

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

Headquarters in Calenzano (Florence), Via Baldanzese, 17

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

Florence Register of Companies – C.F. 03137680488

This document has been translated into English for the convenience of readers who do not understand Italian.

The original Italian document should be considered the authoritative version.

## **CORPORATE BOARDS OF THE PARENT COMPANY**

(as of the date of approval of the financials on June 30<sup>th</sup> 2012)

### **Board of Directors**

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangiolì

BOARD MEMBERS

Paolo Blasi

Michele Legnaioli

Stefano Modi

Alberto Pecci

### **Board of statutory auditors**

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Gino Manfriani

### **Executive officer responsible for the preparation of the Company's financial statements**

Enrico Romagnoli

### **Independent auditors**

Deloitte & Touche S.p.A.

**EL.EN. GROUP**

**HALF YEARLY DIRECTOR'S  
REPORT ON OPERATIONS**

## **EXPLANATORY NOTES**

### **1.1. Adoption of international accounting principles**

This half-yearly director's report on operations for the half ending on June 30<sup>th</sup> 2012, approved by the Board of Directors on August 29<sup>th</sup> 2012, drawn up in consolidated form in compliance with to Art. 154-ter of February 24<sup>th</sup> 1998, Legislative Decree 58 (TUF) and later modifications and additions, has been drawn up in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and ratified by the European Union.

By IFRS we mean also the International Accounting Standards (IAS) which are still in force, as well as all of the interpreting documents issued by the International Financial Reporting Interpretations Committee (IFRIC). In this report which is drawn up in conformity with IAS 34, Intermediate Reports, we have used the same accounting principles used for the consolidated financial of December 31<sup>st</sup> 2011 with the exception of those items described in the Explanatory Notes – paragraph pertaining to the “Accounting Principles and Evaluation Criteria”.

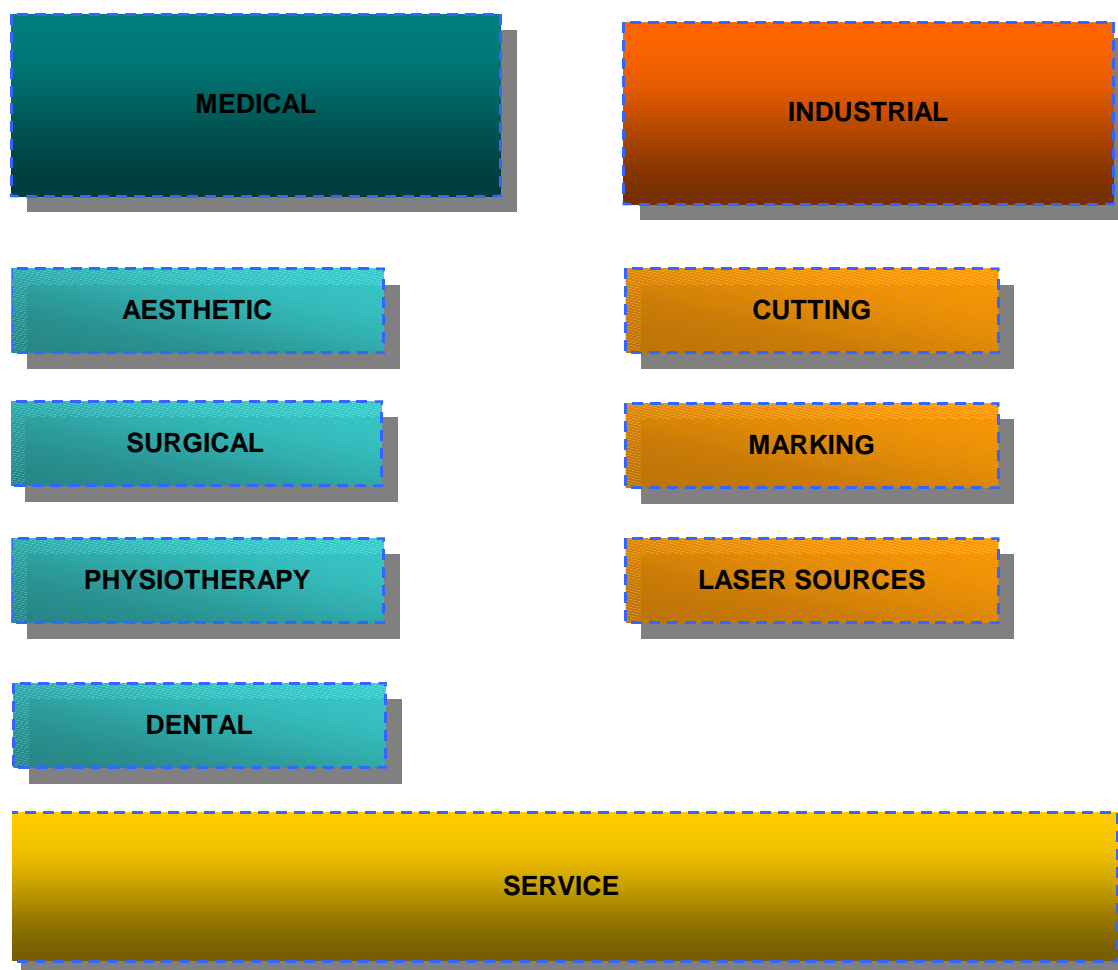
All amounts are expressed in thousands of Euros unless otherwise indicated.

## 1.2. Description of the activities of the Group

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

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

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

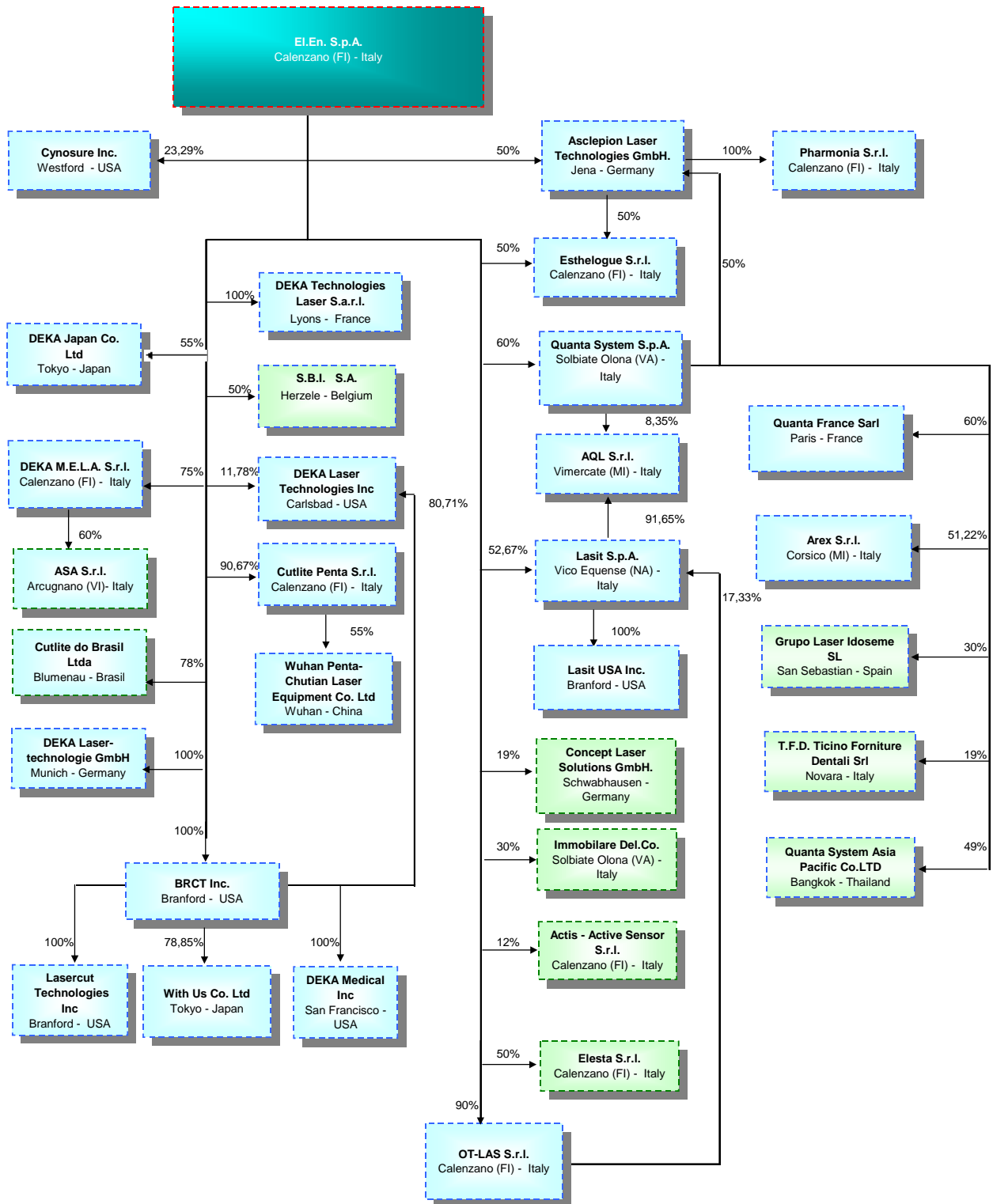


Besides the main company activity of selling laser systems, there is also a post-sales customer assistance service which is not only indispensable for the installation and maintenance of our laser systems but also a source of revenue from the sales of spare parts, consumables and technical assistance.

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

### 1.3. Group Structure

As of June 30<sup>th</sup> 2012 the structure of the Group was as follows:



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

## 1.4. Performance indicators

The following performance indicators have been applied for the purpose of supplying additional information on the capital, financial and revenue structure of the Group:

	30/06/12	31/12/11	30/06/11
<b>Profitability ratios (*):</b>			
ROE (Net income / Share Capital and Reserves)	3,3%	-0,3%	-3,4%
ROI (EBIT / Total assets)	5,1%	1,1%	0,4%
ROS (EBIT/ Revenues)	5,7%	1,4%	0,5%
<b>Structure ratios:</b>			
Financial flexibility (Current assets / Total assets)	0,77	0,76	0,75
Leverage ((Shareholders' Equity + Financial liabilities) / Shareholders' Equity)	1,13	1,11	1,12
Current Ratio (Current assets / Current liabilities)	2,65	2,67	2,54
Acid ratio (Current receivables + Cash and cash equivalents)/ Current liabilities)	1,78	1,77	1,65
Quick ratio ((Cash and cash equivalents + Investments) / Current liabilities)	1,01	0,94	0,80
<b>Turnover ratios (*):</b>			
Total assets turnover (Revenues / Total assets)	0,89	0,78	0,78
Current assets turnover (Revenues / Current assets)	1,16	1,03	1,04
Inventory turnover (COGS / Inventory)	1,43	1,21	1,13
Days sales of inventory (Inventory / COGS) *365	254	301	322
Days sales outstanding (Account receivables / Revenues)*365	74	87	94

(\*): For the interim financial periods, the amount of revenues, purchases and the profit results are annualised

In order to facilitate comprehension of the chart above, and in consideration of the regulations concerning alternative performance indicators, below we are giving the definitions of some terms used in the charts of the financial statement:



- Own Capital = Shareholders' equity of the Group – Net income (loss)
- Cost of goods sold = Purchases  $\pm$  Change in the inventory

## 1.5. Alternative NON-GAAP measures

In compliance with the CESR/05-178b recommendations regarding alternative performance indicators, the Group presents, as part of the Director's report on operations, in addition to the financial measures required by the IFRS, some of the measures derived from these latter but not required by the IFRS (non – GAAP measures). These measures are defined here for the purpose of facilitating a better evaluation of the performance of the Group and should not be considered alternatives to those required by the IFRS.

As alternative performance indicators the Group uses:

- The EBITDA (earnings before interest, income taxes, depreciations and amortizations), which represents an indicator of operating performance which is determined by adding to the earnings before interest and income taxes (EBIT), the amount of "Amortizations, depreciations, accruals and devaluations";
- The EBIT or the earnings before interest and income taxes;
- the **incidence** that the various accounts in the Income Statement have on the sales volume;
- the **net financial position** which is cash available + Securities entered as current assets + current financial receivables – debts and non-current financial liabilities - current financial debts;

These indicators are presented in the Income Statement chart and the Net Financial Position which are shown and commented below.

The alternative performance indicators are measures used by the company to monitor and evaluate the performance of the Group and they are not defined as accounting measures either in the Italian Accounting Standards or in the IAS/IFRS. Consequently, the determining criteria applied by the Group may not be the same as that adopted by other operators and/or groups and for this reason may not be comparable.

## 1.6. Group financial highlights

The first half of 2012 showed a significant increase in the consolidated sales volume and the return to a good level of revenue: the net profit of the Group reached 1,6 million Euros net of taxes for an amount of 2,9 million Euros and profit related to third parties for an amount of 2,5 million Euros, while in 2011 it had shown a net loss of about 1,6 million Euros; the subconsolidated drawn up excluding Cynosure also showed a marked improvement with an increase in the sales volume of 11%, the net profit of the Group is 0,7 million net of taxes for an amount of 2 million, and profit related to third parties for an amount of 0,8 million, showing a significant improvement over the loss of 0,7 million registered for the first half of last year.

The general climate in which these results have been obtained was quite unfavorable considering the adverse economic conditions which continue to have a negative influence on our clients' willingness to purchase. It is clear that the overall drop in consumption which is reflected in the recessive economy of Italy and many other European countries influences the tendency to buy investments goods like those we offer and the financial crisis, with the difficulty for companies to obtain credit which has continued now for several years, magnifies the negative aspects.

Nevertheless, the Group's ability to move on the market with highly innovative products, some acquisitions just concluded last year and the possibility of operating on some of the international markets which have been less affected by the economic problems that afflict Europe, have allowed the Group to improve its overall position and to obtain the good results which will be described in detail below.

Thanks to the acquisition of the assets of Elémé (non-invasive systems for body shaping) and of HOYA ConBio® (systems for the removal of tattoos and pigmented lesions), the management of the Pinpointe system (for the treatment of onicomicosis) and the formidable success in the United States obtained by the Cellulaze system for the removal of cellulitis, Cynosure (Nasdaq, CYNO) registered brilliant results with a growth in sales volume of 66% which allowed it to return to a significant level of net profit of over 2 million US dollars for this half. Besides the success of the choice and the handling of the acquisition targets, Cynosure benefitted from the conditions of the American economy which, although they are not good, are certainly better than the European ones and those registered in the USA in the past few years. Thanks to these results, the Group, which had benefitted from the growth of Cynosure between 2005 and 2008, and had then suffered the consequences of the massive reduction in sales volume and the losses after the sudden crisis of September 2008, now once again registers among their most positive data the excellent results of the American subsidiary. Besides the economic benefit, which is clearly evident from our economic and financial reports, Cynosure's

results also have a significant effect on the capital due to the increase in the price of the Cynosure stock which rose from 12 US dollars at the beginning of this year to a record of over 25 US dollars in the month of July. It should also be noted that this increase in value did not have any effect on the market value of the El.En. stock, which continues to be affected by the adverse conditions of the local financial markets and where there is clearly difficulty for the so called “small caps” to see in the market quotations a fair reflection of the values expressed by the company complex and the underlying fundamentals.

After these comments on the excellent results which have been obtained by Cynosure and the value of its stock on the market, we must comment on the trends of the other activities of the Group which are reflected by the figures shown in the subconsolidated drawn up without Cynosure.

The sales volume showed an increase of 11,2%, which was slightly above expectations thanks to a decidedly positive trend in the medical sector which, notwithstanding the considerable difficulties encountered in Europe, showed an increase in sales volume for the sector thanks to the innovation of the product and the improved condition of some of the markets, particularly the oriental ones.

On the other hand, the conditions of economic crisis had a totally different effect on the sales volume in the industrial sector: the growth registered, which amounted to about 6%, was penalized by the stagnation in the growth of the Chinese market, and by the return of the problems which characterized the recent years of crisis in Italy and in Europe, i.e. a clientele disinclined to make investments and the difficulty in finding financing, with the consequent delay in the conclusion of negotiations and therefore, in the expansion of working capital.

The competitive pressure, with the necessity of offering more sophisticated solutions and extra services in order to maintain the market position, determined a slight drop in the sales margins, which however were not enough to cancel out the growth in sales volume which in any case made it possible to significantly increase the gross margin.

The good results obtained during this half encourage us to follow our development strategy based above all on innovation of the product which is a result of our intense research and development activity and the creation of production and distribution facilities which are adapted for serving the most interesting markets. We believe that these markets offer interesting development opportunities also on a mid-term basis; laser applications for aesthetics reflect a social need that is widespread and demographically sustained to maintain a pleasant appearance with the passing of the years. Surgical applications on the other hand, thanks to the minimally invasive techniques and the effectiveness, satisfy the need to reduce recovery time which benefits both the patient and the structures that offer the service; moreover, laser systems make it possible to make innovations in the procedure and in the product in the manufacturing process and thus improve the quality and effectiveness.

Considering the importance of the subsidiary Cynosure on the consolidated results and the substantial quota of the company that is held by third parties (the controlling interest held by El.En. Spa is in fact 23,29% as of June 30<sup>th</sup> 2012) we will complete this information sheet with the data related to the consolidated results of the Group as well as that with the results of the Group excluding Cynosure from the scope of consolidation. El.En. retains control of Cynosure through a clause in the statutes which states that they have the right to appoint the majority of board members; this clause will remain valid as long as El.En. retains at least 20% of the stock in the company.

The chart below shows the breakdown of the sales volume in the various sectors of activity of the Group for the first half of 2012 compared with a similar breakdown for last year.

	<b>30/06/2012</b>	<b>Inc%</b>	<b>30/06/2011</b>	<b>Inc%</b>	<b>Var%</b>
Industrial systems and lasers	17.951	13,89%	16.903	17,20%	6,20%
Medical and aesthetic lasers	87.987	68,06%	61.107	62,20%	43,99%
Service	23.332	18,05%	20.241	20,60%	15,27%
<b>Total</b>	<b>129.270</b>	<b>100,00%</b>	<b>98.251</b>	<b>100,00%</b>	<b>31,57%</b>

An excellent result is also shown in all three of the main sectors. The medical sector registered a growth that was close to 44% thanks to the external growth of Cynosure; the industrial sector continues to grow notwithstanding the unfavorable conditions in the two main markets (Europe and China), while the activity in the sector of after-sales services saw its revenue expand as the number of installations increased and the clientele made intense use of our systems.

The chart below shows the trend for the sales volume divided according to the geographic area:

	30/06/2012	Inc%	30/06/2011	Inc%	Var%
Italy	13.363	10,34%	12.300	12,52%	8,65%
Europe	25.126	19,44%	25.753	26,21%	-2,44%
Rest of the world	90.781	70,23%	60.198	61,27%	50,80%
<b>Total</b>	<b>129.270</b>	<b>100,00%</b>	<b>98.251</b>	<b>100,00%</b>	<b>31,57%</b>

The geographic distribution of the sales volume of the Group reflects the general macro-economic conditions. Only in Italy were there a few specific sectors (in this case, professional aesthetics and sales of industrial systems) which succeeded in reversing the trend and part of the increase in the sales volume in any case is represented by Italian clients who later export our products. Sales volume fell in Europe and increased significantly in the rest of the world, where the United States and the Far East were the drivers in the growth.

Within the medical/aesthetic sector, which represents more than 68% of the sales of the Group, the trend in sales in the various segments is shown on the chart below:

	30/06/2012	Inc%	30/06/2011	Inc%	Var%
Surgical CO2	4.648	5,28%	4.988	8,16%	-6,80%
Physiotherapy	5.526	6,28%	3.039	4,97%	81,83%
Aesthetic	66.182	75,22%	41.914	68,59%	57,90%
Dental	1.500	1,70%	1.869	3,06%	-19,76%
Other medical lasers	8.205	9,32%	7.098	11,62%	15,60%
Accessories	1.926	2,19%	2.200	3,60%	-12,44%
<b>Total</b>	<b>87.987</b>	<b>100,00%</b>	<b>61.107</b>	<b>100,00%</b>	<b>43,99%</b>

The growth is related to the sectors of aesthetics, physical therapy and surgery (in the segment called "Others"), in which results were good enough to render negligible the decreases registered for the other segments.

Physical therapy grew 80% and benefitted greatly from the placement in this segment of the treatment for onychomycosis which was marketed by Cynosure on the basis of an agreement with Pinpointe: the Cynosure distribution network which is particularly effective in the United States, was able to place this technology very rapidly and obtain immediate consensus on the market.

The placement of new products through the Cynosure distribution network was also determining in the aesthetic sector, in particular, the ConBio laser for the removal of tattoos and pigmented lesions and the Elémé system for non-invasive body shaping, which were added after the acquisition along with the Cellulaze system for the removal of cellulitis. For this latter product which was developed jointly with El.En. S.p.A., the FDA clearance for marketing in the United States was received in February after a long preparatory period, and finally made this sought-after device available for sale, thus contributing significantly to the results obtained by Cynosure. Cynosure was not the only company that registered good results in the aesthetic sector: the launching of the Re:play hair removal system sustained the sales of Deka and the improved triple wave length system for tattoo removal allowed Quanta System to continue its phase of growth in this sector and the consolidation of the launching phase of the Mediostar Next with which Asclepion introduced new innovated hair removal systems revitalized the sector of professional aesthetics in Italy and the business volume of Asclepion.

In the residual sector of "Others" the excellent result in the sales of solid state laser systems for surgery stands out; in this field Quanta System has perfected its own a range of high power systems for the treatment of BPH (benign prostate hyperplasia) and has also consolidated its traditional OEM manufacturing capacity for medium powered systems for lithotripsy.

The other segments show a drop in sales volume which, in the case of the dental sector was quite significant and is indicative of the phase of difficulty which the stagnation in the economy has caused on the markets and on the companies of the Group. As far as the CO<sub>2</sub> laser sector is concerned, it has always been closely connected to that of the accessories which complete it and determine the type of application; this sector has now reached the phase of maturity of the leading application, that of skin resurfacing, while the interesting new applications which have been identified and experimented in order to maintain the relative level of revenue for this historic laser technology in which El.En. is among the few active companies at a global level, are now giving the first tangible results in terms of sales.

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

	30/06/2012	Inc%	30/06/2011	Inc%	Var%
Cutting	12.672	70,59%	11.701	69,23%	8,30%
Marking	4.551	25,35%	4.582	27,11%	-0,68%
Laser sources	598	3,33%	483	2,85%	23,95%
Welding, other industrial systems	130	0,73%	137	0,81%	-4,97%
<b>Total</b>	<b>17.951</b>	<b>100,00%</b>	<b>16.903</b>	<b>100,00%</b>	<b>6,20%</b>

Growth in this sector was just over 6% and is almost entirely derived from the cutting sector.

As mentioned in the previous reports, the Group has maintained a high level of investments in the industrial sector and has diversified its geographical position by setting up factories in China and Brazil, and it has operated directly in the field of metal cutting in Italy and the rest of Europe thanks to the investments in research and development which enabled the improvements in the range of high-power laser sources, as well as the investments in the structures for the promotion and commercial distribution of the range of metal cutting systems.

The worsening of the international crisis in 2011 had not affected the growth which continued to be quite significant during the year (30%); in the first six months of 2012 the general conditions have not improved on most of the markets, and they are actually slightly worse in China where the outlook for general economic growth has cooled off considerably so that our activity, which in China has its main selling market, has felt the negative effects and a drop in the growth rate. The present situation on the Chinese market also reflects the instability of the European market and the phase of transition in the administration of the country, but we believe that it cannot affect the outlook for mid-term growth on this market.

It should also be noted that in the marking segment the sales volume remains essentially unvaried due to a drop in the applications for large surfaces intended for decorations, which is a specialty of Ot-las S.r.l., and an equivalent increase in the applications for small and custom surfaces for identification in the field of industrial processes, which is a specialty of Lasit S.p.A..

The charts below show the composition of the sales volume for the sub-consolidated which excludes Cynosure; we are not including the chart with the breakdown of the industrial sector because Cynosure does not operate in this sector.

	30/06/2012	Inc%	30/06/2011	Inc%	Var%
Industrial systems and lasers	17.951	23,99%	16.903	25,12%	6,20%
Medical and aesthetic lasers	43.129	57,65%	37.711	56,05%	14,37%
Service	13.734	18,36%	12.666	18,83%	8,43%
<b>Total</b>	<b>74.814</b>	<b>100,00%</b>	<b>67.280</b>	<b>100,00%</b>	<b>11,20%</b>

	30/06/2012	Inc%	30/06/2011	Inc%	Var%
Italy	13.077	17,48%	11.993	17,83%	9,04%
Europe	15.321	20,48%	15.844	23,55%	-3,30%
Rest of the world	46.415	62,04%	39.443	58,63%	17,68%
<b>Total</b>	<b>74.814</b>	<b>100,00%</b>	<b>67.280</b>	<b>100,00%</b>	<b>11,20%</b>

	30/06/2012	Inc%	30/06/2011	Inc%	Var%
Surgical CO2	4.169	9,67%	3.937	10,44%	5,88%
Physiotherapy	2.808	6,51%	3.039	8,06%	-7,61%
Aesthetic	27.543	63,86%	22.306	59,15%	23,48%
Dental	1.500	3,48%	1.869	4,96%	-19,76%
Other medical lasers	5.242	12,15%	4.701	12,47%	11,49%
Accessories	1.868	4,33%	1.858	4,93%	0,55%
<b>Total</b>	<b>43.129</b>	<b>100,00%</b>	<b>37.711</b>	<b>100,00%</b>	<b>14,37%</b>

Even without the contribution of Cynosure and its acquisitions the Group shows a growth of about 11% thanks to the +14% registered in the medical sector and the +9% registered for Service; overall, this growth is interesting, especially in relation to the general economic conditions.

In the medical sector the continued consistent growth of the aesthetic segment (+23%) continues to be the driver: within this sector, as explained above, the most significant applications are the lasers for hair removal and for removal of tattoos and vascular lesions. Positive results were also achieved by the CO<sub>2</sub> systems and marginally, by the accessories, thanks also to the new applications mentioned above which do not involve the activities of Cynosure, which is exclusively oriented towards skin resurfacing. It should also be noted that there was a drop in the physical therapy sector, which in this case does not contain the sales for onicomicosis, for the decrease in the activities of Asa S.r.l. After an uninterrupted period of growth registered for the last few years, which we are sure we will be able to continue thanks to the development of new products.

The decrease in the dental sector reflects the reduction in revenue from the CO<sub>2</sub> systems on the American market and the phase of redefinition for the supply through the development of new products.

## 1.7 Consolidated income statement as of June 30<sup>th</sup> 2012

The chart below shows the consolidated Income Statement reclassified for the period ending on June 30<sup>th</sup> 2012 compared with that for the same period last year.

Income Statement	30/06/12	Inc. %	30/06/11	Inc. %	Var. %
Revenues	129.270	100,0%	98.251	100,0%	31,6%
Change in inventory of finished goods and WIP	3.608	2,8%	6.796	6,9%	-46,9%
Other revenues and income	1.636	1,3%	1.553	1,6%	5,3%
<b>Value of production</b>	<b>134.514</b>	<b>104,1%</b>	<b>106.600</b>	<b>108,5%</b>	<b>26,2%</b>
Purchase of raw materials	56.261	43,5%	49.020	49,9%	14,8%
Change in inventory of raw material	27	0,0%	(4.401)	-4,5%	
Other direct services	11.329	8,8%	9.562	9,7%	18,5%
<b>Gross margin</b>	<b>66.896</b>	<b>51,7%</b>	<b>52.418</b>	<b>53,4%</b>	<b>27,6%</b>
Other operating services and charges	24.309	18,8%	22.597	23,0%	7,6%
<b>Added value</b>	<b>42.587</b>	<b>32,9%</b>	<b>29.821</b>	<b>30,4%</b>	<b>42,8%</b>
For staff costs	29.859	23,1%	24.157	24,6%	23,6%
<b>EBITDA</b>	<b>12.728</b>	<b>9,8%</b>	<b>5.664</b>	<b>5,8%</b>	<b>124,7%</b>
Depreciation, amortization and other accruals	5.321	4,1%	5.147	5,2%	3,4%
<b>EBIT</b>	<b>7.407</b>	<b>5,7%</b>	<b>517</b>	<b>0,5%</b>	<b>1333,9%</b>
Net financial income (charges)	(78)	-0,1%	(616)	-0,6%	-87,3%
Share of profit of associated companies	(270)	-0,2%	(400)	-0,4%	-32,3%
Other net income (expense)	(1)	-0,0%	(33)	-0,0%	-97,0%
<b>Income (loss) before taxes</b>	<b>7.058</b>	<b>5,5%</b>	<b>(532)</b>	<b>-0,5%</b>	
Income taxes	2.967	2,3%	1.711	1,7%	73,4%
<b>Income (loss) for the financial period</b>	<b>4.090</b>	<b>3,2%</b>	<b>(2.243)</b>	<b>-2,3%</b>	
Minority interest	2.485	1,9%	(673)	-0,7%	
<b>Net income (loss)</b>	<b>1.605</b>	<b>1,2%</b>	<b>(1.570)</b>	<b>-1,6%</b>	

The gross margin was 66.896 thousand Euros, an increase of 27,6% over the 52.418 thousand Euros for the same period last year and with an incidence on the sales volume which registered a decrease from 53,4% on June 30<sup>th</sup> 2011 to 51,7% for this half which is the effect of a different mix of products and distribution channels.

It should be noted that, again in 2012, although the Group cashed in the sale price, some of the sales financed by the clientele by means of operative leasing have been considered, in conformity with IAS/IFRS principles, as revenue from multi-year rentals; in any case the phenomenon had a limited effect on the Income Statement for the year.

Costs for operating services and charges were 24.309 thousand Euros, showing an increase of 7,6% with respect to June 30<sup>th</sup> 2011 but with a slight decrease in the incidence on the sales volume which dropped to 18,8% from 23,0% registered for the same period last year, thanks to the careful attention being paid to the operating costs during this unfavorable economic phase.

The costs for personnel were 29.859 thousand Euros which represents an increase of 23,6% over the 24.157 thousand Euros for the same period last year and indicates that productivity improved: the incidence on the sales volume in fact decreased from 24,6% on June 30<sup>th</sup> 2011 to 23,1% on June 30<sup>th</sup> 2012. Part of the staff expenses is represented by the figurative costs for the stock options assigned to staff members. On June 30<sup>th</sup> 2012 these costs (mainly related to the stock options issued by the subsidiary Cynosure Inc) were 1.730 thousand Euros, whereas on June 30<sup>th</sup> 2011 they were 1.029 thousand Euros.

As of June 30<sup>th</sup> 2012 the number of employees in the Group was 1.165 as opposed to the 1.139 registered on December 31<sup>st</sup> 2011 and the 1.072 on June 30<sup>th</sup> 2011; this increase is due mainly to new personnel hired by Cynosure Inc..

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. The grants registered into accounts on June 30<sup>th</sup> 2012 were 822 thousand Euros while for the same period in 2011 they were 734 thousand Euros.

Due to the situation described above, the EBITDA was 12.728 thousand Euros, an improvement over the 5.664 thousand Euros for June 30<sup>th</sup> 2011.

The costs for amortization, depreciations and accruals was 5.321 thousand Euros, an increase of 3,4% over that for 2011 which was 5.147 thousand Euros; the incidence on the sales volume dropped from 5,2% on June 30<sup>th</sup> 2011 to 4,1% for this half.

The EBIT therefore increased to 7.407 thousand Euros, a significant improvement over the 517 thousand Euros registered for June 30<sup>th</sup> 2011; the incidence on the sales volume was 5,7% which is still far from the potential of the Group, but still an important step in the right direction to bring the Group back to a higher profit level.

Net financial charges amounted to 78 thousand Euros as opposed to 616 thousand Euros for the same period last year which was mainly due to the favorable exchange rates, while the negative results of the associated companies was 270 thousand Euros , mostly attributable to Elesta Srl and the Spanish company GLI.

Pre-tax profit therefore amounted to 7.058 thousand Euros, a significant improvement over the pre-tax loss of 532 thousand Euros registered for June 30<sup>th</sup> 2011.

The fiscal costs for this year amounted to a total of 2,9 million Euros. The taxes owed for this half were calculated on the basis of the best estimate of the fiscal aliquots expected for the year 2012. The tax rate for the period of 42% is negatively affected by the presence of some negative non-deductable revenue components like the devaluations made on some equities made mostly by the Parent Company, and the failure to enter some deferred tax assets on the losses for the period by some of the companies.

The first half ends with a net profit for the Group of 1,6 million Euros as opposed to the loss of 1,6 million Euros registered for the first half of 2011.

## 1.8 Consolidated statement of financial position and net financial position as of June 30<sup>th</sup> 2012

The reclassified statement of financial position shown on the chart below makes it possible to compare the financial position for this half with that of last year.

	30/06/2012	31/12/2011	Var.
<b>Statement of financial position</b>			
Intangible assets	23.687	23.958	-272
Tangible assets	28.142	27.807	334
Equity investments	432	442	-10
Deferred tax assets	6.872	6.354	518
Other non current assets	6.766	5.217	1.549
<b>Total non current assets</b>	<b>65.898</b>	<b>63.779</b>	<b>2.119</b>
Inventories	73.458	69.344	4.114
Accounts receivables	52.161	50.530	1.631
Tax receivables	4.574	5.989	-1.416
Other receivables	8.253	7.056	1.196
Financial instruments	27.719	24.332	3.386
Cash and cash equivalents	57.313	48.365	8.948
<b>Total current assets</b>	<b>223.476</b>	<b>205.617</b>	<b>17.860</b>
<b>TOTAL ASSETS</b>	<b>289.374</b>	<b>269.396</b>	<b>19.978</b>
Share Capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	38.367	36.171	2.196
Treasury stock	-2.576	-2.576	
Retained earnings / (deficit)	19.470	20.278	-808
Net income / (loss)	1.605	-270	1.875
<b>Share Capital and Reserves attributable to the Shareholders' of the Parent Company</b>	<b>97.969</b>	<b>94.705</b>	<b>3.264</b>
Share Capital and Reserves attributable to non-controlling interests	85.300	80.405	4.895
<b>Total equity</b>	<b>183.269</b>	<b>175.110</b>	<b>8.159</b>
Severance indemnity	2.803	2.761	41
Deferred tax liabilities	1.110	1.172	-62
Other accruals	7.159	6.683	476
Financial liabilities	10.579	6.684	3.894
<b>Non current liabilities</b>	<b>21.650</b>	<b>17.301</b>	<b>4.349</b>
Financial liabilities	12.768	12.997	-230
Accounts payables	38.138	34.576	3.562
Income tax payables	1.778	762	1.017
Other payables	31.771	28.649	3.122
<b>Current liabilities</b>	<b>84.455</b>	<b>76.984</b>	<b>7.471</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>289.374</b>	<b>269.396</b>	<b>19.978</b>

<b>Net financial position</b>		
	30/06/2012	31/12/2011
Cash and bank	57.313	48.365
Financial instruments	27.719	24.332
<b>Cash and cash equivalents</b>	<b>85.031</b>	<b>72.697</b>
<b>Short term financial receivables</b>	<b>20</b>	<b>20</b>
Bank short term loan	(10.585)	(11.265)
Part of financial long term liabilities due within 12 months	(2.183)	(1.732)
<b>Financial short term liabilities</b>	<b>(12.768)</b>	<b>(12.997)</b>
<b>Net current financial position</b>	<b>72.284</b>	<b>59.720</b>
Bank long term loan	(8.688)	(4.548)
Bonds	(212)	(425)
Other long term financial liabilities	(1.679)	(1.711)
<b>Financial long term liabilities</b>	<b>(10.579)</b>	<b>(6.684)</b>
<b>Net financial position</b>	<b>61.705</b>	<b>53.035</b>



For comments on the consolidated net financial position, please refer to the specific paragraphs in the Notes.

## 1.9 Consolidated income statement and net financial position as of June 30<sup>th</sup> 2012 (excluding Cynosure from the scope of consolidation)

The chart below shows the consolidated Income Statement for this half and the net financial position of the Group, excluding the subsidiary Cynosure from the scope of consolidation.

<b>Income Statement</b>	<b>30/06/12</b>	<b>Inc.%</b>	<b>30/06/11</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	74.814	100,0%	67.280	100,0%	11,2%
Change in inventory of finished goods and WIP	1.015	1,4%	5.408	8,0%	-81,2%
Other revenues and income	1.432	1,9%	1.403	2,1%	2,1%
<b>Value of production</b>	<b>77.261</b>	<b>103,3%</b>	<b>74.091</b>	<b>110,1%</b>	<b>4,3%</b>
Purchase of raw materials	36.790	49,2%	36.247	53,9%	1,5%
Change in inventory of raw material	(474)	-0,6%	(2.330)	-3,5%	-79,6%
Other direct services	5.702	7,6%	5.960	8,9%	-4,3%
<b>Gross margin</b>	<b>35.244</b>	<b>47,1%</b>	<b>34.214</b>	<b>50,9%</b>	<b>3,0%</b>
Other operating services and charges	12.532	16,8%	12.759	19,0%	-1,8%
<b>Added value</b>	<b>22.712</b>	<b>30,4%</b>	<b>21.455</b>	<b>31,9%</b>	<b>5,9%</b>
For staff costs	16.406	21,9%	15.386	22,9%	6,6%
<b>EBITDA</b>	<b>6.306</b>	<b>8,4%</b>	<b>6.069</b>	<b>9,0%</b>	<b>3,9%</b>
Depreciation, amortization and other accruals	2.477	3,3%	2.876	4,3%	-13,9%
<b>EBIT</b>	<b>3.829</b>	<b>5,1%</b>	<b>3.192</b>	<b>4,7%</b>	<b>19,9%</b>
Net financial income (charges)	5	0,0%	(792)	-1,2%	
Share of profit of associated companies	(270)	-0,4%	(400)	-0,6%	-32,3%
Other net income (expense)	(1)	0,0%	0	0,0%	
<b>Income (loss) before taxes</b>	<b>3.562</b>	<b>4,8%</b>	<b>2.001</b>	<b>3,0%</b>	<b>78,0%</b>
Income taxes	2.018	2,7%	1.647	2,4%	22,5%
<b>Income (loss) for the financial period</b>	<b>1.545</b>	<b>2,1%</b>	<b>354</b>	<b>0,5%</b>	<b>336,8%</b>
Minority interest	849	1,1%	1.002	1,5%	-15,3%
<b>Net income (loss)</b>	<b>695</b>	<b>0,9%</b>	<b>(649)</b>	<b>-1,0%</b>	

<b>Net financial position</b>	<b>30/06/2012</b>	<b>31/12/2011</b>
Cash and bank	27.834	20.778
Financial instruments	101	81
<b>Cash and cash equivalents</b>	<b>27.935</b>	<b>20.859</b>
<b>Short term financial receivables</b>	<b>20</b>	<b>20</b>
Bank short term loan	(10.550)	(11.230)
Part of financial long term liabilities due within 12 months	(1.983)	(1.582)
<b>Financial short term liabilities</b>	<b>(12.534)</b>	<b>(12.813)</b>
<b>Net current financial position</b>	<b>15.421</b>	<b>8.066</b>
Bank long term loan	(8.603)	(4.469)
Bonds	(212)	(425)
Other long term financial liabilities	(1.332)	(1.409)
<b>Financial long term liabilities</b>	<b>(10.147)</b>	<b>(6.302)</b>
<b>Net financial position</b>	<b>5.274</b>	<b>1.764</b>

For the subconsolidated statement drawn up excluding Cynosure, as already mentioned, the increase in sales volume is less (+11,2%) than that registered for the consolidated statement of the Group.

The gross margin was 35.244 thousand Euros, an increase of 3,0% with respect to the 34.214 thousand Euros registered on June 30<sup>th</sup> 2011 but showing a slight drop in the incidence on the sales volume which decreased from 50,9% for last year to 47,1% for this half. The decrease in revenue from sales was mainly due to a different mix of products which was less favorable.

The “Costs for operating services and charges” showed a decrease in the incidence on the sales volume, which dropped from 19% on June 30<sup>th</sup> 2011 to 16,8% for this half, while the “Costs for personnel” decrease in their incidence from 22,9% last year to 21,9% on June 30<sup>th</sup> 2012.

As a result of these trends there was an EBITDA of about 6,3 million Euros, with an incidence of 8,4% on the sales volume as opposed to the 9,0% on June 30<sup>th</sup> 2011.

Costs for amortizations, depreciations and accruals amounted to 2.477 thousand Euros, a decrease with respect to June 30<sup>th</sup> 2011 when it was 2.876 thousand Euros; the incidence on the sales volume also decreased, from 4,3 to 3,3% for this half.

As a result, an EBIT of 3,8 million Euros was registered, an increase with respect to last year; the incidence on the sales volume also rose, to 5,1% from 4,7% for the first half of 2011.

Net financial income amounted to 5 thousand Euros (on June 30<sup>th</sup> 2011 instead it showed a loss of 792 thousand Euros) while the associated companies that showed negative results, pertain entirely to the Group without Cynosure; for this reason the relative cost entry is unchanged with respect to the consolidated statement of the Group and shows a loss of 270 thousand Euros, equal to 0,4% of the sales volume.

Pre-tax profit amounted to 3.562 thousand Euros, an improvement with respect to the 2.001 thousand Euros on June 30<sup>th</sup> 2011.

The fiscal costs for this half amounted to a total of 2 million Euros. The tax rate for this half was negatively affected by the presence of some fiscally non-deductible negative revenue components, like the devaluations made on some of the equities, mainly by the Parent company, and by the failure to enter some deferred tax assets on the losses of some of the companies during this half.

The first half of 2012 closes with a net profit for the Group of 0,7 million Euros as opposed to the loss of 0,7 million Euros registered for the first half of 2011.

## 1.10 Subsidiaries results

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 scope 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 first half of 2012.

	Revenues 30-giu-12	Revenues 30-giu-11	Var. %	EBIT 30-giu-12	EBIT 30-giu-11	Net income 30-giu-12	Net income 30-giu-11
El.En. SpA	21.773	23.468	-7,22%	2.289	2.393	834	-715
<i>Subsidiary companies:</i>							
Cynosure (*)	56.733	34.256	65,61%	2.984	-2.152	2.133	-2.185
Deka Mela Srl	12.895	11.816	9,14%	369	601	441	672
Cutlite Penta Srl	4.225	4.328	-2,38%	-393	-32	-353	-50
Esthelogue Srl	1.547	686	125,51%	-115	-1.421	-96	-1.372
Deka Technologies Laser Sarl	1.222	1.526	-19,93%	-427	6	-426	5
Deka Lasertechnologie GmbH	40	105	-61,51%	-47	15	-47	15
Deka Laser Technologies Inc.	876	1.218	-28,04%	-192	-127	-199	-133
Deka Medical Inc.	1.555	982	58,31%	-194	-410	-193	-414
Quanta System SpA	12.602	11.393	10,61%	1.109	741	565	185
Asclepion Laser Technologies GmbH	9.101	7.576	20,13%	180	-251	111	-224
Asa Srl	3.034	3.313	-8,43%	410	665	259	406
Arex Srl	381	452	-15,74%	5	30	-5	11
AQL Srl	109	80	36,51%	-16	-33	-17	-26
Ot-Las Srl	669	1.078	-37,95%	-287	-199	-218	-152
Lasit Spa	3.711	2.983	24,40%	434	134	288	17
Lasercut Technologies Inc.	80	124	-35,01%	-40	5	-41	3
BRCT Inc.	0	0		-2	1	1	3
With Us Co LTD	13.104	9.522	37,62%	922	509	484	382
Deka Japan Co LTD	1.347	1.257	7,12%	63	147	35	75
Wuhan Penta Chutian Laser Equipment Co LTD	9.057	7.998	13,24%	388	1.134	633	760
Lasit Usa INC	460	389	18,30%	48	-20	47	-20
Cutlite do Brasil Ltda	1.485	2.074	-28,38%	-227	-40	-284	-33
Pharmonia Srl	757	890	-14,91%	-35	-81	-39	-64
Quanta France Sarl	215	0		-59	0	-59	0
Ratok Srl	0	0		0	2	0	2

(\*) consolidated figures

### El.En. S.p.A.

The parent company, El.En. SpA, is active in the development, planning, manufacture and sale of laser systems for use on two main markets, the medical-aesthetic market and the industrial market; it also includes a series of after-sales services, like supplying of spare parts and consulting and technical assistance, which represent an integral part of its activity.

In following a policy of continued expansion over the years El.En. SpA has founded or acquired numerous companies which operate in specific sectors or geographic areas, the activities of which are coordinated through the definition of the supply channels, the selection and control of the management, the partnerships in research and development activities and financing both on capital account and financing with interest or through the granting of credit on sales.

The importance of this coordinating activity continues to be very evident, since most of the sales volume of the company is absorbed by the subsidiaries, while the financial management of the equities takes on a major importance both in the absorbing of managerial resources as well as in the impact on the economic and financial results of the company.

As in earlier years, the activities of El.En. SpA, takes place at the headquarters in Calenzano (Florence) and in the local branch in Castellammare di Stabia (Naples).

Results of the operating activities in the first half of 2012 were not particularly satisfying and were affected by the continued economic crisis in Europe and the drop in sales volume. The increase in the financing granted in support of research and development and the control of expenses made it possible to maintain an EBITDA at the same level as last year; the accruals on receivables which was again made necessary by the operating and financial difficulties of clients

and subsidiary companies on the other hand produced a reduction in the EBIT which, in any case, improved in the incidence on the sales volume which was 10,5%.

The amount of earnings which pertained to the financial income was quite significant, thanks in particular to the positive difference in the exchange rate for some of the receivables in US dollars. The charges that the Parent Company must absorb in order to sustain the activities of the subsidiary companies, its main clients, are shown with the other charges and are still substantial although decreasing with respect to last year; the devaluation of the equities which, besides the loss of the initial capital is also affected by the necessity of covering the losses incurred during the year, reflect the financial investment needed to create new commercial markets for El.En. products and the necessity of financing the start-up phase which, in part due to the unfavorable economic climate, has turned out to be longer and more complex than initially expected.

Consequently, earnings before taxes were quite positive (7,9% of the sales volume) which made it possible to return to a net profit of 834 thousand Euros for the first half, reversing the losses for 715 thousand Euros registered for the first half of 2011.

In consideration of the persistence of the negative local and international economic climate, the outlook for the end of this year must be evaluated with great caution; we are, however, sure that in the second half we will be able to improve on the results for the first half of this year.

### **Cynosure Inc.**

This company, listed on Nasdaq (CYNO), operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications. After the crisis of 2008 interrupted several years of exceptional growth and profits and caused a reduction in sales volume and profits for the years that followed, 2012 has represented a turning point with a return to fast growth and high EBIT and net income.

This result was obtained thanks to the recovery of the core markets and the excellent management of the assets acquired in 2011: Elémé with its interesting system SmoothShapes®XV for “body shaping”, the marketing of Pinpointe for onicomicosis and, above all, the California company HOYA ConBio®, leader in the sector for removal of tattoos and vascular lesions. The total investment of about 30 million dollars made by Cynosure in 2011, thanks to the successful management of the integration of the new acquisitions, will assure an increase in the sales volume on an annual basis that is far greater than the amount of the investment.

In February of 2012 the Cellulaze system, an evolution of the Smartlipo system and the result of a joint project with El.En. S.p.A., obtained FDA clearance for marketing in the United States. The testing of the effectiveness of the system, the only one that removes cellulitis with a single, minimally invasive operation, required on the part of the FDA an extremely laborious procedure which was unusually long for this type of equipment and this fact caused a long delay in launching the product on the most important market. The results for 2012 were immediately benefitted, the business volume and the margins obtained, with this unique and innovative system for a widely requested application.

With its 360 employees, Cynosure combines its considerable marketing capacity with a brilliant research and development team, which is able to successfully handle highly innovative projects. One of the most interesting activities in the last few years has been the development of a new product intended for home use which has been conducted in partnership with the multinational Unilever and received FDA clearance in July of 2012; this product will be launched exclusively by Unilever next year.

Moreover, great interest was aroused by the preliminary application results of the innovative picosecond laser system “Picosure” presented for the first time at the ASLMS congress in April of 2012. This technology which, because of its complexity, up to now has been used only in research laboratories, has been developed into a system which is capable of revolutionizing application techniques in various specialties, above all in tattoo removal, for which it is much more effective than any system now available on the market.

### **Deka M.E.L.A. Srl**

Deka represents the main marketing channel for the range of medical laser systems developed in the laboratories of the factory in Florence. It was one of the first companies to become part of the Group and has gradually consolidated its position on the market, first in Italy and later in other countries. Deka operates in the sector of dermatology, aesthetics, and surgery and makes use of a network of direct agents Italy and, for export, of highly qualified distributors. DEKA has assigned the management of the physical therapy segment to the subsidiary ASA, and obtained excellent results both in terms of sales volume and profits. For the dental sector in Italy, since 2010 Deka has managed their own distribution, after terminating earlier agreements with an outside distributor.

Although the level of sales volume is maintained and increased, in 2012 Deka has been subjected to constant pressure in relation to their sales margins, in particular in Italy where the economic situation made it impossible to sell high priced systems as they had done in the past, but also in the distribution of on European and non-European markets. For this reason, the results for 2012, although positive, show a decrease with respect to the same period in 2011, and at this time there are no expectations for making up the difference.

**Cutlite Penta Srl**

This company manufactures laser systems for industrial cutting applications and installs X-Y movements controlled by CNC on power laser sources manufactured by El.En. S.p.A..

The first half of 2012 represented for Penta a difficult phase of transition during which they had to sustain expenses for promotions, trade fairs and open houses, and a qualified staff with an aim to increasing the volume of business, in particular through the creation of a stable selling structure for metal cutting systems. All of this occurred during a period of difficulty for its main markets, which are mostly Italian and European and in the presence of a drop in sales to the subsidiary Wuhan Penta Chutian, which was also having to face market conditions that were less favorable than expected. The result was a loss, which was also penalized by the reduction in margins, however the company counts on a recovery in sales volume and revenue in the second half.

The financial situation of the company is characterized by a high level of payables to the Parent Company El.En. S.p.A., which is their fundamental technological partner, as well as their financial partner, also in the important controlling equity they have in Wuhan Penta Chutian.

**Wuhan Penta Chutian**

The company celebrated its fifth anniversary in May of this year. It is located in the Hubei region of central China and is involved in the development of the production of laser cutting systems for the local market. The company benefits from the system technology of Cutlite Penta, the laser sources manufactured by El.En. and the experience of the local partner for the manufacture and distribution. During its five year existence it has continued to show a constant growth in sales volume and earnings.

During the first half of 2012 the company again showed growth in sales volume and had to deal with the slow-down of the Chinese economy. This occurred at the same time that there was an increase in the level of expenditures which were intended to re-enforce the management for the purpose of improving the quality of the structure which aspires to reach an important part of the local market.

**Quanta System SpA**

Quanta System started as a research laboratory and became part of the scope of consolidation of the Group in 2004; it represents a company of excellence at a global level for its innovation and technological research in the laser sector.

The company has concentrated mainly on the medical-aesthetic sector and had planned its growth in particular in the aesthetic sector on the acquisition of the Spanish company GLI; when this company ran into difficulty, Quanta System differentiated its products and became a supplier of advanced technological solutions in the surgical sector.

Currently the products offered by Quanta System would appear to be particularly suitable for the requirements of the market. In the medical sector the Alexandrite hair removal systems have been highly successful, while using Q-switched technology they produce systems for the removal of tattoos and vascular lesions; the former have become very popular in the USA and the latter in the Far East. In the surgical sector sales are concentrated on endovascular treatments and those for BPH (benign hyperplasia of the prostate) thanks in particular to the Tullium technology and, for lithotripsy the 30W Holmium laser has become the standard treatment used by numerous partners that buy from Quanta in OEM.

The activities in OEM, which represent a significant quota of the sales volume of Quanta, are conducted to the benefit of partners of major importance including some companies of the Group; in 2011 Cutera Inc., quoted on Nasdaq (CUTR) and one of the leaders on the international markets, also became one of the partners.

The EBIT for this half was positive and improved those of last year. The net income also showed a marked improvement thanks to the decrease in incidence of the negative effects derived from the results of the associated company GLI which, even though operating in an economic situation of considerable tension, was able to reduce the losses. The outlook for the second half of 2012 therefore remains positive.

**Asclepion Laser Technologies GmbH**

This company, located in Jena, was acquired from Carl Zeiss Meditec and represents one of the main activities of the Group; thanks to its geographical location in the global cradle of the electro-optical industry and its capacity to associate its image with the highly prestigious consideration which the German high-tech products enjoy throughout the world, in the last few years, Asclepion has gradually acquired a high standing on the international markets for laser equipment for medical applications.

The last two years have been characterized by a series of difficulties with the volume of business limited by the crisis and the expansion in the specific aesthetic sector which came to a halt without achieving the objectives which had been set. Starting in the fourth quarter of 2011, in particular after the launching of the Medistar Next hair removal system, the company again became a market leader and achieved positive results; at the end of 2011 Asclepion became part of the capital of Esthelogue S.r.l., which distributes its systems on the professional aesthetic market in Italy.

The outlook for the end of 2012 is good, also in view of the fact that traditionally the fourth quarter is the best one in the year.

**With Us**

This company distributes Deka products on the Japanese market and on account of its importance several specific models are produced specifically for its requirements. With Us constitutes a point of reference for “light based” technologies in the field of aesthetics in Japan, thanks to its substantial base of installations and its capacity to renovate the offer. In the first months of 2012 the company registered a significant increase in the sales volume, thanks in part to the improved exchange rate between the Japanese currency and the Euro, and the numerous sales, in distribution, of some of the aesthetic equipment manufactured locally. The sales margin for these latter is less than those that are subject to traditional sale, with an obvious effect in the reduction of the sales margins which, however, thanks to the high volume of sales, did not prevent them from achieving a considerable improvement in the EBIT and net profits for this half.

It should be noted that in March of this year the company acquired treasury stock and bought out one of the minority partners, thus raising the quota of the Group’s equity from 51,25% to 78,85%, an operation that even on a short term basis confirms its advantage.

The general outlook for the company’s activities remains good.

**ASA Srl**

This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. Srl, and operates in the field of physical therapy. The perfect balance between the innovation of products and the clinical and commercial activities directed towards the support of the therapeutic methods of the systems developed has consolidated the quality of their offer and along with it their position on the market so that the company has been able to register a constant growth rate, even in these years of crisis. In the first half of 2012 the sales volume decreased with a consequent drop in revenue which, however, still maintains a good level. The plans for 2012 include the objective of continued growth, a goal which is, in any case, achievable notwithstanding the drop in the first half.

**Other companies in the medical sector**

In France **Deka Technologies Laser Sarl** distributes the Deka range of laser systems. In 2011 the growth in sales came to a sudden halt and, combined with the increase in expenses, caused a loss for the period. The beginning of 2012 confirmed the period of difficulty with a sales volume that was far below breaking even, in part also for the drop in the sales margins. The operating expenses decreased slightly but were not sufficient to avoid the heavy losses that were registered, of such an entity that it is not likely they will be recovered in the second half. **Deka Lasertechnologie GmbH**, which has the same purpose as the French company but operates on the German market, at the beginning of 2012 attempted to revitalize their stagnant volume of business with a series of initiatives which increased their operating costs without producing the hoped for results, at least up to now.

**Deka Japan** is now entering its fourth year of activity and is involved in the distribution of medical systems in Japan. The volume of business remains on substantially the same level as last year, with moderate revenue conditions. During July the MOH or Ministry of Health issued the authorization for sale of the Smartxide Dot system, which can now be marketed and promoted in Japan thus increasing sales.

The distribution of DEKA systems in the United States is made through **Deka Laser Technologies Inc.** for the dental sector and **Deka Medical Inc.** for the medical/aesthetic and surgical sector. The marked improvement registered at the beginning of the year by Deka Medical, while reducing the operating losses, still was unable to produce a break-even in the Income Statement. In the dental sector, costs were reduced in an attempt to balance the sales volume, for which a recovery is expected in the next few months.

At the end of 2009 the Group entered the segment of professional aesthetics with the creation of **Esthelogue Srl**, for the direct distribution of its products after the crisis of its original distributor in this sector. After registering a rapid growth in 2010 the main problems related to this sector began to emerge, in particular the financing and solvency of the clientele and because of the losses that had been incurred it became necessary to down size the structure of the company. On the basis of this smaller structure with lower overhead and more adapted for the particular market situation, besides the financial and operative support of the El.En. and Asclepion partners, the activity was relaunched and is now going through a positive phase. The recovery of the sales volume is satisfactory and the EBIT is negative only due to the accruals on receivables booked in the past. It should be recalled that for our products, which are distinguished by the high technical quality and the dedication to laser systems, reaped great benefit from the legislative intervention of July 2011 which clarified the area of use of laser technologies in this sector.

**Raylife Srl**, a subsidiary of the German company Asclepion, has abandoned the aesthetics distribution sector and has changed its name to **Pharmonia Srl**; under this name it will distribute aesthetic systems specifically designed and manufactured for use in pharmacies, for which the first installations have already been made.

During 2011 Quanta System Spa acquired control of its French distributor, **Quanta France Sarl**, which represents a sisal branch office on French territory; during this half the company did not develop a sales volume that was sufficient to break even.

The medical center **Arex Srl**, which is specialized in the treatment of psoriasis and vitiligo continued their activity in a satisfactory manner.

#### **Other companies in the industrial sector**

**Ot-Las Srl** designs and manufactures special laser systems for CO<sub>2</sub> laser marking for the decoration of large surfaces and is present on the market with advanced technological solutions thanks also to its close technological cooperation with the parent company El.En. for the creation of strategic components. The negative phase with losses which occurred in 2011 persist in the first months of 2012 to the extent that measures have been taken to reduce overhead and modify the organizational structure of the production in order to face this prolonged period of drop in demand with lower general expenses.

**Lasit Spa** is specialized in the manufacture of marking systems for small surfaces and besides having a valid research and development team in the headquarters in Torre Annunziata (Naples), controls an Italian company, **AQL Srl** and an American company, **Lasit USA, Inc.** which are involved in the distribution of the Lasit systems. Lasit is also equipped with a complete modern mechanical workshop where they carry out work for other companies of the Group and are able to offer their own clientele customized services which make the company unique on the market. After a phase of crisis and re-organization in which they broke even in 2010, Lasit continued its strong growth and in 2011 obtained the best results in its history and started a trend which continued and even improved in 2012; the result for this half is excellent and shows an increase in sales volume of 24% and an EBIT that is more than double.

The subsidiaries **Lasit Usa Inc.** showed a good level in the sales volume for this half and a positive EBIT which contributed to the excellent results of the controlling company.

**BRCT Inc.** holds the real estate property located in Branford, Connecticut and operates as a financial sub-holding company with a series of foreign equities including **LaserCut Technologies Inc.** which operates supplying after sales service for industrial systems throughout the USA.

**Cutlite do Brasil Ltda** is occupied with the distribution and production in Brazil of laser systems for industrial applications. Its headquarters are located in Blumenau in the state of Santa Catalina, one of the areas of this country most suited for manufacturing activity. After a first quarter which showed significant recovery, activities again suffered a slow-down in the sales volume and registers a loss for this half.

### **1.11 Research and Development activities**

During first half of 2012 the Group conducted an intense research and development activity for the purpose of discovering new laser applications both in the medical and the industrial sectors and to place innovative products on the market.

The Group increased the investments in R&D to face the economic crisis which required even more attractive items for the market through the presentation of new products and applications. Valid innovations, in fact, can convince clients in both the medical and industrial sectors to overcome their fears concerning the amount of the investment to be made.

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

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

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

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

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

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

#### Systems and applications for lasers in medicine

The Parent Company, El.En. has developed a new family of equipment and sub-systems for of the SMARTXIDE<sup>2</sup> family of CO<sub>2</sub> laser products for surgical uses and aesthetic medicine. The systems are equipped with a laser source fed by radio frequency with an average power of up to 80w and interface management from personal computer installed on the device. These are multi-disciplinary systems which can be used in general surgery, otorhinolaryngology, dermatology, gynecology, odontostomatology, laparoscopic surgery, aesthetic surgery, and in this field we have continued or started research on new clinical applications; for this purpose we are now working on further technological innovations that are contained in the scansion systems that are characterized by newly developed optical systems and electronic management which make it possible to perform surgical operations on various parts of the body with extreme precision.

For some of the versions of this group of devices, there is the possibility of having a second semi-conductor laser source with a wave length that can be selected by the client when ordering; for semiconductor sources we are conducting research in collaboration with medical specialists for uses in new fields. At numerous centers in Italy and other countries there is an intense activity in the collection of clinical results related to the innovative applicative possibilities created by the machines belonging to this group.

The research activities that are part of the MILORDS project have continued. This project was approved by the Region of Tuscany and co-financed by the European Union; the MILORDS project involves the development of new robot-controlled laser systems for surgical applications in ophthalmology, cutaneous ulcers, treatment of benign hypertrophy of the prostate, and, eventually, the percutaneous ablation of masses inside the human body. The project, of which El.En. is the leader, has as its partners the leading research centers in Tuscany in this sector and companies that are connected to multinationals in the field of robotics. The research of this type is part of the current involving development of systems for minimally invasive surgery which has a major impact both on the quality of life of the patient and on the reduction of expenses of the health care agencies.

We are now concluding the development phase of the new platform (Alex+Nd:YAG+IPL). This is a matrix device capable of sustaining various terminals emitting luminous radiations, integrated for: management and interface with the doctor, supply of electrical current sand conditioning fluids, ergonomic mechanical support, management of the various integrated systems. We are also in the conclusive phase of the activity involving the collection of data from the experimentation in clinics in Italy and other countries.

We have continued the development of instruments and clinical experiments for innovative laser equipment belonging to the HILT family of equipment (High Intensity Laser Therapy) and RLT (Regenerative Laser Treatment) for uses in physical therapy, dermatology (cutaneous ulcers), with experiments also conducted in the USA in collaboration with various research centers, using animal models, like horses.

We have concluded, the complex procedure for the validation of clinical trials as part of the collaboration for new experimental research on treatments of patients with cartilage diseases of the knee joint with the Istituti Rizzoli of Bologna which have been our partners now for several years, and with specialized orthopedic clinics in Germany. Procedures are now in progress in order to obtain authorization from the Ethics Committees of the various health institutions involved.

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

We have continued research and experimentation in collaboration with the university clinics of Pisa and Florence and with the Department of Engineering and Telecommunications of the University of Florence; we are now concluding research for the creation of interaction laser tissue models for programming ablation operations. Moreover, we are continuing research aimed at identifying methods for characterizing tissue treated with radio-frequency ultrasonic signals in order to improve the verification phase of the effects of the treatment received; we have completed the activities aimed at identifying the procedures for making cooled point applicators with forced circulation of liquid. These activities were conducted as part of the technological phase which follows the research conducted as part of the TRAP project with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany.



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

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

We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis, while at the same time obtaining protection for the brand names and applications for the most important countries.

At El.En. we have conducted research for new medical applications in the recently created PHOTOBIO LAB for the study of the interaction between light and biological tissue. We have continued activities for autonomous research with the help of molecular biology methods. As part of this project we have a workroom for in vitro trials of pre-prototype equipment and for the education of the operators. The creation of laser devices for surgical operations in the venous vascular sector has been completed.

At Cynosure they have completed experiments on the treatment of cellulitis with new instruments which have innovative characteristics in terms of the power levels and control of their output with recto-activated systems using information from temperature sensors working on more than one wave length.

Clinical studies were continued on new methods for eliminating tattoos and discolorations on the skin with as new alexandrite laser with impulses in pico-seconds using a wide range of pigment colors.

Quanta System continued their activity for the development of two new laser types, a Holmium and a Tullium infrared, for the treatment of benign hypertrophy of the prostate and for a fiber laser with increased performance with respect to the state of the art; which was in part financed by funds from a European Union project. They are also actively conducting research on new laser equipment with multiple wave lengths with Q-switch technology.

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

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

#### Laser systems and applications for industry

We have conducted studies related to the use of turbines with magnetic bearings for CO<sub>2</sub> power lasers for the purpose of reducing pollution from gaseous mixtures of the active means and guarantee reliable functioning on high speed rotation. We are now developing methods for optimizing the emission wave length for CO<sub>2</sub> power lasers for applications in the field of cutting and sealing plastic materials.

We are now in the testing and experimentation phase for scansion and focalizing heads for fiber lasers for remote welding of metallic materials for the automotive sector and the manufacture of furniture. As part of this research we are developing a new dynamic system for the focalization with high speed response. We have concluded the experimentation activities related to cutting applications of metallic materials after developing a capacitive sensor for controlling the position of the focal zone of the laser ray with respect to the surface of the material.

As part of the program sustaining the development of methods and equipment for restoration of art works in Tuscany the regional project (TEMART) is now in its final phases; in this project El.En. is responsible for the development of the laser equipment for particular types of cleaning of various kinds of art works. An important result was obtained, among others, for the generation of programmable short-term impulses. We have scheduled the work phases and conducted feasibility studies on new diagnostic systems for paper in antique books using lasers; this system has recently been patented.

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

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

Cutlite Penta is a company that is active in the development of new systems and innovation of technical solutions in systems that are already being manufactured.

They completed verification trials on structural and functional innovations developed on sealed CO<sub>2</sub> sources manufactured by El.En. and they started new developments in this family of sources with higher degree of compacting. They continued work on the development of an electronic system for remote diagnosis and remote assistance of industrial machines. They have developed new compact cutting systems with higher performance and limited costs.

They are now working on developing methods for eliminating most of the optical routes of the CO<sub>2</sub> laser ray with solutions that include the direct assembly of the new sources with radio-frequency pumping on the mobile portal of the machine.

They have also completed the development of the software for the raster scanning used for superficial marking of metals and other materials on the cutting machines. They have initiated feasibility studies for new laser applications in the production cycle of glass objects.

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

At Ot-las the engineering and development activities have been concentrated on the integration of technological components supplied by the Parent Company El.En. S.p.A. in laser marking systems which are designed to identify and to satisfy the new needs for manufacturing production, in particular with high added value and creative content. They have continued the development of systems destined for the OEM market and the integration into production lines or cells for working on high speed 2D marking lines for 3D cutting of plastic components and heat perforated plastics.

The chart below shows the expenses sustained for Research and Development.

<i>thousands of euros</i>	<b>30/06/2012</b>	<b>30/06/2011</b>
Costs for staff and general expenses	7.259	5.969
Equipment	164	83
Costs for testing and prototypes	897	989
Consultancy fees	308	339
Other services	442	261
<b>Total</b>	<b>9.069</b>	<b>7.643</b>

As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity the company conducts in this sector. The amount of expenses sustained by Cynosure during this period for research and development was approx. 6,7 million dollars as opposed to the 4,7 spent during the same period last year.

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 the expenses sustained corresponds to 7% of the consolidated sales volume of the Group. The amount related to Cynosure, as stated above, is 6,7 million dollars which represents about 9% of its sales volume; the rest of the expenses were sustained mostly by El.En. SpA and represents 10% of its sales volume.

## **1.12 Risk factors and procedures for the management of financial risks**

### *Operating risks*

Since the company is fully aware of the potential risks derived from the particular type of product made by the Group, already in the earliest phases of planning and research, they operate so as to guarantee the safety and quality of the product put on the market. There are marginal residual risks for leaks caused by improper use of the product by the end-user or by negative events which are not covered by the types of insurance policies held by the companies of the Group.

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, derivative contract and financial instruments.

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 currency exchange, credit, cash and interest rates.

*Currency risks*

In the first half of 2012, approx. 70% 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. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. 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. There are no significant concentrations of credit risks within the Group. The devaluation fund which is accrued at the end of the year represent about 13% of the total trade receivables from third parties.

In relation to guarantees granted to others, it should be noted that the Parent Company El.En along with a minority partner, in 2009 underwrote a bank guarantee for a maximum of 1 million Euros to guarantee the debt of the subsidiary Quanta System to the Banca Popolare di Milano for facilitated financing of 900 thousand Euros, the installments for which expire up to 84 months after the date of issuance, which took place in the second half of 2009.

In 2010 the Parent Company, El.En. SpA underwrote the following:

- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TROPHOS" research project which has been included in the grant issued by the Bando Unico R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31<sup>st</sup> 2008, with original expiration date in April 2012, prolonged until October 31<sup>st</sup> 2012;
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1.203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TRAP" research project which has been included in the grant issued by the Bando Unico R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31<sup>st</sup> 2008, with original expiration date in April 2012 prolonged until October 31<sup>st</sup> 2012;
- a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the "TEMART" research project which has been included in the grant issued by the Bando Regionale in the year 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21<sup>st</sup> 2008, with expiration date July 2012;
- a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008, with expiration date in November 2013;

And during 2011:

- a bank guarantee jointly with the companies which participate in the ATS constituted for this purpose, for a maximum amount of 3.074 thousand Euros as a guarantee for the payment of the sum required as a deposit on the MILORD research project, which has been included in the grant issued by the Bando Regionale 2010 approved by the Region of Tuscany with Directive Decree n. 670 on February 25<sup>th</sup> 2011, which expires in September 2014.

The subsidiary Deka MELA underwrote a bank guarantee for a maximum amount of 1.178 thousand Euros as a guarantee for the payment of the sum required for the reimbursement of the VAT for the fiscal year 2010, with expiration date in March 2015.

The subsidiary Quanta System issued a bank guarantee in favor of some credit institutions of the associated Grupo Laser Idoseme for a residual of 312 thousand Euros which fell due on February 27<sup>th</sup> 2012 and was renewed for an amount of 200 thousand Euros until February 27<sup>th</sup> 2013; for the remaining portion a bank guarantee was issued which will be renewed every quarter for gradually decreasing amounts until it is extinguished on January 31<sup>st</sup> 2013.

*Cash and interest rate risks*

As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this half in such a way as to cover existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are sufficiently covered.

*Management of the capital*

The objective of the management of the capital of the Group is to guarantee that a low level of indebtedness and a correct financial structure sustaining the business are maintained so as to guarantee an adequate ratio between capital and reserves and debts.

## 1.13 Governance

In compliance with Art. 19 of the company bylaws, the company is administered by a Board of Directors with a number of members which may vary from a minimum of three to a maximum of fifteen. The Assembly which convened on May 15<sup>th</sup> 2012 to vote on the renewal of the Board of Directors, which will remain in office until the approval of the financial statement closing on December 31<sup>st</sup> 2014, voted that there should be eight members making up the administrative organ of the company.

As of June 30<sup>th</sup> 2012 the Board of Directors was composed as follows:

Name	Position	Place and date of birth
Gabriele Clementi	President and executive director	Incisa Valdarno (FI), 8 July 1951
Barbara Bazzocchi	Executive director	Forlì, 17 June 1940
Andrea Cangioli	Executive director	Firenze, 30 December 1965
Stefano Modi	Board Member	Borgo San Lorenzo (FI), 16 January 1961
Paolo Blasi (*)	Board Member	Firenze, 11 February 1940
Michele Legnaioli (*)	Board Member	Firenze, 19 December 1964
Angelo Ercole Ferrario	Board Member	Busto Arsizio, 20 June 1941
Alberto Pecci	Board Member	Pistoia, 18 September 1943

(\*) Independent administrators in conformity with article 3 of the “Codice di Autodisciplina delle Società Quotate”

The members of the Board of Directors, for the period in which they are in office, have their legal residence at company headquarters, El. En. S.p.A. in Calenzano (Florence), Via Baldanzese 17.

On May 15<sup>th</sup> 2012, the Board of Directors assigned to the President of the Board, Gabriele Clementi and to the Deputy members, Andrea Cangioli and Barbara Bazzocchi, separately from each other and with free signature, all of the powers of ordinary and extraordinary administration for conducting the activities related to the company business, and excluding only, those powers which cannot be delegated in compliance with the law and with company bylaws.

In order to act in conformity with the Self-disciplining Code for companies listed on the stock market:

- a) On August 31<sup>st</sup> 2000 the Board of Directors presented two independent administrators among its members, in compliance with Art. 3 of the Self-disciplining code mentioned above. These independent administrators are now Prof. Paolo Blasi and Michele Legnaioli;
- b) On September 5<sup>th</sup> 2000 the Board created the following committees composed mainly by non-executive administrators:
  1. the “Nomination committee”, to which are assigned the tasks in conformity with art. 6 of the self-disciplining Code for companies quoted on the stock market;
  2. the “Compensation committee” to which are assigned the tasks in conformity with art. 7 of the self-disciplining Code for companies quoted on the stock market;
  3. the “Internal controls committee” to which are assigned the tasks in conformity with art. 8 of the self-disciplining Code for companies quoted on the stock market in relation to internal controls as well as those derived from the CONSOB Regulations for Related parties concerning operations with related parties.
- c) Up until 2000 the Board of Directors had appointed one or more subjects to verify that the system of internal controls was always adequate, completely operative and functioning (provost(s) for internal controls)

The Board of Directors meets at least every quarter in order to guarantee adequate information for the Board of Statutory Auditors concerning the activities and the most important operations conducted by the Company and its subsidiaries.

Internal auditing of the company is conducted by the parent company of the Group in collaboration with the personnel of the subsidiary companies. From an organizational point of view, the administrators of the parent company of the Group attend the board meetings of the subsidiary companies as board members or have the office of single administrator, or else, the administrative organ of the subsidiary supplies the fully detailed information required for establishing the organization of the activities of the Group.

As far as the accounting information is concerned, before the end of the month following the quarter being considered, the subsidiaries are required to supply to the parent company of the Group all the information necessary for drawing up the consolidated financial and economic reports.

## 1.14 Related parties

In compliance with Regolamento Consob dated March 12<sup>th</sup> 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties ( “*Regolamento per la disciplina delle operazioni con parti correlate*”) which can be consulted on the internet site of the company [www.elengroup.com](http://www.elengroup.com) section. “*Investor Relations*”. These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-*bis* of the civil code, of the recommendations contained in art. 9 (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di Autodisciplina delle Società Quotate*), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties (“*Regolamento Operazioni con Parti Correlate*”) n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24<sup>th</sup> 2010. The procedures contained in the “*Regolamento per la disciplina delle operazioni delle parti correlate*” went into force on January 1<sup>st</sup> 2011.

The operations conducted with related parties, including the inter-Group relations cannot be qualified as atypical or unusual; these operations are regulated by ordinary market conditions.

In regard to the relations with related parties, please refer to the specific paragraph in the Explanatory Notes.

## 1.15 Atypical and unusual operations

In compliance with Consob Communication DEM/6064293 of July 28<sup>th</sup> 2006, we wish to state that during the first half of 2012 the Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

## 1.16 Significant events during the first half of 2012

On January 30<sup>th</sup> 2012 the subsidiary Cynosure, Inc. (NASDAQ: CYNO) announced that the U.S. Food and Drug Administration (“FDA”) had authorized the commercial distribution of the Cellulaze™ in the United States. After almost four years of clinical research Cellulaze has been placed in a class of excellence of its own: it is the only procedure which has given clinical proof that it reduces cellulitis in a sole treatment. Cellulaze therefore completes the family of Smartlipo™ systems for body shaping.

After the authorization for the sale of this innovative system, which is the result of collaboration between the research teams of Cynosure and El.En., we expect a significant rise in sales and a consolidation of the leadership position of the Group in the minimally invasive laser-lipolysis applications, in which Cellulaze represents the ultimate device designed specifically for removal of cellulitis.

The President and CEO of Cynosure has stated that “Cellulaze is the first and only minimally-invasive system for treating women who have struggled to eliminate cellulitis with diet and exercise or have tried the many lotions and creams now on the market. Unlike these products, Cellulaze is the only device that directly treats the physiological structure of cellulitis and has given clinical proof of effectiveness”.

It is estimated that about 85% of women over 20 have some kind of cellulitis – small sacks of fat deposited under the surface of the skin, around the hips, thighs and gluteus which produce an “orange peel” effect. According to market research, the treatment of cellulitis constitutes a multi-million dollar business.

On January 31<sup>st</sup> 2012 the Parent Company sold the equity they held in Alfa Laser Srl (19%) to a third party for an amount of 1.000 Euros.

On March 30<sup>th</sup> 2012 the Japanese subsidiary With US Co. acquired shares equal to 35% of the capital stock of the company from a minority shareholder. As a result of this operation, the amount of the equity of the Group in this company was increased from the 51,25% previously held to 78,85%. The shares were purchased at the nominal value of 35.000.000 Japanese Yen, for the corresponding value of the amount of the shareholders’ equity of the company with reference to March 31<sup>st</sup> 2012, which was about 107 million Yen. The greater value obtained in this way, which amounted to about 650 thousand Euros, does not represent revenue and increases the consolidated shareholders’ equity and, percentage-wise, that of the Group.

On May 7<sup>th</sup> 2012 the ordinary shareholders’ meeting of Elesta S.r.l., a company in which the Parent Company El.En. S.p.A. holds a 50% equity, voted to cover the losses shown in the financial statement on December 31<sup>st</sup> 2011 and the financial statement drawn up on March 31<sup>st</sup> 2012 in compliance with art. 2482-*bis* c.c., for an amount of 643.602 Euros, by reducing the capital stock to zero, using the reserve that had been created for this purpose during the preceding financial year for an amount of 128.472 Euros plus an extra payment. They also voted to re-establish the capital stock for the original amount of 110 thousand Euros: the increase was entirely underwritten by the partners.

On May 15<sup>th</sup> 2012 the ordinary shareholders' meeting of the Parent Company El.En. S.p.A. approved the following measures:

Approval of the financials dated December 31<sup>st</sup> 2011

The assembly approved the financial statements of El.En. SpA and voted to deposit the profits for the year, amounting to 1.264.103,00 Euros in an extraordinary reserve.

Approval of the report on remuneration

The assembly approved the report on remuneration drawn up in compliance with art. 123-ter D.Lgs. of February 24 1998, n. 58.

Appointment of the members of the Board of Directors

After determining the number of members that constitute the Board, the assembly renewed the Board of Directors of the company and confirmed all of the previous members of the Board and the president, Gabriele Clementi. The members of the new Board will remain in office until the shareholders' meeting that is convened to approve the financials on December 31<sup>st</sup> 2014.

The assembly also voted on the maximum gross amount of the indemnity to be assigned to the Board members.

Appointment of the independent auditors for 2012/2020

In compliance with articles 12, 14 and 17 of D.Lgs. January 27<sup>th</sup> 2010, n. 39, upon expiration of the term of appointment as auditors which had been conferred to Reconta Ernst & Young SpA, Deloitte & Touche SpA were appointed as auditors for the years 2012/2020; the assembly also voted on the amounts of remuneration on the basis of the proposals advanced by the Board of Statutory Auditors.

In a special session the Assembly also approved:

Adjustment of the company by-laws

The assembly voted to adapt the company by-laws in compliance with L. 12 July 2011 n. 120 and the new Self-disciplining Code for companies listed on the stock market to the modifications on articles 19, 25 20 and 25.

Other modifications in the by-laws

The Assembly also voted to change art. 13 with the modification of the publication title for the notice of convocation of the assembly.

On May 15<sup>th</sup> 2012 the newly appointed Board of Directors, confirmed as managing directors the president of the Board Gabriele Clementi and the executive members Barbara Bazzocchi and Andrea Cangioli and assigned to them, separate from each other and with the right of signature, all the ordinary and extraordinary powers of administration for conducting the activities set forth in the company by-laws, with the exception of those attributions for which proxies are prohibited by law and by the company by-laws. The Board then proceeded with the appointment of the committee members in compliance with the Self-disciplining Code for listed companies, and confirmed the members whose term was expiring, as well as the revision of the regulations naming of the committees in view of the recent modifications in the Self-disciplining Code.

## **1.17 Subsequent events**

On August 3<sup>rd</sup> 2012 the subsidiary Ot-las Srl sold its equity in Lasit SpA, equal to 17,33% to the Parent Company El.En. S.p.A., for an amount of 450 thousand Euros.

Also on August 3<sup>rd</sup> 2012 the Parent Company El.En. S.p.A. increased the amount of its equity in Ot-las by buying 10% from a minority shareholder for 150 thousand Euros, thus bringing the amount of their equity to 100%.

On August 27<sup>th</sup> the Company received from Dott. Angelo Ercole Ferrario the letter of resignation from his position of board member from Dott. Angelo Ercole Ferrario.

## **1.18. Current outlook**

The results for the first half of this year were satisfactory: they were above expectations as far as Cynosure and consolidated financial statement is concerned and essentially aligned with the expectations for the sub-consolidated without Cynosure.

For the consolidated statement drawn up excluding Cynosure, in consideration of the good half-yearly results and while awaiting more stable general conditions, we believe that we can confirm the objectives that were formulated at the beginning of the year based on the hypothesis of an improved economic scenario: a 10% increase in sales volume and an EBIT of 5% on the sales volume.

*For the Board of Directors*

Managing Director

Ing. Andrea Cangioli