El.En.

Italy / Industrial Engineering

Company report

Investment Research

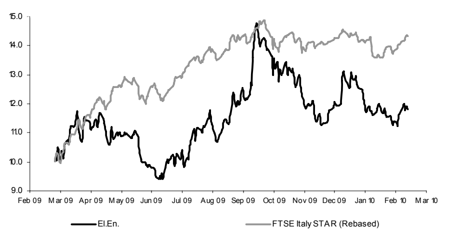
15 March 2010

Buy	
Recommendation unchanged	
Share price: EUR	**11.81**
closing price as of 12/03/2010	
Target price: EUR	**15.50**
vs Target Price: EUR	**15.70**
Reuters/Bloomberg	ELEN.MI/ELN IM

Daily avg. no. trad. sh. 12 mth	8,367
Daily avg. trad. vol. 12 mth (m)	0.10
Price high 12 mth (EUR)	14.77
Price low 12 mth (EUR)	9.41
Abs. perf. 1 mth	-0.7%
Abs. perf. 3 mth	3.6%
Abs. perf. 12 mth	18.6%

Market capitalisation (EURm)	57
Current N° of shares (m)	5
Free float	47%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	150	157	173
EBITDA (m)	(4)	7	15
EBITDA margin	*nm*	*4.6%*	*8.4%*
EBIT (m)	(13)	(2)	5
EBIT margin	*nm*	*nm*	*3.0%*
Net Profit (adj.)(m)	0	(1)	3
ROCE	-8.0%	-1.1%	3.0%
Net debt/(cash) (m)	(69)	(40)	(40)
Net Debt Equity	*-0.4*	*-0.2*	*-0.2*
Net Debt/EBITDA	18.0	-5.5	-2.7
Int. cover(EBITDA/Fin.int)	14.1	(31.0)	(48.4)
EV/Sales	0.4	0.6	0.5
EV/EBITDA	nm	12.6	6.3
EV/EBITDA (adj.)	nm	12.6	6.3
EV/EBIT	nm	nm	17.7
P/E (adj.)	nm	nm	21.1
P/BV	0.5	0.6	0.6
OpFCF yield	*16.1%*	*3.8%*	*15.6%*
Dividend yield	*0.0%*	*0.3%*	*0.4%*
EPS (adj.)	(0.93)	(0.13)	0.56
BVPS	23.29	18.68	19.21
DPS	0.00	0.04	0.04



Source: Factset

Shareholders: Majority shareholders 53%;

For company description please see summary table footnote

Focus on R&D while waiting for a stable recovery

The aesthetic industry suffered from the effects of the economic downturn in 2009 while the first few months of 2010 are characterised by uncertainty and poor visibility on a stable recovery owing to the low general willingness to grant loans to enterprises and practitioners. However, the management has decided to maintain R&D expenses because even in a crisis investments in innovation are essential to maintaining leadership. In fact, the management made several investments in 2009, all of which should start to give few returns in 2010 (such as: the re-launch of the dentistry division and the launch of the distribution subsidiary for some medical and surgical devices under the brand DEKA in the USA; the establishment of an Italian subsidiary to directly control the distribution and the launch of several innovative products in the last quarter of 2009 and in the first few months of 2010).

- ✓ **FY 09 results -** *El.En group's FY 09 consolidate results*: FY 09 sales were down by 32.2% Y/Y; this negative trend was due to the difficult scenario in the group's reference sectors. In order to face the sales drop, the group took some actions to reduce the operative costs; however, the effects of the actions did not manage to reduce fixed costs enough to offset the decrease in sold volumes; furthermore, the group's margins will be negatively impacted by the valuation allowance against deferred tax assets and the inventory write-downs that pulled down Cynosure's FY 09 results. *El.En group's FY 09 results excluding Cynosure:* though registering a loss, these results came in better than the consolidated results, which were affected by the severe economic downturn in the US, Cynosure's main market. The group registered a smaller decrease in revenues and a smaller impact from fixed costs on revenues, thus limiting the operating loss to EUR -1.4m vs EUR -12.6m reported in the full area of consolidation.
- ✓ **Positive drivers for 2010** - In the light of the still weak scenario, we believe that 2010 will very likely be another transitional period, though the market could realise that the stock is well undervalued , especially in the second part of the year if there are clear signs of a recovery (especially in the USA) and of a stronger willingness to grant loans to aesthetic practitioners. We believe that the positive drivers for 2010 could be: *1)* the aesthetic laser device market is expected to grow by 5% in '10; *2)* the benefits from medical/aesthetic innovative products launched in Q3 09 and in Q1 10; *3)* the expected increase in orders for laser cutting and marking systems in China and in Brazil; *4)* the expected increase in the willingness to grant loans (based on the Outlook 2010 published by ABI last December); *5)* the strong operating leverage, thanks to the actions the management carried out to increase structure efficiency and to lower the operating breakeven point; therefore, the group will show a rapid increase in profitability in the event there is an initial slight sales recovery.
- ✓ **Rating** - We are confirming our **Buy** recommendation: our target price of EUR 15.5/sh. is determined as SoP by taking El.En group (excl. Cynosure) at DCF while Cynosure valuation is an average between the current market value and its DCF valuation. The upside is around 30% on the current share price.

Analyst: **Paola Saglietti** **+39 02 4344 4287** **paola.saglietti@bancaakros.it**

Produced by: Banca Akros Gruppo Bipiemme

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Focus on R&D while waiting for a stable recovery

After a difficult 2009, the laser industry is still characterised by low visibility

The aesthetic industry suffered from the effects of the economic downturn in 2009. Lack of available credit was a strong impediment, as the restrictive lending environment made it difficult for many practitioners to purchase aesthetic capital equipment. Given the low willingness to grant loans to enterprises and practitioners, the first few months of 2010 are characterised by uncertainty and low visibility on a stable recovery.

The management maintains its focus on R&D

In the light of this scenario, the group has been concentrating its efforts in order to:

- reduce operating costs as much as possible;
- internalise several production phases that were previously outsourced in order to saturate the plants' production capacity and to keep down the fixed costs.

However, the management has decided to maintain R&D expenses, because investments in innovation are essential more so in a crisis to maintain leadership. In fact, the management made several investments in 2009, all of which should start to give the first returns in 2010:

- *Dentistry in the USA*: through the establishment of the US subsidiary Deka Laser Technologies Inc., the management aims to turn around the distribution unit of its dental products, which still shows interesting growth rates in the US market;
- *Medical and surgical business in the USA*: through the establishment of Deka Medical Inc. in the USA, the management aims to create an important distribution subsidiary to better penetrate the US market for some medical and surgical devices under the brand DEKA;
- *Aesthetic business in Italy*: following the failure of the Italian distributor, Vanity Line, the management has decided to directly distribute its aesthetic technological systems in Italy through the establishment of a new local subsidiary (Esthelogue);
- *Innovative products launched in the first few months of 2010*: the group has been launching new devices and laser systems for surgical employment in otorhinolaryngology, in gynaecology and in aesthetic medicine. Furthermore, two new complete laser systems have been launched in the aesthetic sector: Cynosure has launched Elite MPX (a workstation that allows the practitioner to perform a complete range of hair removal applications, several treatments of facial and leg veins, of pigmented lesions such as age spots and freckles and photo-aged skin) and Deka has launched Synchro FT (a complete workstation for the treatment of laser dermatology).

Positive drivers for 2010

We believe that the positive drivers for 2010 could be that:

- ***the aesthetic laser device market is expected to grow by 5% in 2010***: based on a market analysis carried out by Global Business International in February, after a very negative 2009 (-40% Y/Y) the aesthetic laser device market is expected to grow by 5% in 2010. We remind investors that FY 09 aesthetic sales weighed 43.4% of the group's total FY 09 sales; therefore, a first light recovery will impact positively on FY 10e revenues;
- ***the expected increase in the willingness to grant loans***: based on the Outlook 2010 published by ABI (Italian Bank Association) last December, Italian banks' willingness to grant loans is expected to increase by 2.6% in 2010 and 3.2% in 2011; although it has not yet been quantified, a similar recovery is expected also in the other main western European countries. This fact should be very positive for aesthetic practitioners; indeed, many of them could start to invest in new devices again, since the decline in the aesthetic treatment demand was not so strong in 2009 despite the crisis. As showed by the increase in the earnings from customer services and assistance recorded by El.En. in 2009 (+3.8% Y/Y), the practitioners and the aesthetic surgeons have continued to meet the demand for aesthetic treatment through the devices acquired in the previous years; nevertheless, since the growth expectations for the aesthetic treatment market remain strong (acc. to Medical Insight Cagr 2006-2011 of 24%), a potential normalisation of the economic scenario in the coming months should entice these operators to start to invest in new technologies again;
- ***a further confirmation that Cynosure is a leader in system laser lipolysis***: in February, CoolTouch, a US competitor of Cynosure, acknowledged it had infringed Cynosure's key laser lipolysis patent (this patent, in fact, covers the laser technology to remove subcutaneous fat and which is a fundamental component of the Smartlipo™ LaserBodySculptingSM Workstation, two main products produced and distributed by Cynosure). *This contributes to confirming the good brand image Cynosure has and, thanks to the strong success of the Smartlipo technology obtained in the past few years, it shows that the company is a leader in system laser lipolysis*;
- ***the benefits from innovative products***: in addition to the positive results expected from the two workstations for skin-tightening launched by Cynosure and Deka in Q3 09, the group could benefit from the launch during the first part of 2010 of innovative CO_2 laser systems for mini-invasive surgical treatment in otorhinolaryngology and in the gynaecology;
- ***the first few potential benefits from the three distribution subsidiaries established in Italy and in the USA last year***: despite the significant results expected in 2011, the three distribution subsidiaries established in Italy and in the USA last year respectively for the re-launch of the aesthetic devices in Italy, the dentistry laser products and the surgical laser systems in the USA could start to give the first few returns in 2010;
- ***the industrial sector – expected increase in orders for laser systems for cutting and marking in China and in Brazil***: last year the management invested in order to further consolidate the plants in China and in Brazil, where the group was already present with good distribution networks. This strategic action was carried out because of the expectations for strong growth in these emerging area as of 2010;
- ***the strong operating leverage***: despite of the continuous high R&D expenses, the management, has significantly reduced the operating costs, increased structure efficiency and considerably lowered the operating breakeven point. Even slight sales recovery can therefore boost profitability.

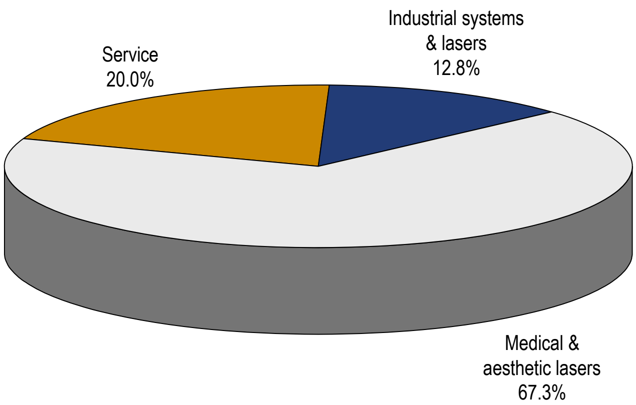
FY 09 results

FY 09 consolidated results

FY 09 consolidated revenues amounted to EUR 150.4m, down by 32.2% YoY; this negative annual trend was affected by the global economic downturn, which has directly struck all the group's main markets.

This decrease is due to the 38.5% drop in the sales of aesthetic/medic laser systems and the 31.9% reduction in Industrial laser systems; while low positive growth was registered in revenues from the sale of technical services, spare parts and consumables, up only 3.8%, thus proving that end users have been intensively utilizing the group's systems because the demand for medical/aesthetic treatment has remained strong despite the crisis. Therefore, this trend shows that the decrease in demand for the group's systems is being hit by *uncertainty, and this is discouraging potential customers from making new investments. Furthermore, the poor credit market conditions are inhibiting many customers who had decided to buy, but who cannot access financial support*.

EL.EN. GROUP: FY 09 Sales breakdown by sector

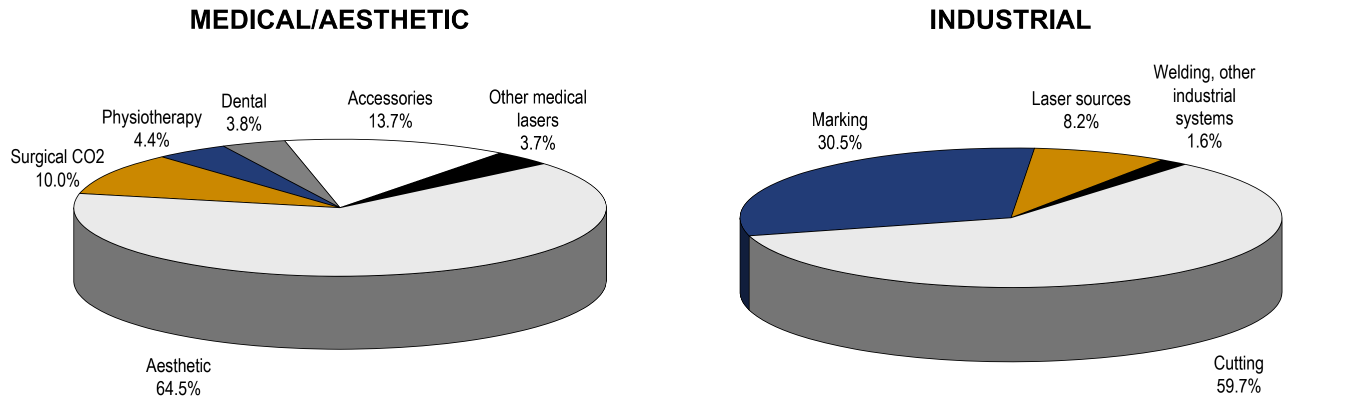


Source: Company Data

In the aesthetic/medic division, the dental and aesthetic sectors were the hardest hit by the t crisis, while the CO2 segment - the applications for which are closely related to aesthetic applications, the therapy segment which has always shown growth in the last few years, and the residual sector which includes solid-state laser surgery applications, an area which is less vulnerable to the market variations - registered a positive growth.

The effects of the crisis are evident in the industrial sector, too, as shown by the drop in sales volume, which was over 30%. The laser source segment showed a considerable reduction due not only to the general crisis, but also to the failure to confirm an important order in 2008. The substantial drop registered in the marking segment also had an impact on the sales both for working systems for large surfaces and for small surfaces. Instead, the decrease in sales volume for the other sectors was not so drastic, in particular, the cutting segment benefited from the good production and sales rates achieved by the Chinese and Brazilian branches.

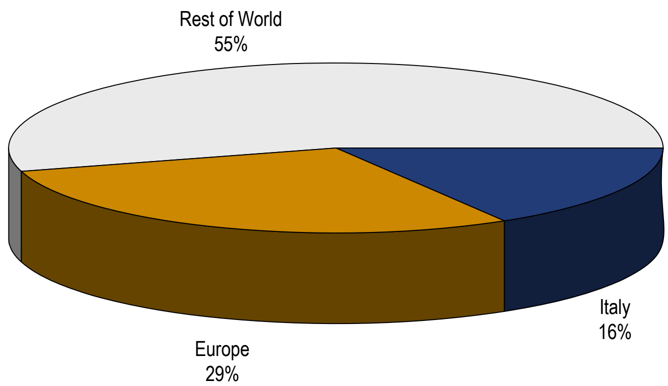
EL.EN. GROUP: FY09 sales breakdown of two divisions



Source: Company Data

From a geographical point of view, the Italian market best resisted the impact of the financial crisis and registered numbers which were relatively better than in Europe and, in particular, in North America.

EL.EN. GROUP: FY 09 sales breakdown by geographical area



Source: Company Data

In order to face the sales drop, the group carried out some actions that were aimed at reducing the operative costs. However, the actions did not manage to reduce the fixed costs enough to offset the decrease in sold volumes; furthermore, the group's margins will be negatively impacted by the valuation allowance against deferred tax assets and the inventory write-downs that pulled down Cynosure's FY 09 results. Therefore, FY 09 EBITDA was negative for EUR 3.8m with a -2.5% impact on revenues, compared to FY 08 EBITDA which was positive for EUR 28.8m. FY 09 EBIT was negative for EUR 12.6m, that is -8.4% of revenues, as opposed to the positive EUR 20.6m in the same period of 2008.

EL.EN. GROUP: FY 09 consolidate results (EUR m)

	FY 08a	FY 09a	% Chg	Akros FY 09e	vs Estimates
Sales	221.7	150.4	-32.2%	146.2	+2.9%
EBITDA	28.8	(3.8)	n.m.	-	-
% margin	13.0%	n.m.		-	
EBIT	20.6	(12.6)	n.m.	(13.1)	n.m.
% margin	9.3%	n.m.		n.m.	
Net Debt (Cash)	(64.7)	(68.8)		-	

Source: Company data and BANCA AKROS estimates

▪ Cynosure's FY 09 results

The extraordinary growth recorded in the previous few years was halted in fourth quarter 2008 by the impact of the global financial crisis; following the strong negative trend in the aesthetic laser industry, in particular in the US, FY 09 revenues recorded a 47.9% drop. As shown in the following table, the sales trend impacted negatively on FY 09 profitability.

CYNOSURE: FY 09 results (USD m)

	FY 08a	FY 09a	%Chg
Sales	139.7	72.8	-47.9%
EBIT	12.5	(20.3)	n.m.
% margin	9.0%	n.m.	
Net income (loss)	10.2	(22.6)	n.m.
% margin	7.3%	n.m.	

Source: Company data *Data in US Gaap*

▪ El.En. FY 09 group results excluding Cynosure

Considering the importance of Cynosure's results in the group's results and the substantial stake held in the company by third parties (the controlling share held by El.En. SpA as of December 31st 2009 was 23.08%), we have analysed the results of El.En. group in FY 09 excluding Cynosure.

Though registering a loss, FY 09 consolidated results excluding Cynosure were better than the full consolidate results, which were affected by the severe economic downturn in the US, Cynosure's main market. The group registered a smaller decrease in revenues and a smaller impact from fixed costs on revenues, thus limiting the loss from operations to 1.4% on revenues compared to the 8.4% reported in the full area of consolidation.

However, it is important to highlight that, thanks to the management's efforts to increase structure efficiency, the group, excluding Cynosure, recorded positive Q4 EBIT for the first time in the year; in our opinion, this is the sign that the management has sufficiently reduced operating costs to reach the operating breakeven point, even in the event there is a slight reduction in sales.

EL.EN. GROUP excluding CYNOSURE: FY 09 results (EUR m)

	FY 08a	FY 09a	%Chg
Sales	140.0	103	-26.4%
EBITDA	18.5	2.5	-86.4%
% margin	13.2%	2.4%	
EBIT	13.8	(1.4)	n.m.
% margin	9.9%	n.m.	

Source: Company data

FY 10 Outlook

Cynosure

As regards the 2010 business outlook, Mr. Davin, CEO and Chairman of Cynosure, said: ”We believe the lending climate will gradually improve in the coming quarters, and we are optimistic that as economic conditions recover the underlying demand among practitioners and consumers will support a return to top-line growth […].*Our focus for the year ahead will be on returning to growth* […]. *In 2010, we are committed to lowering our annual operating expenses by another $5 million to $7 million from 2009*, a goal we believe we can attain without losing strength in our core competencies”.

Furthermore, although the value obtained by the positive settlement of the CoolTouch Patent Litigation is not so significant on the group’s total revenues, we believe that it will have positive effects on FY 10 results thanks to the one-off receipts (CoolTouch will make payments representing 9% royalty on sales of CoolLipo made prior to the agreement and a portion of Cynosure’s legal expenses) and further positive benefits in the coming years thanks to the future royalties (CoolTouch will have to pay a royalty of 10% of future net sales for any licensed product sold strictly for lipolysis, and 7.5% of future net sales for any licensed product sold for lipolysis and at least one other aesthetic procedure). Furthermore, Cynosure will not pay further legal costs with a consequent cost saving around USD 2m in 2010.

El.En. group excluding Cynosure

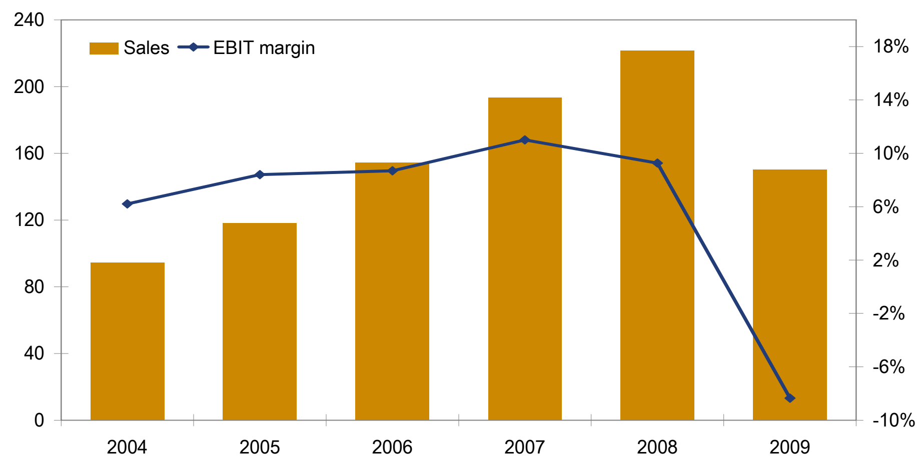
As regards FY 10 outlook on to the consolidated financials, excluding Cynosure, since the situation on the group’s reference markets is still stagnant and has not yet shown any signs of a stable turn-around, in the FY 09 result press release the management announced: “As far as the consolidated statement with the exclusion of Cynosure is concerned, the phase of market instability is such that we cannot make reliable predictions concerning the evolution of the revenue and sales volume, and consequently *for 2010 our objective is simply to return to a condition of profitability thanks to a slight increase in sales volume and an effective control of costs*. While focusing on containing the overhead costs, the company will continue to invest in research and development, which are fundamental for the innovation and success in competition on the markets”.

Cash flow generation

The good profitability recorded in the past few years (consolidated EBIT margin rose from 6.2% in 2004 to 9.3% in 2008) has translated into good cash flow generation.

This steep trend stopped in 2009. In fact, since the sales drop was not offset by an equal cost reduction, because of the weight of the fixed costs on the group's total costs, El.En. group burned cash. Although FY 09 NFP amounted to EUR 69m, it needs to be highlighted that the majority of this amount is held by the parent company and by Cynosure Inc.: *NFP December 31st 2009* compared to December 31st 2008 *benefited from the reclassification carried out by Cynosure, which became a "financial activities available for sale" for a total of USD 18m* (about USD 21m on December 31st 2008) in Auction Rate Securities, stocks which up until the end of last year were entered as tangible assets; *net of this reclassification, net FY 09 NFP would have been less by about EUR 12m* (D/E was -0.4x in 2009).

EL:EN: GROUP: profitability trend 2004-2009 (EUR m)



Source: Banca Akros on Company data

In spite of the current fall in group sales and profitability, owing to the ongoing global economic recession and the continued restrictive credit environment in the aesthetic laser industry, *we believe that the group will rapidly regain its historical margin and cash flow generation as soon as the recovery begins in 2010*.

EL.EN. GROUP: Cash flow model (EUR m)

	2009	2010e	2011e	2012e
Net Profit (reported) + Minorities	-12.5	-1.0	3.5	7.1
Non cash items	8.8	9.1	9.4	9.8
Cash Flow	-3.7	8.1	12.9	16.9
Change in Net Working Capital	8.4	-5.9	-4.1	-6.9
Capex	-10.8	-9.6	-9.4	-9.2
Operating Free Cash Flow (OpFCF)	-6.1	-7.4	-0.5	0.7
Net Financial Investment	0.0	0.0	0.0	0.0
Dividends	1.4	0.0	0.2	0.2
Others (incl.Capital Increase)	1.1	-17.0	0.0	0.1
Free Cash Flow	-3.5	-24.4	-0.4	1.0
Net Debt (Cash)	-68.8	-44.5	-44.1	-45.1
Debt / Equity	-0.4x	-0.3x	-0.3x	-0.3x
Debt / EBITDA	n.m.	-6.1x	-3.0x	-2.2x

Source: BANCA AKROS estimates

2009e - 2011e estimates

Based on the above FY 10 outlook and on the expected first signs of an economic recovery in 2010, we forecast:

FY 10e – *Cynosure*: in the light of the market analysis realised by Global Business International, which forecasts that the aesthetic laser device market will grow by 5% in 2010, and based on the additional revenues deriving from the positive settlement of the CoolTouch Patent Litigation, we estimate Cynosure will achieve single digit sales growth, but will not yet reach the operating breakeven point.

El.En. group excluding Cynosure: the group, with Q4 09 sales above EUR 30m, reached a positive Q4 09EBIT of EUR 0.6m thanks to the management's actions to improve structure efficiency; this confirmed the management's indications that El.En. group, excluding Cynosure, is capable of reaching the operating breakeven point with quarterly revenues around EUR 20-22m. Therefore, based on the above mentioned 2010 outlook, we believe that the management should be able to realize FY 10 sales of above EUR 100m and, consequently, t reach positive operating results in 2010.

FY 11-12e – assuming 2010 will be a year of transition, we estimate there will be a clear sales recovery in 2011 and further growth in 2012. Thanks to the achieved structural efficiencies and increase in sales volumes, we estimate that El.En. group will progressively recover profitability as of 2011, both for Cynosure and for the other El.En. divisions.

The following tables are summaries of our forecast.

CYNOSURE: 2010-2012 forecasts

PROFIT & LOSS (USD m)	2009	2010e	%Chg	2011e	%Chg	2012e	%Chg
Sales	72.5	76.9	+6.1%	85.8	11.5%	97.8	14.0%
EBITDA	(11.2)	2.7	nm	8.1	194.5%	11.2	39.1%
EBITDA margin	nm	3.6%		9.4%		11.5%	
Depreciation & amortization	(6.7)	(7.0)		(7.1)		(7.4)	
EBIT	(17.9)	(4.3)	-76.2%	1.0	nm	3.8	297.5%
EBIT margin	nm	nm		1.1%		3.9%	

Source: BANCA AKROS estimates

PROFIT & LOSS (EUR m)	2009	2010e	%Chg	2011e	%Chg	2012e	%Chg
Sales	52.0	55.7	7.2%	62.2	11.5%	70.9	14.0%
EBITDA	(8.0)	2.0	nm	5.9	194.5%	8.1	39.1%
EBITDA margin	nm	3.6%		9.4%		11.5%	
Depreciation & amortization	(4.8)	(5.1)		(5.2)		(5.4)	
EBIT	(12.9)	(3.1)	-76.2%	0.7	nm	2.8	297.5%
EBIT margin	nm	nm		1.1%		3.9%	

Source: BANCA AKROS estimates

EL.EN. (excluding Cynosure): 2010-2012 forecasts

PROFIT & LOSS (EUR m)	2009	2010e	%Chg	2011e	%Chg	2012e	%Chg
Sales	103.0	107.9	4.7%	117.6	9.0%	128.6	9.4%
EBITDA	2.5	5.3	109.3%	8.8	68.5%	12.5	41.4%
EBITDA margin	2.4%	4.9%		7.5%		9.7%	
Depreciation & amortization	(3.9)	(4.0)		(4.2)		(4.4)	
EBIT	(1.4)	1.2	nm	4.6	271.1%	8.1	75.4%
EBIT margin	nm	1.2%		3.9%		6.3%	

Source: BANCA AKROS estimates

EL.EN. GROUP: 2010-2012 forecasts

PROFIT & LOSS (EUR m)	2009	2010e	%Chg	2011e	%Chg	2012e	%Chg
Sales	**150.4**	**157.1**	***4.5%***	**172.5**	***9.9%***	**191.5**	***11.0%***
EBITDA	**(3.8)**	**7.3**	***nm***	**14.5**	***99.3%***	**20.3**	***39.8%***
EBITDA margin	*nm*	*4.64%*		*8.43%*		*10.61%*	
Depreciation & amortization	(8.8)	(9.1)		(9.4)		(9.8)	
EBIT	**(12.6)**	**(1.8)**	***-85.8%***	**5.2**	***nm***	**10.6**	***104.6%***
EBIT margin	*nm*	*nm*		*3.0%*		*5.5%*	
Net financial income(charges)	0.3	0.2		0.3		0.4	
Non Recurrent items	0.0	0.0		0.0		0.0	
Pre-tax profit	**(12.3)**	**(1.6)**	***-87.4%***	**5.5**	***nm***	**11.0**	***100.7%***
Taxes	4.3	0.5		(1.9)		(3.8)	
Minorities	8.0	0.4		(0.9)		(2.4)	
Net profit	**(4.5)**	**(0.6)**	***nm***	**2.7**	***nm***	**4.7**	***74.6%***

Source: BANCA AKROS estimates

Valuation

Although El.En. holds the controlling stake in Cynosure on account of a clause in the bylaws, which give it the right to appoint the members of the board, El.En. S.p.A. holds only 23.08% of Cynosure. Therefore, we believe that the SoP (Sum-of-the-parts) of the valuations of *Cynosure* and *El.En. group, excluding Cynosure,* is the best evaluation method to highlight the contribution for each part to the group's value.

In the following paragraphs we calculate two separate SOPs:

- **SOP based on DCF models of *Cynosure* and *El.En. group, excluding Cynosure*;**
- **SOP based on *DCF model of El.En. group, excluding Cynosure* and the *current market value of Cynosure*;**

Furthermore, we are also presenting a comparison based on the 2010e P/BV with the main listed players.

SOP

Cynosure

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2010/2012e we assume the estimates given in the previous paragraphs; b) for the period 2013/2014e, we estimate a sales CAGR of 6.0%, (these estimates are in line with the market analysis realised by Global Business International, which forecasts that the global medical aesthetic devices market will reach USD 2.9bn in 2016 with a CAGR of 7%); c) as regards long-term forecasts, we assume a stable EBIT margin of 6.0% (higher than the current level, because we believe that, given the strong actions the company took to increase structure efficiency, the growing reference sector and some innovative products launched on the market, it is a sustainable level);

- A WACC calculated by assuming: a) a risk-free rate of 4.0% and a market risk premium of 3.5%; b) a target capital structure with debt covering 0.0% of the net capital employed, reflecting the group's unleveraged financial structure, due to the strong cash generation; c) a beta of 1.30 to take into account the still low visibility on the business trend and on sales recovery in the coming years;
- A terminal growth rate of 1.5%.

Our assumptions are shown in the following tables.

CYNOSURE: WACC calculation

Risk free rate	*4.00%*
Beta	1.30
Mkt risk premium	*3.50%*
Cost of Equity	***8.55%***
% equity	*100.0%*
Cost of Debt (gross)	*4.50%*
Tax rate	*35.00%*
Cost of Debt (net)	*2.93%*
% debt	*0.0%*
WACC	***8.55%***

Source: BANCA AKROS estimates

CYNOSURE: Free Cash Flow projection (EUR m)

	2010e	2011e	2012e	2013e	2014e
EBITA	-3.1	0.7	2.8	4.5	4.7
Taxes	-0.7	-0.2	-0.9	-1.5	-1.5
NOPLAT	**-3.8**	**0.5**	**1.9**	**3.0**	**3.1**
Depreciation & other provisions	5.1	5.2	5.4	5.8	5.9
Operating Cash Flow	**1.3**	**5.6**	**7.2**	**8.8**	**9.1**
Capex	-4.1	-4.0	-4.0	-4.0	-4.0
Change in Net Working Capital	2.6	1.9	2.6	1.9	0.7
Free Operating Cash Flow (FOCF)	**-0.2**	**3.5**	**5.8**	**6.7**	**5.8**

Source: BANCA AKROS estimates

CYNOSURE: DCF analysis

Perpetual Growth Rate	*1.50%*
WACC	*8.55%*
Terminal Value	**63.5**
Discounting Rate of Terminal Value	0.61
Discounted Terminal Value	38.8
Cumulated DFOCF	**16.1**
Financial Assets as of 31/12/09 (EUR m)	3.6
Enterprise Value (EUR m)	**58.5**
Net Financial Cash as of 31/12/09 (EUR m)	61.3
Equity Value (EUR m)	**119.8**
Equity Value (USD m)	**164.7**

Source: BANCA AKROS estimates

El.En. group (excluding Cynosure)

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2010/2012e we took the estimates given in the previous paragraphs; b) for the period 2013/2014e, we estimate a sales CAGR of 5.0%, (we remind investors that the laser industry division is characterised by strong cyclicality and shows lower growth rates in the medium term compared to the laser medical division which, on the contrary, is driven by the high expected growth rates for the global market of aesthetic products); c) in terms of long-term forecasts, we assume a stable EBIT margin of 6.5% (higher than the current level because we believe that, given the strong actions aimed at increasing structure efficiency, the growing reference sector, the strong R&D investments and the some innovative products launched on the market, it is a sustainable level);
- A WACC calculated by assuming: a) a risk-free rate of 4.5% and a market risk premium of 4.0%; b) a target capital structure with debt covering 0.0% of net capital employed, reflecting the group's unleveraged financial structure due to the strong cash generation; c) a beta at 1.30 to take into account the reduced visibility on the business trend and the higher risks due to the current crisis;
- A terminal growth rate of 1.5%.

EL.EN. GROUP (excluding Cynosure): WACC calculation

Risk free rate	*4.50%*
Beta	1.30
Mkt risk premium	*4.00%*
Cost of Equity	***9.70%***
% equity	*100.0%*
Cost of Debt (gross)	*4.50%*
Tax rate	*32.00%*
Cost of Debt (net)	***3.06%***
% debt	*0.0%*
WACC	***9.70%***

Source: BANCA AKROS estimates

EL.EN. GROUP (excluding Cynosure): Free Cash Flow projection (EUR m)

	2010e	2011e	2012e	2013e	2014e
EBITA	1.2	4.6	8.1	9.0	9.3
Taxes	-0.5	-1.7	-3.0	-3.3	-3.4
NOPLAT	**0.8**	**2.9**	**5.1**	**5.7**	**5.8**
Depreciation & other provisions	4.0	4.2	4.4	4.5	4.7
Operating Cash Flow	**4.8**	**7.1**	**9.5**	**10.2**	**10.5**
Capex	-5.5	-5.4	-5.2	-5.0	-5.0
Change in Net Working Capital	1.5	-1.8	-2.0	-1.7	-1.1
Free Operating Cash Flow (FOCF)	**0.8**	**0.0**	**2.3**	**3.5**	**4.4**

Source: BANCA AKROS estimates

EL.EN. GROUP (excluding Cynosure): DCF analysis

Perpetual Growth Rate	*1.50%*
WACC	*9.70%*
Terminal Value	**57.2**
Discounting Rate of Terminal Value	0.57
Discounted Terminal Value	32.8
Cumulated DFOCF	**7.7**
Financial Assets as of 31/12/09	0.0
Enterprise Value (EUR m)	**40.5**
Net Financial Cash as of 31/12/09 (EUR m)	8.8
Equity Value (EUR m)	**49.3**

Source: BANCA AKROS estimates

EL.EN. GROUP: SOP based on DCF models

	Stake	Reference Method	Equity Value (EUR m)
El.En. group (*excluding Cynosure*)	*100.00%*	DCF model	49.30
Cynosure	*23.08%*	DCF model	119.77
Group Equity Value			**76.94**
Value per share (EUR)			**15.95**
Price as of 12/03/10 (EUR)			11.81
Upside (downside)			*35.1%*

Source: BANCA AKROS estimates

Based on our SOP valuation, as explained in the above table, and although we have used conservative parameters in our DCF models given the currently low visibility on the business trend, we have obtained a Fair Value of EUR 15.95 per share, thus an upside of above 35.0% on the current share price.

EL.EN. GROUP: SOP based on DCF model of El.En. group excluding Cynosure and the current market value of Cynosure

	Stake	Reference Method	Equity Value (EUR m)
El.En. group (*excluding Cynosure*)	*100.00%*	DCF model	49.30
Cynosure (price as of 012/03/10 – EUR)	*23.08%*	Mkt value	23.52
Group Equity Value			**72.82**
Value per share (EUR)			**15.1**
Price as of 12/03/10 (EUR)			11.81
Upside (downside)			*27.9%*

Source: BANCA AKROS estimates

Based on our SOP valuation, as explained in the above table, we have obtained a value of EUR 15.10 per share, thus an upside over 25.0% on the current share price.

Multiple comparison

EL.EN. GROUP: peer multiples (as at 12 March 2010)

	10e P/BV
Medical / aesthetic laser sector peers	
SYNERON MEDICAL	1.3x
PALOMAR	1.3X
CUTERA	1.5x
BIOLASE TECHNOLOGY	2.6X
SOLTA MEDICAL	1.0X
Sector average	*1.5x*
Industrial laser sector peers	
ROFIN SINAR TECHNOLOGIES	1.5x
GSI TECHNOLOGY	1.2x
PRIMA INDUSTRIE	0.8x
Sector average	*1.2x*
TOTAL AVERAGE	**1.4x**
EL.EN. GROUP	**0.6x**

Source: Facset data and BANCA AKROS estimates

As shown in the above table, *El.En. group is trading at highly undemanding multiples*. **This confirms the strong undervaluation highlighted by our SOP valuation**.

We remind investors that this strong discount compared to the peers' average is completely unjustified because:

- unlike most players, El.En. group is present in almost every segment with a wide product range and good market positioning;
- El.En. is one of few players that uses its laser sources in its applications;
- unlike most players, especially in the industrial laser sector, El.En. shows a net cash position.

Conclusion

RECOMMENDATION AND TARGET PRICE

Based on the foregoing consideration, we are confirming our **Buy** recommendation. **Our target price of EUR 15.50 per share** is determined as SoP by taking El.En group (excluding Cynosure) at DCF, while Cynosure valuation is an average between the current market value and its DCF valuation. The upside is around 30% on the current share price.

The current strong undervaluation of the stock is clear considering the growth potential and the fast improvement in the group's profitability in the event there is an economic recovery.

TRIGGERS

We believe that El.En. group is currently an attractive investment case.

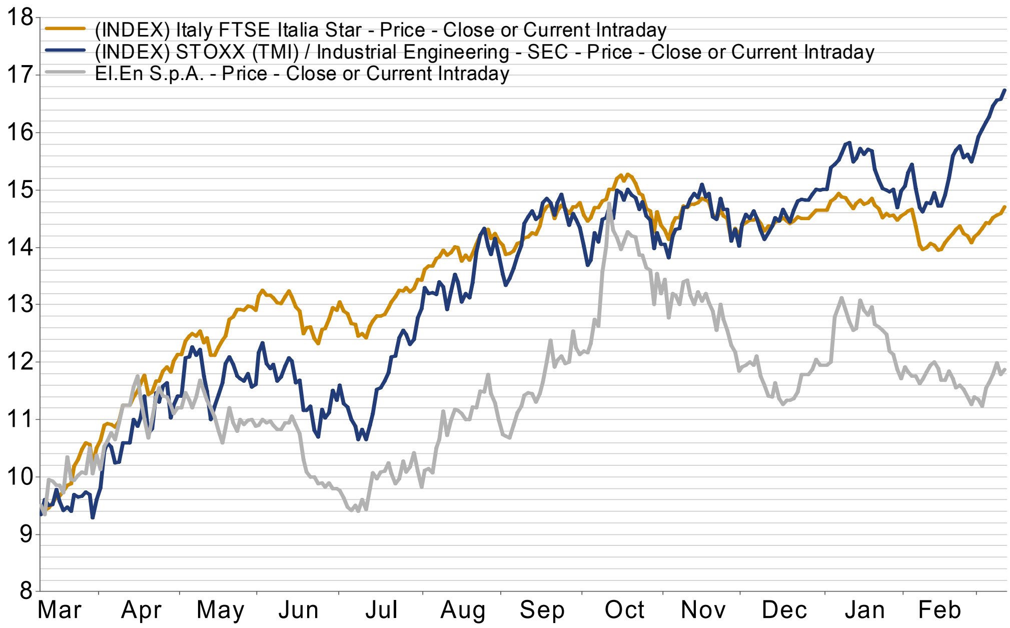
In our opinion, and at the current price, the stock certainly does not incorporate any important drivers for the coming future, namely:

- the ageing population in the most industrialised countries combined with the increased personal income of "baby boomer";
- media and cultural influences: the current cultural and aesthetic canons push people to focus more and more on "looking after their bodies" and on "caring about their look". The proof of this is that the demand for aesthetic treatments is not elastic in the economic crisis;
- the possibility to develop/enter new laser market niches thanks to the launch of new technologies/applications;
- the strong growth potential and the fast improvement in the group's profitability in case of an economic recovery.

STRONG UNDERVALUATION

The stock has underperformed the market (the stock underperformed the FTSE Italia STAR Index by 33.6% Y/Y); therefore, we believe that given the very good fundamentals and the potential boost due to an economic recovery, the group has a very strong recovery potential in the coming months.

EL.EN. GROUP: 1 year price trend in EUR compared to Dow Jones Industrial Engineering and FTSE Italy STAR



Source: FactSet

Upcoming Corporate Events Calendar

Date	Event Type	Description	Period
17/03/10	Analyst Meeting	Analyst meeting {Star Conference}	
31/03/10	Results	Full year 2009 Results	2009
29/04/10	AGM	Full year 2009 AGM - 1st call	2009
30/04/10	AGM	Full year 2009 AGM - 2nd call {if required}	2009
14/05/10	Results	Q12010 Results	2010Q1

ESN Table Source

El.En.: Summary tables

PROFIT & LOSS (EURm)	2007	2008	2009	2010e	2011e	2012e
Sales	**193**	**222**	**150**	**157**	**173**	**191**
Cost of Sales & Operating Costs	167	193	154	150	158	171
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**26.3**	**28.8**	**-3.8**	**7.3**	**14.5**	**20.3**
EBITDA (adj.)*	**26.3**	**28.8**	**-3.8**	**7.3**	**14.5**	**20.3**
Depreciation	-5.0	-8.3	-8.8	-9.1	-9.4	-9.8
EBITA	**21.3**	**20.6**	**-12.6**	**-1.8**	**5.2**	**10.6**
EBITA (adj)*	**21.3**	**20.6**	**-12.6**	**-1.8**	**5.2**	**10.6**
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**21.3**	**20.6**	**-12.6**	**-1.8**	**5.2**	**10.6**
EBIT (adj.)*	**21.3**	**20.6**	**-12.6**	**-1.8**	**5.2**	**10.6**
Net Financial Interest	0.6	1.5	0.3	0.2	0.3	0.4
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	13.4	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	**35.4**	**22.1**	**-12.3**	**-1.6**	**5.5**	**11.0**
Tax	-10.5	-7.9	4.4	0.5	-1.9	-3.8
Tax rate	*29.5%*	*35.6%*	*35.6%*	*35.0%*	*35.0%*	*35.0%*
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-7.3	-5.9	8.0	0.4	-0.9	-2.4
Net Profit (reported)	**18**	**8**	**0**	**-1**	**3**	**5**
Net Profit (adj.)	**8**	**8**	**0**	**-1**	**3**	**5**

CASH FLOW (EURm)	2007	2008	2009	2010e	2011e	2012e
Cash Flow from Operations before change in NWC	30.0	22.5	0.8	8.1	12.9	16.9
Change in Net Working Capital	-3.9	-12.1	8.4	-5.9	-4.1	-6.9
Cash Flow from Operations	**26.1**	**10.4**	**9.3**	**2.2**	**8.9**	**9.9**
Capex	-9.2	-27.5	-10.8	-9.6	-9.4	-9.2
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**16.9**	**-17.1**	**-1.5**	**-7.4**	**-0.5**	**0.7**
Dividends	1.4	5.3	1.4	0.0	0.2	0.2
Other (incl. Capital Increase & share buy backs)	13.8	-7.8	31.7	-43.1	0.1	0.0
Change in Net Debt	**32**	**-20**	**32**	**-50**	**0**	**1**
NOPLAT	18	13	-8	-1	3	7

BALANCE SHEET & OTHER ITEMS (EURm)	2007	2008	2009	2010e	2011e	2012e
Net Tangible Assets	19.8	26.3	39.1	39.7	39.7	39.1
Net Intangible Assets (incl.Goodwill)	6.6	6.4	6.4	6.4	6.4	6.4
Net Financial Assets & Other	6.4	26.5	26.5	26.5	26.5	26.5
Total Fixed Assets	**32.8**	**59.2**	**72.1**	**72.6**	**72.6**	**72.0**
Net Working Capital	50.3	62.4	54.0	59.9	63.9	70.9
Net Capital Invested	**83.1**	**122**	**126**	**132**	**136**	**143**
Group Shareholders Equity	**163**	**181**	**189**	**166**	**169**	**176**
o/w own Shareholders Equity	*93.6*	*96.7*	*112*	*90.1*	*92.7*	*97.2*
Net Debt	**-87.3**	**-67.9**	**-68.8**	**-40.0**	**-39.7**	**-40.6**
Provisions	2	2	2	2	2	2
Other Net Liabilities or Assets	5	6	4	4	5	5
Net Capital Employed	**83**	**122**	**126**	**132**	**137**	**143**

GROWTH & MARGINS	2007	2008	2009	2010e	2011e	2012e
Sales growth	*25.3%*	*14.6%*	*-32.2%*	*4.5%*	*9.9%*	*11.0%*
EBITDA (adj.)* growth	***179.2%***	***9.4%***	***-chg***	***+chg***	***99.3%***	***39.8%***
EBITA (adj.) growth*	*404.9%*	*-3.5%*	*-chg*	*+chg*	*+chg*	*104.6%*
*EBIT (adj)*growth*	*404.9%*	*-3.5%*	*-chg*	*+chg*	*+chg*	*104.6%*
Net Profit growth	*577.5%*	*1.6%*	*-99.2%*	*-chg*	*+chg*	*74.6%*
EPS adj. growth	***567.7%***	***0.2%***	***-chg***	***+chg***	***+chg***	***74.6%***
DPS adj. growth	*266.7%*	*-72.7%*	*-chg*	*+chg*	*25.0%*	*25.0%*
EBITDA margin	***13.6%***	***13.0%***	***nm***	***4.6%***	***8.4%***	***10.6%***
EBITDA (adj) margin*	*13.6%*	*13.0%*	*nm*	*4.6%*	*8.4%*	*10.6%*
EBITA margin	*11.0%*	*9.3%*	*-8.4%*	*-1.1%*	*3.0%*	*5.5%*
EBITA (adj) margin*	*11.0%*	*9.3%*	*-8.4%*	*-1.1%*	*3.0%*	*5.5%*
EBIT margin	*11.0%*	*9.3%*	*nm*	*nm*	*3.0%*	*5.5%*
EBIT (adj) margin*	*11.0%*	*9.3%*	*nm*	*nm*	*3.0%*	*5.5%*

El.En.: Summary tables

RATIOS	2007	2008	2009	2010e	2011e	2012e
Net Debt/Equity	-0.5	-0.4	-0.4	-0.2	-0.2	-0.2
Net Debt/EBITDA	-3.3	-2.4	18.0	-5.5	-2.7	-2.0
Interest cover (EBITDA/Fin.interest)	nm	nm	14.1	nm	nm	nm
Capex/D&A	183.3%	332.6%	123.3%	105.7%	100.2%	94.2%
Capex/Sales	4.8%	12.4%	7.2%	6.1%	5.4%	4.8%
NWC/Sales	26.0%	28.2%	35.9%	38.1%	37.1%	37.0%
ROE (average)	9.9%	8.7%	0.1%	-0.6%	3.0%	5.0%
ROCE (adj.)	23.1%	13.6%	-8.0%	-1.1%	3.0%	5.7%
WACC	9.1%	10.1%	9.7%	9.7%	9.7%	9.7%
ROCE (adj.)/WACC	2.5	1.3	-0.8	-0.1	0.3	0.6

PER SHARE DATA (EUR)***	2007	2008	2009	2010e	2011e	2012e
Average diluted number of shares	4.8	4.8	4.8	4.8	4.8	4.8
EPS (reported)	3.71	1.73	-0.93	-0.13	0.56	0.98
EPS (adj.)	1.72	1.72	-0.93	-0.13	0.56	0.98
BVPS	19.40	20.04	23.29	18.68	19.21	20.14
DPS	1.10	0.30	0.00	0.04	0.04	0.05

VALUATION	2007	2008	2009	2010e	2011e	2012e
EV/Sales	0.8	0.5	0.4	0.6	0.5	0.5
EV/EBITDA	6.1	4.2	nm	12.6	6.3	4.4
EV/EBITDA (adj.)*	**6.1**	**4.2**	**nm**	**12.6**	**6.3**	**4.4**
EV/EBITA	7.5	5.9	-4.3	-51.4	17.7	8.5
EV/EBITA (adj.)*	**7.5**	**5.9**	**-4.3**	**-51.4**	**17.7**	**8.5**
EV/EBIT	7.5	5.9	nm	nm	17.7	8.5
EV/EBIT (adj.)*	**7.5**	**5.9**	**nm**	**nm**	**17.7**	**8.5**
P/E (adj.)	**15.6**	**8.1**	**nm**	**nm**	**21.1**	**12.1**
P/BV	1.4	0.7	0.5	0.6	0.6	0.6
Total Yield Ratio	-4.1%	-2.2%	0.0%	-0.3%	-0.4%	
EV/CE	2.1	1.3	0.5	0.9	0.8	0.8
OpFCF yield	20.2%	15.5%	16.1%	3.8%	15.6%	17.5%
OpFCF/EV	16.4%	8.5%	17.0%	2.4%	9.7%	11.1%
Payout ratio	29.7%	17.4%	0.0%	-27.7%	7.8%	5.6%
Dividend yield (gross)	4.1%	2.2%	0.0%	0.3%	0.4%	0.5%

EV AND MKT CAP (EURm)	2007	2008	2009	2010e	2011e	2012e
Price** (EUR)	26.8	13.9	12.0	11.8	11.8	11.8
Outstanding number of shares for main stock	4.8	4.8	4.8	4.8	4.8	4.8
Total Market Cap	**129**	**66.9**	**57.7**	**57.0**	**57.0**	**57.0**
Net Debt	**-87.3**	**-67.9**	**-68.8**	**-40.0**	**-39.7**	**-40.6**
o/w Cash & Marketable Securities (-)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
o/w Gross Debt (+)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other EV components	**118**	**123**	**66**	**75**	**74**	**73**
Enterprise Value (EV adj.)	**160**	**122**	**55**	**92**	**91**	**90**

Source: Company, Banca Akros estimates.

Notes
** Where EBITDA (adj.) or EBITA (adj) or EBIT (adj.)= EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income*
***Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years*
****EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.*

Sector: Industrial Engineering/Industrial Machinery

Company Description: EL.EN. is an industrial high-tech group operating in the opto-electronics sector. The company exploits its own technology and multidisciplinary know-how to produce laser sources (gas, liquid, solid-state and semiconductors) and innovative laser systems for medical and industrial applications. El.En. Group, one of the leading operators in Europe and the world in the laser market, designs, manufactures and markets at an international level: medical laser devices used in dermatology, surgery, cosmetics, physiotherapy, dentistry and gynaecology£pv£ industrial laser systems for applications that range from the cutting, marking and welding£pv£ systems for scientific applications and research.

ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

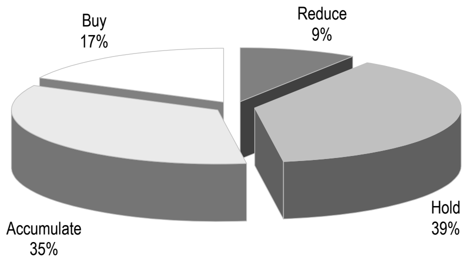
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy**: the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold**: the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce**: the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell**: the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended**: the rating is suspended due to a capital operation (take-over bid, SPO, …) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated**: there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

Banca Akros Ratings Breakdown

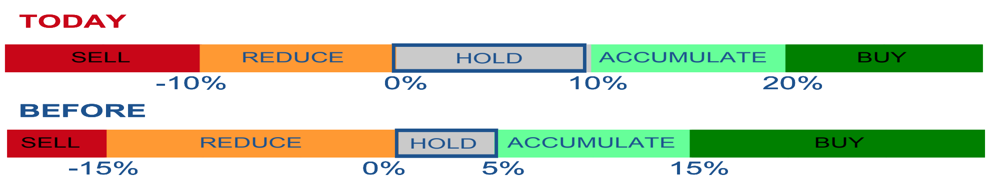


History of ESN Recommendation System

Since 18 October 2004, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

Since 4 August 2008, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



Il presente documento è stato redatto da Paola Saglietti (socio AIAF) che svolge funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso.

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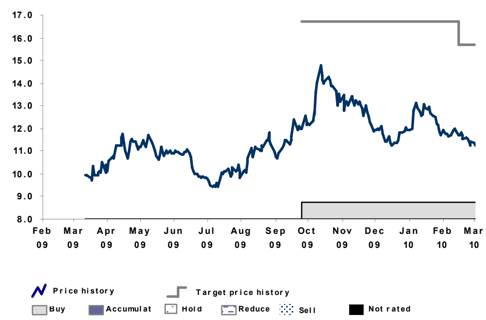
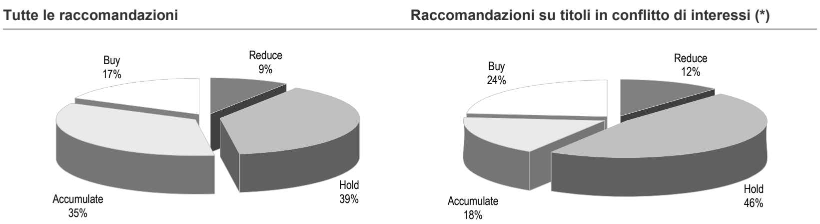
Recommendation history for El.En.

Date	Recommendation	Target price	Price at change date
15-Mar-10	Buy	15.50	11.81
15-Feb-10	Buy	15.70	11.69
25-Sep-09	Buy	16.70	12.00

Source: Factset & ESN, price data adjusted for stock splits.
This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Paola Saglietti (since 28/09/2009)



Percentuale delle raccomandazioni al 31 dicembre 2009



(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 20% del totale degli emittenti oggetto di copertura

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Members of ESN (European Securities Network LLP)

Banca Akros S.p.A.
Viale Eginardo, 29
20149 Milano
Italy
Phone: +39 02 43 444 389
Fax: +39 02 43 444 302

Danske Markets Equities
Holmens Kanal 2-12
DK-1092 Copenhagen K
Denmark
Phone: +45 45 12 00 00
Fax: +45 45 14 91 87

Bank Degroof
Rue de l'Industrie 44
1040 Brussels
Belgium
Phone: +32 2 287 91 16
Fax: +32 2 231 09 04

Equinet AG
Gräfstraße 97
60487 Frankfurt am Main
Germany
Phone:+49 69 – 58997 – 410
Fax:+49 69 – 58997 – 299

Caixa-Banco de Investimento
Rua Barata Salgueiro, 33-5
1269-050 Lisboa
Portugal
Phone: +351 21 389 68 00
Fax: +351 21 389 68 98

Investment Bank of Greece
24B, Kifisias Avenue
151 25 Marousi
Greece
Phone: +30 210 81 73 000
Fax: +30 210 68 96 325

Caja Madrid Bolsa S.V.B.
Serrano, 39
28001 Madrid
Spain
Phone: +34 91 436 7813
Fax: +34 91 577 3770

NCB Stockbrokers Ltd.
3 George Dock,
Dublin 1
Ireland
Phone: +353 1 611 5611
Fax: +353 1 611 5781

CM - CIC Securities
6, avenue de Provence
75441 Paris
Cedex 09
France
Phone: +33 1 4016 2692
Fax: +33 1 4596 7788

SNS Securities N.V.
Nieuwezijds Voorburgwal 162
P.O.Box 235
1000 AE Amsterdam
The Netherlands
Phone: +31 20 550 8500
Fax: +31 20 626 8064

European Securities Network LLP
Registered office c/o Withers LLP
16 Old Bailey - London EC4M 7EG