by relevant persons or persons closely connected to them and, consequently, the laws regarding internal dealing contained in the Market Regulations (*Regolamento dei Mercati*) organized and managed by Borsa Italiana SpA, have been abrogated.

As a consequence of this, the Ethics Code adopted in 2003 by the Company was replaced by another document, adopted on March 31st 2006 and later modified on November 13th 2006, which, besides describing in detail the legal obligations, also specifies the time limits or prohibitions for the operations made by the above mentioned subjects.

* * *

II – INFORMATION ON THE ADHESION TO THE SELF-DISCLIPLINING CODE

Role and composition of the Board of Directors (articles 1-3 of the Code)

1) Role of the Board of Directors (art. 1)

In conformity with art. 21of the Company by-laws, the Board of Directors is the organ which holds the most extensive ordinary and extraordinary administrative powers involved in the management of the company.

In conformity with the principles described in 1.P.1. and 1.P.2, and with article 20B of the company statutes, the Board of Directors convenes at least once each quarter in order to receive information from the delegate organs and also to inform the Board of Auditors on the activities which have been conducted in carrying out its delegated duties and on the operations of major economic and financial significance made by the company or by the subsidiary companies, as well as referring on operations which might represent a potential conflict of interest, on those of the related counterparts, and on those that are atypical or unusual in regards to the normal management of the company.

The regularity with which the Board meets has the purpose of assuring the capacity of the Board of Directors to operate with all the necessary information as well as that of guaranteeing the intervention of the Board of Directors in relation to all the necessary activities required for the strategic direction and verification of the powers delegated them in relation to the subsidiary companies, which need to have their activities directed and coordinated and which include among the members of their controlling organs, one of the deputy Board Members, and in some case the president of the company or the president of the technical-scientific commission.

The board meetings also have the function of supplying the non-executive members with the elements necessary for an evaluation of the organizational, administrative and accounting set-up of both the company and the main subsidiaries which have been administered in their concrete activities by the deputy members. (1.C.1. lett. b).

On the other hand, the requirement for the incumbent head of the deputy members to refer to the Board of Directors and to the Board of Auditors, at least once every quarter on the activities conducted in carrying out their responsibilities, on the general trend of the management, and on its foreseeable evolution, as well as, possibly in advance, but, in any case, before the next meeting of the board, on the economic and financial operations of major importance made by the company or by its subsidiaries, not only is required by law, in conformity with art. 150 TUF, but is also part of the policy of creating all the conditions necessary so that the Board can evaluate the general trend of the management and periodically compare the results actually achieved with those that were programmed (1.C.1 lett. e) as well as evaluate the concrete management of the situations of potential conflict of interest (1.C.1. lett. b). In particular, the deputy members are required, in conformity with the above mentioned art. 20 E cit., to reveal any operations comporting potential conflict of interest, those with related counterparts, and those that are atypical or unusual with respect to the normal management policy of the company.

As part of the process of adapting the company statutes to the new regulations, the Board decided to insert into the text of the by-laws the specification that this declaration had to take place as soon as possible in view of a future approval as prevention of such operations.

During the financial year 2006 the Board of Directors of El.En. met on the following dates:

1. February 14th 2006 (absent Clementi, Canale)
2. March 30th 2006 (absent Clementi, Blasi, Legnaioli)
3. May 15th 2006 (absent Muzzi)
4. August 4th 2006
5. September 29th 2006
6. Novembre 13th   2006 (absent Paolo Blasi)

During 2007the Board of Directors of El.En. has already met on the following dates:

1. February 14th 2007
2. March 30th 2007

and has set the following schedule for meetings in order to fulfil their company duties:

3. May 15th 2007 – Quarterly report for the first quarter of 2007
4. August 4th 2007 – Quarterly report for the second quarter of 2007
5. September 29th 2007 – Half yearly report
6. November 14th 2007 – Quarterly report for the third quarter of 2007

Naturally, to this schedule additional meeting dates may be added if other meetings of the Board of Directors become necessary.

Concerning the documentation and the information to be furnished to the Board of Directors so that they can act fully informed and with full awareness on the subjects involved, art. 20 A of the company by-laws establishes that the president must do everything in his power to provide, reasonably in advance of the date of the meeting (except in cases of necessity and emergency) all of the documentation and information necessary related to the various subjects which will be presented for their examination and approval. In reality, an e-mail is sent to all of the non-executive Board Members and the members of the Board of Auditors containing all the documentation regarding the subjects which will be dealt with according to the schedule of the next meeting.

Concerning the presence of the single components at the meetings of the Board of Directors, it should be noted that the three executive administrators must attend unless there is a serious impediment (presence at one of the foreign subsidiaries, illness, funeral) which prevents their attending. The same is true of the independent administrators who usually attend the board meetings and participate actively.
The exact percentage of attendance for each Board Member is shown on Chart 1 in the Appendix of this report.

- Powers-of-attorney, reserved powers and functions -

The principal expression of the duties of the Board consists in organizing themselves so as to guarantee an efficient performance of their own functions (1.P.1.), in conformity with the applicative criteria 1.C.1. lett. c) of the Code, as established by art. 20 E of the company statutes concerning the powers held by the Board of Directors to delegate their functions, within the limits allowed by law, to an executive committee or to one or more components and defining the contents of the powers-of-attorney, the limits and modes in which it can be exercised. The composition and the mode of functioning of an executive committee are established by the Board of Directors at the time in which it is instituted.

In conformity with art. 20 E cit. in its current version , besides the attributes which by law cannot be delegated, and are part of their specific duties and functions, the following activities are reserved to the exclusive competence of the Board of Directors:

- the determination of the general management policies and the supervision of the general trend in the management, with particular attention to situations which might involve conflict of interest;
- the examination and approval of the strategic industrial and financial plans of the Company and of the company structure of the Group of which it is the head. (1.C.1. lett.a);
- the attribution and revocation of the delegation of powers to Board Members or to the executive committee with the definition of the contents, the limits and terms for exercising these powers (1.C.1. lett. b);
- the determination of the remuneration for the delegated organs, of the president and Board Members who hold particular positions, and, in the case that the assembly has not already provided for it, the subdivision of the overall remuneration to be paid to the single components of the Board of Directors and of the executive committee(1.C.1. lett. d);
- the creation of commissions and committees and the determination of their purpose, their attributes and the ways in which they function, for the purpose of forming a type of company governance according to the rules established by the Self-governing codes of listed companies (5.P.1);
- the approval of the operations which have significant economic, patrimonial and financial importance, with particular reference to transactions with related parties;
- the verification of the adequacy of the general structural, administrative, and accounting organization for the type and size of the company as arranged by the delegated organs.
- the appointment of general directors and determination of their duties and powers;
- the appointment of provosts for single acts or categories of acts.

For the purpose of conforming to the recommendations expressed in the new version of the Code, as well as to the new laws and regulations, the Board of Directors has proposed to the shareholders the integration of the company by-laws regarding powers (duties) reserved to that body:

- specifying that the approval of the Board with reference to the most significant operations must take place in advance, also for those operations which have importance from a strategic point of view (applicative criteria 1.C.1 lett. g), as well as for those in which a Board Member holds interest for himself or for third parties, or which is atypical or unusual.
- specifying that in carrying out the duties of the attributions of the delegations, it adopts measures suitable to concretely avoid the excessive concentration of powers and responsibilities in the management of the company (principle 2.P.4);
- integrating the duties with that for the appointment of the executive officer charged with drawing up the company's financial documents in conformity with art. 154-bis del T.U.F.

In accordance with 11.P.2 art. 20 F of the company statutes, the by-laws require that the Board of Directors refer all the management activities conducted by the administrative organ to the shareholders' assembly.

Currently, the Board of Directors which was last elected by the shareholders' assembly which convened on May 9th 2006, deliberated on May 15th 2007 to designate from among its members, three deputy Board Members, one of which was also to be the President. To these Board Members were delegated, separately from each other, and with free signature, all of the ordinary and extraordinary administrative powers to conduct all the activities which are part of the company purpose, with the exclusion of those the delegation of which is specifically prohibited in conformity with art.

2381, comma 3, c.c. and the company statutes.

Both the by-laws cited above as well as the daily efforts of the executive members of the Board of Directors are based on principles of absolute transparency and completeness of information towards the company regarding the actions that have been taken.

The executive members, moreover, make every effort to assure that the Board is kept informed of the main changes in legislation and regulation related to the company and the company organs. In reality, this occurs through the presence at the Board meetings of the provost for internal control and of a legal advisor who provides a brief summary on the matter at hand.

Concerning any concurrent activities of the Board Members and the evaluation (criteria 1.C.4) reserved to the Board in the case that the Assembly authorizes an exception to the prohibition of concurrency, the Board decided to propose to the Assembly to insert a rule into the Statutes to the effect that no act of authorization or evaluation is necessary as long as the concurrent activity is conducted because the member has taken on the role of component of an administrative organ in one of the subsidiary companies.

Moreover, in relation to the duties of the Board (criteria 1.C.3) to express their own opinion regarding the maximum number of positions that an administrator or an auditor can accumulate, in consideration of the fact that already in the past this body had introduced as one of the statutes – art. 25 – the maximum number of appointments by the auditors and thus had expressed their opinions on this matter, the Board is currently waiting for the CONSOB to issue regulations in implementation of the TUF before taking a position.

B) Composition of the Board of Directors

- Board members: components and numbers -

Art. 19 of the by-laws states that the Board of Directors must be composed of a minimum of 3 and a maximum of 15 members nominated, even among those who are not shareholders, by the assembly, which will on each separate occasion determine their number.

The term served by each Board Member is three (3) financial years, that is, the minimum period determined at each session of the assembly, in conformity with art. 2383, comma 2, c.c. and they can be re-elected; if, during the year, one or more members come to be missing, the others will see to it that they are replaced in conformity with art. 2386 c.c.

In conformity with art. 2 of the Code (principle 1.P.1.), the present Board of Directors of El.En. is composed of executive administrators (including the President) in conformity with applicative criteria 2.C. 1. and non-executive members. Of the eight current members of the Board, three administrators, including the President, are officially executives: (Clementi, Cangioli and Bazzocchi) since they are deputies, and five (Blasi, Legnaioli, Ferrario, Pecci, Modi) are officially non-executive members.

It should be noted that Dr. Angelo Ferrario is President of the subsidiary Quanta System SpA but does not hold individual management powers, and that Ing. Modi, who also has acted as Board Member since August 4th 2006 as a replacement, in conformity with art. 2386 c.c., is also a director in the sector of medical research and development of the Company, and Board Member in the consortium subsidiary I.A.L.T. srl, which at this time does not conduct commercial activity but only research.

(2.P.4) As has been stated, broad powers have been granted to the deputy members of the Board. The reason for this is essentially related to the long tradition of the concrete exercising of delegated powers according to a model which was based on the daily presence of the three deputy Board Members in carrying out their activities in pursuit of the company objectives, on one hand, each one conducting autonomously and independently only those tasks related to minor daily management questions, each one in the area of his specific competence, and on the other hand, discussing and coordinating every operation that could have even the most minor significance or importance.
Consequently, in reality, there is never an actual concentration of company positions in one person in conformity with principle 2.P.4, but rather anyone could potentially achieve this; actually, even though they have acted as executive administrators for many years, it can be said that none of the three deputy Board Members , including the president, has ever become the sole or principal administrator responsible for the management of the company.
For this reason, at this time the Board has decided to further evaluate the possibility of designating a *lead independent director* in conformity with applicative criteria 2.C.3., that is to say, to adopt different delegating criteria.
On the other hand, in order to have greater maneuvering space in order to conform, where necessary, to the recommendations contained in the applicative criteria 2.C.3, the Board of Directors has deemed it opportune to include among the modifications in the by-laws proposed by the assembly, the exercising now being defined of the competencies assigned to the Board by art. 20 E of the by-laws, of the power/duty to proceed, at the time of the attribution of the powers to the Board Members, to the adoption of the measures designed to concretely avoid a concentration of excessive power and responsibility in the management of the company.

(2.P.2 e 2.P.3) Concerning the non-executive administrators, considering that abstractly, the recommendations contained in principle 2.P.2, which require that the executive Board Members have specific and qualified areas of competence, would appear to be almost in contradiction with those contained in principle 2.P.3 which, on the contrary, requires that a certain amount of time be dedicated to acquiring a significant role in the deliberations of the Company, it is evident that the more the person has matured experience in analogous or more complex contexts, the more he will be qualified in his competency.

Although the Board members of El.En., are persons of a certain level and experience, they dedicate enough time and personal effort to their activity as Board Member to have a consistently active role in the meetings and discussions of the Board and the activities of the committees of which they are members. This is particularly true regarding the time and effort expended by the two independent administrators.

The chart below shows the positions held in other companies by the non-executive administrators:

Name	Position held and name of company	Number of companies listed on regulated markets (including foreign ones) or of large size
Michele Legnaioli	• Sole administrator of Valmarina s.r.l. • President of the Board of Directors of Aeroporto di Firenze SpA • Board Member of Parcheggi Peretola srl • Board Member of Firenze Convention Bureau S.c.r.l.	
Paolo Blasi	• Superior Board Member of Banca d'Italia • Member of the Board of Directors of Cassa di Risparmio di Firenze	
Angelo Ercole Ferrario	• President of the Board of Directors of Quanta System spa (company in which El.En Spa has a n equity of 60%) • Board Member of AQL srl (company in which Quanta Sytstem has a 50% equity and Lasit Spa has a 50% equity) • Board member of Arex srl (company in which Quanta System Spa has a 51,22% equity)	
Alberto Pecci	• President of the Pecci textile Group • Board member of the following listed companies: SMI e Alleanza Assicurazioni	
Stefano Modi	• Board member of I.A.L.T. consortium company a r.l.	

- The President – (2.P.5)

In conformity with the comments in art. 2. of the Code, art. 20 A of the El.En. Statutes assigns the President the power/duty to organize the work of the Board by proceeding with the convocation of meetings, scheduling the Order of the Day, coordinating the activities of the Board, directing the conduction of the meetings, and making sure that the Board members receive information in a timely manner so that that they can decide and act in an informed and autonomous way.

Art. 23 of the Statutes reserves the representation of El.En. to the President of the Board of Directors without limitation and to the members of the Board of Directors within the limits of the powers which have been assigned to them.

Concretely, because of the limited size of the company and the strongly vertical structure it has, as mentioned above, delegating powers have also been conferred to the President of the Company, Gabriele Clementi, which are analogous

in content and in extension to those conferred to the other executive administrators; in fact, like the other two administrators he conducts on a daily basis concrete activity in the service of the company.
He has, moreover, the custom, during the board meetings, of rendering the non-executive members participatory and active in the realization of the company activities, in the Group strategies and their long-term prospects.
As already described in relation to the delegation of powers, the Board is still evaluating the possibility of designating one of the two independent administrators as lead independent director alongside the president, in order to further re-enforce the connection between the executive and non-executive administrators.

* * *

Independent administrators

In conformity with art. 3 of the Code, and as mentioned earlier in the chart shown in the first part, the two non-executive administrators can be qualified as "independent".
In consideration also of the current content of art. 147-*ter*, comma 4, TUF in relation to the percentage of components of the Board who must possess the prerequisites of independence established for the auditors by art. 148, comma 3 TUF as well as the later, specific ones included in the Code with explicit reference to the Statutes, the Board decided to insert among the modifications of the by-laws, the proviso that, in the election of the members, among the candidates that are proposed there must be elected a number, congruous in conformity with the law, of Board Members who possess the prerequisites of independence established for the auditors by art. 148, comma 3, D. Lgs. February 24th 1998, n. 58 and by art. 3 of the Self-disciplining Code of the listed companies (March 2006).
Moreover, up until the year 2000, the Company had its own Board of two members who do not find themselves in any of the situations described in applicative criteria 3.C.1: in fact, they do now have, nor have they ever had directly, indirectly or on behalf of third parties, economic relations with El.En Spa or other companies of the Group or with majority shareholders, that are significant or not, other than the remuneration (for 2006, 12.000,00 Euros annually) paid to them for their work, and which is the same as that paid to all of the other non-executive Board Members.
They are not, moreover, owners, directly, indirectly or on behalf of third parties, of equity shares in the company of a nature that would allow them to exert control or significant influence on El.En. SpA, nor do they participate in the company pacts for control of the company. They are not now and never have been important exponents of the Company or of its subsidiaries and they are not relatives of executive administrators or persons who have now, or have had in the past economic relations or any kind of relations with El.En. SpA The independent administrators are Paolo Blasi e Michele Legnaioli.
Prof. Paolo Blasi was deemed by the shareholders' assembly that elected him, capable of carrying out the role of independent administrator since he possesses the prerequisites for independence and because of his indisputable, universally recognized academic and professional experience.
Besides being a full professor in the Physics Department of the University of Florence, Prof. Blasi has the chair in the "Physics Laboratory" department and for many years has held high administrative positions in the university, in public institutions and on government commissions. Prof. Blasi is considered one of the most eminent authorities on lasers, especially in consideration of his research activity, most of it of an experimental nature. He has also been awarded numerous honours, including the title of *Commendatore della Repubblica* by the President of Italy in 1992, of *Chevalièr de l'Ordre Natiònal de la Legion d'Honneur* by the President of France in 2000 and in the same year he received the *Sir Acton Award from* New York University; in 2003 the University of Arizona conferred upon him the honorific title of *Doctor of Humanae Litterae*.
Mr. Michele Legnaioli, also has had considerable experience and, among other positions he has held, he has been

president of Fiorentinagas SpA and Fiorentinagas Clienti SpA, of the Young Industrialists Group of Florence (*Gruppo Giovani Industriali di Firenze*), national Vice President of the Young Entrepreneurs (*Giovani Imprenditori)* of the Confindustria; since May 2003 member of the *Giunta* of the Confindustria, and currently, since April 28th 2004, president of the Aeroporto di Firenze SpA, he was deemed capable of carrying out the role of independent administrator by the shareholders' assembly that appointed him on account of his undisputed entrepreneurial experience.

The presence of non-executive independent administrators in the administrative organ of El.En. is predetermined and numerically adequate to guarantee the most complete tutelage of the good governance of the company, to be implemented through dialog and discussion among the various administrators (3.C.3).

The concrete and constant contribution of the independent administrators allows the Board of Directors to make sure that all the potential cases of conflict of interest of El.En. and the controlling shareholders are evaluated with sufficient impartiality.

Moreover, both independent administrators are active members of all three committees (internal control, nominating and remunerations) which have been set up within the Board.

The independence of the administrators is evaluated annually during the meeting for the approval of the financials using information provided by the administrators themselves (3.C.4). The policy is, in fact, for the company to send to the two independent administrators a questionnaire containing declarations about the controlling, economic and personal relations with the company and the subsidiaries and the executives of these latter.

It should also be mentioned in this regard that, during the meeting for the approval of the financials for the financial year 2006, the Board of Directors, in the presence of the Board of Auditors, after examining the information supplied by the independent members, determined that no variations had occurred in relation to the conditions and prerequisites for independence in conformity with the law and the Code.

As far as applicative criteria 3.C.6. is concerned, the independent Board Members, all of which partecipate in the three committees instituted by the Board, during 2006 had not deemed it necessary to convoke formal meetings in the absence of the other administrators since, during the meetings of the various committees, especially that for internal control, they had had sufficient opportunity to discuss matters and to have direct access to the company management.

* * *

Treatment of company information (art. 4 of the Code)

In conformity with art. 4 of the Code, confidential information is handled by the deputy Board Members in such a way as to guarantee either its privacy or its dissemination in conformity with the laws in force. Information that is not publicly known, but which, if rendered public could significantly influence the price of the financial instruments, are divulged only following specific instructions by the deputy Board Members, according to the rules of art. 114 D.Lgs. 58/98, so as to guarantee the impartiality, rapidity and completeness of the information.

In particular, all information related to El.En. is carefully evaluated by the deputy administrators, together with the employees and collaborators who elaborate the various data and are aware of the information regarding the company, firstly, in relation to its nature, i.e., whether or not it is confidential – and secondly, as to the best and most correct method to divulge it.

Although it has never been formalized in writing, on December 31st 2006 an *ad hoc* procedure, which pre-existed a consolidated company policy according to which the Board of Directors and the company directors maintained the confidentiality of all information and data which was not common knowledge even within the company, on March 30th 2007, the Board of Directors, following the proposal of the deputy members, approved a special procedure called Rules for the Handling of El.En. Company Information ("*Regolamento per il trattamento delle informazioni societarie di*

El.En. SpA”).

This procedure was adopted in order to formalize in writing a policy that already existed and was accepted inside the industrial Group led by El.En., consisting in the internal mangement in a form that was fluid yet safe and confidential, of the information and data of specific importance for the company activities and in direct relation to the conduction of the same and, to the extent that was necessary in order to prevent abuses, and in conformity with the regulations in force governing listed companies, in a correct dissemination of that information which could be defined as being of interest for the stock market, or *price sensitive*.

This regulation therefore, is directed, on one hand, to prevent the uncontrolled dissemination of information that could compromise the legitimate interests of the company and of its shareholders, and on the other hand, to guarantee a correct, rapid, and impartial communication to the market of the significant specific information which could, as described in art. 181 TUF, significantly influence the price of the financial instruments issued by the Company –which are related to El.En itself or to the companies it controls.

As a result of the inclusion in Italian legislation of the European regulations concerning *market abuse*, this document also includes the rules for the institution and handling of the registry of persons who have access to confidential information, as described in art. 115 TUF and the relative CONSOB disciplining regulations implementing them.

Moreover, as mentioned in section I, in conformity with the rules set forth in articles 2.6.3 and 2.6.4 of the Regulations of the markets organized and managed by Borsa Italiana SpA in force at the time, from 2003 until March 31st 2006, the company acquired an ethics code for the Group in relation to internal dealing.

After the modifications introduced in the TUF by the “Law on Saving” and the regulations issued by CONSOB to implement them came into force, the obligation to communicate all operations made by relevant persons as described in the ethics code became law, and the monetary limit for the operations which must be communicated was lowered to 5.000,00 Euros: for this reason it was necessary to adopt a new text for the internal rules which describe the current obligations.

In accepting the recommendations of Borsa Italiana, El.En. has also included in the new ethics code, called “*Codice di comportamento per operazioni compiute su strumenti finanziari di El.En. SpA da persone rilevanti*" which was adopted by the Board of Directors by vote on March 31st 2006, and later modified by vote on November 13th 2006, the requirement for all relevant persons and for those connected with them, as defined by art. *152-sexies* Regolamento Consob 11971/1999, to observe *blackout periods* of 15 days before the Board of Directors approves the financials and the quarterly report.

The Board of Directors, moreover, has the faculty, in the case of extraordinary operations, to impose further time limitations *ad personam* for the negotiation of company stock, that is to say, in certain motivated cases, to make exceptions to the blackout periods.

The acts relating to the exercising of stock option rights, option rights related to financial instruments, and, exclusively for the shares derived from stock option plans, the consequent selling operations, on the condition that they are effected on the act of exercising, are not subject to the limitations and prohibitions described in the ethics code.

* * *

Internal committees of the Board of Directors (art. 5 Code)

Since the year 2000 the Board of Directors has constituted from among its members, three commissions with advisory and consulting functions.

In conformity with the rules established by criteria 5.C.1 these commissions:

a) are all composed of three members, two of which are independent;

b) are regulated by rules which define their purpose and functions which are approved by the Board of Directors and are periodically also up-dated by Board, as occurred recently during the approval of the financials for the year ending on December 31st 2006;

c) have a composition which reflects the recommendations expressed by the Code, and most recently their members were revised on March 30th 2007;

d) each have rules that state that the minutes for the meetings of the committee must be registered in special books;

e) have regulations, as they were modified on March 30th 2007, which state that, in carrying out their functions, the commission has the faculty of gaining access to the information and the company functions necessary for them to complete their task; they may also make use of external consultants and of the financial resources put at their disposal by the Company in an appropriate amount for carrying out the tasks at hand;

f) have regulations which state that they may invite to their meetings outside persons whose presence may be helpful in carrying out the functions of the commission.

* * *

Appointment of the administrators (art. 6 of the Code)

Art. 19 of the statutes, in respect of art. 6 of the Code, states that the proposals for nominations for the appointment as Administrator be accompanied by a complete *curriculum vitae* containing a summary of the personal and professional characteristics of the candidates, which must be deposited 10 (ten) days before the date set for the Assembly at company headquarters.

This procedure is always observed for the appointment of each member of the Board of Directors.

In order to have the term for the deposit of the nominations be in conformity with applicative criteria 6.C.1, the Board made a modification in the by-laws which was submitted for the approval of the assembly convoked on April 30th-May 15th 2007.

Currently no mechanisms involving voting lists are used. In conformity with art. 143-*ter* TUF, the Board approved the proposal in art. 19 of the statutes to introduce a mechanism for voting by list in conformity with the new regulations.

In conformity with art. 6.P.2. of the Code, the Board of Directors usually nominates from among its members a nominating committee for the appointment as administrator composed prevalently of non-executive administrators.

This is what occurred both for the Board of Directors appointed on September 5th 2000, which, on that same day constituted the nominating committee and designated its members as: President, Gabriele Clementi and two non-executive administrators in the persons of Paolo Blasi and Michele Legnaioli.

Similarly, on November 13th 2003, the Board which had been elected on November 6th 2003 created the nominating committee and designated as its members: the deputy Board Member Barbara Bazzocchi and two non-executive independent administrators, Paolo Blasi and Michele Legnaioli.

Lastly, the current Board, which had been elected on May 9th 2006, voted on May 15th 2006 to reconfirm the members of the nominating committee that had been appointed by the previous Board.

The duties and the means of functioning of the above mentioned committee were originally described in the regulations approved *ad hoc* by the Board of Directors which convened on September 5th 2000, in order to conform with the contents of the Code that was in force at the time (1999). On November 13th 2003, the regulations were modified in order to adapt them to the contents of the Code in the updated version of July 2002; similarly, on March 30th 2007, a further revision of the regulation was made in conformity with Code 2006 criteria 6.C.2.

The committee never met during 2006, but the deputy Board Member who is part of the committee verified the respect and correctness of the procedure followed for the appointment of the current Board.

* * *

Remuneration (art. 7 of the Code)

The current art. 21 of the company statutes states that the members of the Board of Directors will receive a reimbursement of expenses sustained in carrying out the duties of their office, and that the assembly can assign to them remunerations, profit sharing, the right to underwrite at a set price shares to be issued in the future, end-of-term bonus, and also stipulate in their favor integrative policies for the duration of their term.

The shareholders' assembly, during the election of the current Board, established an annual salary of 12.000,00 (twelve thousand Euros) each for all of the members, and set aside for the president and deputy members the overall annual amount of 234.000 (two hundred and thirty four thousand Euros) which were then subdivided by the Board upon the attribution of the powers to the President and to the Board Members, Cangioli and Bazzocchi, in equal parts. The Board and the assembly believe that, despite the dimensions of the company, the remuneration established, especially that of the executive members, and above all in consideration of the fact that they are important shareholders in the company, is enough and adequate to motivate their professionality and dedication to the management activities of the company (7.P.1).

Remuneration of non-executive Board Members is considered commensurate with the effort required and actually expended in conducting their activities (criteria 7.C.2).

As of December 31st no "incentive remuneration" was contemplated for the executive Board Members, i.e. there was no remuneration which depended on the earnings of the company or the achievement of specific goals. The motivation resides in the fact that the Board has always believed that the professional qualities and dedication shown by the executive members represents, if necessary, a condition sufficient to align their personal interest with the pursual of the priority objectives for the creation of value for the shareholders in a mid- to long-term period (7.P.2).

For the purpose of maintaining the classification of Star for the Company, since it is obligatory that a significant part of the remuneration to the executive administrators be conditioned by the performance of the Company (applicative criteria 7.C.1), the Board voted to propose to the shareholders' assembly to integrate the text of art. 21 of the statutes which states, on one hand, that the total remuneration of the executive administrators must be structured in such a way that a significant part of it depends on the earnings of the Company and/or the achievement of certain specific objectives which have been indicated in advance by the Board of Directors, and, on the other hand, that they must determine an annual amount to be divided among the executive Board Members upon reaching the company's performance objectives that the Board has set on an annual basis.

In conformity with principle 7.C.1 (formerly art. 8.1. of the Code 2002) of the Code, the Board of Directors of El.En., with an aim to guaranteeing the most complete information and transparency on the salaries paid to the administrators, has instituted since the year 2000 in fact, a special commission for remuneration.

As of December 31st 2006 the commission was still composed of two non-executive independent administrators (Paolo Blasi and Michele Legnaioli) and the President, in conformity with art. 7, principle 7.P.3.; on March 30th 2007 the Board of Directors replaced the president with the non-executive Board Member, Dr. Alberto Pecci.

The remuneration committee has the functions and duties described in the regulations approved *ad hoc* by the Board of Directors convened on September 5th 2000, which had adopted the contents of the Code in force at the time (1999); on November 13th 2003, the regulation was modified in order to adapt it to the contents of the Code in the version updated in July 2002. On the 30th of March 2007 a similar revision of the regulation was made in conformity with Code 2006 applicative criteria 7.C.3.

It should be understood that the remuneration committee has only advisory functions and that, in conformity with art. 2389, comma 3, c.c. and art. 20 E of the company statutes, only the Board of Directors has the power to determine the remuneration of the delegated organs, the president, and the Board Members who hold special positions.

During 2004 the committee did not meet since the salaries of the current Board had been updated in 2003.

In 2005 the committee met on November 14th 2005 in order to establish a special remuneration for two of the administrators. In 2006 the committee did not meet since the Board had decided not to propose to the shareholders' assembly any variations in the salaries previously determined.

Concerning the remuneration of the directors with strategic responsibilities, the Board of Directors of El.En. decided that it was incentive enough to assign to the managers of the company with strategic responsibilities and a few employees deemed by the Board particularly worthy and useful for the company a set number of options on shares issued as a consequence of the increase in capital reserved in conformity with art. 2441, comma 8, c.c..

The conditions for assignment of the options, the regulations regarding the related rights of the assignees, as well as the period in which the assignees must proceed with the purchase of the shares, are the subject of special plans each of which is approved by the Board. It should be noted that, concerning the periods in which the rights can be exercised, the Board in regulating them, took into consideration for the first three plans (2000; 2002; 2003), the possibility that the employees could become aware of price sensitive information and data and, therefore excluded the periods preceding the approval of the quarterly reports and approval of the annual financials, which corresponds to the *blackout periods* imposed on relevant persons by the internal code of the Group then in force concerning *internal dealing*.

* * *

Internal control system (art. 8 of the Code)

In conformity with art. 9.1. of Code 1999-2002, in the year 2000 the deputy administrators conducted an internal evaluation of the internal control system, from it emerged that the El.En. Group is an organization set up in conformity with a certain vision and values, on the strengthening of the autonomy and the contents of the different positions of work and minimum utilization of hierarchical powers.

On September 5th 2000, the Board of Directors instituted a committee for internal control, the independent components of which were confirmed upon renewal of the mandate on November 13th 2003 and on May 9th 2006 and, recently renewed as for the third member, again a non-executive, by the vote of the May 15th 2006, with the appointment of Dr. Alberto Pecci.

Since the year 2000, moreover, the Board has appointed a provost for internal control to whom the deputy Board Members have given instructions for the definition of a work schedule suitable and adapted to the company requirements of El.En., who, besides the chief function of verification of the respect of the procedure contained in the "Manual of Managerial Administrative Procedures " of El.En. and of the Group, and the updating of the same, intended to guarantee the transparency of company operations and their conformity to current regulations, also absolves function of assistance in the evaluation of risks.

In concrete, in pursuing the objective of transparency in relations and the tutelage of the company capital, as of December 31st 2006, the internal control system of El.En. is implemented through the monitoring and verification on behalf of the various company figures involved, of the existence and the respect of:

- Mechanisms which assure a rapid and correct transmission of information and communication within the company and, above all, a full and continuous flow of information such as to allow the company management and top executives to constantly monitor the company situation in all of its aspects;
- a. control procedures checking the quality and safety of the manufacturing process both in relation to the product and to the employees and collaborators;
  b. procedures which assure the conformity of the finished product to the regulations now in force on safety and responsibility of the manufacturer;
- a. procedures intended to guarantee a publicity that is true and correct and which is disseminated through decorous means and with an effective impact on the potential client;
  b. procedures intended to guarantee that the use of images, information and data on third parties is preceeded by the formal consent of the person involved for the specific use;
- a. procedures which assure the existence for every relationship, both internal and external, of a juridically acceptable documentary support which is suitable for initiating and regulating the relationship;
  b. procedures which guarantee the conformity of the documents mentioned in point a) to the laws in force at the time for this subject;
- a. procedures intended to select qualified personnel and collaborators;
  b. correct procedures for the management of relations with staff and collaborators;
- procedures directed at the coordinating of research projects which have received financing or public grants;
- a. procedures intended to create an administration and a formulation of the financials which is in conformity with regulations and of superior quality;
- b. computer procedures which are suitable to meet the requirements of the administrative department and to reach the objectives as stated in point a) above.
- Procedures which assure the utilization of qualified personnel and effective market research tools.
- Procedures which assure an accurate selection of staff and structures for promotion, sales, and customer assistance services;
- Procedures which guarantee to the parent company an efficient means of monitoring the activities of the subsidiaries, coordinating, correct and rapid flow of accounting data;
- procedures which guarantee the respect of regulations related to companies listed on the stock market.

As of December 31st 2006, the person appointed to internal control carries out a role of assistance to the Board of Directors in the planning and management of the system of internal control, schedules the internal auditing operations, and verifies that the procedures adopted for the management of the most significant risks are respected;

The provost, moreover, must verify, by means of interviews, the existence of situations which comport a conflict of interest in relation to the administrators, auditors and directors, in the formulation of the half-yearly and yearly report, including the consolidated ones in conformity with chapter 8.9 of the manual. He must also identify the related parties in accordance with IAS 24 and monitor their relationships in conformity with the rules outlined in chapter 8.9 of the manual;

The provost also conducts a continuous investigation intended to identify the functional areas and the company sectors which may constitute a source of risk.

During the financial year 2004, on September 15th there occurred a substitution of the person appointed to internal control on account of the resignation of the outgoing provost who had been appointed to a company position in an operative role which would have been incompatible with his functions for internal control.

The internal control committee is currently composed of non-executive administrators (Paolo Blasi, Alberto Pecci, Michele Legnaioli), two of which are independent, who have the task and the functions that are regulated by a specific act which was approved by the Board, first on September 5th 2000, which was in conformity with the Code in force at the time, and again on November 13th 2003 in conformity with the version of the Code updated to July 2002.

Currently the internal control system of El.En is undergoing a complete and substantial revision for the purpose of adapting it to the contents of art. 8 of the Code in the most recent version of March 2006 by the time that the financials for 2007 is approved.

To this purpose, on March 30th 2007 we started revising the contents of the regulations of the committee by redefining its duties in the light of applicative criteria 8.C.3 and the next designation of the executive assigned to the formulation of the accounting documents.

In any case, according to the current version, the committee always meets before the approval by the Board of Directors of the financials and the half-yearly report, and the approval of the nomination of auditor, as well as each time that one of its members or the provost for internal control requests a meeting.

During 2004 the committee met on two occasions, on March 24th and on September 15th , in order to fulfill its duties and schedule its activities.

During 2005 the committee met on January 12th to examine and approve the work scedule proposed by the new provost, and on March 24th , September 29th and December 12th to fulfil its duties.

During 2006 the commission met on March 29th , and June 29th to fulfil its duties.

Usually one of the acting auditors, Dr. Paolo Caselli, who has an active role in the work of the provost and of the committee itself, participates in the meetings of the committee.

The provost for internal control interacts daily with the deputy Board Members, and with the president of the Board of Directors and refers to them each time that it is necessary to intervene. He interacts with the Board of Auditors when necessary and refers what he has done as well as on any dysfunctions in the system that he has found at least once every three months during the control operations of the Board of Auditors. He also provides a written report at least every six months to the Board of Directors, the internal control commission, and the Board of Auditors, on the occasion of the approval of the financials and the half-yearly report.

* * *

Interests of the administrators and operations with related parties (art. 9 of the Code)

With reference to the operations in which one of the administrators has an interest, or the operations with related parties, which are those defined on the basis of IAS 24, the Board of Directors has made a modification in the by-laws, specifically to art. 20, where it states that the approval of the Board must be received in advance in relation to operations having a significant influence – (including a strategic influence after the modification)- of an economic, patrimonial and financial nature, with particular reference to operations with related parties, to those in which the Board Member has his own personal interest or those of a third party, or are unusual or atypical.

Moreover, on March 30th 2007 a special procedure called "El.En. Spa Regulations for the Disciplining of Operations with related parties" ("*Regolamento per la disciplina delle operazioni con parti correlate di El.En. SpA*") which consists of a mechanism intended to guarantee that the conduction of operations with related parties (this definition includes the operations in which the correlation exists with interest of the administrator or of the auditor for himself or for a third party) takes place respecting all criteria for transparency and correctness both in substance and in procedure.
It is obvious, moreover, that the company and the administrators must act in conformity with the laws on the subject contained in the Civil Code (arts. 2391 e 2391-*bis*).

The manual for administrative and managerial procedure includes a special procedure for control of the relations with related parties and the existence of conflict of interest which involve the administrative or controlling organs.
According to this procedure, the provost for internal control every six months must proceed with a verification by conducting interviews with persons who are members of the Board of Directors or the Board of Auditors, in order to identify additional related parties as well as the existence of potential situations of conflict of interest.
Concretely, this verification takes place by means of a written interview consisting in a questionnaire that it is filled out and signed by the above mentioned persons and kept in the files of the provost for internal control.
During the meeting held on November 13th 2006, the Board of Directors also approved the prototype organizational model in conformity with D.Lgs. 231/2001.

* * *

Auditors (art. 10 of the Code)

In conformity with art. 10 of the Code, principle 10.P.1. and applicative criteria 10.C.1, art. 25 of the company statutes requires that the shareholders who intend to nominate candidates for appointment as auditor, at least 15 (fifteen) days (20 days according to the modified text of the by-laws) before the day set for the first convocation of the ordinary assembly must deposit the following:
a) a detailed description of the professional qualifications of the person nominated for the position, with an explanation of the reasons for the nomination and the *curriculum vitae* for each candidate.
b) the declaration with which each candidate accepts the nomination and declares under his own responsibility, that no reasons for ineligibility or incompatibility exist, and that he possesses all prerequisites for the position according to the applicable laws and the company statutes.
Within the term of 10 (ten) days (15 days according to the modified text of the Statutes) before the date of the Assembly, the names of the candidates are entered in the voting lists presented by the shareholders, divided into two sections containing the names shown by progressive number: one list with the candidates for acting auditor and the other list for supplementary auditor. Each shareholder may present or participate with just one list and each candidate can be present in just one of the lists, or risk ineligibility.

The shareholders who, alone or with other partners, represent at least 5% (five percent) of the shares having the right of vote in the ordinary Assembly have the right to present voting lists.
According to specific paragraphs of the company statutes, the auditors must possess the prerequisites stated by law, and therefore also the prerequisites of independence in conformity with art. 48 TUF.

The auditors, of course, act with autonomy and independence even in relation to the shareholders who elected them (10.P.2.): the present Board is derived from a single list presented by Andrea Cangioli, since no others were presented at the moment of the election which took place on November 6th 2003.
The company constantly tries to make available to the Board of Auditors any of its own staff and resources that the Board deems useful for the purposes of carrying out their functions as described in the current version of art. 25 of the statutes.
As mentioned above, in order to conform with applicative criteria 10.C.7, one of the auditors, Dr . Paolo Caselli participates constantly and actively in the meetings and activities of the internal control commission and collaborates with the provost for internal control.
In any case, both the role and functions of the Board of Auditors are now being revised on account of the extension of the tasks entrusted to them by the most recent version of the Code as opposed to that of 2002.

* * *

Relations with the shareholders (art. 11 of the Code)

In respect of the principle established in art. 11 of the Code, the Board makes an effort to encourage the participation of the shareholders at the assemblies and facilitate the exercising of the rights of the partners by establishing a continuous dialog with them.
.The Board of Directors facilitates the setting of the date, time and place – usually company headquarters – for the meetings and the fulfilment of all the legal requirements related to the procedure for convocation and communication that convocation has taken place, and participation of the shareholders at the assembly.

In conformity with the Code, all of the administrators normally participate in the assemblies and on this occasion they communicate to the shareholders all of the information and news related to El.En., in observance, of course, of the regulations regarding price sensitive information.
The president of the Board of Directors and the Board Members have unanimously agreed on the appointment of one of the employees, Dr. Enrico Romagnoli, as the manager in charge of relations with the institutional investors and the other shareholders. The Investor Relations manager is part of the company structure which is composed of employees in charge of the elaboration of accounting and administrative documents and information. (11.C.2).
In conformity with the procedure for communicating documents and information regarding El.En., the Investor Relations manager has the job of creating a dialog with the shareholders and the institutional investors in part by means of a special section in the internet site of the company and by making the appropriate documents available to them, always with an awareness of the necessity of tutelage and in respect of the law and the "*Regolamento sul trattamento della informazione societaria"*, especially in relation to confidential information.
Concerning the right to vote in the assemblies, since the year 2000 El.En. has included in its company statutes the possibility for its shareholders to vote by mail; this method of voting is announced in each letter of convocation along with detailed instructions on how to proceed (11.C.1 e 11.C.3).

The announcements of convocation for the assemblies and the related communications regarding the actual date of the meeting are published on the internet site of the company and in a national newspaper.

At this time, the company has not yet deemed it opportune to also publish the nominations and lists of candidates for company offices.

The president of the Board of Directors, who usually presides over the assembly, proceeds with a detailed description of the proposals and the items on the Order of the Day of the shareholders' assembly (11.C.4) and guarantees that the assembly is conducted in an orderly and functional manner.

In this regard, on March 30th 2007, the Board gave its final approval for the preliminary version which had been earlier formulated of an assembly regulation which includes the policy which has been consolidated over the years and which is proposed for the approval of the next shareholders'assembly. (11.C.5).

* * *

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

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES

Board of Directors as of December 31st 2006							Internal control committee		Remuneration committee		Nominating committee	
Position	Members	Executive	Non-Executive	Independent	Percentage of attendance at meetings	Number of other positions held	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings
President and deputy administrator	Gabriele Clementi	X			66%				X	- -		
Deputy administrator	Andrea Cangioli	X			100%							
Deputy administrator	Barbara Bazzocchi	X			100%						X	- -
Administrator	Paolo Blasi		X	X	66%		X	100%	X	- -	X	- -
Administrator	Michele Legnaioli		X	X	83%		X	100%	X	- -	X	- -
Administrator	Alberto Pecci		X		100%		X	100%				
Administrator	Stefano Modi		X		100%							
Administrator	Angelo Ercole Ferrario		X		100%							
Number of meetings held during 2006			Board of Directors: 6 (six)		Internal control committee: 2 (two)			Remuneration committee: 0 (zero)			Nominating committee: 0 (zero)	

TABLE 2: BOARD OF AUDITORS

Position	Members	Percentage of attendance at meetings of the Board of Auditors	Number of other positions held in companies listed on the regulated Italian stock markets
President	**Vincenzo Pilla**	**100%**	0
Acting Auditor	**Paolo Caselli**	**86%**	0
2.1. Acting Auditor	**Giovanni Pacini**	**86%**	0
Supplementary Auditor	**Lorenzo Galeotti Flori**	/	0
Supplementary Auditor	**2.2. Manfredi Bufalini**	/	0
Number of meetings held in the solar year of 2006: 7 (seven)			
Indicate the *quorum* required for the presentation of the lists by the minority shareholders for the election of one or more acting members (*ex* art. 148 T.U.F. before the modification *ex* art. 2 L. 28 December 2005, n. 262): currently 5% (five per cent) (v. art. 25 company statute); while waiting for the Consob, in conformity with the new regulations to regulate any new modes, it was proposed at the shareholders' assembly of April 30th -May 15th 2007 that art. 25 of the statute be modified so as to include a reference to the regulatory rules.			

TABLE 3: OTHER CONDITIONS IN THE SELF-DISCIPLINING CODE

Subject	YES	NO	Summary of the reasons why it is different from the Code
System of powers-of-attorney and operations with related parties			
The BoD attributed appointments defining their:	X		
a) limits		X	**Already defined in the statute**
b) modes of exercising them		X	**Already defined in the statute**
c) frequency of information		X	**Already defined in the statute**
The BoD reserves the right to examine and approve operations having a particular economic, patrimonial and financial significance, (including operations with related parties)		X	**Already defined in the statute**
Did the BoD define the guidelines and criteria for identifying "significant" operations ?		X	**It is the usual policy for the executives to bring to the attention of the Board any operation of an extraordinary nature or, in any case, of a certain consequence**
Are the guidelines and criteria mentioned above described in the report ?		X	**This is the usual policy, but it has never been formalized in writing.**

Did the BoD define special procedures for the examination and approval of operations with related parties ?	X		
Are the procedures for the approval of operations with related parties described in the report ?		X	**Refer to the procedure approved by the Board of Directors.**
Procedures used in the most recent appointment of administrators (May 9th 2006) and auditors (November 6th 2003)			
Were the names of candidates for the position of administrator deposited at least ten days beforehand ?	X		
Were names of candidates for the position of administrator accompanied by a detailed information sheet ?	X		
Were the names of the candidates for the position of independent administrator accompanied by indications of their suitability to be qualified as independent ?	X		
Were the names of candidates for the position of auditor deposited at least ten days beforehand ?	X		
Were names of candidates for the position of auditor accompanied by a detailed information sheet ?	X		
Assemblies			
Has the company approved an Assembly Regulation ?		X	**The approval of a text already given definitive approval by the Board on March 30th 2007 was included in the Order of the Day for the assembly which convened for April 30th/May 15th 2007 .**
Internal control			
Did the company appoint provosts for internal control?	X		
Are the provosts for internal control hierarchically independent from those in charge of the operative areas assigned to their control ?	X		
Organizational unit for internal control			**Internal control function**
Investor Relations			
Did the company appoint a manager in charge of investor relations?	X		
Organizational unit and contacts: (address/telephone/fax/e-mail)of the investor relations manager.			**UFFICIO BILANCI – Dott. Enrico Romagnoli** **E-MAIL finance@elen.it** **TEL 0558826807** **TELEFAX 0558832884**

EL.EN. GROUP

INDIVIDUAL STATEMENT AS OF DECEMBER 31st 2006

MANAGEMENT REPORT

El.En. S.p.A.

Management Report for the financial year ending on December 31st 2006

To our shareholders:

The financial year closed on December 31st 2006 with net profit of 624 thousand Euros, net of operating taxes for an amount of 2.106 thousand Euros.

The operating activity of El.En. S.p.A. consists of the development, engineering, manufacture and sale of laser sources and systems for use in two principal markets, medical aesthetic and industrial; it also includes a series of accessory activities, supplying post-sales services, spare parts and consulting. In pursuing an incisive policy of expansion on the markets, over time El.En. has acquired a series of companies that operate in specific sectors and geographic areas; the activities of these companies are determined by relationships in buying and selling, selection and control of the management, partnerships in the development and in financing.
The importance of this coordinating activity is very apparent since most of the sales volume of El.En. is absorbed by the companies belonging to the Group, and also the financial management of the equities, with the allocation of the resources acquired with the IPO on the New Market in 2000, and with the cash flow generated by the various activities, assumes a major role both in the use of managerial resources and in the impact on the financial and economic results of the company.

During the financial year 2006 the individual activity of El.En. SpA registered an increase in the business volume, but with a decrease in margins, which had as its consequence a drop in the operating revenue with respect to last year. Management of the finances and the equities also declined on account of the weakness of the American currency and the significant holdings of the company in dollars, whereas in 2005 these had benefited from the temporary strengthening of the dollar; accounts, moreover do not register the capital gains of an extraordinary nature which the quotation of the subsidiary Cynosure on the Nasdaq had generated in 2005. As a result, there has been a sharp drop in the earnings before taxes and an even greater decrease in the net earnings on account of the amount of non-deductible costs, in particular the devaluation of the equities which was made as consequence of the losses incurred by some of the subsidiary companies.

Adoption of international accounting principles

After the European Regulations 1606 of July 19th 2002 came in to force, on January 1st 2005 the El.En. Group adopted the International Accounting Principles (IFRS) which had been issued by the International Accounting Standards Board (IASB) and approved by the EU for drawing up the consolidated financial statement.

Moreover, in conformity with the regulations of the executive Legislative Decree n. 38/2005, starting with the financial year 2006 El.En. S.p.A. drew up its own individual annual report in accordance with the international accounting principles (IFRS).
In order to illustrate the effects of the transition to the IFRS, the company has drawn up a document called Appendix 1- Report on the Transition to the International Accounting Principles (IFRS) by El.En. SpA" which contains the reconciliation tables for the amounts shown on January 1st 2005 with those registered on December 31st 2005 according to the previous accounting principles and those determined according to the international accounting principles, along with the relative explanatory notes.

The data entered in the annual report closed on December 31st 2005, shown for purposes of comparison, are the ones highlighted in the above mentioned document attached to the explanatory notes of the annual report closed on December 31st 2006.
All amounts are shown in thousands of Euros unless otherwise indicated.

Main economic and financial data

As in previous years, the activities of El.En. were conducted from the headquarters in Calenzano (Florence) and in the local branch at Castellammare di Stabia (Naples).

During 2006 the area in which the company operates did not undergo any changes; El.En. in fact continued to operate in three main sectors: that of medical/aesthetic laser equipment, of power sources for industrial applications and that of after-sales technical assistance and sale of spare parts to their clientele. Besides these activities, the company also registered income in relation to their research and development activity.
El.En. SpA, moreover, dedicates operative and financial resources to the control of the Group, in order to obtain the maximum synergy in coordinating the various activities.

The chart below shows the results for sales in the various sectors described above, shown in comparative form with the results from last year.

	31-Dec-2006	Inc%	31-Dec-2005	Inc%	Var%
Industrial systems and lasers	7.931	20,60%	5.914	17,45%	34,12%
Medical and aesthetic lasers	25.752	66,88%	24.532	72,37%	4,97%
Consulting and Research	-		-		
Service	4.822	12,52%	3.452	10,18%	39,68%
Total	38.505	100,00%	33.898	100,00%	13,59%

The medical/aesthetic sector shows an increase in sales volume of approx. 5% with respect to 2005, and is again confirmed as the most important sector for the financial year ending on December 31st 2006. The sales volume registered for the aesthetic sector , which continues to be in a favourable phase, contributed significantly to this increase.

The growth in the industrial sector, which was even better, exceeded approx. 34% and would appear to be very promising for developments in future months, thanks to increasingly evident signs of recovery in the specific market.

For after-sales service, the sales volume increased due to the growing number of installations which require servicing. The sector is of fundamental strategic importance since the punctuality, efficiency and economic convenience of post-sales service has a profound influence on the client's perception of the quality of the "extended product" that the company offers and consequently characterizes its position on the market.

Concerning the heading "Consulting and research", it should be pointed out that the revenue related to research has been entered into accounts under the heading "Other revenue and income" for an amount of 817 thousand Euros derived from cash received in relation to research projects.

Reclassified Profit and Loss Account as of December 31st 2006

Profit and loss account	31/12/06	Inc.%	31/12/05	Inc.%	Var.%
Revenues	38.505	100,0%	33.898	100,0%	13,6%
Change in inventory of finished goods and WIP	2.585	6,7%	475	1,4%	444,0%
Other revenues and income	1.253	3,3%	1.554	4,6%	-19,3%
Value of production	**42.343**	**110,0%**	**35.927**	**106,0%**	**17,9%**
Purchase of raw materials	21.358	55,5%	16.815	49,6%	27,0%
Change in inventory of raw material	(777)	-2,0%	(668)	-2,0%	16,3%
Other direct services	4.245	11,0%	3.103	9,2%	36,8%
Gross margin	**17.518**	**45,5%**	**16.677**	**49,2%**	**5,0%**
Other operating services and charges	5.101	13,2%	4.610	13,6%	10,6%
Added value	**12.417**	**32,2%**	**12.067**	**35,6%**	**2,9%**
For staff costs	7.059	18,3%	6.042	17,8%	16,8%
EBITDA	**5.358**	**13,9%**	**6.025**	**17,8%**	**-11,1%**
Depreciation, amortization and other accruals	857	2,2%	1.172	3,5%	-26,9%
EBIT	**4.501**	**11,7%**	**4.852**	**14,3%**	**-7,2%**
Net financial income (charges)	(224)	-0,6%	1.269	3,7%	
Other net income (expense)	(1.547)	-4,0%	4.659	13,7%	
Income before taxes	**2.730**	**7,1%**	**10.780**	**31,8%**	**-74,7%**
Income taxes	2.106	5,5%	2.592	7,6%	-18,7%
Income for the financial period	**624**	**1,6%**	**8.189**	**24,2%**	**-92,4%**

The gross margin rose from 16.677 thousand Euros registered for the year ending on December 31st 2005 to 17.518 thousand Euros for this year, a growth of 5% with respect to the previous financial period, despite a drop in terms of the incidence on the sales volume which dropped to 45,5% from the 49,2% registered for 2005.

The cost for operating services and charges was 5.101 thousand Euros. Despite a slight reduction in the incidence on the sales volume which decreased from 13,6% to 13,2%, they registered an increase of 10,6% which was due to a series of factors, one of which was the constant effort made in research and development.

The cost for personnel was 7.059 thousand Euros, an increase of 16,8% and an increase in the incidence on the sales volume which rose to 18,3% compared to the 17,8% registered for last year. The number of employees in the company increased from 132 people on December 31st 2005 to 148 on December 31st 2006; new personnel was hired in particular for manufacturing.

The EBITDA was registered for an amount of 5.358 thousand Euros, and showed a decrease of approx. 11% with respect to the 6.025 thousand Euros for last year, with an incidence of approx. 13,9% on the sales volume.

The heading “Depreciation, Amortizations and Accruals” decreased from the 1.172 thousand Euros of last year to 857 thousand Euros for 2006, with an incidence of 2,2% on the sales volume. The decrease was due, among other things, to the conclusion of the period of amortization of some important intangible assets. The amount entered on December 31st 2005 also included an accrual related to the special remuneration paid to two of the administrators and to the President of the Technical-Scientific Committee.

The EBIT fell from 4.852 thousand Euros in 2005 to 4.501 thousand Euros in 2006, a decrease of 7,2% and with an incidence of 11,7% on the sales volume.

The result of the financial management is negative for an amount of 224 thousand Euros. This result was significantly influenced by the lower dividends distributed by subsidiary companies, but above all by the liabilities in currency exchange generated by the assets in currency, and in particular those in US dollars, and by the weakness of this currency which, at the end of the financial year 2006, were exchanged at 1,317 dollars per Euro as opposed to the 1,1797 dollars per Euro at the beginning of 2006.

The “Other net income and charges” which, on December 31st 2005 were in the black for an amount of 4.659 thousand Euros thanks to the capital gains made from the IPO of Cynosure Inc. on Nasdaq, at the end of 2006 registered a negative result for an amount of 1.547 thousand Euros, to which the direct devaluation made on the equity in RTM and Deka Lms contributed for an amount of 429 thousand Euros (640 thousand Euros in 2005) and the indirect devaluation on the equities in Deka Sarl and Lasercut Inc. for 1.113 thousand Euros (1.237 thousand Euros in 2005).

The income before taxes was 2.730 thousand Euros with respect to the 10.780 thousand Euros registered for last year. Its incidence on the sales volume was 7,1% with respect to the 31,8% for 2005.

The income taxes for this year were 2.106 thousand Euros as opposed to 2.592 thousand Euros for last year, showing an marked increase in their impact on the Profit and Loss Account, even with the fiscal non-deductibility of the costs related to the devaluation of the equities, which absorb a major part of the operating profits.

Reclassified balance sheet and net financial position as of December 31st 2006

	31-Dec-2006	31-Dec-2005	Var.
Balance Sheet			
Intangible assets	26	43	-17
Tangible assets	6.399	4.835	1.564
Equity investments	20.100	18.962	1.138
Deferred tax assets	793	801	-8
Other non current assets	3	3	
Total non current assets	**27.321**	**24.644**	**2.677**
Inventories	15.192	12.021	3.171
Accounts receivables	15.581	14.555	1.026
Tax receivables	2.327	723	1.604
Other receivables	4.490	4.163	327
Cash and cash equivalents	4.435	15.111	-10.677
Total current assets	**42.025**	**46.574**	**-4.549**
TOTAL ASSETS	**69.346**	**71.218**	**-1.872**
Common stock	2.443	2.437	6
Additional paid in capital	35.607	35.324	283
Other reserves	15.104	7.659	7.446
Retained earnings / (deficit)	-1.034	357	-1.391
Net income / (loss)	624	8.189	-7.565
Total equity	**52.745**	**53.965**	**-1.221**
Severance indemnity	1.227	1.026	201
Deferred tax liabilities	509	526	-17
Other accruals	3.558	2.811	748
Financial liabilities	429	577	-148
Non current liabilities	**5.724**	**4.940**	**784**
Financial liabilities	148	1.012	-865
Accounts payables	8.372	7.979	394
Tax payables	396	1.421	-1.026
Other payables	1.962	1.900	61
Current liabilities	**10.877**	**12.313**	**-1.435**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	**69.346**	**71.218**	**-1.872**

Net financial position		
	31-Dec-2006	**31-Dec-2005**
Financial mid and long term debts	(429)	(577)
Financial mid and long term debts	*(429)*	*(577)*
Financial liabilities due within 12 months	(148)	(1.012)
Cash and cash equivalents	4.435	15.111
Net financial short term position	*4.287*	*14.099*
Total financial net position	**3.858**	**13.522**

For an analysis of the net financial position, please refer to the Explanatory notes included with the report.

Results of the subsidiary companies

El.En. SpA controls a Group of companies, all of which operate in the same general field of lasers, and to each of which a special application niche and particular function on the market has been assigned.

The chart below shows a summary of the results achieved by the companies of the Group included in the area of consolidation. After the chart there are brief explanatory notes on the activities of the individual companies and comments on their results for 2006 .

	Net Turnover 31-Dec-06	**Net Turnover 31-Dec-05**	**Var. %**	**Net income 31-Dec-06**	**Net income 31-Dec-05**
Cynosure (*)	62.107	44.960	38,14%	-520	2.970
Deka Mela Srl	18.655	19.731	-5,46%	428	536
Cutlite Penta Srl	9.380	8.218	14,13%	1.013	11
Valfivre Italia Srl	387	420	-7,72%	-15	17
Deka Sarl	1.053	1.238	-15,00%	-277	-147
Deka Lms GmbH	1.651	1.169	41,22%	-308	-212
Deka Dls GmbH (**)	0	435	-100,00%	0	-93
Deka Laser Technologies LLC	2.571	2.118	21,41%	151	192
Quanta System SpA	14.343	10.368	38,34%	584	417
Asclepion Laser Technologies GmbH	17.093	11.140	53,43%	1.451	171
Quanta India Ltd	58	0		9	0
Asa Srl (***)	4.657	629	639,82%	418	29
Arex Srl	843	811	3,95%	43	7
AQL Srl	1.392	1.723	-19,23%	-74	-9
Ot-Las Srl	4.165	2.786	49,50%	325	5
Lasit Spa	3.889	3.791	2,59%	-142	-9
Lasercut Inc.	2.811	2.279	23,35%	-1.083	-518
BRCT Inc.	0	0		15	841
Neuma Laser Srl	268	230	16,55%	40	59

*) Consolidated data
(**) Incorporated with Deka Lms GmbH as of 01/01/2006
(***) Consolidated in November 2005

Cynosure Inc.
This company operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications. Cynosure is one of the world leaders in the filed of medical lasers and has achieved this position thanks to the superior performance and high quality of its products, in particular the DYE laser with colouring agents for vascular applications and the alexandrite lasers for hair removal.
The company manages directly its own sales and marketing activities on the US market and on international markets through its own subsidiaries and its distribution network. Manufacture and research and development are conducted at Westford.
Cynosure Inc. controls its own network for world distribution also through subsidiary companies of which it has 100% control and which have been specifically created for this purpose in France, Great Britain, Germany, Japan and China. From this latter company, in 2006, Cynosure acquired the minority share from the shareholder who had initially been their partner in a joint venture.

After the IPO which occurred in December of 2005, the year 2006 was a period of exceptional growth for Cynosure as a consequence of the expansion of the American market for aesthetic laser applications, and this helped consolidate the competitive positions also on the markets. The increase in sales volume was close to 40%. From the point of view of income, the financial year was characterized by a major non-repeatable expense of 10 million US dollars which Cynosure paid to their competitors Palomar Technologies Inc. for the granting of licenses for patent rights on laser hair removal devices; this expense cancelled all profits for the year, but rapidly and at pre-determined cost, removed a potential source of legal expenses and market agitation.
The net financial position of the company is still decidedly in the black, and the financial funds are available for development plans which the management will implement in order to guarantee the company a constant growth in the market for aesthetic laser applications, which offers remarkable development opportunities.

Deka M.E.L.A. Srl
The company conducts activity in Italy and abroad related to the distribution of medical laser equipment manufactured by El.En. SpA, particularly in the fields of dermatology, aesthetics, and the surgery sector, where it operates directly, and it has established profitable relations of collaboration in the dental sector in Italy (Anthos Impianti). The company has also acquired control (60%) of ASA Srl, the Group company to which the physical therapy sector has been assigned.
During 2006 the company worked hard in an attempt to counteract the sudden loss of its major client, the distributor for Japan, which first had gone through a financial crisis and then finally went bankrupt. With the fall in the volume of business in Japan, the company reacted with an intensified activity on the other markets, particularly the European and extra-European ones, thus limiting the decrease in sales volume to 5%. The fall in operating profit and earnings after taxes was greater, also as a consequence of a slight drop in the sales margins and the obvious negative effect which derived from the decrease in sales volume.

Cutlite Penta Srl
This company is active in the manufacture of laser systems for industrial cutting applications and installs the laser power sources produced by El. En. SpA on movements controlled by CNC
In 2006 the company again starter to turn a satisfactory operating profit thanks to more favourable market conditions, but also to an efficient internal organization of work and opportune positioning on the market.
The structure, in fact, was able to develop an increase of 14% in their sales volume, to increase their sales margins slightly and to exploit the production incentive so as to considerably improve the amount of EBIT. In order to concentrate exclusively on the market for cutting systems and play a fundamental role on the world markets, the company initiated an important investment in China by constituting a joint venture for the purpose of manufacturing systems for the local market; this business will also be able to take advantage of the support of the Parent company El.En. as supplier of sources for power lasers.
The financial support for this initiative was procured by selling the equity in the subsidiary Ot-las Srl to El.En. Spa, and consequently earning a considerable capital gains and generating cash for an amount of approx. 850 thousand Euros, thus balancing a financial situation which otherwise would not have allowed an investment which was vital for the development of future activities.
During 2006, the Parent Company increased the amount of its equity in Cutlite Penta, by acquiring shares for 19,17%; so that the equity now held by El.En. S.p.A. increased to 72,67%.

Valfivre Italia Srl
As in previous years, this company conducted manufacturing activity and provided technical assistance for special laser systems for industrial applications besides service activity for the companies of the Group.
The year ended with a minor loss which was due to the slight drop in the sales margins. At the end of 2006 El.En. Spa acquired the residual shares from the minority shareholder, this acquiring complete possession of the company.

Deka Sarl
In France, Deka Sarl distributes the medical-aesthetic laser equipment and relative accessories manufactured by El.En. and provides after-sales service for medical and aesthetic lasers. The changes in structure which were made during 2006, with the replacement of the sales manager, and, later, the administrator of the company (Gérant) were not enough to develop a sales volume sufficient to break even; on the contrary, the increases in the structure and the personnel costs combined with the drop in sales volume comported a further decline, with operating losses registered for 277 thousand Euros. By re-ordering of the structure and better organization, the management expects to be able to break even in 2007.

Deka Lms GmbH
In Germany, Deka Lms GmbH distributes the medical and aesthetic laser equipment manufactured by El.En. SpA. The retirement of the founder of the company and minority shareholder, and the change over to a new manager have considerably penalized the results of the company, also on account of the difficulties encountered by the new General Director, who was replaced at the end of 2006. In March of 2006 the headquarters of the company were transferred to Berlin. Further losses were absorbed by the merger with the subsidiary Deka DLS, which is also in a phase of material transition which caused some shortages related to the previous management to emerge.

The results of the ordinary management registers a loss of 162 thousand Euros and reflects the operating activity in the aesthetic, medical and dental sector (ex Dls) for the year 2006; the exceptional loss of another 145 thousand Euros approximately reflects the debt from the merger with Deka DLS, or rather, the recognition, in the financial statement of LMS, of the losses of Deka DLS from the previous years.
During the first quarter of 2007, when the company was under the direction of a new manager with long experience in the sector, it still showed considerable losses, though a recovery in sales volume and profitability is hoped for.

Deka Dls GmbH
Deka Dls GmbH, controlled by Deka Lms, distributed laser systems for the dental sector in Germany. During 2006 the minority shareholder and administrator of the company retired, and his shares were sold to the Parent company, Deka LMS, which later merged Deka DLS by incorporation with Deka LMS.

Deka Laser Technologies LLC
This company uses a particularly efficient distribution system to market the laser systems manufactured by El.En. SpA for the dental market in the United States and has gradually amplified its position. Its growth on the American market, with a highly organized distribution network, numerous installations, and a prestigious position on the market has determined positive revenue results, to the satisfaction of El. En. SpA which is the majority shareholder and main supplier of Deka LLC.

Quanta System SpA
Quanta System became part of the area of consolidation of the Group in 2004 and continues its phase of expansion and excellent revenue results. Quanta System is one of the most exciting realities in the Group because of its innovative activity, and technological research in the laser sector conducted by a highly qualified research team which participates in important development projects, some of which are conducted in collaboration with other companies in the Group and with the most prestigious Italian and European research institutes.

Asclepion Laser Technologies GmbH
This company, which was acquired from Carl Zeiss Meditec has its headquarters in Jena, the birthplace of electro-optics and one of the most important international centers for this kind of technology. After the initial phase of integration in the Group, in which the operating difficulties for the change in management had been financially supported by the favourable conditions for the purchase of the inventory, and after a stage of adjustment at the beginning of 2005, the company began a period of rapid development of its market position both in Germany and on the international markets with excellent revenue outcome. The results obtained in 2006, with a growth of over 50%, EBIT of 13,5% of the sales volume and net profits of 8,5% on the sales volume represent the best individual result in 2006 among the companies of the Group, and is a particular source of satisfaction for the Italian and German managers of the company in Jena.
During 2006 the company moved its headquarters to another site in the city of Jena.
The company is owned 50% by El.En. SpA and 50% by the subsidiary Quanta System SpA.

Quanta India Ltd
This company, founded in India by Quanta System, carries on activities as an intermediary and supplies technical assistance for the purpose of facilitating the introduction of some of the laser systems produced by Quanta System in specific areas of the local market.

ASA Srl
Control of this company, which operates in the field of physical therapy, was acquired in November of 2005. ASA obtained important results during 2006, thanks to a successful sales and marketing policy which spread an awareness of the capacity of some of the treatments offered with ASA products, and thanks to some exceptional orders, unlikely to be repeated, which were received from the Central American market. These orders represented a decisive contribution of approx. 50% to the increase in sales volume. As a result, the profitability also showed a marked increase, with net profits registered at approx. 420 thousand Euros.

Arex Srl
The company became part of the Group in April of 2004, and is involved in the management of a medical center in Milano; it has obtained good results thanks to the increase in revenue from the services it offers.

AQL Srl
AQL Srl, is a company that was created in Milan in June of 2004, for the design, manufacture and sale of laser systems for the "Industrial business" sector, as well as research and development of industrial processes and products, manufacturing processes and creation of new technologies in the photonic sector. Its activity is limited to the Italian market where, however, it has achieved modest results and, in fact, showed losses this year. The Board of Directors of the

company and the partners (Quanta System Spa and Lasit Spa) have been studying a re-organization plan for the activities which should become more effective so as to bring it up to the level of profitability and to the operating range that the group had intended it for.

Ot-Las Srl
Ot-Las designs and manufactures special laser systems for CO_2 laser marking of large surfaces, a field where it operates by offering the most advanced technological solutions thanks to its close technical collaboration with the parent company, El.En. for the development of strategic components.
The amplification of the clientele for their sophisticated systems and a general improvement in the market situation, have brought about a significant increase in sales volume of about 50%, and the revenue which is equal on an operating level, to 11,8% of its business volume. These results are particularly satisfying especially in consideration of the mediocre results of the previous years.
During 2006 the Parent company acquired shares for 21% and then the controlling share of Cutlite Penta Srl, so that its equity in the company is now 90%.

Lasit SpA
The company designs and manufactures laser marking systems complete with controls and software which can be used for marking not only metals, but also wood, glass, leather, and fabrics.
The creation of a new line of innovative products absorbed all of the energies of the company and the increase in sales volume does not do justice to the efforts made, which, among other things were conducted together with a important mid- and long-term development projects. Consequently, the operating results showed a decrease, while the net earnings also registered a loss, due to the devaluation of the equity in AQL as a result of the losses of this company during the year.

Lasercut Inc.
The American company with headquarters in Branford (CT), acquired in April of 2003, is active in the design, manufacture and sale of laser systems for cutting on flat surfaces. The company continues to register negative results, and in the beginning of 2007 was restructured in the hope of minimizing the operating expenses for the purpose of maintaining an operating base in the US for industrial activities without running up excessive costs. The plan to restructure the company comported the elimination of some entries in the assets related to receivables and inventory, cashing-in of which were in any case doubtful in view of the planned restructuring..
It should be remembered that the weakness in the exchange rate of the dollar has undermined from the very beginning the strategic plan that the Group was pursuing when it opened these American headquarters for activities in the industrial sector, which essentially cancelled the margins on the distribution of laser systems manufactured in Italy. During 2006, the return of the exchange rate to around 1.3 again worsened the situation.

BRCT Inc.
BRCT Inc. is the owner of the real estate in Branford, Connecticut, previously held by El.En. SpA, which is the property where the premises of Lasercut Inc. are located.. BRCT also holds an equity in the Japanese company With US, acquired in January of 2007 and intended for the distribution in Japan of the medical and aesthetic laser products manufactured by El.En. Spa under the DEKA brand.

Neuma Laser Srl
Neuma Laser conducts activity of after-sales technical assistance as well as a service of technical support in the Far East and in South America, for the laser equipment and industrial systems sold by the Group and in particular on the systems manufactured by the controlling companies, Cutlite Penta Srl and Ot-Las Srl.
The positive results of the Group on the specific markets of Neuma have brought the company to achieve a net profit this year. In December 2006 the company was liquidated because the two partners decided that they were going to conduct the activities of Neuma on their own, in consideration of the development plans of the company and of the Group in South America and in China.

Research and Development activities

In 2006 El.En. SpA conducted intense Research and Development activities for the purpose of creating new applications for laser technology both in the medical and industrial sector and to place innovative products on the market.

The global market requires, especially for highly technological products, 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 research and development programs must be conducted and organized according to brief and mid-term schedules.

Research which is conducted in order to obtain results according to a mid-term schedule are characterized by the fact that they are oriented towards higher risk subjects inspired by intuitions which arise within the company and by prospects indicated by the scientific work in our laboratories and in advanced research centres around the world some of which we collaborate with.
On the other hand, research which is dedicated to achieving results according to a short-term schedule, above all for new products and applications, work 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 characteristic and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists working for 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.

The research which is conducted is mainly applied and forms the foundation for some of the specific subjects. Both the applied research and the development of the pre-prototypes and prototypes are sustained by El.En.'s 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 Instruction and Research (MIUR) and the European Union, as well as directly with the Research and Institutions and local structures.

A brief summary of the research activities conducted by the company is shown below:

<u>Laser systems and applications in medicine.</u>

We continued our activity for the development of equipment and devices for mini-invasive micro-surgery assisted by a robot; this activity is developed as part of the a project on the New Medical Engineering program of FIRB (Investment Fund for Basic Research) financed in part by MIUR (*Ministero Istruzione Università e Ricerca*) after a selection process based on the opinions of a jury of international experts.
Experimental studies were started to determine the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels.

Studies are now in progress for the development of a prototype directable micro-tweezer and a multiple-way catheter for endoscopes, endoluminal photo-dynamic therapy.

We continued our collaboration with the Laboratory of Ultra-sound and Non-destructive Testing of the Department of Electronics and Telecommunications of the University of Florence to determine the technologies for new optical-acoustical and acoustical-optical micro-probes for minimally invasive diagnostics; these probes will be used for the early diagnosis of the malignant nature of small-sized lesions.
In collaboration with IFAC of the CNR an important research project was conducted for the development of a technique and for the relative devices for performing the anastomosis of blood vessels assisted by laser.

We continued the development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics and agreements were made with for conducting research in the USA in collaboration with the Rizzoli Institutes of Bologna, who has been our partner now for several years.

A project financed by the European Union on new methods of diagnosis using nano-particles and laser systems with ultrasound inter-agents continued. For this project we are collaborating with prestigious European institutions like Fraunhofer IBMT.

We have continued experiments with a new laser for use with a new technique for the conservation therapy of the saphena vein, for which a new European patent has recently been granted.

We concluded experiments on a new laser system for hair removal; for its high performance, this device can be considered at the top of the range of similar products on the international market.

At the same time, active clinical experimentation has continued in Italy and in qualified European and American centres in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odontostomatology, gasteroenterology, oculistics, phlebology, eco-located interstitial hyperthermia, dermatology and aesthetics.

The research activity aimed at developing a diode laser for neurosurgery applications with mini-invasive techniques was continued.
With a grant from the European Union a research program on mechatronic and micro-technological applications for the biomedical industry is now in progress.

Now in progress we also have the development of a new solid state laser source with programmable duration of the impulse and superior in size with respect to that for a Q-switch laser; we have obtained the first positive results for particular technologies for the creation of hollow reflectors and we are developing the manufacturing technologies and programming of the verification of the maximum energy per impulse according to the manufacturing technologies used.

We have started tests on the effect of photo-mechanic stimulation of the Condrocites. We have made contacts for the conduction of experiments on animal models in the United States for the regenerative therapy of cartilage.

The ultra-compact olmium laser system has just been completed.

Laser systems and applications for industry
A project related to excimer laser systems for use in the nano-manufacture of electronic and optical-electronic devices continued.
Experimental testing is now in progress for the development of the electronics based on a Digital Sound Processor for settings on line and numerical control of galvanometers for scansion heads.
Studies continued for the development of algorithms, calculus programs and hardware were developed for artificial vision systems to be used for the decoration of leather and other materials using laser marking and for cutting and marking of various objects laid out on a work table.
Experimental testing of a new ultra compact CO_2 laser source pumped by radio frequency are now in progress.

Research activity as part of a project for a solid state high power laser source with active material in an amorphous ceramic support is now in progress.
The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.
A new system for representing thermal transistors for the study of the sate of conservation of works of art and of industrial products in the start-up phase of the manufacturing process is now being experimented.
A project regarding the diagnosis of works of art using fluorescent induced spectrometry has been approved.
Work on the development of a new diagnostic system using lasers on the paper of antique books has continued and recently been granted a patent.

We have modified the mechanical interfaces for the nozzles of Hypertherm cutting heads in order to improve the fluid-dynamics for cutting steel and alloys of exceptional thickness.
An electronic system for tele-diagnosis and tele-assistance for industrial machinery is now being developed, with the prospect that it may also be used for medical purposes.

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

thousands of euros	**31-Dec-2006**
Costs for personnel and general expenses	3.629
Costs for instruments and equipment	139
Costs for building of prototypes	315
Costs for technological consultants	147
Services provided	91
Intangible assets	4
Total	**4.325**

In relation to the “Costs for personnel and general expenses”, the amount shown above corresponds to the expenses for staff involved in Research and Development sustained during 2006 augmented by 60% as a lump-sum entry for the general expenses for research activity. The percentage used for augmenting this entry is that recognized by the institutions which finance the research and development activities which allow, as part of the research projects that they are financing, the lump-sum reimbursement of the general expenses which have been quantified using this method.

The amount of expenses sustained corresponds to 11% of the sales volume; this is a significant percentage which, despite the impact it has on the Profit and Loss Account, guarantees a continuous renewal of the range of products as well as new technologies that are important for manufacture. To meet these expenses the company has entered into accounts income in the form of grants for an amount of 817 thousand Euros.

Equities held by administrators, auditors and general directors

In conformity with art. 79 of the Consob regulations approved with vote no. 11971 of May 14th 1999, the equities held in the company by the administrators, auditors and their relatives are shown on the chart below.

Name	*Company*	*No. of shares on 31-Dec-2005*	*No. of shares acquired*	*No. of shares sold*	*No. of shares on 31-Dec-2006*
Andrea Cangioli	El.En. S.p.A.	624.460			624.460
Barbara Bazzocchi	El.En. S.p.A.	494.824			494.824
Gabriele Clementi	El.En. S.p.A.	495.650			495.650
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	312.412			312.412
Lucia Roselli	El.En. S.p.A.	350			350
Paolo Caselli	El.En. S.p.A.	300			300
Vincenzo Pilla	El.En. S.p.A.	300			300
Michele Legnaioli	El.En. S.p.A.	160			160
Stefano Modi	El.En. S.p.A.	1.200			1.200
Paola Salvatori	El.En. S.p.A.	300			300
Alberto Pecci	El.En. S.p.A.	354.427	45.825		400.252

(*) Immobiliare del Ciliegio Srl is a company with headquarters in Prato, with a capital stock of 2.553.776 Euros. Andrea Cangioli is the outright owner with a quota of 25% of the capital stock.

On December 31st 2006 there were 4.698.404 shares of ordinary stock in circulation. The nominal value of each share is 0,52 Euros.

Stock options offered to administrators and employees

During the extraordinary assembly of El.En. SpA held on the 16th of July 2002, in compliance with Art. 2443 of the Civil Code, the Board of Directors voted to increase the capital stock of the company through one or more payments, and for a maximum period of five years after the date of approval, for a maximum amount of 124.800 nominal Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each with maturity the same as that of the ordinary shares of the company at the date of the underwriting, to be released with the payment of a price determined by the Board of Directors in accordance with the regulations contained in Art. 2441, comma VI, c.c. – that is, on the basis of the shareholders' equity and in consideration of the trend of the quotation on the stock market during the last quarter– and for a unit value, including share premium equal to the greater of the following: a) the value per share determined on the basis of the consolidated net capital and reserves of El. En. Group on December 31st of the year preceding the date of issue of the options; b) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 6 months preceding assignment of the options; c) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 30 days preceding assignment of the options; d) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the period of time preceding the assignment of the options established by the Board of Directors in the regulations of the incentive plan.

On September 6th 2002, the Board of Directors voted to partially implement the proposal of the shareholders' assembly of July 16th 2002 and voted for an increase in capital stock of 31.817,76 Euros to be used for the stock option plan of 2003/2004 and approved the relative regulations. Option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 30.600 shares could be picked up by those having the right from November 18th to December 31st 2003, from August 15th to September 30th 2004, and from November 18th to December 31st 2004; the second phase, for a maximum of 30.588 shares could be picked up by the assignees from August 15th to September 30th 2004 and from November 18th to December 31st 2004.
In reference to this plan, as of December 31st 2004 (the last day the option could be picked up) of the 61.188 option rights assigned, all of them were picked up.

The Board of Directors, on November 13th 2003 voted to partially implement the approval of the shareholders' assembly of July 16th 2002 by voting to increase the capital stock by 13.145,60 Euros for use in the stock option plan of 2004/2005 and approved the relative regulations. The option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who, at the time of assignment of the options, were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase for a maximum of 12.640 shares could be picked up by those having the right from November 18th to December 31st 2004, from August 15th to September 30th 2005 and from November 18th to December 31st 2005; the second phase, for a maximum of 12.640 shares could be picked up from August 15th to September 30th 2005 and from November 18th to December 31st 2005.
In reference to this plan, as of December 31st 2005 (the last day the option could be picked up) of the 25.280 option rights assigned, all of them were picked up.

In conclusion, the Board of Directors, with the vote given on May 13th 2005 and the later modification of March 30th 2006, partially implemented the decision made by the Shareholders' assembly of July 16th 2002 to increase the Capital stock by 72.800 Euros to be used for the implementation of the stock option plan for 2006/2007 and approved the relative regulations. The option rights were assigned exclusively to the category of Management, executives and white-collar workers who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 70.000 shares can be picked up by those having the right from May 16th 2006 until the date on which the annual report for 2006 is approved and from May 29th 2007 to July 16th 2007; the second phase, for a maximum of 70.000 shares can be picked up by the assignees from May 16th 2007 to July 16th 2007.

Debenture Loan

On November 7th 1996 the Special Assembly of the Company voted in favour of the emission of a debenture loan for an amount of up to 619.748 Euros through the issue of 120.000 bonds with a nominal value of 5,16 Euros each. The entire debenture loan was underwritten by: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Stefano Modi, Carlo Raffini and Gabriele Clementi for an amount of 433.824 Euros; by Gabriele Clementi and his wife for an amount of 123.950 Euros ; by Sig. Carlo Raffini and his wife for an amount of 10.329 Euros. The residual portion of the loan, for an amount of 51.645 Euros was underwritten by a third party. The duration of the loan was ten years, with reimbursement by December 31st 2006 at an interest rate of 9,75% payable in deferred annual instalments January 1st of each year. On maturity, the bonds were reimbursed at their nominal value.

Procedures for the management of financial risks

For an analysis of the procedures used for management of financial risks, please refer to the specific paragraph in the comments on the annual report.

Adoption of measures for the safeguard and protection of personal data

In conformity with the current legislation in this area, the company declares that, in reference to the formation of those responsible, they have up-dated the Document on the Safety Program (*Documento Programmatico sulla Sicurezza*) which was previously used.

Events of importance which occurred after the closing of the financial year

On February 2nd 2007 El.En. SpA announced the acquisition, effected through its subsidiary BRCT Inc, of a controlling share (51,25%) of With Us Co., a Japanese company involved in the local distribution of laser systems for medical and aesthetic applications and relative accessories. El.En Group contributed to the launching of the company by assigning to it the distribution of the DEKA products. With this company it is hoped that the Group can recover the market position which had been achieved in the past by the previous distributor which serviced thousands of systems installed in Japanese territory and which failed in February of 2006.
On February 27th 2007 the Group announced that, through their subsidiary Cutlite Penta Srl, they had founded Penta-Chutian Laser Technology (Wuhan) Co., Ltd., a Joint Venture for the distribution and the production of laser systems for industrial applications. The company obtained the business licence in Wuhan, in central China., the most important center in China for electro-optical technologies, and can make use of the facilitations offered by being located in the so-called "Optics Valley of China" as well as in the Wuhan East Lake Hi-tech Development Zone.

The partner in the joint venture is the Wuhan Chutian Industrial Laser Equipment Co., Ltd, a company of the Wuhan Chutian Group, the leader on the Chinese market in the manufacture of laser systems for welding and marking, and also present in the sector of medical lasers and of production with laser systems for other manufacturers. For the past 18 months, the Chutian Group has been the distributor of laser systems for industrial applications for the El.En. Group, and they will bring to the company their particular competence in organizing an effective production structure and a capillary distribution network throughout the Chinese territory.. Cutlite Penta Srl holds 55% of the capital of the company, which is set at one million Euros. In the first phase, they will deposit half of their respective quotas of capital, for an overall capitalization of the company of 500 thousand Euros, representing a payment on the part of the El.En. Group of 275.000 Euros. No payments of capital in kind are allowed at this time.

Predictable trends for the financial year now in progress

In divulging the annual forecasts for the consolidated results, the management presented a budget related to the operating activities of the company which forecasts a further growth in the sales volume and of operating profits. The improvement in the results of some of the subsidiary companies should make it possible to reduce the costs sustained by the Parent company because of the losses of some of the companies in which it has equities, thus improving the net earnings.

Utilization of profits

Shareholders are requested to approve the individual annual report of El.En. SpA for December 31st 2006, which is the first annual report drawn up in conformity with International Accounting Principles (IFRS), and to approve the distribution of dividends worth 0,30 Euros per share for an overall amount of 1.421.030,40 Euros, utilizing 624.283 Euros in profits for the year 2006, withdrawing the difference from the extraordinary reserve, with payment initiated on May 31st 2007 by means of presentation of Coupon no. 7 on May 28th 2007.

For the Board of Directors
The President– Gabriele Clementi

EL.EN. SpA
FINANCIAL STATEMENTS AND EXPLANATORY NOTES

Balance sheet

	Notes		31-Dec-2006		31-Dec-2005	Var.
Balance Sheet						
Intangible assets	1		26.122		42.653	-16.531
Tangible assets	2		6.398.770		4.834.946	1.563.824
Equity investments:	3					
- in subsidiaries		19.645.136		18.446.178		
- in associates		430.440		430.440		
- other investments		24.260		85.605		
Total equity investments			20.099.836		18.962.223	1.137.613
Deferred tax assets	4		793.296		800.997	-7.701
Other non current assets	4		3.108		3.108	
Total non current assets			**27.321.132**		**24.643.927**	**2.677.205**
Inventories	5		15.191.733		12.020.954	3.170.779
Accounts receivables:	6					
- from third parties		5.556.196		4.460.717		
- from subsidiaries		9.827.075		10.076.647		
- from associates		197.432		17.293		
Total accounts receivables:			15.580.703		14.554.657	1.026.046
Tax receivables	7		2.327.205		723.491	1.603.714
Other receivables:	7					
- from third parties		921.541		638.675		
- from subsidiaries		3.458.185		3.431.676		
- from associates		110.523		92.682		
Total other receivables			4.490.249		4.163.033	327.216
Cash and cash equivalents	8		4.434.786		15.111.445	-10.676.659
Total current assets			**42.024.676**		**46.573.580**	**-4.548.904**
TOTAL ASSETS			**69.345.808**		**71.217.507**	**-1.871.699**
Common stock	9		2.443.170		2.436.963	6.207
Additional paid in capital	10		35.607.012		35.324.009	283.003
Other reserves	11		15.104.424		7.658.871	7.445.553
Retained earnings / (deficit)	12		-1.034.007		356.673	-1.390.680
Net income / (loss)			624.283		8.188.870	-7.564.587
Total equity			**52.744.882**		**53.965.386**	**-1.220.504**
Severance indemnity	13		1.226.929		1.025.525	201.404
Deferred tax liabilities	14		508.898		526.022	-17.124
Other accruals	15		3.558.476		2.810.897	747.579
Financial liabilities:	16					
- to third parties		429.457		577.131		
- to subsidiaries						
- to associates						
Total financial liabilities			429.457		577.131	-147.674
Non current liabilities			**5.723.760**		**4.939.575**	**784.185**
Financial liabilities:	17					
- to third parties		147.672		1.012.229		
- to subsidiaries						
- to associates						
Total financial liabilities			147.672		1.012.229	-864.557
Accounts payables:	18					
- to third parties		7.279.713		7.110.494		
- to subsidiaries		992.531		766.603		
- to associates		99.904		101.410		
Total accounts payables			8.372.148		7.978.507	393.641
Tax payables	19		395.845		1.421.351	-1.025.506
Other payables:	19					
- to third parties		1.961.501		1.900.459		
Total other payables			1.961.501		1.900.459	61.042
Current liabilities			**10.877.166**		**12.312.546**	**-1.435.380**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY			**69.345.808**		**71.217.507**	**-1.871.699**

Profit and Loss Account

Profit and loss account	Note		31/12/06		31/12/05
Revenues:	20				
- from third parties		13.746.929		10.735.655	
- from subsidiaries		24.578.872		23.150.592	
- from associates		179.469		11.678	
Total revenues			38.505.270		33.897.925
Other revenues and income:	21				
- from third parties		999.924		1.182.081	
- from subsidiaries		248.574		362.748	
- from associates		4.800		8.912	
Total other revenues and income			1.253.298		1.553.741
Total revenues and income			**39.758.568**		**35.451.666**
Purchase of raw materials:	22				
- to third parties		19.607.451		15.100.656	
- to subsidiaries		1.720.506		1.693.706	
- to associates		30.150		20.550	
Total purchase of raw materials			21.358.107		16.814.912
Change in inventory of finished goods and WIP			(2.584.876)		(475.190)
Change in inventory of raw material			(777.326)		(668.136)
Other direct services:	23				
- to third parties		4.124.801		3.012.818	
- to subsidiaries		92.728		90.660	
- to associates		27.600			
Total other direct services			4.245.129		3.103.478
Other operating services and charges:	23				
- to third parties		4.874.489		4.437.184	
- to subsidiaries		150.781		95.809	
- to associates		75.354		76.750	
Total other operating services and charges			5.100.624		4.609.743
For staff costs	24		7.058.965		6.042.118
Depreciation, amortization and other accruals	25		857.259		1.172.402
EBIT			**4.500.686**		**4.852.339**
Financial charges:	26				
- to third parties		(880.898)		(387.425)	
- to subsidiaries					
- to associates					
Total financial charges			(880.898)		(387.425)
Financial income	26				
- from third parties		499.565		1.488.509	
- from subsidiaries		155.762		165.659	
- from associates		2.000		2.000	
Total financial income			657.327		1.656.168

Other net income (expense)	27	(1.546.781)	4.659.339
Income before taxes		**2.730.334**	**10.780.421**
Income taxes	28	2.106.051	2.591.551
Income for the financial period		**624.283**	**8.188.870**

(*) In accordance with Delibera Consob 15519 of 27th July 2006 the amounts related to significant non-recurring events are listed in note (30). In particular, for the financial year 2005 non-recurring income for an amount of 6.537 thousand Euros has been entered under the heading of "Other net income (expenses)".

Financial statement (cash flow)

Financial statement (cash flow)	**31-Dec-2006**	**31-Dec-2005**
Cash flow generated by operating activity:		
Profit (loss) for the financial period	624.283	8.188.870
Amortizations and depreciations (25)	671.703	667.716
Devaluations of equity investments	429.140	640.656
Stock Options	443.562	317.175
Change of employee severance indemnity (13)	201.404	112.159
Change of provisions for risks and charges (15)	747.579	1.316.567
Change of provisions for deferred income taxes	-9.423	-202.433
Stocks (5)	-3.170.779	-885.093
Receivables (6)	-1.026.046	-1.732.118
Tax receivables (7)	-1.603.714	-468.306
Other receivables	-277.160	-106.098
Payables (18)	393.641	1.895.896
Tax payables (19)	-1.025.506	175.998
Other payables (19)	61.042	208.723
	-4.164.557	1.940.842
Cash flow generated by operating activity	-3.540.274	10.129.712
Cash flow generated by investment activity:		
(Increase) decrease in tangible assets	-2.198.763	-21.287
(Increase) decrease in intangible assets	-20.233	-37.885
(Increase) decrease in equity investments and non current assets	-1.566.753	2.096.583
Increase (decrease) in financial receivables (7)	-50.056	-1.323.832
(Increase) decrease investments which are not permanent		993.526
Cash flow from purchase of subsidiary companies		
Cash flow generated by investment activity	-3.835.805	1.707.105
Cash flow from financing activity:		
Increase (decrease) in non current financial liabilities (16)	-147.674	-885.397
Increase (decrease) in current financial liabilities (17)	-864.557	-1.361.646
Change in Capital and Reserves	289.209	847.949
Change in Capital and Reserves of third parties		
Dividends distributed (29)	-2.577.558	-1.631.785
Cash flow from financing activity	-3.300.580	-3.030.879
Increase (decrease) in cash and cash equivalents	-10.676.659	8.805.938
Cash and cash equivalents at the beginning of the financial period	15.111.445	6.305.507
Cash and cash equivalents at the end of the financial period	4.434.786	15.111.445

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.

Interests earned during this financial period amount to 374 thousand Euros.

Current taxes for this financial period amounted to 2.115 thousand Euros.

Table of Variations in the Stockholders' Equity

STOCKHOLDERS' EQUITY:	**Balance 31-Dec-2004**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31-Dec-2005**
Common stock	2.424.367				12.596	2.436.963
Additional paid-in capital	34.954.351				369.658	35.324.009
Legal reserve	537.302					537.302
Own shares	-255.937				255.937	
Others reserves:						
Extraordinary reserves	6.069.661	269.390				6.339.051
Reserve for contribution on capital account	426.657					426.657
Other reserves	38.685				317.176	355.861
Retained earnings	-111.596	1.890.297	-1.631.785		209.757	356.673
Profits (loss) of the year	2.159.687	-2.159.687			8.188.870	8.188.870
Total Stockholders' equity	46.243.177	-	-1.631.785	-	9.353.994	53.965.386

STOCKHOLDERS' EQUITY:	**Balance 31-Dec-2005**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31-Dec-2006**
Common stock	2.436.963	-	-	-	6.207	2.443.170
Additional paid-in capital	35.324.009	-	-	-	283.003	35.607.012
Legal reserve	537.302	-	-	-	-	537.302
Own shares	-	-	-	-	-	-
Others reserves:						
Extraordinary reserves	6.339.051	6.988.600	-	-	-	13.327.651
Reserve for contribution on capital account	426.657	-	-	-	-	426.657
Other reserves	355.861	13.392	-	-	443.561	812.814
Retained earnings	356.673	1.186.878	-2.577.558	-	-	-1.034.007
Profits (loss) of the year	8.188.870	-8.188.870	-	-	624.283	624.283
Total Stockholders' equity	53.965.386	-	-2.577.558	-	1.357.054	52.744.882

EXPLANATORY NOTES ON THE FINANCIAL TABLES

INFORMATION ON THE COMPANY

El. En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTAX which is managed by Borsa Italiana SpA.
The Statement for El. En. SpA was examined and approved by the Board of Directors on March 30th 2007.
The amounts shown in this statement and the relative explanatory notes are in Euros unless otherwise indicated.

CRITERIA USED FOR DRAWING UP THE STATEMENTS

The individual statement for El. En. SpA has been drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments, the evaluation of which has been conducted on the basis of the principle of *fair value*.
This individual statement for the financial year ending December 31st 2006 has been drawn up in conformity with the International Accounting Principles approved by The European Union, including all the international principles which are subject to interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the preceding Standing Interpretations Committee (SIC), as well as the regulations issued in accordance with Art. 9 of D.lgs 38/2005, with the exception of the following IFRS , the following interpretations of the IFRIC and the revised principles. The adoption of these revised principles and interpretations had no significant effect on the financial statements of the company.

IFRS 6 Exploration and evaluation of mineral resources
The principle is not applicable to the activities of the company.

IFRIC 4 Determine if an agreement contains a leasing
The principle has not had significant effects on the company.

IFRIC 5 Rights deriving from participation in funds for dismantling, restitution or improvements related to the environment.
The principle is not applicable to the activities of the company.

IFRIC 6 Liabilities deriving from participation in a specific market – Refuse from electric and electronic equipment.
The principle is not applicable to the activities of the company

IAS 19 Benefits to employees
Starting on January 1st 2006 the company adopted the modifications of IAS 19 but was not influenced in terms of effects or evaluations since the company did not apply the new option which would allow them to set aside actuarial earnings and losses in a reserve of the stockholders' equity.

IAS 21 Effects of the variations in the exchange rates of foreign currency
The modification of the principle had no significant effects on the financial statement of the company.

IAS 39 Fair value option
The principle is not applicable to the activities of the company.

IAS 39 Coverage of highly probable future inter-Group operations
The amendment modified IAS 39 in such a way that it made it possible for the risk of change, in the exchange rate related to a highly probable future transaction between two members of the Group, to be qualified as a covered element in a covering of cash flow, on the condition that the transaction be conducted in a currency which is not the usual working currency of the company which enters into the transaction and that the currency risk will generate effects on the profit and loss account. Since, at this time the company does not have this type of transaction in progress, the modification had no effect on the financial statements.

IAS 39 Financial instruments: reporting and measuring and IFRS 4. Modifications for financial guarantee contracts
The principle is not applicable to the activities of the company.

IFRS and IFRIC interpretations not yet in force

The company did not apply the IFRS, the IFRIC Interpretations and the amendments listed below, which have been published but are not yet in force:

IFRS 7 Financial instruments: additional information
Requires an information sheet which enables the users of the statements to evaluate the significance of the financial instruments of the company and the nature of the risks associated with these instruments.

IFRS 8 Operating segment
Requires additional information which will enable the users of the statement to gain a better understanding of the management reporting methods. The company is still evaluating the effects of these interpretations and is not yet able to determine the effects of the new principle on its statement.

IFRIC 7 Application of the redetermination method according to IAS 29 "Accounting information in hyper-inflated economies"
The principle is not applicable to the activities of the company.

IFRIC 8 Purpose of the IFRS 2
The interpretation clarifies some aspects of IFRS 2 (payments based on stocks) .

Amendments to IAS 1 Presentation of the financial statement
This modification requires that the company supply additional information which will allow users of the financial statements to evaluate the objectives, the polices, and the procedures that the company uses for the management of its capital.
The principle is not applicable to the activities of the company.

This individual Annual report consists of:
- the Balance Sheet,
- the Profit and Loss Account,
- the Financial Statement (Cash Flow)
- the Table of Variations in the Stockholders' Equity,
- the following Explanatory Notes.

The economic information which is provided here is related to the financial years 2006 and 2005. The financial information, however, is supplied with reference to December 31st 2006 and December 31st 2005.

As far as the kind of financial charts are concerned, the Company decided to present the following types:

Balance Sheet
The balance sheet is presented in individual sections with separate indications of Assets, Liabilities and Stockholders' equity. The Assets and Liabilities are then shown in the accounting situation on the basis of their classification as current or non-current.

Profit and Loss Account
The Profit and Loss Account is presented as a classification by type. It shows the EBIT, which includes all the components of the income and costs, independent of the number of times they are repeated or of their being or not being characteristic of the management, with the sole exception of the components of the financial management entered between the EBIT and Income before taxes.
Moreover, the components of the income and expenses which are derived from activities which will soon be interrupted or cease, including any capital gains or capital losses net of fiscal effects, have all been entered under a specific heading which precedes the Income for the Financial Period.

Financial statement (Cash Flow)
The financial statement (cash flow) is presented in sections divided according to the area of formation of the cash flow. The type of table used for the financial statement (cash flow) has been drawn up applying the indirect method. Cash in hand included in the financial statement includes the financial balances for this item on this date. Income and expenses related to interests, dividends received and income taxes are included in the cash flow generated by the operating management.

Table of Variations in the Stockholders' Equity
This prospectus shows the variations in the stockholders' equity in accordance with international accounting principles, showing separately income for the financial period, all profits and earnings, charges and expenses which were not listed in the profit and loss account, but directly involved in the stockholders' equity according to the specific accounting principles IAS/IFRS.

For all information related to the characteristics of the company's activities and the important events which have occurred after the end of the financial period, please refer to the management report.

The document called Appendix 1- "Reconciliation Charts for Italian and International Accounting Principles" which has not been modified with respect to the one which accompanied the Half Yearly Report of June 30th , 2006, illustrates the effects derived from the transition to the IFRS on the data related to the period from January 1st 2005 to December 31st 2005; We have also included the reconciliation tables provided by IFRS 1 – First Adoption of the International Financial Reporting Standards, complete with explanatory notes.

USE OF ESTIMATES

In applying the IFRS, the drawing up of the individual Annual Report requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortisation, devaluation of assets, stock option, employee benefits, taxes and other provisions in funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the profit and loss account.

EVALUATION CRITERIA

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE
Intangible assets are those assets lacking an identifiable physical consistency, able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortisation applied in the course of the financial years and directly ascribed to the single headings. The Group has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortisation already entered there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortisation.
The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the Group to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Profit and Loss Account in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life
Goodwill and other activities which have an indefinitive life are not subject to systematic amortization but to an annual impairment test.

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

The group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such principles, the value of land and of the buildings constructed on it is separated and only the building is amortized.

The aliquots used for amortization, are as follows:

Description	*Amortization percentage*
Land and buildings	
- industrial structures	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	50.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	40.00%
- furniture and décor	12.00%

C) FINANCIAL CHARGES

Financial charges are registered in the Profit and Loss Account at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the intangible assets with an indefinite life, where present, has been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.
The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the profit and loss account wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. Value losses are readjusted wherever the causes which have generated them cease to exist

E) FINANCIAL ASSETS: EQUITIES

According to IAS 27, equities in subsidiary companies, in entities with joint control, and in unclassified associated companies like those possessed for sale (IFRS 5) must be entered into accounts at cost or in conformity with IAS 39. In the individual statement of El. En. SpA the cost criteria has been adopted. Since the necessary conditions exist, a consolidated statement has been drawn up.

Equities in companies which are not subsidiaries or associated (usually with a percentage of ownership under 20%) are classified at the time of purchase, among the financial activities that are "available for sale" or with the assets "evaluated at fair market value through the Profit and Loss Account" in the category of the current assets or non-current assets. The variations in the value of the equities classified as "available for sale" are entered in a reserve of the stockholders' equity which will be entered in the Profit and Loss Account at the time of sale. The variations in the value of equities which are classified as assets at fair value through the Profit and Loss Account are entered directly in the Profit and Loss Account. All of these equities are evaluated at cost in accordance with IAS 39.

F) FINANCIAL INSTRUMENTS

Commercial receivables

The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

Other financial assets

Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortised according to the effective interest rate method, net of any devaluation applied to reflect value losses.
Financial assets other than those held until expiry are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the profit and loss account under the heading

“Financial Revenue (Charges)” or in a special reserve of the stockholders’ equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value

Cash and cash equivalents
This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of liquidity which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock
Treasury stock is entered against stockholders’ equity. No profit/loss is shown in the profit and loss account for the purchase, sale, issue or cancellation of treasury stock.

Commercial payables
Commercial payables, the due date of which falls within the normal commercial terms, are not discounted and are entered at cost (identified at their nominal value).

Financial liabilities
Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortised cost, using the actual interest rate method.

G) INVENTORY
Stocks of raw materials and finished products are evaluated at the cost or market value whichever is less; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the direct costs of the raw materials and the labour and the indirect costs of production (variable and fixed). Devaluation funds are also set aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.
The stocks of works in progress are estimated on the basis of production costs, with reference to the weighted average cost.

H) EMPLOYEE BENEFITS
SEVERANCE INDEMNITY
Severance indemnity may be classified as a “post-employment benefit” of the “defined benefit plan” type, the amount of which already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently analysed, using the “Projected unit credit method”. This accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.
By means of the actuarial estimate, the current service cost which defines the amount of rights matured during the financial year by employees is entered under the “labour costs” heading of the profit and loss account and the interest cost which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the “Financial Revenue (Charges)”.

The actuarial profits and losses accumulated up to the preceding financial year which reflect the effects deriving from the variations in the actuarial theory are shown pro-quota in the Profit and Loss account as costs or revenue for the remaining average working life of the employees to the extent that the amount of their net value not registered at the end of the preceding financial year exceeds 10% of the value of the liabilities (so-called Corridor method).

STOCK OPTION PLANS
The costs of staff labour remunerated by means of a *stock option plan* is determined on the basis of the fair value of the options granted to the employees at the date of assignment.

The calculation method for the determination of *fair value* takes into consideration all the characteristics of the options (duration of the option, price and conditions for exercising the options etc), as well as the value of the stock at the date of assignment, of the volatility of the stock and of the interest rate curve again at the date of assignment coherently with the duration of the plan. The Black & Scholes pricing model is used.

The cost is shown in the profit and loss account during the period in which the rights granted mature, considering the best possible estimate of the number of options becoming exercisable.
In conformity with the IFRS 1, the said principle has been applied to all the assignments subsequent to November 7th 2002 which had still not matured by January 1st 2005.

I) PROVISIONS FOR CONTINGENCIES AND LIABILITIES

The Group has shown the funds for future contingencies wherever, in the face of a legal or implicit obligation to third parties it is probable that the Group will have to use its resources to honour such obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the profit and loss account for the financial year in which the variation takes place.

L) RECOGNITION OF REVENUE

The revenue from the sale of goods is is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped. Financial income and charges are registered on the basis of the interests matured on the net value of the relative financial assets or liabilities using the actual interest rate. Equity investment dividends are registered according to the cash principle.

M) ASSETS AND LIABILITIES IN FOREIGN CURRENCY

Assets and liabilities in foreign currency, with the exception of intangible and tangible assets, are entered at the exchange rate prevailing at the closure of the financial period and the relative profits and losses on the exchange rate are entered in the Profit and Loss Account.

N) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT

Contributions, from both public and third party private bodies are show at *fair value* when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Profit and Loss Account at the moment in which the conditions for entering them are satisfied

Contributions received for specific expenses the value of which is entered among the tangible or intangible assets are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Profit and loss account in relation to the period of amortisation of the assets they refer to.

Contributions for the fiscal year are shown entirely in the Profit and Loss Account at the moment in which the conditions for entering them are satisfied.

O) TAXES

Current taxes on income for the financial year have been entered according to the regulations currently in force on the basis of a realistic estimate of taxable income and keeping in mind possible exemptions. Liabilities for taxes are entered among the tax debts net of any down payments. Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognised for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference.

Deferred income tax assets have been entered as assets when it is probable that they will be recovered, in other words when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating assets for Deferred income tax assets is re-examined at the closing of each financial year. On the labour costs shown with regard to the retribution plan in the form of equity in the capital of El. En.SpA no fiscal effects have been registered inasmuch as the shares which will be assigned to employees will derive from the increase of capital

STOCK OPTION PLANS

The charts below contain information concerning the stock option plans now in use which were implemented within the company with the aim of providing the Group with an instrument for encouraging employee loyalty .

	Max. expiration date	Existing options	Options issued	Options cancelled	Options picked up	Expired option not picked up	Existing options	Options which can be picked up	Pick up price
		01.01.06	01.01.06 - 31.12.06	01.01.06 - 31.12.06	01.01.06 - 31.12.06	01.01.06 - 31.12.06	31.12.06	31.12.06	
Plan 2006/2007	July, 16 2007	140.000	0	0	11.936	0	128.064	58.064	€ 24,23
		140.000	0	0	11.936	0	128.064	58.064	

For the purposes of determining the fair value using the “Black & Scholes” pricing model the following hypotheses were formulated :

- Market interest rate for risk free investments: 2,5%
- Historic volatility: 26,20%
- Time interval used for calculating volatility: 1 year prior to the date of issue

The overall fair value of the stock option is 1.038 thousand Euros.

During 2006 the average price registered for the El. En. SpA stock was approx. 29 Euros.

With regard to the characteristics of the individual stock option plans adopted by El. En. S.p.A, as well as the increases of capital decided on to implement it, please refer to the description contained in the management report.

Comments on the Main Assets

Non-current assets

Intangible fixed assets (note 1)

Breakdown of changes occurring in intangible fixed assets during the period is shown on the chart below:

Categories	Balance 31/12/05	Variation	Revaluation (Devaluation)	Other Operations	(Amortizations)	Translation Adjustments	Balance 31/12/06
Concessions, licences, trade marks and similar rights	33.822	9.733			-27.176		16.379
Other	8.831	10.500			-9.588		9.743
Total	**42.653**	**20.233**			**-36.764**		**26.122**

Expenses sustained for the purchase and implementation of managerial software and the acquisition of some software licenses are entered with the intangible fixed assets.

Tangible fixed assets (note 2)

Breakdown of changes occurring in the tangible fixed assets during the period is shown on the chart below:

Cost	Balance 31/12/05	Increments	Revaluations and devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/06
Lands	1.221.758	405.000					1.626.758
Buildings	2.565.733	1.020.901					3.586.634
Plants and machinery	433.277	8.127		132.969	-4.885		569.488
Industrial and commercial equipment	2.333.223	362.054			-51.246		2.644.031
Other goods	1.172.344	162.769		43.593	-211.468		1.167.238
Tangible assets under construction	233.912	254.607		-176.562			311.957
Total	**7.960.247**	**2.213.458**			**-267.599**		**9.906.106**

Amortisation provisions	Balance 31/12/05	Amortisations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/06
Lands							
Buildings	473.121	77.097					550.218
Plants and machinery	190.434	50.077			-2.308		238.203
Industrial and commercial equipment	1.520.438	378.624			-41.109		1.857.953
Other goods	941.308	129.141			-209.487		860.962
Tangible assets under construction							
Total	**3.125.301**	**634.939**			**-252.904**		**3.507.336**

Net value	Balance 31/12/05	Increments	Revaluations and other operations	(Amortisations and devaluations)	(Disposals)	Translation Adjustments	Balance 31/12/06
Lands	1.221.758	405.000					1.626.758
Buildings	2.092.612	1.020.901		-77.097			3.036.416
Plants and machinery	242.843	8.127	132.969	-50.077	-2.577		331.285
Industrial and commercial equipment	812.785	362.054		-378.624	-10.137		786.078
Other goods	231.036	162.769	43.593	-129.141	-1.981		306.276
Tangible assets under construction	233.912	254.607	-176.562				311.957
Total	**4.834.946**	**2.213.458**		**-634.939**	**-14.695**		**6.398.770**

In accordance with the current accounting principles, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands as of December 31st 2006 was 1.627 thousand Euros.

During this financial year an important acquisition was made with the purchase of real estate in the city of Torre Annunziata for an overall amount of 1.350 thousand Euros, plus accessory charges. Of this amount, 405 thousand Euros represent the value of the land where the building is situated. The heading of "Buildings" also includes the building complex in Via Baldanzese a Calenzano (FI), where the company operates along with the three subsidiaries Deka M.E.L.A., Cutlite Penta and Valfivre Italia.
The heading "Plants and Machinery" includes, in the column "Other Operations", the expenses sustained for the completion of a heating unit, which had previously been entered under the heading of "Fixed Assets under construction".

Sizeable investments were also made for the purchase of equipment for sales demonstrations and for clinical experiments in the medical and aesthetic sector. Some new motor vehicles were also purchased.

The heading of "Tangible assets under construction" includes the costs sustained by the company up to December 31st 2006 for the architectural and structural planning, costs of construction permits, and initial work for the enlargement of the buildings located in Via Baldanzese at Calenzano, Florence.

Equity investments (note 3)

The chart below provides information on the equity investments held by the Company.

Equity investments in subsidiary companies

Company name:	Headquarters	% owned	Value of charge	Capital and reserves on 31-Dec-2006	Result 31-Dec-2006	Fraction account C.R.	Difference
Cynosure	Westford (USA)	34,69%	13.137.561	65.198.656	-519.567	22.617.414	9.479.853
Deka M.E.L.A. Srl	Calenzano	60,00%	24.170	4.985.835	427.827	2.991.501	2.967.331
Cutlite Penta Srl	Calenzano	72,67%	428.343	1.255.671	1.013.029	912.496	484.153
Valfivre Italia Srl	Calenzano	100,00%	49.583	79.942	-14.800	79.942	30.359
Quanta System Spa	Solbiate Olona (VA)	60,00%	2.859.710	2.891.506	584.337	1.734.904	-1.124.806
Ot-Las Srl	Calenzano	90,00%	1.481.000	1.917.825	325.237	1.726.043	245.043
Lasit SpA	Vico Equense (NA)	50,00%	485.814	1.287.867	-141.674	643.934	158.120
Deka Sarl	Vienne (F)	100,00%		-548.510	-277.028	-548.510	-548.510
Deka Lms GmbH	Freising (G)	76,16%		37.273	-307.755	28.387	28.387
Asclepion Laser Technologies GmbH	Jena (G)	50,00%	525.879	3.121.743	1.451.323	1.560.872	1.034.993
BRCT	New York (USA)	100,00%	652.591	1.454.564	15.282	1.454.564	801.973
Deka Laser Technologies LLC	Fort Lauderdale (USA)	52,00%	485	382.340	150.780	198.817	198.332
Lasercut	Branford (USA)	70,00%		-2.765.836	-1.083.204	-1.936.085	-1.936.085
Total			19.645.136	79.298.876	1.623.787	31.464.277	11.819.141

For Quanta System the difference between the "Value of Charge" and the corresponding fraction of the stockholders' equity is due to the goodwill paid at the time of purchase. The amount of the goodwill is justifiable on the basis of an analysis of the expected profitability of the company which was conducted using the DCF method. Just as was done for Quanta System, the same DCF analysis was conducted on the equity in Deka Lms; as a result of this, the entire amount of goodwill paid at the time of purchase was devaluated.
Concerning the equities in the subsidiaries Deka Sarl and Lasercut Inc., which were previously subjected to direct devaluation as a consequence of the losses incurred in the preceding financial years, during this financial period a further accrual of 282 thousand Euros relative to the subsidiary Deka Sarl was made for the losses which exceeded the value of the equity, and 831 thousand Euros relative to the subsidiary Lasercut Inc for losses exceeding the value of the equity and to cover potential losses which might derive from the refusal of the minority partner to cover his share of the losses of the company.

On May 2nd the company acquired from third parties a quota of 21% of Otlas Srl and a quota of 16,34% in Cutlite Penta Srl, for a total amount of 550.000,00 Euros. This transaction, which comports the consolidation of the position of El. En. SpA among the companies of the Group operating in the industrial sector, was initiated as a consequence of the sudden death of Sandro Favilli, a partner in the subsidiary companies as well as President of the Board of Directors of Otlas Srl.

Moreover, on September 28th 2006, from third parties, the company acquired an additional quota of 2,83% in Cutlite Penta Srl, for a total amount of approx. 106 thousand Euros.
On November 23rd 2006, El. En. SpA acquired from a third party, at the nominal value, 2% of the capital of the French subsidiary Deka Sarl and as a consequence this subsidiary is now owned 100%.
On December 13th 2006 El.En. SpA also acquired from a third party 1% of the capital of the subsidiary Valfivre Italia Srl for an amount of 2 thousand Euros, and as a consequence of this transaction Valfivre Italia Srl is now owned 100% by the company.
On the same day, December 13th 2006, the company also acquired from Cutlite Penta Srl an equity of 54% in Ot-las Srl, for an amount of 900 thousand Euros, and as a consequence of this transaction, the company now holds an equity of 90% .

While the accounting value of the equity in Cynosure is equal to an amount of 13,1 million Euros, the current value of the stocks as of December 31st 2006 was equal to 46,7 million Euros (price per share of Cynosure stock on December 29st 2006 = $15,83).

Equities in associated companies

Company Name:	Headquarters	% owned	Value of charge	Capital and reserves on 31-Dec-2006	Result 31-Dec-2006	Fraction account C.R.	Difference
Actis Srl	Calenzano	12,00%	1.240	42.716	-6.244	5.126	3.886
IALT Scrl	Calenzano	50,00%	5.000	10.000		5.000	-
Immobiliare Del.Co. Srl	Solbiate Olona	30,00%	274.200	113.579	1.533	34.074	-240.126
S.B.I. SA	Herzele (B)	50,00%	150.000	263.953	-36.047	131.977	-18.024
Total			430.440	430.248	-40.758	176.177	-254.264

The data related to the associated company "Immobiliare Del.Co. Srl", which possesses real estate which is rented to Quanta System SpA, show a difference between the price of purchase and the corresponding quota of shareholders' equity due to the greater value implicit in the lands and buildings which are owned, as is demonstrated by the estimate given at the time to sustain the evaluation made of the company itself.

The chart below shows a synthesis of information on the associated companies.

	Assets	Liabilities	Proftis(+)/Losses (-)	Revenue and income	Costs and charges
Immobiliare Del.Co. Srl	150.932	37.353	1.533	51.829	50.296
S.B.I. SA	528.437	263.953	-36.047	238.716	274.763
Actis Actice Sensors Srl	227.156	233.400	-6.244	247.016	253.260
IALT Scrl	181.173	171.173	0	105.367	105.367

Equity investments in other companies

The equity held in the RTM SpA company was the subject of direct devaluation for the purpose of adapting the value entered into accounts to the best estimate of fair value on December 31st 2006.

Composition of equity investments

Company name:	31/12/05 Cost	Reval. (Deval.)	Balance 31/12/05	Changes	Revaluations (devaluations)	Other movements	31/12/06 Balance 31/12/06	Reval. (Deval.)	Cost
Subsidiary companies:									
Deka M.E.L.A. Srl	24.170	0	24.170	0	0	0	24.170	0	24.170
Cutlite Penta Srl	118.263	0	118.263	310.080	0	0	428.343	0	428.343
Valfivre Italia Srl	47.039	0	47.039	2.544	0	0	49.583	0	49.583
Deka Sarl	0	0	0	1.523	-1.523	0	0	-1.523	1.523
Deka Lms GmbH	1.033.305	-663.631	369.674	0	-369.674	0	0	-369.674	369.674
Ot-las Srl	225.000	0	225.000	1.256.000	0	0	1.481.000	0	1.481.000
Lasit SpA	485.814	0	485.814	0	0	0	485.814	0	485.814
Quanta System SpA	2.859.710	0	2.859.710	0	0	0	2.859.710	0	2.859.710
Cynosure	13.137.561	0	13.137.561	0	0	0	13.137.561	0	13.137.561
Deka Laser Technologies LLC	477	0	477	8	0	0	485	0	485
Lasercut	0	0	0	0	0	0	0	0	0
BRCT	652.591	0	652.591	0	0	0	652.591	0	652.591
Asclepion Laser T. GmbH	525.879	0	525.879	0	0	0	525.879	0	525.879
Total	19.109.809	-663.631	18.446.178	1.570.155	-371.197	0	19.645.136	-371.197	20.016.333
Associated companies:									
Actis Srl	1.240	0	1.240	0	0	0	1.240	0	1.240
Ialt Scrl	5.000	0	5.000	0	0	0	5.000	0	5.000
Immobiliare Del.Co.	274.200	0	274.200	0	0	0	274.200	0	274.200
Sbi International	150.000	0	150.000	0	0	0	150.000	0	150.000
Total	430.440	0	430.440	0	0	0	430.440	0	430.440
Other companies:									
CALEF	8.527	0	8.527	-3.402	0	0	5.125	0	5.125
R&S	516	0	516	0	0	0	516	0	516
RTM	161.123	-84.561	76.562	0	-57.943	0	18.619	-57.943	76.562
Total	170.166	-84.561	85.605	-3.402	-57.943	0	24.260	-57.943	82.203
Other investments:									
Total	0	0	0	0	0	0	0	0	0
Total	19.710.415	-748.192	18.962.223	1.566.753	-429.140	0	20.099.836	-429.140	20.528.976

Financial charges entered this year among assets

No financial charges were entered this year among the assets.

Deferred tax assets /Other non-current assets (note 4)

Other non current assets	31-Dec-2006	31-Dec-2005	Variation	Var. %
Deferred tax assets	793.296	800.997	-7.701	-0,96%
Other non current assets	3.108	3.108	0	0,00%
Total	796.404	804.105	-7.701	-0,96%

For a breakdown of the entry “Deferred tax assets” see the chapter below on the analysis of deferred tax assets and liabilities.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory

Stocks:	31-Dec-06	31-Dec-05	Variation	Var. %
Raw materials and consumables	7.495.007	6.717.681	777.326	11,57%
Work in progress and semi finished products	5.419.322	3.567.324	1.851.998	51,92%
Finished products and goods for sale	2.277.404	1.735.949	541.455	31,19%
Total	15.191.733	12.020.954	3.170.779	26,38%

The increase in the final inventory registered this year is greater than the increase in sales volume and is concentrated particularly in work in progress and semi-finished products.

Commercial receivables (note 6)

Receivables are composed as follows:

Debtors:	31-dic-06	31-dic-05	Variation	Var. %
Trade debtors	5.556.196	4.460.717	1.095.479	24,56%
Subsidiary debtors	9.827.075	10.076.647	-249.572	-2,48%
Associated debtors	197.432	17.293	180.139	1041,69%
Total	15.580.703	14.554.657	1.026.046	7,05%

Trade debtors:	31-Dec-2006	31-Dec-2005	Variation	Var. %
Italy	2.618.859	1.816.199	802.660	44,19%
European Community	2.547.750	1.458.797	1.088.953	74,65%
Outside of European Community	720.005	1.568.975	-848.970	-54,11%
minus: Devaluation Provision for Debtors	-330.418	-383.254	52.836	-13,79%
Total	5.556.196	4.460.717	1.095.479	24,56%

The commercial receivables from subsidiary and associated companies are inherent to characteristic management operations.
The decrease in the overall amount of the "Devaluation Provision for Debtors" is justified by some uses which were made of the funds during this financial year. The accrual in this fund was 130.556 Euros, while the expenditures amounted to 183.392 Euros.
For a detailed analysis of the commercial receivables toward subsidiaries and associated companies, please refer to the chapter containing information on related parties.

Tax receivables/Other receivables (note 7)

The chart below shows a breakdown of tax receivables and other receivables:

	31-Dec-2006	31-Dec-2005	Variation	Variation %
Tax debtors				
VAT credits	1.537.523	723.416	814.107	112,54%
Income tax credits	789.682	75	789.607	1052809,33%
Total tax debtors	2.327.205	723.491	1.603.714	221,66%

Financial credits				
Financial credits v. subsidiary companies	3.454.563	3.422.348	32.215	0,94%
Financial credits v. associated companies	110.523	92.682	17.841	19,25%
Total	3.565.086	3.515.030	50.056	1,42%
Other credits				
Security deposits	18.270	3.267	15.003	459,23%
Down payments	632.314	304.041	328.273	107,97%
Other credits	274.579	340.695	-66.116	-19,41%
Total	925.163	648.003	277.160	42,77%
Total financial and other credits	4.490.249	4.163.033	327.216	7,86%

The amount entered among the “Tax Debtors” related to VAT credits is the natural effect of the large quantity of goods exported which is characteristic of the sales volume of the company.

The financial credits are related to financing that has been issued to subsidiary and associated companies to meet normal operating requirements. Among these are: financing to Lasit SpA for an amount of 350 thousand Euros, remunerated at an annual BCE rate + 1%, to Deka Lms GmbH for 385 thousand Euros remunerated at the BCE rate +2% up to a maximum of 5,5% for the first period and at the BCE rate + 2% for the following periods, to Deka Laser Technologies for 185 thousand dollars remunerated at the annual rate of 3%, to Lasercut for 3.397 thousand dollars remunerated at the annual rate of 5% and to Actis for 40 thousand Euros at an annual rate of 5%. For further information on financial receivables toward subsidiary and associated companies, see the charter containing information of related parties.

Cash at Bank and on Hand (note 8)

Cash at Bank and on Hand is composed as follows:

Cash at Bank and in hand:	31-Dec-2006	31-Dec-2005	Variation	Var. %
bank and postal current accounts	4.425.005	15.101.260	-10.676.255	-70,70%
cash in hand	9.781	10.185	-404	-3,97%
Total	4.434.786	15.111.445	-10.676.659	-70,65%

For an analysis of the variations in cash at bank and on hand, please refer to the table of the financial statement (cash flow).
It should be mentioned that the deposits in the bank accounts are unrestricted.

Net financial position as of December 31st 2006

Net financial position		
	31-Dec-2006	**31-Dec-2005**
Financial mid and long term debts	(429)	(577)
Financial mid and long term debts	*(429)*	*(577)*
Financial liabilities due within 12 months	(148)	(1.012)
Cash and cash equivalents	4.435	15.111
Net financial short term position	*4.287*	*14.099*
Total financial net position	**3.858**	**13.522**

The net financial position is in the black for an amount of over 3,8 million Euros.

Besides the current management, operations which have had a marked influence on the net financial position include the payment of dividends, which was made in May 2006 for 2.577 thousand Euros, the purchase of the quotas in Otlas Srl and Cutlite Penta Srl for an amount of 1.556 thousand Euros, down payment towards the purchase of real estate in the city of Torre Annunziata for 700 thousand Euros.
The increase in the net working capital, in any case, contributed considerably to the decrease in cash held by the company which, with its manufacturing and distributing structures, is heavily involved in sustaining the high growth rate and acquiring the necessary inventory to meet the demands of this growth.

Comments on the main liabilities

Capital and Reserves

The main components of the stockholders' equity are shown below:

Capital stock (note 9)

As of December 31st 2006, the capital stock of El. En. was composed as follows:

Authorised	Euros	2.509.763
Underwritten and deposited	Euros	2.443.170

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

Categories	**31-Dec-2005**	**Increase.**	**(Decrease.)**	**31-Dec-2006**
No. of Ordinary Shares	4.686.468	11.936		4.698.404
Total	**4.686.468**	**11.936**		**4.698.404**

By vote of the assembly convened on May 9th 2006, profits from the year for an amount of 9.579.550 were destined as follows: 13.392,16 Euros for an evaluation reserve for assets and liabilities in foreign currency, 2.577.557,40 to be distributed as dividends (at the rate of 0,55 euros per share), and the remainder for an extraordinary reserve.
It should be recalled that the profits from the financial year ending December 31st 2005 represented the net income determined in conformity with the Italian accounting principles.

The increase in the number of shares with respect to December 31st 2005, is derived from the underwriting of the capital stock after the implementation of the stock option on behalf of the employees, as part of the "2006/2007 Incentive Plan" which is described in detail in the chapter on the increase in capital.

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

Increase in capital for use in the stock option plans
The special assembly of El. En. SpA held on July 16th 2002 voted to authorise the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of euro 124,800 through the issue of a maximum of 240,000 ordinary shares with a nominal value of euro 0.52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code. – that is considering the shareholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, equal to the greater of the following: a) the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group as of 31 December of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical mean of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options; d) the arithmetical mean of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the period of time before the assignment of the options decided by the Board of Directors in the regulations of the incentives plans.

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

With reference to this vote, as of December 31st 2004 (the deadline for the exercising of the rights) of the 61,188 option rights assigned, all of them were picked up.

Moreover, on November 13th 2003, the Board of Directors of the parent company voted to partially implement the decision of the shareholders' assembly convened on July 16th 2002 to increase the share capital by euro 13,145.60 to be used for the 2004/2005 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's Executives, Managers and White collars workers who at the moment of assignment were employed by the group in a subordinate position. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 12,640 shares, exercisable by the assignees from November 18th to December 31st 2004, from August 15th to the September 30th 2005 and from November 18th to December 31st 2005; the second phase, for a maximum of 12,640 shares was exercisable by the assignees from August 15th to the September 30th 2005 and from November 18th to December 31st 2005.
With reference to this vote, as of December 31st 2005 (the deadline for the exercising of such rights) of the 25.280 option rights assigned, all of them were picked up.

In conclusion, on May 13th 2005, and later modification made on March 30th 2006, the Board of Directors voted to partially implement the vote of the shareholders' assembly convened on July 16th 2002, to increase the Capital stock to 72.800 Euros for use in the stock-option plan of 2006/2007 and to approve the relative regulations. The option rights were assigned exclusively to the Group's Executives, Managers and White collars workers who at the moment of assignment were employed by the Group in a subordinate position. The above mention plan is divided into two phases, one for each year. The first phase, for a maximum of 70.000 shares, is exercisable by the assignees from May 16th 2006 to the date of approval of the annual report, and from May 29th 2007 to July 16th 2007; the second phase, for a maximum of 70.000 shares is exercisable by the assignees from May 16th 2007 to July 16th 2007.

Additional paid in capital (note 10)

On the 31st of December 2006 the share premium account amounted to 35.607 thousand Euros, an increase with respect to December 31st 2005, as is evident in chart showing the shareholders' equity in the column headed "Other operations". This increase is due to the increase in capital stock which in turn is a consequence of the picking up of the stock option which is mentioned in the preceding paragraph.

Other reserves (note 11)

Other reserves	31-Dec-2006	31-Dec-2005	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	13.327.651	6.339.051	6.988.600	110,25%
Stock options reserve fund	799.423	355.861	443.562	124,64%
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Other reserves	13.391		13.391	0,00%
Total	15.104.424	7.658.871	7.445.553	97,21%

On December 31st 2006 the "extraordinary reserve" held 13.328 thousand Euros; the change which took place during the financial year is an effect of the accrual of the residual quota of the profits for the year 2005, determined in conformity with the Italian accounting principles, as approved by the vote of the shareholders' assembly on May 9th 2006.

The stock options reserve fund includes the counterpart of the costs determined by the application of IFRS 2 of the stock option plans assigned by El. En. SpA, for the quota which matured on December 31st 2006. The variation of 443 thousand Euros with respect to December 31st 2005 is registered in the shareholders' equity chart in the column "Other operations".

The amount entered under "Other reserves" is related to the accrual in the "Reserve for evaluations of assets and liabilities in foreign currency ex art. 2426 c.c. b. 8-bis)" in accordance with the vote of the shareholders' assembly of May 9th 2006.

In conformity with fiscal regulations, in the past El.En. SpA has taken advantage of the possibility of suspending contributions on capital account, either entirely or for 50%, in a reserve of the shareholders' equity. Since 1998 these have been entirely entered into the Profit and Loss Account. The relative reserves can be considered reserves of profits.

Profits/losses brought forward (note 12)

This category includes the rectifications of the shareholders' equity made as a consequence of the adoption of the international accounting principles; it also includes the entry of a reserve on the capital gains earned with the sale of treasury stock in February 2005. For further details see Appendix 1.

Availability and Possibility of Utilization of the Reserves

NET CAPITAL AND RESERVES:	**Balance 31-Dec-2006**	**Possibility of utilisation**	**Portion Available**	**Utilised in the previous two periods for covering losses**	**Utilised in the previous two periods for other purposes**
Subscribed capital	2.443.170				
Additional paid in capital	35.607.012	ABC	35.607.012		
Legal reserve	537.302	B			
Reserve for own shares					
Other reserves:					
Extraordinary reserves	13.327.651	ABC	13.327.651		
Reserve for contribution on capital account	426.657	ABC	426.657		
Profits (loss) brought forward	-1.034.007	ABC	-1.034.007		
Other reserves	812.814	ABC	812.814		
			49.140.127	**0**	**0**
Portion not distributable					
Portion distributable			**49.140.127**		

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

Non-current liabilities

Severance indemnity fund (note 13)

The chart below shows the operations which have taken place during this financial period.

Balance 31-Dec-2005	Provision	Utilization	Other	Balance 31-Dec-2006
1.025.525	303.630	-102.226		1.226.929

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment»; this is an obligation of the "defined benefit " type which entails entering a liability similar to that entered for defined benefit pension plans .

It should be remembered that the company has used the so-called "corridor method" in which the net cumulative value of the actuarial surplus and deficit is not shown until it exceeds in absolute terms 10% of the current value of the obligation. On December 31st 2006 the net accumulated value of the actuarial surplus and deficit, which was not registered, was approx. 115 thousand Euros. The current value of the obligation as of December 31st 2006 is 1.342 thousand Euros.

The hypotheses used for the indemnity plan are summarised in the following chart:

Financial hypotheses	Year 2005	Year 2006
Annual implementation rate	4,00%	4,25%
Annual inflation rate	2,00%	2,00%
Annual growth rate of severance indemnity	3,00%	3,00%
Annual increase rate of salaries (including inflation)	Executives 4,50% White collar workers 3,00% Blue collar workers 3,00%	Executives 4,50% White collar workers3,00% Blue collar workers3,00%

Analysis of deferred tax assets and liabilities (note 4) (note 14)

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for tax purposes and those entered into accounting.

The breakdown is as follows:

	Balance 31-Dec-2005	Provision	(Utilization)	Other	Translation Adjustments	Balance 31-Dec-2006
Deferred tax assets on stock devaluations	474.221	130.271				604.492
Deferred tax assets for provisions on guarantee products	61.463	20.488				81.951
Deferred tax assets on credit devaluation	99.001		-16.216			82.785
Deferred tax assets on actualization of severance indemnity accruals	16.044		-3.564			12.480
Other deferred tax assets	150.268	10.320	-149.000			11.588
Total	800.997	161.079	-168.780	0	0	793.296
Deferred tax liabilities on advanced amortizations	206.970	120.294				327.264
Other deferred tax liabilities	319.052	13.060	-150.478			181.634
Total	526.022	133.354	-150.478	0	0	508.898
Net amount	274.975	27.725	-18.302	0	0	284.398

Deferred tax assets amount to 793 thousand Euros. Among the main changes which occurred during this financial year, the most noteworthy are the increase in assets for deferred tax assets calculated on the devaluations of inventory and for accruals of funds for product guarantees. Among the decreases, of note is that related to the assets for deferred tax assets calculated on the credit devaluation fund after its utilization as a consequence of, among other things, the definition of some contest procedures and the actualization of the severance indemnity fund. A further decrease was caused by the payment, which occurred during this financial year, of the extraordinary remuneration granted to two of the Administrators and to the President of the Technical-Scientific Committee, which had been approved last year by the company, and which is tax deductible in accordance with the cash criteria.

Deferred tax liabilities amount to 509 thousand Euros; among the main entries which increased, the most noteworthy are the taxes entered on fiscally deducted anticipated amortizations deducted and not displayed in the individual company statement, on the instalments of earned capital gains. Under the heading “Other deferred tax liabilities”, which includes, among other things, the deferred taxes on the difference in inventory value between Average weighted Cost and the LIFO method, on the implementation of the supplementary Client Indemnity Fund, and on the amortization on the part of the real estate property consisting of lands, there is a decrease which is due to the use of previously accrued taxes on the exchange rate differences which had not been realized. .

Other Accruals (note 15)

The chart below shows the activity which occurred during this financial year.

	Balance 31-Dec-2005	Provision	(Utilisation)	Other	Balance 31-Dec-2006
Reserve for pension costs and similar	5.378	22.863	-19.713		8.528
Others:					
Reserve for guarantee on the products	165.001	55.000			220.001
Reserve for risks and charges	400.000		-400.000		
Other minor reserves	2.240.518	1.113.429	-24.000		3.329.947
Total other reserves	2.805.519	1.168.429	-424.000	-	3.549.948
Total	2.810.897	1.191.292	-443.713	-	3.558.476

The heading of "Reserve for pension costs and similar" includes the clients' agents' indemnity fund and the Severance indemnity fund (End of term benefits) for the administrators.
According to IAS 37, the amount due must be calculated using actuarial methods so as to estimate, as exactly as possible, the total costs to be paid for the issue of benefits to agents after their employment has terminated.

Technical evaluations were conducted on the basis of the hypotheses described below:

Financial hypotheses	Year 2005	Year 2006
Annual rate of implementation	2,00%	3,00%
Annual rate of inflation	2,00%	2,00%

The product guarantee fund is calculated on the basis of the costs for spare parts and customer assistance under warranty sustained during the preceding financial year adapted to the sales volume of the same year.
The fund for "Other risks and charges" included, during the last financial year, an accrual made by the company related to a special remuneration to be paid to two of the administrators and the President of the Technical-Scientific Committee and this sum was actually paid during 2006.
The increase under the heading of "Other minor reserves" is related to an accrual made for losses on behalf of the subsidiaries Lasercut Inc. and Deka Sarl, as earlier described.

Amounts owed and financial liabilities (note 16)

The chart below shows the breakdown of the amounts owed.

Financial m/l term debts	31-Dec-2006	31-Dec-2005	Variation	Var. %
Amounts owed to other financiers	429.457	577.131	-147.674	-25,59%
Total	429.457	577.131	-147.674	-25,59%

The non-current debts and financial liabilities include debts toward other financers; they consist of amounts which are not required to be paid by the end of the year for:
a) IMI facilitated financing for applied research, reference DIFF-3, granted for 487.095 Euros at the annual fixed rate of 3,70%, last instalment July 1st 2008
b) MPS facilitated financing for applied research, reference TRL01, granted for 681.103 Euros at the fixed annual rate of 2%, last instalment July 1st 2012.

Current liabilities

Financial debts (note 17)

Financial short term debts	31-Dec-2006	31-Dec-2005	Variation	Var. %
Bonds		619.748	-619.748	-100,00%
Amounts owed to banks		206.583	-206.583	-100,00%
Amounts owed to other financiers	147.672	185.898	-38.226	-20,56%
Total	147.672	1.012.229	-864.557	-85,41%

Under the heading of "Bonds", the item entered on December 31st 2005 for 619 thousand Euros was related to the debenture loan issued and repaid in a single instalment on December 31st 2006.
During this financial year, the ten-year mortgage issued by the Cassa di Risparmio of Florence, and entered on December 31st 2005 under the heading of "Amounts owed to banks", was extinguished.

The heading "amounts owed to other financers" includes the short-term quotas due to the financers described in the preceding paragraph.

Analysis of debts according to their due dates

	31-Dec-2006			31-Dec-2005		
	Within 1 year	From 1 to 5 year	Beyond 5 years	Within 1 year	From 1 to 5 years	Beyond 5 years
loans from shareholders				619.748		
amounts owed to banks				206.583		
amounts owed to other financiers	147.672	383.638	45.819	185.898	396.558	180.573
advances	344.600			301.867		
amounts owed to suppliers	7.279.713			7.110.494		
amounts owed to subsidiary companies	992.531			766.603		
amounts owed to associated companies	99.904			101.410		
amounts owed to tax administration	395.845			1.421.351		
amounts owed to social security institutions	553.636			506.474		
other creditor	1.051.183			1.091.804		
Total	10.865.084	383.638	45.819	12.312.232	396.558	180.573

The chart below shows a summary of the one above, indicating also the dates on which the capital quota of the debts will become due.

	Expiration	Rate	Balance	Amount within 1 year	Amount within 5 years	Amount beyond 5 years
Financing IMI DIFF3	01/07/2008	3,70%	97.345	64.300	33.045	
Financing MPS TRL 01	01/07/2012	2,00%	479.784	83.372	350.593	45.819
Total			577.129	147.672	383.638	45.819

The amount entered in the column for "amount within 1 year" consists of the short term instalments for the mid-term financing received.

Long term financing activity
During this year the following changes occurred in relation to mid- and long-term financing. The amounts shown include the short-term capital quota and do not include amounts owed for interest.

	Balance 31-Dec-2005	Increase	Reimbursement	Other	Balance 31-Dec-2006
Debenture loans	619.748		-619.748		
CRF loan	206.583		-206.583		
Financing IMI DIFF3	159.330		-61.985		97.345
Financing IMI TMR 4	42.184		-42.184		
Financing MPS TRL 01	561.515		-81.731		479.784
Total	1.589.360	-	-1.012.231	-	577.129

Debts with real estate guarantees

The property located in Via Baldanzese, 17 at Calenzano was bound by a mortgage, which cancellation is in progress, which was used as a guarantee for the ten-year loan issued by the Cassa di Risparmio di Firenze and extinguished during 2006.

Amounts owed for supplies (note 18)

Trade debts:	31-Dec-2006	31-Dec-2005	Variation	Var. %
Amounts owed to suppliers	7.279.713	7.110.494	169.219	2,38%
Amounts owed to subsidiary companies	992.531	766.603	225.928	29,47%
Amounts owed to associated companies	99.904	101.410	-1.506	-1,49%
Total	8.372.148	7.978.507	393.641	4,93%

For a more detailed analysis of the amounts owed subsidiary and associated companies for supplies, please refer to the chapter with information on related parties.

Tax debts/Other short term debts (note 19)

	31-Dec-2006	31-Dec-2005	Variation	Variation %
Tax debts				
Taxes on profit		1.095.591	-1.095.591	-100,00%
Debts owed to tax administration for VAT	1.741	1.741	-	0,00%
Debts owed to tax administration for deductions	394.104	324.019	70.085	21,63%
Other tax debts			-	0,00%
Total tax debts	395.845	1.421.351	-1.025.506	-72,15%

Social security debts				
Debts owed to INPS	480.453	448.647	31.806	7,09%
Debts owed to INAIL	53.717	43.369	10.348	23,86%
Debts owed to other Social Security Institutions	19.466	14.458	5.008	34,64%
Total	553.636	506.474	47.162	9,31%
Other debts				
Owed to staff for wages and salaries	816.134	793.705	22.429	2,83%
Down payments	344.600	301.867	42.733	14,16%
Other debts	247.131	298.413	-51.282	-17,18%
Total	1.407.865	1.393.985	13.880	1,00%
Total Social security debts and other debts	1.961.501	1.900.459	61.042	3,21%

The “Debts owed to staff” include, among other things, the debt on deferred salaries accumulated by employees as of December 31st 2006. I. Under the heading “Down payments” we have entered, among other things, 213 thousand Euros received as advance payments on research projects.

COMMENTS ON THE MAIN ENTRIES IN THE PROFIT AND LOSS ACCOUNT

Revenue (note 20)

Sales volume for this year exceeded 38 million Euros with an increase of 13% with respect to the same period last year.

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Sales of industrial laser systems	7.931.373	5.913.640	2.017.733	34,12%
Sales of medical laser systems	25.751.883	24.532.161	1.219.722	4,97%
Consulting and research			0	0,00%
Service and sales of spare parts	4.822.014	3.452.124	1.369.890	39,68%
Total	38.505.270	33.897.925	4.607.345	13,59%

The medical sector continues to be the most important sector for the Company even though the industrial sector shows the greatest growth. The sales volume for post-sales services has also shown a considerable increase as a result of the rise in the number of systems installed which require servicing with spare parts and technical assistance.

Breakdown of income by geographical area

	31/12/06	31/12/05	Variation	Var. %
Sales in Italy	23.033.751	20.952.755	2.080.996	9,93%
Sales other EC countries	9.864.535	6.945.504	2.919.031	42,03%
Sales outside EC	5.606.984	5.999.666	-392.682	-6,55%
Total	38.505.270	33.897.925	4.607.345	13,59%

The Italian market, which consists mainly of the Italian companies belonging to the Group, as in preceding years, is still the prevalent one, although it should be mentioned that more than half of the sales volume of the Italian companies belonging to the Group is later distributed abroad. The increase in sales in the European countries confirms the vitality of the company on these markets, thanks to the sales made by the subsidiary companies active in the distribution of medical products and to the fine performance of some of the distributors. The sales volume for countries outside of the European Union instead shows a slight drop, which is mainly due to the sales made by the American subsidiaries, in particular Cynosure Inc.

Other revenue and income (note 21)

Analysis of other revenue and income is shown on the chart below:

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Recovery for accidents and insurance reimbursements	10.552	8.192	2.360	28,81%
Expense recovery	72.611	60.714	11.897	19,60%
Capital gains on disposal of fixed assets	90.048	22.253	67.795	304,66%
Other income	1.079.187	1.455.170	-375.983	-25,84%
Contribution on fiscal year account and on capital account	900	900	-	0,00%
Total	1.253.298	1.553.741	-293.931	-18,92%

The heading of “Other income” includes revenue for approx. 817 thousand Euros intended for research projects.

Costs for the purchase of supplies (note 22)

Analysis of purchases is shown in the chart below:

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Purchase of raw materials and finished products	20.758.008	16.292.000	4.466.008	27,41%
Purchase of packaging	202.269	163.186	39.083	23,95%
Shipment of purchases	223.169	186.572	36.597	19,62%
Other purchase expenses	97.405	102.256	-4.851	-4,74%
Other purchases	77.256	70.898	6.358	8,97%
Total	21.358.107	16.814.912	4.543.195	27,02%

The increase of purchases is a direct consequence of the increase in the business volume which is also reflected in the increase in final inventory registered at the end of the year.

Other direct services/ operating services and charges (note 23)

Breakdown of this category is shown on the chart below:

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Direct services				
Expenses for work in progress at third parties'	3.241.752	2.361.379	880.373	37,28%
Technical services	122.793	115.730	7.063	6,10%
Shipment on sales	354.085	325.938	28.147	8,64%
Commissions	260.936	64.567	196.369	304,13%
Royalties	61.200	68.779	-7.579	-11,02%
Travel expenses	124.016	104.298	19.718	18,91%
Other direct services	80.347	62.787	17.560	27,97%
Total	*4.245.129*	*3.103.478*	*1.141.651*	*36,79%*
Operating services and charges				
Maintenance	81.015	69.396	11.619	16,74%
Services and commercial consulting	226.246	173.933	52.313	30,08%
Insurances	153.550	143.571	9.979	6,95%
Travel and overnight expenses	397.814	343.866	53.948	15,69%
Promotional and advertising expenses	554.074	485.445	68.629	14,14%
Utility charges	301.651	236.620	65.031	27,48%
Other taxes	33.734	27.364	6.370	23,28%
Expenses for vehicles	134.019	74.218	59.801	80,57%
Rent	49.924	39.757	10.167	25,57%
Other operating services and charges	3.168.597	3.015.573	153.024	5,07%
Total	*5.100.624*	*4.609.743*	*490.881*	*10,65%*

Under the heading of "Other operating services and charges", among other things, the salaries which are paid to members of the administrative bodies and the board of auditors, as well as legal expenses and accounting audit have been entered.

For the activities and the costs of Research and Development, see the relative paragraphs included in the management report.

Personnel costs (note 24)

The chart below shows the costs for staff.

For staff costs	31-Dec-2006	31-Dec-2005	Variation	Var. %
Wages and salaries	4.914.092	4.266.544	647.548	15,18%
Social security costs	1.534.308	1.329.465	204.843	15,41%
Accruals for severance indemnity	257.933	213.898	44.035	20,59%
Stock options	352.632	232.211	120.421	51,86%
Total	7.058.965	6.042.118	1.016.847	16,83%

Depreciation, amortisation and other accruals (note 25)

The table below shows the breakdown for this category:

Depreciations, amortizations, and other accruals	31-Dec-2006	31-Dec-2005	Variation	Var. %
Amortization of intangible assets	36.764	77.166	-40.402	-52,36%
Depreciation of tangible assets	634.939	590.550	44.389	7,52%
Accrual for risk on receivables	130.556	74.686	55.870	74,81%
Other accruals for risks and charges	55.000	430.000	-375.000	-87,21%
Total	857.259	1.172.402	-315.143	-26,88%

Financial charges and income (note 26)

The table below shows the breakdown for this category:

	31-Dec-2006	31-Dec-2005	Variation	Var.%
Financial incomes:				
Interests from banks	215.832	102.745	113.087	110,07%
Dividends	182.249	426.747	-244.498	-57,29%
Interests from subsidiary company	155.762	165.659	-9.897	-5,97%
Interests from associated company	2.000	2.000	-	0,00%
Income from negotiations	39.151	-	39.151	0,00%
Foreign exchange gain	61.863	959.010	-897.147	-93,55%
Other financial incomes	470	7	463	6614,29%
Total	657.327	1.656.168	-998.841	-60,31%
Financial charges:				
debenture loans	-60.425	-60.425	-	0,00%
bank debts for account overdraft	-1	-18	17	-94,44%
bank debts for medium and long - term loans	-20.184	-31.589	11.405	-36,10%
Foreign exchange loss	-751.820	-207.085	-544.735	263,05%
other financial charges	-48.468	-88.308	39.840	-45,11%
Total	-880.898	-387.425	-493.473	127,37%

During this year, under the heading “Dividends”, dividends for an amount of 150 thousand Euros distributed by the subsidiary Deka M.E.L.A. Srl and for an amount of 32 thousand Euros distributed by the subsidiary Deka Lms, have been entered.

The interest owed to banks for loans and med- and long-term financing refer to the loan issued by the Cassa di Risparmio di Firenze, which was extinguished during this financial year, and to the facilitated financing issued by IMI and by Monte Paschi Merchant.

The heading "Other financial charges" includes 46 thousand Euros for the entry of interest payable deriving from the application of the IAS 19 accounting principle to the severance indemnity.

Other net incomes and charges (note 27)

	31-Dec-2006	31-Dec-2005	Variation	Var. %
Other incomes or charges				
Loss on equity investments		-6.591	6.591	-100,00%
Profit on equity investments	1.036	6.543.587	-6.542.551	-99,98%
Accrual for losses in group companies	-1.113.429	-1.237.001	123.572	-9,99%
Revaluation (Devaluation) of equity investments	-429.140	-640.656	211.516	-33,02%
Taxes related to the previous years	-5.248		-5.248	0,00%
Total	**-1.546.781**	**4.659.339**	**-6.206.120**	**-133,20%**

In consideration of the negative results obtained by the associated company RTM SpA, a direct depreciation of the equity was effected for an amount of approx. 58 thousand Euros; moreover, for the subsidiary Deka Lms, a further devaluation was made for an amount of 370 thousand Euros. These amounts have been entered under the heading "Devaluation of equities".
As far as the subsidiaries Deka Sarl and Lasercut Inc, are concerned, an indirect devaluation was made for the accrual in the "Funds for Losses by Subsidiaries" for an overall amount of 1.113 thousand Euros, registered under the heading of "Accrual for losses in group companies". This accrual also includes, related to Lasercut Inc., the quota related to the coverage of the losses which potentially might result from the refusal on the part of the minority shareholder to cover his share of the losses of the company.

Income taxes (note 28)

Description:	31-Dec-2006	31-Dec-2005	Variation	Var. %
IRES	1.678.018	2.346.400	-668.382	-28,49%
IRAP	437.456	447.583	-10.127	-2,26%
IRES Deferred (Advanced)	-23.332	-168.797	145.465	-86,18%
IRAP Deferred (Advanced)	13.909	-33.635	47.544	-141,35%
Total income taxes	2.106.051	2.591.551	-485.500	-18,73%

The fiscal cost which can be referred to this financial year is 2.106 thousand Euros as opposed to 2.591 thousand Euros for last year; its impact on the Profit and Loss Account for the year increased considerably because of the lack of certain tax facilitations like the "PEX" exemption which benefited a large part of the capital gains earned in 2005 thanks to the sale of the Cynosure stock.

The chart below illustrates the reconciliation between the theoretical fiscal aliquots and the actual aliquots on the Taxes on Revenue of the company (IRES).

	2006
Income before taxes	2.730.334
IRES aliquot	33%
Theoretical IRES	901.010
Greater (lesser) fiscal incidence with respect to the theoretical aliquot	753.676
Actual IRES	1.654.686
Actual IRES aliquot	61%

The difference between the theoretical IRES aliquot and the actual one is due, among other things, to the non-deductible costs of the stock options (443 thousand Euros), to the accrual for losses in group companies (1.113 thousand Euros),to the devaluation of equities (429 thousand Euros). The tax related to these amounts is approx. 655 thousand Euros.

The breakdown of the composition of deferred and anticipated taxes is displayed with the analysis of the funds for risks and charges. The total amount of taxes due for this financial year is entered in the section on income taxes for this year.

Dividends distributed (note 29)

The shareholders' assembly held on May 13th 2005 voted to distribute 1.631.785,40 Euros as dividends paying 0,35 Euros a share for each of the 4.662.244 ordinary shares.
The shareholders' assembly held on May 9th 2006 voted to distribute 2.577.558 Euros as dividends paying 0,55 Euros a share for each of the 4.686.468 ordinary shares.
The dividend proposed by the Board of Directors, subject to the approval of the shareholders' assembly which will approve the annual report for 2006, is 0,30 Euros a share for each of the 4.736.768 ordinary shares.

Non-recurring significant events and operations (note 30)

No significant non-recurring operations took place during 2006. During the preceding year, among the other incomes and charges, we entered the capital gains for the sale of stock by El. En. SpA which was part of the IPO of Cynosure, the impact of which on the Profit and Loss Account and on the shareholders' equity are shown in the chart below:

Non-recurring significant events and operations for 2005	**Other net income and charges**		**Net income**		**Consolidated equity**	
	Amount €/000	**%**	**Amount €/000**	**%**	**Amount €/000**	**%**
Book value	4.659		8.189		53.965	
Effect of the IPO Cynosure	(6.537)	-140%	(6.387)	-78%	(6.387)	-12%
Book value without IPO Cynosure	(1.878)		1.802		47.578	

The positive effect on the net financial position as of December 31st 2005 was for an amount of 9,9 million Euros.

Information about related parties

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

In particular the following should be noted:

Subsidiary and associated companies
El. En. SpA controls a Group of companies which operate in the same macro-sector of lasers, to each of which is reserved a special field of application and a particular function on the market.
The integration of different products and services offered by the Group generates frequent commercial transactions between the various companies belonging to the Group. Most of the inter-Group commercial transactions involve the production by El. En. SpA of mid- and high-powered CO_2 laser sources which constitute a fundamental component in the products manufactured by Cutlite Penta Srl, Valfivre Italia Srl, Ot-Las Srl and Lasit Srl. Medical laser equipment manufactured by El. En. SpA is also involved in inter-Group commercial transactions which are, in part, sold to Cynosure, to Deka M.E.L.A. Srl, to Deka Sarl, to Deka Lms GmbH, to Deka Dls GmbH, to ASA Srl and to Asclepion Laser Technologies GmbH which organize their distribution.
The prices for the transfer of goods are established on the basis of what normally occurs on the market. The inter-Group transactions therefore reflect market trends, from which they may different slightly in accordance with the commercial policies of the company.
It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Deka Mela Srl a license for the use of the same brand name for marketing the laser equipment produced by El. En. for the dental-medical and aesthetic sector in some European and non-European countries.

The tables below show an analysis of the transactions which have taken place with the subsidiary and associated companies both for sales and commercial and financial payables and receivables.

	Financial Credits		**Commercial credits**	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure			760	
Asclepion Laser Technologies GmbH	4		115	
Deka MELA Srl			2.722	
Cutlite Penta Srl			796	
Valfivre Italia Srl			65	
Deka Sarl			1.113	
Deka Lms GmbH		385	1.566	
Deka Laser Technologies LLC		140	230	
Lasercut Inc.		2.579	1.192	
Lasit Srl	350		214	
Ot-Las Srl			760	
Quanta System SpA			30	
ASA Srl			260	
Neuma Laser Srl			5	
Total	**354**	**3.105**	**9.827**	

Associated companies:	Financial credits < 1 year	Financial credits > 1 year	Commercial credits < 1 year	Commercial credits > 1 year
SBI SA			176	
Actis Srl	40		15	
Immobiliare Del.Co. Srl	14			
IALT Scrl	57		7	
Total	**111**		**197**	

Subsidiary companies:	Financial payables < 1 year	Financial payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
Cynosure			290	
Asclepion Laser Technologies GmbH			193	
Deka MELA Srl			103	
Cutlite Penta Srl			50	
Valfivre Italia Srl			1	
Deka Lms GmbH			3	
Lasit Srl			3	
Ot-Las Srl			25	
Lasercut Inc.			73	
Quanta System SpA			233	
Neuma Laser Srl			18	
Total			**993**	

Associated companies:	Financial payables < 1 year	Financial payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
IALT Scrl			53	
Actis Srl			16	
SBI SA			30	
Total			**100**	

Subsidiary companies:	**Purchase raw materials**	**Services**	**Other**	**Total**
Cynosure	303	29		332
Deka MELA Srl	166	45		212
Cutlite Penta Srl	49	24		73
Valfivre Italia Srl		1		2
Deka Sarl	20			20
Deka Lms GmbH		28		28
Lasit Srl	83			83
Ot-Las Srl		22		22
Neuma Laser Srl	2	17		18
Quanta System SpA	489	3		491
Asclepion Laser Technolohies GmbH	603	2		605
ASA Srl	1	4		5
Lasercut Inc.	5	68		74
Total	1.721	243		1.964

Associated companies:	**Purchase of raw materials**	**Services**	**Other**	**Total**
Actis Srl		50		50
SBI S.A.	30			30
IALT Scrl		53		53
Total	**30**	**103**		**133**

Subsidiary companies:	Sales	Services	Total
Cynosure	2.561	12	2.572
Deka MELA Srl	13.524	343	13.868
Cutlite Penta Srl	1.930	366	2.296
Valfivre Italia Srl	328		328
Deka Sarl	593	29	622
Deka Lms GmbH	973		973
Lasit Srl	172		173
Ot-Las Srl	1.641	69	1.709
Neuma Laser Srl	36	4	39
Deka Laser Technologies LLC	538	5	543
Asclepion Laser Technologies GmbH	133	117	250
Quanta System SpA	101	1	102
ASA Srl	649	2	651
Lasercut Inc.	452		452
Total	**23.631**	**948**	**24.579**

Associated companies:	Sales	Service	Total
SBI S.A.	178		178
IALT Scrl	1		1
Total	179	0	179

Subsidiary companies:	Other revenues
Cynosure	3
Deka MELA Srl	77
Cutlite Penta Srl	87
Deka Lms GmbH	14
Ot-Las Srl	1
Deka Laser Technologies LLC	31
Quanta System SpA	2
ASA Srl	7
Lasercut Inc.	26
Total	**249**

Associated companies:	Other revenues
IALT Scrl	2
Actis Srl	2
Total	5

The amounts shown on the charts above refer to operations which are inherent to the characteristic management of the company.
The other revenue refers, among other things to the rents charged to Deka M.E.L.A. Srl and to Cutlite Penta Srl for the portions of the buildings in Calenzano which they occupy.

Moreover, we have entered into accounts approx. 156 thousand Euros in interests on the financing granted to subsidiary companies, as well as 2 thousand Euros in interests on the financing of 40 thousand Euros granted to Actis Srl.

Members of the Board of Directors, the Board of Auditors and other strategic executives
Members of the Board of Directors and the Board of Auditors receive the salaries indicated in the chart below.

Person	***Appointment description***	***Salary***				
Name	*Position*	*Term duration*	*Perquisites*	*Non monetary benefits*	*Bonus and other incentives*	*Other rewards*
Gabriele Clementi	President of the Board of Directors	Until the date of the assembly for the approval of the financials for 31.12.08	90.000			6.500
Barbara Bazzocchi	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.08	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.08	90.000			6.500
Francesco Muzzi	Member	Outgoing on 23 May 2006	4.701			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the financials for 31.12.08	4.241			
Paolo Blasi	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Angelo Ercole Ferrario	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Alberto Pecci	Member	Until the date of the assembly for the approval of the financials for 31.12.08	12.000			
Stefano Modi	Member	From 4 August 2006 until first assembly in accordance with art. 2386 Civil Code	4.932			
Vincenzo Pilla	President of the Board of Statutory Auditors	for three years from Nov. 6th, 2003	15.952			
Giovanni Pacini	Statutory Auditor	for three years from Nov. 6th, 2003	11.279			
Paolo Caselli	Statutory Auditor	for three years from Nov. 6th, 2003	12.632			

Board member Stefano Modi during 2006, as an employee of the company, received a salary of approx. 104 thousand Euros. The salaries of the administrators of the parent company, for their functions in other companies included in the area of consolidation, are as follows: Barbara Bazzocchi, as sole administrator of Cutlite Penta Srl received from that company a salary of 12.000 Euros; Gabriele Clementi as sole administrator of Valfivre Italia Srl received from that company a salary of 12.000 Euros, Angelo E. Ferrario as President of the Board of Directors of Quanta System SpA received a salary from that company of 108.000 thousand Euros and as a board member of Arex Srl he received a salary from that company of 10.000 Euros.
The salaries of members of the Board of Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Auditors of Deka Mela Srl and Lasit SpA and actual Auditor of Cutlite Penta Srl received from these companies a total salary of 22.291 Euros; Giovanni Pacini, as actual Auditor of Deka Mela Srl and Cutlite Penta Srl received from these companies a total salary of 14.332 Euros; Paolo Caselli as President of the Board of Auditors of Cutlite Penta Srl and actual Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 20.706 Euros; Manfredi Bufalini as actual Auditor of Quanta System Spa received from this company a salary of 5.972 Euros.

Prof. Leonardo Masotti, President of the Scientific Committee received a salary of 8.400 Euros.
The company does not have a General Director.

Physical persons possessing an equity in El. En. SpA
Besides the members of the Board of Directors, the Board of Auditors and the President of the Technical-Scientific Committee, partners Carlo Raffini and Pio Burlamacchi also received salaries, as follows:
a) Mr. Carlo Raffini, to whom El.En. SpA has assigned a series of professional tasks, received a salary of 34.292 Euros;
b) Prof. Pio Burlamacchi, who, on the basis of a specific contract, is the owner of an industrial right consisting of a patent pending for the invention of a “Support of an optical cavity for lasers with regulation of the alignment of the ray” received a salary of 6 thousand Euros.
One of the deputy board members, the majority shareholder of the company, retains an ownership without usufruct of 25% of Immobiliare del Ciliegio Srl, also a shareholder of the El.En. SpA.

The table below shows the impact that transactions with related parties have had on the profit and loss account and on the balance sheet of the company.

Impact of related party transactions	Total	Amount	%
a) Impact of related party transactions on the balance sheet			
Equity investments	20.099.836	900.000	4,48%
Accounts receivables	15.580.703	10.024.507	64,34%
Other receivables	4.490.249	3.568.708	79,48%
Non current financial liabilities	429.457		0,00%
Current financial liabilities	147.672		0,00%
Accounts payables	8.372.148	1.092.435	13,05%
Other payables	1.961.501		0,00%
b) Impact of related party transactions on the profit and loss			
Revenues	38.505.270	24.758.341	64,30%
Other revenues and income	1.253.298	253.374	20,22%
Purchases of raw materials	21.358.107	1.750.656	8,20%
Other direct services	4.245.129	120.328	2,83%
Other operating services and charges	5.100.624	226.135	4,43%
Financial charges	-880.898		0,00%
Financial income	657.327	157.762	24,00%

With reference to the heading "Equities investments", it should be recalled that the amount of 900 thousand Euros refers to the purchase price of an equity of 54% in Ot-las S.r.l. by the subsidiary Cutlite Penta S.r.l..

Procedures for the management of financial risks

The main financial instruments of the company include checking accounts and short-term deposits, short and long-term financial liabilities. Besides these, the company also has payables and receivables derived from its activity.
The main financial risks to which the company is exposed are those related to the market (currency) and credit.

Currency risks
The company is exposed to the risk of fluctuations in the exchange rates of the foreign currency in which some of the commercial and financial transactions are conducted. These risks are monitored by the management which takes all the necessary precautions to limit them.

Credit risks
As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance.

Financial instruments

Fair value
The chart below shows a comparison between the book value and the fair value of all the financial instruments used by the company, according to type.

	Book value	Book value	Fair value	Fair value
	31-Dec-2006	31-Dec-2005	31-Dec-2006	31-Dec-2005
Financial assets				
Financial mid and long term receivables				
Financial receivables within 12 months	3.565.086	3.515.030	3.565.086	3.515.030
Financial instruments				
Cash and cash equivalents	4.434.786	15.111.445	4.434.786	15.111.445
Financial liabilities				
Financial mid and long term debts	429.457	577.131	429.457	577.131
Financial liabilities due within 12 months	147.672	1.012.229	147.672	1.012.229

Other information

Salaries of Administrators and Auditors

	31-Dec-2006	31-Dec-2005	Variation	Var.%
Salaries to Administrators	331.874	344.630	-12.756	-3,70%
Salaries to Auditors	39.863	40.056	-193	-0,48%
Total	371.737	384.686	-12.949	-3,37%

Average number of employees divided by category

	Average 2006	31-Dec-2006	Average 2005	31-Dec-2005	Variation	Var. %
Executives	6,5	7	6,0	6	1	16,67%
Management	6,0	6	6,0	6	0	0,00%
White collar	79,0	82	75,0	76	6	7,89%
Blue collar	48,5	53	39,5	44	9	20,45%
Total	140,0	148	126,5	132	16	12,12%

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

Appendix 1 – Report on the "Transition to International Accounting principles (IFRS)" by El. En. SpA

1. Transition to international accounting principles (IAS – IFRS)

Following the coming into force of the EC Regulation no. 1606/2002 emanated by the European Parliament and by the European Council in July 2002, and in compliance with:
- the issuing regulations n. 11971/1999, as modified by the Consob with vote n. 14990 of April 14th 2005,
- with legislative decree 38/2005, regarding the adoption in Italy of the above mentioned European regulations,
all companies with stock which can be negotiated on a market regulated by the nations which are members of the European Union, starting in 2005 must draw up their consolidated balance sheets in conformity with the international accounting principles (IAS/IFRS) issued by the International Accounting Standard Boards (IASB) approved by the European Union.
The Group has applied international accounting principles retroactively to all the periods included in the first IFRS financial statement and to the opening Statement of Assets and Liabilities (January 1st 2004) in compliance with IFRS1, save some exceptions as described in the following paragraph.
In accordance with the above mentioned regulations, in order to draw up the financial statements, the company decided to adopt the IFRS starting in January 2006, and therefore has presented its first complete financial statements drawn up in conformity with the IFRS on December 31st 2006.

2. Reconciliation required by IFRS1

This Appendix provides the reconciliation and relative explanatory notes foreseen by IFRS1- First application of the IFRS- of the Net Assets and Net Result of El. En. SpA according to the previous principles (accounting principles) and according to the new principles. With this purpose in mind the following documents have been drawn up:
• the reconciliation tables of the net assets consolidated according to the previous accounting principles and those entered in accordance with IAS/IFRS principles at the following dates:
- date of transition to IAS/IFRS (January 1st 2005);
- date of closing of the last financial year in which the financial statement was drawn up according to the previous principles (December 31st 2005);

• the reconciliation tables of the net result shown in the last financial statement drawn up according to the previous accounting principles (financial year 2005) compared to the one in which IAS/IFRS principles have been applied for the same financial year;
• comments on the reconciliation tables;
• the statements of assets and liabilities consolidated according to IAS/IFRS as of January 1st 2005 and as of December 31st 2005 and the profit and loss account consolidated according to IAS/IFRS for the financial year ending December 31st 2005.

As illustrated below in a more analytical manner, the statements of assets and liabilities consolidated according to IAS/IFRS and the IAS/IFRS profit and loss account have been obtained by making the appropriate adjustments and IAS/IFRS reclassifications to the consolidated final figures, drawn up according to Italian law so as to reflect the modifications to the criteria for presentation, identification and estimation required by the IAS/IFRS.

The adjustments have been made in observance of the International Financial Reporting Standards adopted by European Union.

The effects of the transition to the IAS/IFRS are derived from the changes in the accounting principles, and, consequently, as required by the IFRS-1 principle, are reflected in the initial stockholders' equity on the date of transition (January 1st 2005). In particular, as stipulated by paragraph 25 of this principle, since the company is proceeding with the transition to the IFRS for the purpose of drawing up its own financial statements based on the IFRS, having already drawn up its complete consolidated financial statements based on the IFRS, the assets and liabilities of the company already opportunely evaluated at that time, are entered into accounts using the same amounts as those used for the consolidated statements.

The main choices made by the company, including the exemptions provided by IFRS-1 and applicable to the company are listed below, along with an indication of those used for drawing up the initial balance sheet for January 1st 2005.

- **employee benefits (severance indemnity)**: IAS 19 permits, in the revaluation of defined benefit plans (a category which includes severance payments) the suspension of the actuarial gains/losses which do not exceed a certain limit (so-called "corridor method"). The retrospective application of IAS 19 implies the quantification of the actuarial gains/losses produced from the date of foundation of the company for all the employees present at the date of changeover in separating what should be shown and what should not. The El. En. SpA has chosen this forward-looking application of the corridor approach which is allowed by IFRS. Actuarial losses and gains accumulated by January 1st 2004 have therefore been entered fully at the date of transition to the IFRS.
- **equities:** according to IAS 27, equities in the subsidiary companies, in entities with joint control, and in non-classified associated companies like those possessed for sale (IFRS 5) must be entered into accounts at cost or in conformity with IAS 39. In the individual statements of the Parent Company, El. En. SpA has used the cost criteria.
- **evaluation of real estate, equipment and machinery and intangible activities** at fair value or, as an alternative, at the re-estimation of the cost as replacement value of the cost: for all categories of fixed assets El. En. SpA has used the cost criteria.

The accounting treatment chosen among the accounting options offered by IAS/IFRS are the following:

- **inventories:** according to IAS 2, the cost of inventories must be determined using the FIFO method or the weighted average cost method. The El. En. SpA has decided to use the weighted average cost method;
- e**valuation of tangible and intangible assets**: subsequent to initial entering at cost, IAS 16 and IAS 38 stipulate that these kinds of assets may be evaluated (and amortized) at cost or at fair value. The El. En. SpA has chosen to use the cost method;
- **evaluation of property investments**: according to IAS 40, property held as an investment must initially be entered at cost, inclusive of the accessory charges directly attributable to it. Subsequent to acquisition, such property may be evaluated at fair value or at cost. The El.En. SpA has decided to adopt the cost criteria;
- **financial charges:** for the entering of financial charges directly attributable to the acquisition, construction or production of an asset which may be capitalized, IAS 23 stipulates that a company may apply the relevant accounting treatment, which imposes the entering of financial charges directly in the profit and loss account or the alternative accounting treatment which imposes, under certain conditions, the obligation to capitalize the financial charges. The El. En. SpA has decided to enter such financial charges in the profit and loss account.

The reconciliation tables of the cash flow are not included here since the effects of the application of IAS/IFRS accounting principles have not comported any significant differences. Moreover, the reconciliation tables for the net financial position have not been included since these also have not undergone any significant variation due to the adoption of the new principles.

MAIN IMPACT OF THE APPLICATION OF IAS/IFRS ON THE OPENING STATEMENT OF ASSETS AND LIABILITIES AS OF JANUARY 1ST 2005 AND ON THE FINANCIAL STATEMENT AS OF DECEMBER 31ST 2005.

The differences resulting from the application of the IAS/IFRS compared to Italian accounting principles, as well as the choices made by the El. En. SpA as regards the accounting options foreseen by the IAS/IFRS illustrated above, entail a re-elaboration of the accounting figures set out according to previous Italian legislation on the matter of financial statements with significant effects, in some cases, on the net assets. For such purposes the IAS/IFRS statement of assets and liabilities compared to the statement of assets and liabilities as per Italian accounting principles are shown, as of January 1st 2005 and December 31st 2005.

	Notes	IAS GAAP 01/01/05	ITA GAAP 01/01/05	Adjustments IAS/IFRS
Balance Sheet				
Intangible assets		81.934	81.934	
Tangible assets	1	5.404.209	5.126.523	277.686
Equity investments	2	21.699.462	21.806.998	-107.536
Deferred tax assets	3	460.639	436.013	24.626
Other non current assets	4	3.108	213.915	-210.807
Total non current assets		**27.649.352**	**27.665.383**	**-16.031**
Inventories	5	11.135.861	10.881.937	253.924
Accounts receivables		12.822.539	12.822.539	
Tax receivables		255.185	255.185	
Other receivables		2.733.103	2.733.103	
Equity investments		993.526	993.526	
Own shares	6		255.937	-255.937
Financial instruments				
Cash and cash equivalents		6.305.507	6.305.507	
Total current assets		**34.245.721**	**34.247.734**	**-2.013**
TOTAL ASSETS		**61.895.073**	**61.913.117**	**-18.044**
Common stock		2.424.367	2.424.367	
Additional paid in capital	6	34.954.351	34.698.414	255.937
Own shares	6	-255.937		-255.937
Other reserves and retained earnings / (deficit)		6.960.709	7.289.556	-328.847
Net income / (loss)		2.159.687	1.901.175	258.512
Total equity		**46.243.177**	**46.313.512**	**-70.335**
Severance indemnity	7	913.366	847.255	66.111
Deferred tax liabilities	8	388.097	191.110	196.987
Other accruals	4	1.494.330	1.705.137	-210.807
Financial liabilities		1.462.528	1.462.528	
Non current liabilities		**4.258.321**	**4.206.030**	**52.291**
Financial liabilities		2.373.875	2.373.875	
Accounts payables		6.082.611	6.082.611	
Tax payables		1.245.353	1.245.353	
Other payables		1.691.736	1.691.736	
Current liabilities		**11.393.575**	**11.393.575**	
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY		**61.895.073**	**61.913.117**	**-18.044**

	Notes	IAS GAAP 31-Dec-2005	ITA GAAP 31-Dec-2005	Adjustments IAS/IFRS
Balance Sheet				
Intangible assets		42.653	42.653	
Tangible assets	1	4.834.946	4.523.397	311.549
Equity investments	2	18.962.223	19.962.618	-1.000.395
Deferred tax assets	3	800.997	784.953	16.044
Other non current assets	4	3.108	42.108	-39.000
Total non current assets		**24.643.927**	**25.355.729**	**-711.802**
Inventories	5	12.020.954	11.767.042	253.912
Accounts receivables		14.554.657	14.554.657	
Tax receivables		723.491	723.491	
Other receivables		4.163.033	4.163.033	
Equity investments				
Own shares	6			
Financial instruments				
Cash and cash equivalents		15.111.445	15.111.445	
Total current assets		**46.573.580**	**46.319.668**	**253.912**
TOTAL ASSETS		**71.217.507**	**71.675.397**	**-457.890**
Common stock		2.436.963	2.436.963	
Additional paid in capital	6	35.324.009	35.324.009	
Own shares	6			
Other reserves and retained earnings / (deficit)		8.015.544	7.303.010	712.534
Net income / (loss)		8.188.870	9.579.550	-1.390.680
Total equity		**53.965.386**	**54.643.532**	**-678.146**
Severance indemnity	7	1.025.525	976.904	48.621
Deferred tax liabilities	8	526.022	315.387	210.635
Other accruals	4	2.810.897	2.849.897	-39.000
Financial liabilities		577.131	577.131	
Non current liabilities		**4.939.575**	**4.719.319**	**220.256**
Financial liabilities		1.012.229	1.012.229	
Accounts payables		7.978.507	7.978.507	
Tax payables		1.421.351	1.421.351	
Other payables		1.900.459	1.900.459	
Current liabilities		**12.312.546**	**12.312.546**	
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY		**71.217.507**	**71.675.397**	**-457.890**

1) Tangible Assets:
According to Italian accounting principles the land on which buildings are situated was amortized along with the buildings themselves while according to IAS/IFRS they must be classified separately and no longer amortized. This different kind of accounting treatment determines an increase in tangible assets of approximately 278 thousand Euro gross of the fiscal effects in FTA and of 311 thousand Euros on December 31st 2005.

2) Equity investments
The difference in the IAS/IFRS amounts and the amounts entered in compliance to the previous accounting principles, refer to equity investments in subsidiary companies. The criteria used by the company is that of cost, in accordance with IAS 27. The differences which emerged during transition are related to two companies in which equities are held:
DEKA LMS
On the basis of the evaluation made during the transition, the impairment test of the subsidiary Deka LMS showed a loss in value deemed not be of a lasting nature according to the preceding accounting principles. The adjustment of the cost value makes it possible to align the value of the equity with the contribution it made to the consolidated IFRS/IAS financial statement. With the FTA the impact of the depreciation of Deka LMS is about 107 thousand Euros. This adjustment was made by decreasing the net capital and reserves on January 1st 2005.
During 2005 the company decided that the depreciation was going to be lasting even for the non-fiscal effects of the statement drawn up according to the Italian accounting principles, and depreciated the equity for a total of 664 thousand Euros. Since, as far as the IAS is concerned, a part of the depreciation had already been effected in the FTA, the impact of the depreciation for the year in question was less than that which had been entered using the Italian accounting principles.
Cynosure
In 2005, the company sold more than a million shares of the American subsidiary. The sale created a capital gains equal to the amount of the sale minus the cost value of the equity. The cost of the equity in Cynosure consisted of several

phases and in the statements drawn up according to the earlier principles, the company used the LIFO for entering the sale into accounts. Since IAS principles do not allow this type of procedure, the adjustment of the value produced a decrease in the equity of about 1 million Euros, which corresponds to the lower capital gains that the company entered into accounts after the adoption of the criteria of the weighted average cost.

3) Assets for advanced taxes
The amount refers to the advanced taxes entered among the assets most of which refer to the effects of the adjustment of the severance pay fund.

4) Other current assets
The amount refers to the re-classification of credit towards insurances for the severance pay of the administrators in the "Other funds". This re-classification was made in compliance with IAS 19 for definitive benefit plans.

5) Inventory
IAS 2 prohibits the use of the LIFO criteria. As an alternative, El. En. SpA has chosen to use the criteria of the weighted average cost. The amount of this, before taxes, is about 254 thousand Euros.

6) Treasury stock
According to Italian accounting principles, treasury stock was entered among the assets, while in the stockholders' equity it had to be constituted into a special reserve fund; according to the IAS/IFRS these shares must be entered into accounts reducing the stockholders' equity. This difference in accounting criteria, as of January 1st 2005 determines a reduction in current assets for an amount of 256 thousand Euros. Since this stock was sold during 2005, no difference emerged on December 31st 2005.

7) Severance indemnity
Italian accounting principles require that the liabilities for severance indemnity be entered on the basis of the nominal debt matured in accordance with the dispositions of civil law at the date of closure of the financial statement; according to the IAS/IFRS, the institution of severance payment falls within the type of defined benefit plans subject to measurement of an actuarial nature (mortality, foreseeable wage variations, etc.) expressing the current value of the benefit to be paid at the end of the employment contract which employees have matured at the date of the financial statement. For IAS/IFRS purposes all the actuarial gains and losses have been shown at the date of transition to the IAS/IFRS. Applying the corridor method in a forward-looking perspective, the company has not evaluated the net actuarial differences as of December 31st 2004. The accounts did however take into consideration the financial component of the cost of severance indemnity. As a result, as of January 1st 2005, the severance indemnity figure rose by approximately 66 thousand Euros compared to calculations based on Italian accounting principles. The amount of the difference as of December 31st 2005 drops to 49 thousand Euros.

8) Deferred tax liabilities
The figure for deferred tax liabilities shows both at FTA and as of December 31st 2005 the fiscal effects of the differences entered for the transition, with particular reference to the inventory and the failure to amortize the real estate property.

Profit and loss account	Note	IAS GAAP 31/12/05	ITA GAAP 31/12/05	Adjustments IAS/IFRS
Revenues		33.897.925	33.897.925	0
Change in inventory of finished goods and WIP	1	475.190	457.510	17.680
Other revenues and income		1.553.741	1.553.741	0
Value of production		**35.926.856**	**35.909.176**	**17.680**
Purchase of raw materials		16.814.912	16.814.912	0
Change in inventory of raw material	1	(668.136)	(685.828)	17.692
Other direct services		3.139.630	3.139.630	0
Other operating services and charges	2	4.573.591	4.511.722	61.869
For staff costs	3	6.042.118	5.868.621	173.497
EBITDA		**6.024.741**	**6.260.119**	**(235.378)**
Depreciation, amortization and other accruals	4	1.172.402	1.209.055	(36.653)
EBIT		**4.852.339**	**5.051.064**	**(198.725)**
Net financial income (charges)	5	1.268.743	1.623.037	(354.294)
Share of profit of associated companies	6	0	(1.985.193)	1.985.193
Other net income (expense)	6	4.659.339	7.563.276	(2.903.937)
Income before taxes		**10.780.421**	**12.252.184**	**(1.471.763)**
Income taxes	7	2.591.551	2.672.634	(81.083)
Income for the financial period		**8.188.870**	**9.579.550**	**(1.390.680)**

1) Variations in warehouse inventory
The value calculated according to the_IAS/IFRS criteria produces an insignificant result because of the fact that the positive impact on the variations in the inventory of finished goods and work in progress is compensated for by the negative impact of the variation in inventory of raw materials.

2) General expenses – Stock Options
In compliance with IFRS2 the stock option plans granted by the company have been entered into accounts in the profit and loss accounts. The effect has been divided into two categories, according to whether the beneficiaries are employees (entered into accounts with personnel costs) or others (entered into accounts with general expenses). This category includes those items which, according to the preceding accounting principles, were considered asset or liability contingencies and were reclassified accordingly in the extraordinary management.

3) Personnel costs – Stock Options and entering into accounts of Severance Indemnity Fund
This category includes both the effects of the entering into accounts of the stock options as well as part of the effect of the entering of the Severance Indemnity Fund in compliance with IAS 19.

4) Amortizations and accruals
The effect refers essentially to the lack of amortization of the lands separated from the value of the buildings.

5) Financial investments
The difference is due to:
- the entering into accounts of the Severance Indemnity Fund in compliance with IAS 19 which states that the financial component must be entered under the special heading in the profit and loss account. The effect, for 2005, amounts to about 41 thousand Euros.
- The entering into accounts of the capital gains which emerged as a consequence of the sale of treasury stock, which was entered directly into the shareholders' equity in compliance with IAS 32 (about 313 thousand Euros)

6) Other net income and charges
This category includes the reclassification of those items which, for the preceding accounting principles, were considered value adjustments. As already mentioned above, a part of the depreciation (107 thousand Euros) refers to the equity in Deka LMS was effected in the FTA. The item includes the lower capital gains earned by the partial sale of the Cynosure shares after the modification of the cost criteria from LIFO to weighted average cost. Because of this change the selling value of the equity in Cynosure is greater by about 1 million Euros.

7) Income tax
The difference between the IAS /IFRS amount and the amount in the statement drawn up according to the Italian accounting principles, reflects the fiscal effects of the differences described above.

RECONCILIATION TABLE IFRS 1 OF NET ASSETS AS OF JANUARY 1ST 2005, DECEMBER 31ST 2005 AND THE OPERATING RESULT OF THE FINANCIAL YEAR 2005.

The chart below shows the differences between the Italian accounting principles and the IAS/IFRS principles which have determined changes in the shareholders' equity and on the results during the period of transition. The differences in the transition are shown net of fiscal effects.

(Amounts in thousand of euro)	Stockholders' equity as of Jan. 1st, 2005	Stockholders' equity as of Dec. 31st, 2005	P&L 2005
Italian GAAP amounts	**46.313**	**54.643**	**9.580**
1. Lands	175	195	23
2. Inventory	159	159	0
3. Own shares	(256)	0	(210)
4. Severance indemnity	(41)	(32)	9
5. Stock Options			(317)
6. Equity investments	(107)	(1.000)	(893)
7. Other			(3)
Total IAS/IFRS adjustments	**(70)**	**(678)**	**(1.391)**
IAS/IFRS value	**46.243**	**53.965**	**8.189**

Land (IAS 16)
According to Italian accounting principles the land on which buildings are situated is amortized along with the buildings themselves while according to IAS/IFRS they must be classified separately and no longer amortized. In FTA, this different accounting treatment determines an increase in tangible assets of approximately 278 thousand Euros and the

entry of the relative fiscal effect of approximately 102 thousand Euros. In the profit and loss account 2005 the effect of the changeover produced an improvement of the result of approximately 23 thousand Euros, net of fiscal effects on account of the lack of amortization of the lands.

Inventories (IAS2)
The El.En. SpA has chosen to use the weighted average cost rather than the LIFO criteria used before the changeover to IAS. During transition and the following year, the weighted average cost was greater by 254 thousand Euros. The most significant effect of the adjustment was had on the raw materials. The fiscal effect was about 95 thousand Euros.

3. Treasury Stock (IAS32)
According to the Italian accounting principles, treasury stock had to be entered among the assets, and a special fixed deposit fund had to be constituted within the shareholders' equity; according to the IAS/IFRS these shares are entered into accounts reducing the share holders' equity. The diversity in accounting procedures, on January 1st 2005, determined a reduction in the shareholders' equity equivalent to the purchase price of the treasury stock owned at that time by El.En.. During that year, the company sold off all of its treasury stock and realized a capital gains. This operation caused two different effects:

- in the profit and loss account, the capital gains entered in compliance with the Italian principles (313 thousand Euros) was not entered, as per the IAS principles. In fact, according to the rules established by the IFRS 2, and any capital gains or losses generated by the sale of treasury stock are entered directly in the equity. The fiscal effect (about 103 thousand Euros) also follows the same classification and does not appear in the profit and loss account.
- - in the shareholders' equity on December 31st 2005 no differences are shown, since the company does not own treasury stock and the effects of the IAS entries on the shareholders' equity re-established the value of the IAS shareholders' equity as equal to the ITA GAAP shareholders' equity.

The chart below shows the effects of the treasury stock owned by El.En. SpA on the shareholders' equity and the profit and loss account for 2005.

€/000			IAS GAAP		ITA GAAP	
			Stockholders' equity	P&L.	Stockholders' equity	P&L.
Amount of own shares	256	1.01.05	(256)	-	-	-
Own shares sold	256	feb-05	256	-	-	-
Capital gain	313	feb-05	313	-	-	313
Income taxes on capital gain	103	feb-05	(103)	-	-	(103)
		Total	210	-	-	210
		Impact on shareholders' equity on Dec.31st , 2005	210		210	

4. Benefits to employees – Severance Indemnity (IAS 19)
The institution of severance pay indemnity is included in the category of benefit plans subject to measurement of an actuarial nature (mortality, foreseeable wage variations, etc.) expressing the current value of the benefit to be paid at the end of the employment contract which employees have matured at the date of the financial statements. The impact of the transition produced in the FTA an effect of 41 thousand Euros (net of fiscal effects) . This effect, which was slightly lower in the balance sheet on December 31st 2005, as a consequence produced an improvement in the profit and loss account of 2005 for an amount of approx. 9 thousand Euros.

5. Stock Option (IFRS2)
The fair value of the options assigned which will probably have matured during the *Vesting Period* will be divided *pro-rata temporis* (distributed over time) from the financial period in which it was assigned until the period of maturity. In 2005 therefore the cost pertaining to that financial period was established at 317 thousand Euros.

6) Equity Investments(IAS 27)
The differences which emerged during transition are related to two of the companies in which we hold equities, as described above. On the basis of the evaluation made during the transition, the impairment test of the subsidiary Deka LMS showed a drop in value which was considered "not lasting" according to the preceding accounting principles. The adjustment of the cost value makes it possible to align the value of the equity with the contribution of the same to the

consolidated IFRS/IAS balance sheet. In the FTA the impact of the depreciation of Deka LMS for that year was approx. 107 thousand Euros.
During the financial year 2005 the company held the opinion that the depreciation, even for the individual balance sheet drawn up according to the Italian principles, was going to be long lasting, and depreciated the equity for a total amount of 664 thousand Euros. Since, for IAS purposes, part of the depreciation had already been entered the FTA, the impact of the depreciation for that year was less than that entered according to the Italian accounting principles.
The most significant impact on the profit and loss account is represented by the entering into accounts of the sale of the equities in Cynosure, entered according to the LIFO criteria in the statements drawn up in compliance with the Italian accounting principles. Since this particular criteria is not allowed by the IAS principles, the adjustment of the value produced a decrease in the equity of approx. 1 million Euros, which corresponds to the lower capital gains that the company entered into accounts according to the IAS/IFRS. The chart below shows a summary of the impact of the adjustments on both the shareholders' equity and the profit and loss account.

		ITA GAAP	IAS GAAP	Impact on Shareholders' equity	Impact on P&L
01-gen-05	Equity investment in Deka LMS	1.033	926	(107)	-
2005	Devaluation of equity investment in Deka LMS	(664)	(557)	-	107
2005	Capital gain on disposal of equity investment in Cynosure	7.544	6.544	(1.000)	(1.000)