

El.En. Group

**COMMENTS OF THE MANAGEMENT ON THE
CONSOLIDATED DATA FOR THE QUARTER ENDING
DECEMBER 31st 2006**

(Approved by the Board of Directors of the company on February 14th 2007)

Report for the quarter ending on 31.12.2006

Introduction

This report for the quarter ending December 31st 2006 on the consolidated data of El.En. SpA was drawn up and divulged in compliance with Art. IA 2.16.2 of the Instruction for the Regulations of the Markets (*Istruzioni al Regolamento dei Mercati*) and to Art. 82 of the CONSOB regulations adopted after vote no. 11971 and later modifications. The quarterly data and information provided in this report have not been examined by an auditing firm, as no firm has yet been assigned this task since it is not compulsory.

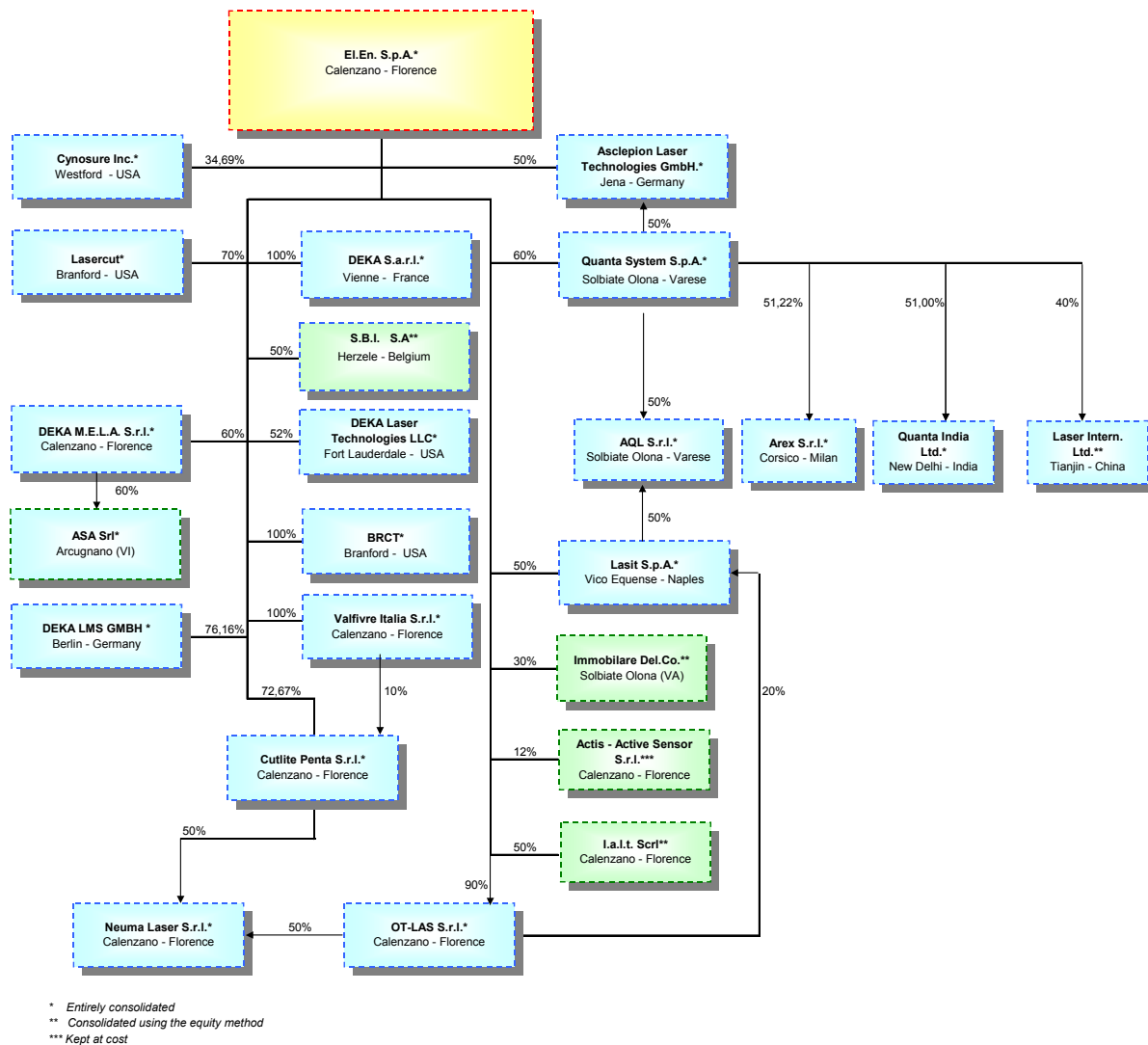
The information which is shown below was organized in conformity with the international accounting principles, IAS/IFRS, which have been obligatory since 2005 for drawing up the consolidated statements of companies which are listed on the regulated stock markets.

The results for the quarter ending December 31st 2006 are shown in comparative form with the corresponding data for the same quarter last year. All of the amounts are expressed in thousands of Euros, unless otherwise stated.

Description of the Group

El.En. SpA controls a group of companies which operate in the field of design, manufacture and distribution of laser sources and systems which are intended for a variety of applications. El.En. SpA itself conducts important operations within the Group, in particular research and development activities, design and manufacture.

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



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

On the 23rd of November 2006, the parent company, El.En. SpA acquired from a third party, for their nominal value, 2% of the capital of the French subsidiary Deka Sarl; as a result of this purchase, the subsidiary is now owned 100%.

On the 13th of December 2006, El.En. SpA also acquired from third partners 1% of the capital of the subsidiary Valfive Italia Srl for an amount of 2 thousand Euros; as a result of this purchase, Valfive Italia Srl is now owned 100%.

On the same day, the 13th of December 2006, the parent company El.En. SpA purchased from Cutlite Penta Srl an equity amounting to 54% of Ot-las Srl, for a total amount of 900 thousand Euros; as a result of this acquisition it now have a 90% equity in the company.

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

Economic and Financial results of the Group

As described in detail in the report for the quarter ending September 30th 2006, the results for the financial year 2006 are profoundly influenced by the agreement signed between the subsidiary Cynosure and their competitor Palomar Technologies Inc. (NASDAQ:PMTI), for the granting of licenses on some patents related to laser devices for hair-removal. This agreement comported an entering into Cynosure's accounts of a non-repeatable cost of 10 million US dollars (at the exchange rate used for the annual profit and loss account, this is equivalent to 7.9 million Euros, about

5,1% of the annual consolidated sales volume) and will also involve payment to Palomar of a royalty on all the hair-removal laser systems sold by Cynosure.

The analysis of the consolidated profit and loss accounts shown below must take into consideration this non-repeatable cost which has been entered among the charges for services and operating costs, and which, as stated, is equivalent to 5.1% of the annual consolidated revenue.

Considering the major impact that the subsidiary Cynosure has on the consolidated results, and the considerable amount of equity held in the company by third parties (the controlling quota owned by El.En. SpA, in fact, is 34,69%), we will complete this report by presenting not only the consolidated data related to the Group, but also the results for the Group excluding Cynosure from the area of consolidation.

When comparing the figures with those of the preceding financial period, it should be recalled that in December of 2005 Cynosure Inc. started to be quoted on the stock market and that as a result of the IPO, the Group obtained a major capital gains, both on account of the sale of stock to third parties as well as for the re-evaluation of that still in hand, entered into accounts for an amount of approx. 20 million Euros under the heading "Other income (expenses) net".

The table below shows the results of the profit and loss account for the fourth quarter of 2006, in comparative form with those for the same period last year.

Profit and loss account - 3 months	31/12/06	Inc.%	31/12/05	Inc.%	Var.%
Revenues	47.372	100,0%	37.345	100,0%	26,8%
Change in inventory of finished goods and WIP	(143)	-0,3%	898	2,4%	
Other revenues and income	490	1,0%	654	1,8%	-25,0%
Value of production	47.718	100,7%	38.897	104,2%	22,7%
Purchase of raw materials	15.226	32,1%	14.785	39,6%	3,0%
Change in inventory of raw material	1.601	3,4%	100	0,3%	1504,2%
Other direct services	5.403	11,4%	3.476	9,3%	55,5%
Gross margin	25.489	53,8%	20.537	55,0%	24,1%
Other operating services and charges	9.092	19,2%	6.742	18,1%	34,9%
Added value	16.396	34,6%	13.795	36,9%	18,9%
For staff costs	9.183	19,4%	7.681	20,6%	19,6%
EBITDA	7.213	15,2%	6.114	16,4%	18,0%
Depreciation, amortization and other accruals	1.618	3,4%	2.322	6,2%	-30,3%
EBIT	5.595	11,8%	3.792	10,2%	47,5%
Net financial income (charges)	452	1,0%	754	2,0%	-40,0%
Share of profit of associated companies	(14)	-0,0%	4	0,0%	
Other Income (expense) net	(107)	-0,2%	19.829	53,1%	
Income before taxes	5.926	12,5%	24.379	65,3%	-75,7%

The table below shows the results of the profit and loss account for the financial year 2006 in comparison with those of the preceding financial year.

Profit and loss account	31/12/06	Inc.%	31/12/05	Inc.%	Var.%
Revenues	154.383	100,0%	118.343	100,0%	30,5%
Change in inventory of finished goods and WIP	6.520	4,2%	4.003	3,4%	62,9%
Other revenues and income	1.840	1,2%	1.978	1,7%	-7,0%
Value of production	162.744	105,4%	124.324	105,1%	30,9%
Purchase of raw materials	64.949	42,1%	50.220	42,4%	29,3%
Change in inventory of raw material	(1.103)	-0,7%	(1.722)	-1,5%	-35,9%
Other direct services	16.508	10,7%	10.929	9,2%	51,0%
Gross margin	82.390	53,4%	64.897	54,8%	27,0%
Other operating services and charges	38.817	25,1%	23.420	19,8%	65,7%
Added value	43.573	28,2%	41.477	35,0%	5,1%
For staff costs	33.089	21,4%	26.589	22,5%	24,4%
EBITDA	10.484	6,8%	14.888	12,6%	-29,6%
Depreciation, amortization and other accruals	5.077	3,3%	4.938	4,2%	2,8%
EBIT	5.407	3,5%	9.950	8,4%	-45,7%
Net financial income (charges)	2.143	1,4%	923	0,8%	132,3%
Share of profit of associated companies	(31)	-0,0%	4	0,0%	
Other net income (expense)	(377)	-0,2%	19.643	16,6%	
Income before taxes	7.143	4,6%	30.520	25,8%	-76,6%

The table below shows an analysis of the net financial position of the Group.

Net financial position	31/12/2006	30/09/2006	31/12/2005
Financial mid and long term debts	(1.930)	(2.034)	(1.961)
<i>Financial mid and long term debts</i>	<i>(1.930)</i>	<i>(2.034)</i>	<i>(1.961)</i>
Financial liabilities due within 12 months	(1.302)	(1.615)	(2.192)
Cash and cash equivalents	58.384	62.744	77.539
<i>Net financial short term position</i>	<i>57.082</i>	<i>61.128</i>	<i>75.346</i>
Total financial net position	55.151	59.095	73.385

The tables below show the profit and loss account for the financial period, and the financial position of the Group excluding Cynosure from the area of consolidation.

Profit and loss account	31/12/06	Inc.%	31/12/05	Inc.%	Var.%
Revenues	95.461	100,0%	75.822	100,0%	25,9%
Change in inventory of finished goods and WIP	3.197	3,3%	1.040	1,4%	207,3%
Other revenues and income	1.510	1,6%	1.731	2,3%	-12,8%
Value of production	100.168	104,9%	78.594	103,7%	27,5%
Purchase of raw materials	46.292	48,5%	34.719	45,8%	33,3%
Change in inventory of raw material	(1.685)	-1,8%	(1.562)	-2,1%	7,9%
Other direct services	10.186	10,7%	7.592	10,0%	34,2%
Gross margin	45.376	47,5%	37.845	49,9%	19,9%
Other operating services and charges	14.927	15,6%	12.246	16,2%	21,9%
Added value	30.449	31,9%	25.600	33,8%	18,9%
For staff costs	18.688	19,6%	15.103	19,9%	23,7%
EBITDA	11.761	12,3%	10.496	13,8%	12,0%
Depreciation, amortization and other accruals	2.815	2,9%	3.266	4,3%	-13,8%
EBIT	8.945	9,4%	7.231	9,5%	23,7%
Net financial income (charges)	(540)	-0,6%	782	1,0%	
Share of profit of associated companies	(31)	0,0%	4	0,0%	
Other net income (expense)	(224)	-0,2%	7.586	10,0%	
Income before taxes	8.150	8,5%	15.603	20,6%	-47,8%

Net financial position	31/12/2006	30/09/2006	31/12/2005
Financial mid and long term debts	(1.118)	(1.220)	(1.271)
<i>Financial mid and long term debts</i>	<i>(1.118)</i>	<i>(1.220)</i>	<i>(1.271)</i>
Financial liabilities due within 12 months	(843)	(1.160)	(1.806)
Cash and cash equivalents	14.915	14.279	22.726
<i>Net financial short term position</i>	<i>14.073</i>	<i>13.119</i>	<i>20.920</i>
Total financial net position	12.954	11.900	19.649

Comments on management results

Again during the year 2006 there were no structural changes in the activities of the Group which operated in the area of design, manufacture and distribution of laser sources and systems; the main selling markets were, as for last years, those of laser equipment for medical and aesthetic uses, and those for industrial laser systems. Besides the production of laser systems, another area which has always been significant from the point of view of revenue is that of after-sales technical assistance service and supplying of spare parts to the clientele; research and development activities also contribute to the sales volume with revenue from research, and grants which represent reimbursement of expenses.

The sales volume for the fourth quarter significantly exceeded expectations, thanks in particular to the brilliant performance of Cynosure Inc. and Asclepion GmbH, which showed record amounts for both sales volume and profits during this financial period; the 154 million Euros annual sales volume exceeded predictions by about 10% (140 million Euros) and represent an increase of 30% with respect to last year. This growth was achieved almost entirely without the contribution of new acquisitions and therefore represents a remarkable result.

The operating result shows the negative impact of the non-repeatable cost sustained by Cynosure during the third quarter; net of this cost, however, the operating result still exceeded predictions, notwithstanding the occurrence of other important events which had a negative influence on the profit and loss account (insolvency of Cynosure's client, Sona International, and accruals for the future reorganization of Lasercut Inc.).

The table below shows the subdivision of the sales volume according to the various sectors of activity of the Group for the financial year 2006 in comparison with the same data for the same period last year.

	31/12/2006	Inc%	31/12/2005	Inc%	Var%
Industrial systems and lasers	22.937	14,86%	19.395	16,39%	18,26%
Medical and aesthetic lasers	113.268	73,37%	84.017	70,99%	34,82%
Consulting and Research	101	0,07%	87	0,07%	16,98%
Service	18.077	11,71%	14.845	12,54%	21,77%
Total	154.383	100,00%	118.343	100,00%	30,45%

During the fourth quarter the medical sector registered exceptional growth, reaching an annual rate of almost 35% . The most accredited marketing studies recognize an annual growth rate for this particular market of about 20-25%; this means that the Group has succeeded in increasing its share of the market.

The growth in the industrial sector is also more than satisfactory; although not so much as for the first quarters of 2006. It is still near 20% and well above the overall growth for this specific market, that is, machine tools for manufacturing industries.

Sales volume for technical assistance, spare parts and accessory services was up 22%, thanks to the increase in the number of installations to which these services are offered, and notwithstanding the break in relations with Sona International which in 2005 registered a sales volume of about 1.2 million dollars for rent of laser devices for hair removal.

The residual heading "Consulting fees and research" is negligible for this period; we are keeping the heading however, since this item is integrated, as part of the revenue from research activities, under the heading of "other income". During 2006 the revenue from research activity was 921 thousand Euros as opposed to the 1.200 thousand Euros for last year.

Results for this financial period according to the geographical distribution of the sales volume, are shown on the table below.

	31/12/2006	Inc%	31/12/2005	Inc%	Var%
Italy	29.061	18,82%	20.769	17,55%	39,92%
Europe	49.767	32,24%	35.514	30,01%	40,13%
Rest of the world	75.556	48,94%	62.060	52,44%	21,75%
Total	154.383	100,00%	118.343	100,00%	30,45%

As shown also in the preceding quarterly reports for 2006, growth was substantial in all geographical areas where the Group operates, and the European markets and the Italian one show the highest growth rates. The weakness of the American currency favoured the exportation of Cynosure's products to Europe, and the excellent results of the European subsidiaries of Cynosure are directly related to the increase in consolidated sales volume in Europe. Sales volume for the rest of the world registered an increase of "only" 21%, and in any case continues to represent 50% of the consolidated sales volume.

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

	31/12/2006	Inc%	31/12/2005	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	86.214	76,12%	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	113.268	100,00%	84.017	100,00%	34,82%

Once again the growth of the medical sector involves all the 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 is 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 CO₂ 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 CO₂ 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 CO₂ laser system accessories would tend to indicate a very positive outlook for the future.

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.

	31/12/2006	Inc%	31/12/2005	Inc%	Var%
Cutting	9.869	43,03%	9.244	47,66%	6,77%
Marking	8.531	37,19%	6.841	35,27%	24,69%
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	22.937	100,00%	19.395	100,00%	18,26%

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 CO₂ 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 was more limited, although this area remains the principal one in the industrial field, as was that in the welding and fine arts conservation sector.

The margin of contribution was approx. 82.390 thousand Euros, an increase of 27% with respect to the 64.897 for the same period last year, although there was a drop in terms of incidence on the sales volume, which decreased to 53,4% from 54,8% in 2005. This decrease is due to the particular mix of products and markets which determined a less favourable combination as opposed to last year from the point of view of profitability, and also on account of some exceptional events. In any case, during this year the profitability of sales improved and by the end of the year had almost reached the percentage registered for 2005.

The margin of contribution is also influenced by the devaluation of the inventory made by the American subsidiary Cynosure following the insolvency of their client, Sona International, with whom it stored equipment which was entered among the inventory stock, and Lasercut, which had made some "write-offs" in view of a potential re-organization of the operating activities of the company.

The costs for services and operating charges was 38.817 thousand Euros, an increase of 65,7% with respect to 2005 with an incidence on the sales volume which rose to 25,1% from the 19,8% for the same period last year. The cost to "Palomar", which has already been mentioned several times, for the granting of licences for patents represents approx. 7,9 million Euros; net of this sum, the annual increase would have been proportional to the sales volume and the incidence of this cost entry on the sales volume would have been substantially the same as last year.

The costs for personnel is 33.089 thousand Euros which represents an increase (+24,4%) with respect to the 26.589 thousand Euros for December 31st 2005, with a slight drop in terms of the incidence on the sales volume, which decreased from 22,5% to 21,4%. The costs which have been entered into accounts in relation to the stock options assigned to employees are part of the personnel costs. In 2005, these costs were 1,104 thousand Euros and they rose to 2,414 thousand Euros during 2006; of these, 1,970 thousand Euros are related to the stock options issued by the subsidiary Cynosure Inc.

On December 31st 2006 the personnel of the Group amounted to 635 as opposed to the 548 at the end of 2005, thus confirming a continuing tendency to increase.

A large portion of the personnel expenses are devolved towards research and development, for which the Group receives grants and reimbursements which make it possible to expand these activities by limiting their economic impact; the grants entered into accounts during this financial period were for 921 thousand Euros.

The Earnings Before Income Taxes (EBITDA) were 10.484 thousand Euros with respect to the 14.888 thousand Euros for the same period last year, with an incidence on the sales volume which fell from 12,6% to 6,8%.

The costs for amortizations and accruals, for an amount of 5.077 thousand Euros, increased only by 2,8% with respect to the same period last year, with a drop in the incidence on the sales volume which fell from 4,2% to 3,3%. The

complete devaluation of the goodwill related to the German subsidiary Deka Lms and the accrual for product guarantees are also entered under this heading.

The Earnings Before Taxes (EBIT) was 5,407 thousand Euros in comparison with the 9.950 thousand Euros registered on December 31st 2005. If we eliminate the effects of the “Palomar” deal, the EBIT would be 13,372 thousand Euros, with an incidence of 8,7% on the sales volume which would represent an increase of 34,4% with respect to December 31st 2005.

The results of the financial management are for an amount of 2.143 thousand Euros as opposed to the 923 thousand Euros for the preceding year, thanks mostly to the obvious benefits which the cash held by Cynosure after the IPO has had on this category of results.

The other net income and charges do not comport significant changes for the financial period, whereas during the year 2005 this heading included the capital gains for an amount of about 20 million Euros, registered after the sale of stock made by the Group as part of the IPO of Cynosure, as described in detail in the statement for the financial year ending on December 31st 2005.

The earnings before taxes were about 7.143 thousand Euros; again in this case if we eliminate the effects of the Palomar deal, the earnings before taxes would be 15.108 thousand Euros with an incidence on the sales volume of 9,8%.

Comments on the evolution of the net financial position

The largest portion of cash in the Group is that held by Cynosure after the IPO of December 2005. The company has not made any investments of particular size, and therefore the cash obtained has remained substantially the same as the amount obtained with the quotation on the stock market.

During the fourth quarter Cynosure made the payment for the transaction with Palomar for an amount of about 8 million Euros. Net of this expense, during this quarter the Group has been able to generate cash and improve its cash holdings.

During this financial year the net financial position showed a drop of about 18 million Euros; the payment of dividends by El.En. SpA, Deka M.E.L.A. Srl, ASA Srl and by Deka Lms GmbH for an overall amount of 2,8 million Euros issued to third parties, the purchase by third parties of equities in Otlas srl and Cutlite Penta for an amount of 656 thousand Euros, and of course, the above mentioned Palomar deal for 8 million Euros also contributed to this decrease.

The increase in the amount of working capital however contributed considerably to the decrease in cash because Cynosure Inc. and El. En. SpA in particular are heavily involved with their manufacturing and distributing structures in sustaining a high growth rate and maintaining the necessary inventory to meet the requirements of this growth

Besides the ordinary and extraordinary cash flow, an important role is played by the exchange rate with the dollar, in relation to the substantial amount of cash held in dollars by Cynosure Inc. and the effect it has on the consolidation of our earnings expressed in Euros. If the exchange rate had been the same as on December 31st 2005, our cash position would have been about 4.9 million Euros more.

Gross investments made during this quarter

The table below shows the gross investments made during this financial period.

<i>Progressive</i>	31/12/06	31/12/05
Intangible assets	230	122
Tangible assets	5.481	4.035
Equity investments	0	181
<i>Total</i>	5.711	4.338

<i>3 Months</i>	31/12/06	31/12/05
Intangible assets	126	59
Tangible assets	2.726	1.056
Equity investments	0	181
<i>Total</i>	2.851	1.297

During this financial period the main investment was the purchase of real estate in the city of Torre Annunziata for an overall amount of 1.350 thousand Euros; this building will be used for the activities of the subsidiary Lasit spa.

In general, the Group sustains a high volume of investments which, taken individually are of insignificant value, in order to support its research and development, manufacturing and marketing structures. For the research laboratories we must purchase measuring instruments, microscopes, equipment, computers and engineering software (mechanical, electronic, optical). For manufacturing, we need measuring instruments, generic and specific equipment, computer devices. For marketing and sales we must make use of the laser systems employed by the sales network for demonstrations at the client's and those used as part of the clinical medical experiments or for industrial processing, as well as the vehicles used by the sales network (like the mini-vans used by Cynosure's American sales team).

Comments on the Research and Development activity

During 2006 an intense research and development activity was conducted by the Group for the purpose of discovering new applications for lasers both in the medical and industrial sectors, and placing innovative products on the market.

For highly technological products in particular, the global market requires that the competition be met by continually placing on the market completely new products and innovative versions of old products which use the most recent technologies and components. For this reason 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 laboratories and in advanced research centres around the world, some of which we collaborate with.

Research which is dedicated to achieving results according to a short-term schedule, above all for new products and applications, works 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 is basic for some specific subjects. Both the applied research and the development of the pre-prototypes and prototypes are sustained by our own financial resources and, in part, by grants which derive from research contracts stipulated with the managing institutions set up for this purpose by the *Ministero Istruzione Università e Ricerca* (MIUR) and the European Union, as well as directly with the Research Institutions or Regional structures.

A brief summary of the main research projects conducted by the Group during this quarter is shown below.

Systems and applications for lasers in medicine.

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. The verification phases of the experimental studies on the determination of the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels are now being conducted.

The creation of prototypes of a directable micro-tweezer and a multiple-way catheter for endoscopes, for endoluminal photo-dynamic therapy is now in progress.

We are continuing to collaborate with the Ultrasound and Non-destructive testing Laboratory of the Department of Electronics and Telecommunications of the University of Florence for the development of manufacturing technologies for new optical-acoustic and acoustic-optical micro-probes for mini-invasive diagnostics; these probes will be used for early diagnosis of a malignant nature for small sized lesions

An agreement has been reached with the prestigious American eye clinic, Bascon Palmer of Miami for performing live operations first using animal subjects and later on patients, involving the use of lasers for attaching the cornea without

stitches. This activity is a direct result of the research conducted in collaboration with IFAC of the CNR by the associated company Actis Active Sensors.

In collaboration with IFAC and the CNR, an important research project is now in progress for the development of a technique and for the relative devices for performing the anastomosis of blood vessels assisted by laser.

We have continued to work on the development of instruments and the clinical experimentation of innovative laser devices for use in physical therapy and orthopaedics, and clinical experiments have been begun in the USA, in collaboration with the Istituti Rizzoli of Bologna, with whom we have been collaborating for several years now.

Research is now in progress on new devices and methods for the percutaneous laser ablation of the liver and thyroid, as part of the activity conducted by the consortium company IALT (Image Aided Laser Therapy) created by 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 has been 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 have just concluded experimentation with a new laser system for hair removal which, for its high performance, can be considered at the top of the range 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: odonto-stomatology, gastroenterology, oculistics, phlebology, echo-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 mecha-tronic 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 in 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 e planning 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, refractive lenses have been developed for applications for laser rejuvenation of the skin and a patent has been applied for..

At Cynosure we have also 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.

For industrial systems and applications

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

Experimental trials on the electronics based on a "Digital Signal Processor" for on line setting and numerical control of the galvanometers for scansion heads are now in progress.

We continued studies for determining the algorithms, calculus programs and hardware structures for artificial vision systems to be employed for the automation of surface decorations using laser marking on leather and other materials and for the cutting and marking of objects spread out on the work surface

We are now running verification tests on a new ultra compact radio frequency pumped CO₂ laser source.

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, the development of a new system of sensors and memorization of environmental stress on works of art while being moved from a museum to an exhibition space has continued; the creation of a “black box” for recording the transfer of works of art was developed by the subsidiary Actis - Active Sensors; These instruments were tried out during the transfer of an important work of art from the Vatican Museums to the Uffizi Galleries. At this time two models are now being experimented at the Museum of the Louvre.

A new system for representing thermal transistors for the study of the state of conservation of works of art and of industrial products in the start-up in the manufacturing process is now in the experimentation phase

A national 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 for Research and Development during this quarter.

<i>thousands of euros</i>	31/12/2006	31/12/2005
Costs for staff and general expenses	7.684	6.029
Equipment	222	266
Costs for testing and prototypes	1.157	888
Consultancy fees	490	643
Other services	91	82
Intangible assets	4	5
<i>Total</i>	9.648	7.912

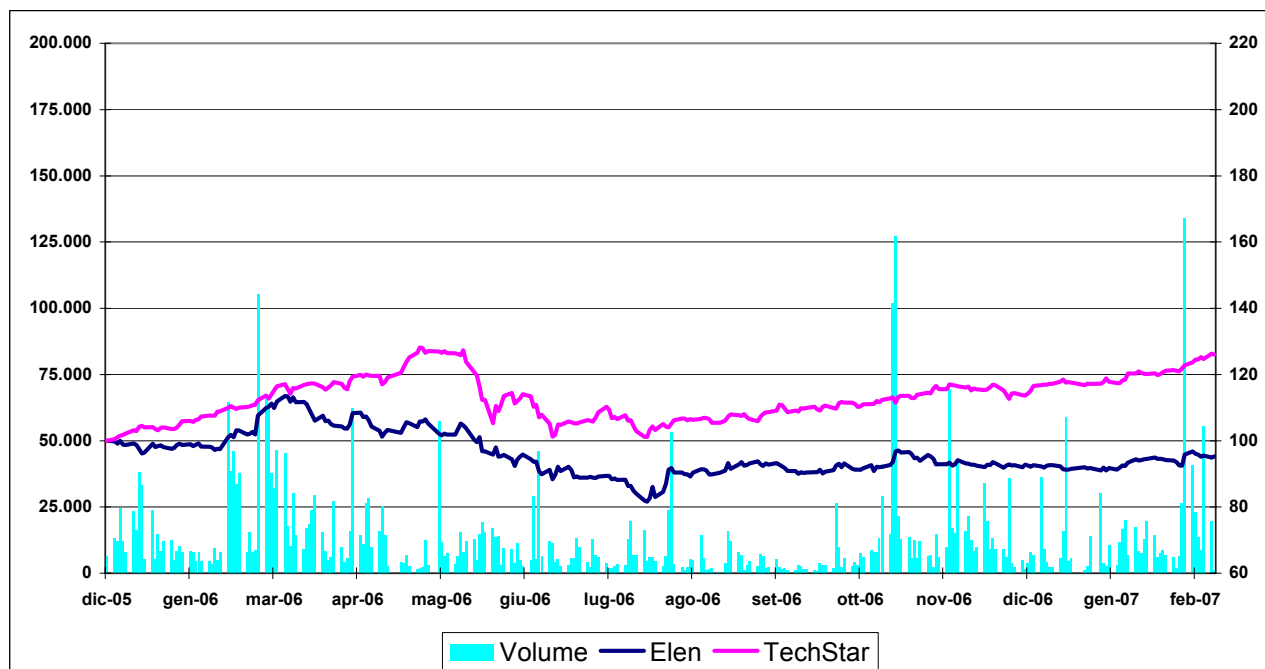
As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity they conduct in this sector. The amount of expenses sustained by Cynosure during this period for research and development was approx. 4.7 million dollars.

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

The amount of expenses sustained corresponds to 6% of the consolidated sales volume of the Group. The amount spent by Cynosure was, as stated above, 4.7 million dollars, represents about 6% of its sales volume; the remaining part of the expenses is accounted for almost entirely by El.En S.p.A. and amounts to 11% of its sales volume.

Trend of the El. En. stock

The graph below shows the quotations for El. En stock with reference to the quotation on December 31st 2005, which was for 30.39 Euros.



Other significant events which occurred during this quarter

During this quarter Cynosure Inc. purchased from their subsidiary 66 Vision Tech Co. Ltd. a minority share of the Joint Venture for the distribution of laser systems in China, with headquarters in Suzhou, and renamed the company Cynosure China. A share of 48% of the company was acquired for 640 thousand dollars, and the seller was granted a goodwill of 284 thousand dollars, which was entered into Cynosure's accounts as part of the intangible assets.

On November 10th 2006 Cynosure announced that they had received FDA (Food and Drug Administration) clearance for sales in the United States of the Smart Lipo system: the authorization, which granted exclusive distribution rights in the US to Cynosure for this innovative El. En. product, opens the doors of the most important world markets and the prospect of a brilliant future for sales.

On October 5th 2006 the parent company El.En. SpA acquired a property in the city of Torre Annunziata for an overall amount of 1,350 thousand Euros, 700 thousand of which were paid out by the end of this financial year, and the remaining 650 thousand paid when the property was handed over, which occurred at the beginning of February. This building will be used for research, development and manufacturing activities by the subsidiary Lasit SpA, for which El. En. in this way supports and maintains their encouraging outlook for growth.

Other events which occurred after the end of the quarter

On February 2nd 2007, El.En. SpA announced the acquisition, made through their subsidiary BRCT Inc, of a controlling interest (51,25%) in With Us Co., a Japanese company involved in the local distribution of laser systems for medical and aesthetic applications and related accessories. This company will make it possible to recover the market position which had been achieved in the past by the former distributor, which failed in February of 2006, and which consisted of thousands of systems installed all over Japan. El. En. has contributed to the launching of the company by assigning them distribution of the DEKA products.

Short term evolution foreseen for the financial period now in progress

The market situation for 2007 still appears to be favorable for the medical sector and, in particular, for the aesthetic sector, and is promising, though not equally exciting, for the manufacturing sector. The Group is counting on taking advantage of the opportunities offered by this situation, thanks to the re-enforcement of its structure, as demonstrated by the transactions closed in China by Cynosure and in Japan by El. En. The management therefore believes that they will be able to reach a consolidated sales volume of 185 million Euros (+ 20%) with an EBIT of 19 million (10% of the sales volume and +42% with respect to 2006 net of the Palomar charges). These predictions have been formulated on the basis of a hypothetical exchange rate of 1.30 dollars per Euro.

For the Board of Directors

Chairman of the Board
Ing. Gabriele Clementi