

# El.En. Group

## COMMENTS OF THE MANAGEMENT ON THE CONSOLIDATED DATA FOR THE QUARTER ENDING September 30<sup>th</sup> 2007

(Approved by the Board of Directors of the company on November 14<sup>th</sup> 2007)

### Report for the quarter ending on September 30<sup>th</sup> 2007

#### Introduction

This report for the quarter ending September 30<sup>th</sup> 2007 on the consolidated economic and financial data of El.En. SpA was drawn up and divulged in compliance with Art. IA 2.17.2 of the Instruction for the Regulations of the Markets (*Istruzioni al Regolamento dei Mercati*) and to Art. 82 of the CONSOB regulations adopted after vote no. 11971 and later modifications. The task of examining the data and the information provided in this report has not been assigned to an auditing firm, because, as of this writing, it is not compulsory.

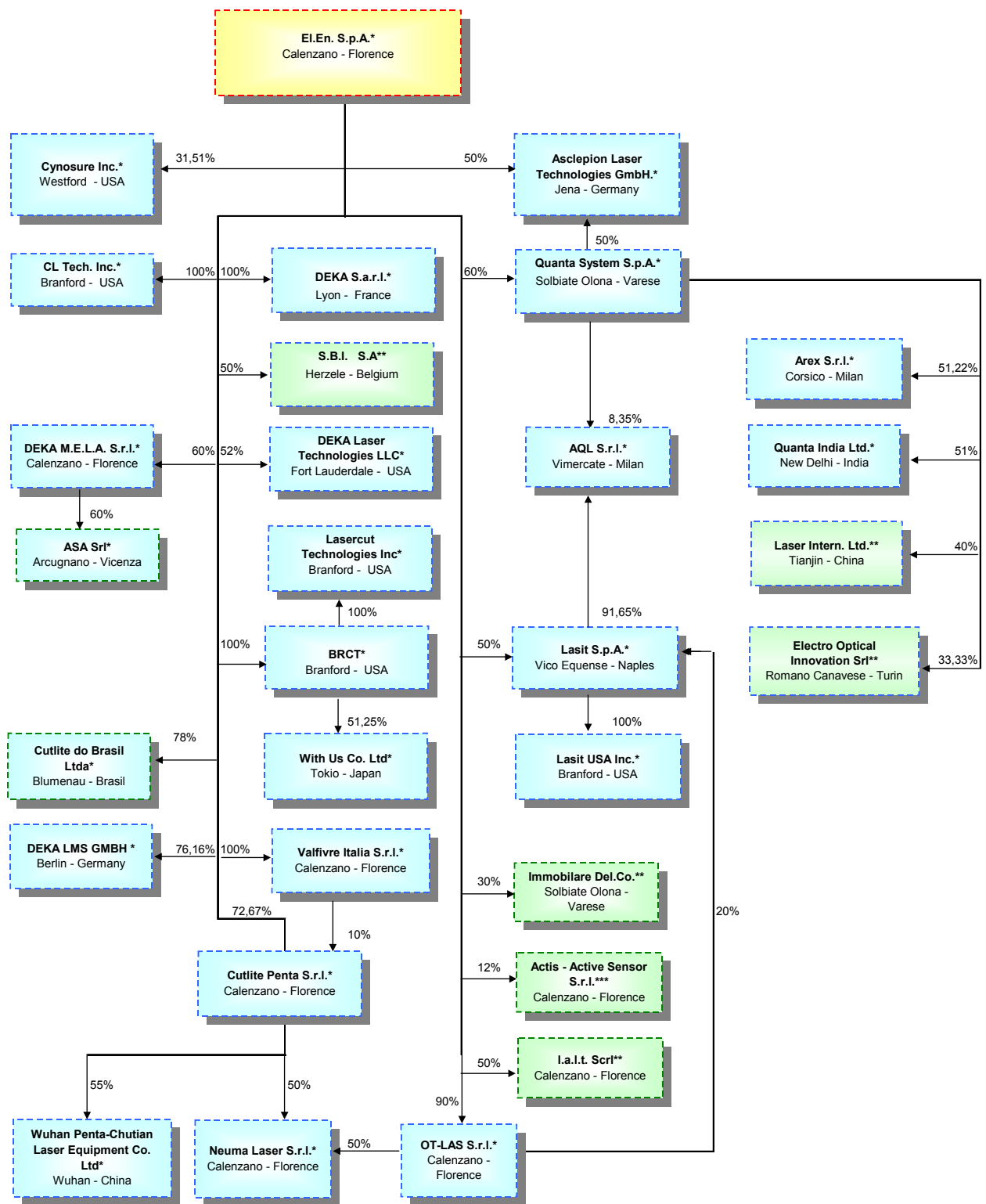
The information which is shown below was organized in conformity with the international accounting principles, IAS/IFRS, which have been obligatory since 2005 for drawing up the consolidated statements of companies which are listed on the regulated stock markets.

The results for the quarter ending September 30<sup>th</sup> 2007 are shown in comparative form with the corresponding data for the same quarter last year. All of the amounts are expressed in thousands of Euros unless otherwise stated.

#### Description of the Group

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

As of September 30<sup>th</sup> 2007 the structure of the Group was as follows:



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

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

## Economic and financial results of the Group

Results for the financial period ending on September 30<sup>th</sup> 2007 show a growth in sales volume of 33,8% on a quarterly basis, which brings the growth rate for the first nine months of the year up to 27,8%. These results, which are well over the goals which had been set, are obviously a source of great satisfaction and confirm the position of the Group among the world leaders of companies operating in the laser sector.

Within the confines of an operation which reaches all the principal markets of the world with a vast range of products, divided into categories which are sometimes of a type and use very different from each other, there are business areas of major success along with those of mediocre stature.

Without a doubt, it is the American company Cynosure (Nasdaq : CYNO) which has registered the most brilliant results; this company has demonstrated its capacity for taking advantage of a decidedly favourable market situation, in particular in its own domestic market in the United States, and while benefiting in its exports from the favourable exchange rates the company has shown an exceptional growth rate and record profits, as well as becoming attractive to the financial markets. The decisive factor for this success has been the Smartlipo laser for laser-lipolysis, a minimally invasive alternative to liposuction. This procedure, patented and made possible by the Smartlipo lasers manufactured by El.En., is assigned to Cynosure with exclusive distribution rights for the United States.

Overall results for the companies operating in the medical-aesthetic sector are good, and those for the industrial sector satisfactory although still below expectations which had forecast an increase. It should be noted that the procedures for the creation of new activities in China and Brazil operating in the industrial sector have turned out to be more complicated than expected and have caused a delay with respect to the schedule for the development of these activities, which consequently will become fully operational only in 2008.

Considering the importance of the subsidiary Cynosure in relation to the consolidated results and the substantial quota which is held in the company by third parties (the controlling interest held by El.En. SpA as of September 30<sup>th</sup> 2007 was in fact 31,51%), we will complete the information sheet by showing both the consolidated data for the Group as well as the results for the Group excluding Cynosure from the area of consolidation.

The chart below shows the results of the Profit and Loss Account for the third quarter of 2007, shown in comparative form with the same results for last year.

<b>Profit and loss account - 3 months</b>	<b>30/09/07</b>	<b>Inc.%</b>	<b>30/09/06</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	46.655	100,0%	34.866	100,0%	33,8%
Change in inventory of finished goods and WIP	1.333	2,9%	2.014	5,8%	-33,8%
Other revenues and income	479	1,0%	341	1,0%	40,2%
<b>Value of production</b>	<b>48.467</b>	<b>103,9%</b>	<b>37.221</b>	<b>106,8%</b>	<b>30,2%</b>
Purchase of raw materials	18.065	38,7%	15.162	43,5%	19,1%
Change in inventory of raw material	(605)	-1,3%	(203)	-0,6%	198,5%
Other direct services	4.706	10,1%	3.424	9,8%	37,5%
<b>Gross margin</b>	<b>26.300</b>	<b>56,4%</b>	<b>18.837</b>	<b>54,0%</b>	<b>39,6%</b>
Other operating services and charges	9.700	20,8%	14.873	42,7%	-34,8%
<b>Added value</b>	<b>16.600</b>	<b>35,6%</b>	<b>3.964</b>	<b>11,4%</b>	<b>318,7%</b>
For staff costs	9.759	20,9%	7.817	22,4%	24,8%
<b>EBITDA</b>	<b>6.841</b>	<b>14,7%</b>	<b>(3.853)</b>	<b>-11,1%</b>	
Depreciation, amortization and other accruals	872	1,9%	1.164	3,3%	-25,1%
<b>EBIT</b>	<b>5.969</b>	<b>12,8%</b>	<b>(5.017)</b>	<b>-14,4%</b>	
Net financial income (charges)	307	0,7%	686	2,0%	-55,2%
Share of profit of associated companies	(14)	-0,0%	0	0,0%	
Other Income (expense) net	(189)	-0,4%	(115)	-0,3%	64,9%
<b>Income before taxes</b>	<b>6.073</b>	<b>13,0%</b>	<b>(4.446)</b>	<b>-12,8%</b>	

The chart below shows the results of the Profit and Loss Account for the first nine months of the financial period 2007, shown in comparative form with the same results for last year.

<b>Profit and loss account</b>	<b>30/09/07</b>	<b>Inc.%</b>	<b>30/09/06</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	136.732	100,0%	107.012	100,0%	27,8%
Change in inventory of finished goods and WIP	7.870	5,8%	6.663	6,2%	18,1%
Other revenues and income	1.162	0,8%	1.350	1,3%	-13,9%
<b>Value of production</b>	<b>145.764</b>	<b>106,6%</b>	<b>115.025</b>	<b>107,5%</b>	<b>26,7%</b>
Purchase of raw materials	57.320	41,9%	49.724	46,5%	15,3%
Change in inventory of raw material	(2.502)	-1,8%	(2.704)	-2,5%	-7,5%
Other direct services	13.959	10,2%	11.105	10,4%	25,7%
<b>Gross margin</b>	<b>76.987</b>	<b>56,3%</b>	<b>56.901</b>	<b>53,2%</b>	<b>35,3%</b>
Other operating services and charges	28.102	20,6%	29.724	27,8%	-5,5%
<b>Added value</b>	<b>48.885</b>	<b>35,8%</b>	<b>27.177</b>	<b>25,4%</b>	<b>79,9%</b>
For staff costs	30.235	22,1%	23.906	22,3%	26,5%
<b>EBITDA</b>	<b>18.650</b>	<b>13,6%</b>	<b>3.271</b>	<b>3,1%</b>	<b>470,2%</b>
Depreciation, amortization and other accruals	3.585	2,6%	3.459	3,2%	3,6%
<b>EBIT</b>	<b>15.065</b>	<b>11,0%</b>	<b>(188)</b>	<b>-0,2%</b>	
Net financial income (charges)	813	0,6%	1.691	1,6%	-51,9%
Share of profit of associated companies	(41)	-0,0%	(16)	-0,0%	149,9%
Other net income (expense)	(1.419)	-1,0%	(144)	-0,1%	883,7%
<b>Income before taxes</b>	<b>14.419</b>	<b>10,5%</b>	<b>1.343</b>	<b>1,3%</b>	<b>973,5%</b>

A break-down of the net financial position of the Group is shown on the chart below:

<b>Net financial position</b>	<b>30/09/2007</b>	<b>30/06/2007</b>	<b>31/12/2006</b>
Cash and bank	32.928	34.167	24.361
Financial instruments held for sale	34.899	35.821	34.011
<b>Cash and cash equivalents</b>	<b>67.827</b>	<b>69.988</b>	<b>58.372</b>
<b>Short term financial receivables</b>	<b>235</b>	<b>0</b>	<b>0</b>
Bank short term loan	(2.333)	(1.565)	(621)
Part of financial long term liabilities due within 12 months	(737)	(749)	(680)
Other short term financial liabilities	0	0	0
<b>Financial short term liabilities</b>	<b>(3.069)</b>	<b>(2.314)</b>	<b>(1.301)</b>
<b>Net current financial position</b>	<b>64.993</b>	<b>67.674</b>	<b>57.071</b>
Bank long term loan	0	0	(13)
Bonds	0	0	0
Other long term financial liabilities	(3.172)	(2.294)	(1.918)
<b>Financial long term liabilities</b>	<b>(3.172)</b>	<b>(2.294)</b>	<b>(1.930)</b>
<b>Net financial position</b>	<b>61.820</b>	<b>65.380</b>	<b>55.141</b>

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

<b>Profit and loss account</b>	<b>30/09/07</b>	<b>Inc.%</b>	<b>30/09/06</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	76.856	100,0%	66.203	100,0%	16,1%
Change in inventory of finished goods and WIP	3.785	4,9%	2.876	4,3%	31,6%
Other revenues and income	883	1,1%	1.107	1,7%	-20,2%
<b>Value of production</b>	<b>81.525</b>	<b>106,1%</b>	<b>70.186</b>	<b>106,0%</b>	<b>16,2%</b>
Purchase of raw materials	40.044	52,1%	35.163	53,1%	13,9%
Change in inventory of raw material	(2.732)	-3,6%	(3.752)	-5,7%	-27,2%
Other direct services	7.646	9,9%	7.285	11,0%	5,0%
<b>Gross margin</b>	<b>36.566</b>	<b>47,6%</b>	<b>31.490</b>	<b>47,6%</b>	<b>16,1%</b>
Other operating services and charges	13.087	17,0%	10.502	15,9%	24,6%
<b>Added value</b>	<b>23.479</b>	<b>30,5%</b>	<b>20.988</b>	<b>31,7%</b>	<b>11,9%</b>
For staff costs	15.572	20,3%	13.381	20,2%	16,4%
<b>EBITDA</b>	<b>7.907</b>	<b>10,3%</b>	<b>7.607</b>	<b>11,5%</b>	<b>3,9%</b>
Depreciation, amortization and other accruals	1.956	2,5%	1.848	2,8%	5,8%
<b>EBIT</b>	<b>5.951</b>	<b>7,7%</b>	<b>5.759</b>	<b>8,7%</b>	<b>3,3%</b>
Net financial income (charges)	(526)	-0,7%	(372)	-0,6%	41,3%
Share of profit of associated companies	(41)	-0,1%	(16)	0,0%	149,9%
Other net income (expense)	(125)	-0,2%	(60)	-0,1%	109,4%
<b>Income before taxes</b>	<b>5.259</b>	<b>6,8%</b>	<b>5.310</b>	<b>8,0%</b>	<b>-1,0%</b>

<b>Net financial position</b>	<b>30/09/2007</b>	<b>30/06/2007</b>	<b>31/12/2006</b>
Cash and bank	13.490	17.053	13.964
Financial instruments held for sale	58	57	939
<b>Cash and cash equivalents</b>	<b>13.548</b>	<b>17.111</b>	<b>14.903</b>
<b>Short term financial receivables</b>	<b>235</b>	<b>0</b>	<b>0</b>
Bank short term loan	(2.317)	(1.544)	(466)
Part of financial long term liabilities due within 12 months	(424)	(433)	(375)
Other short term financial liabilities	0	0	0
<b>Financial short term liabilities</b>	<b>(2.741)</b>	<b>(1.977)</b>	<b>(841)</b>
<b>Net current financial position</b>	<b>11.041</b>	<b>15.134</b>	<b>14.062</b>
Bank long term loan	0	0	(13)
Bonds	0	0	0
Other long term financial liabilities	(2.588)	(1.619)	(1.106)
<b>Financial long term liabilities</b>	<b>(2.588)</b>	<b>(1.619)</b>	<b>(1.118)</b>
<b>Net financial position</b>	<b>8.453</b>	<b>13.515</b>	<b>12.944</b>

## Comments on management results

Using an articulated corporate structure designed to cover each of the individual geographic and merchandising sectors of the particular market, the Group operates in the field of design, manufacture and distribution of laser sources and systems. The main selling markets are those of laser equipment for medical and aesthetic use and laser systems for industrial purposes. Along with the manufacture of laser systems, the company has always provided the clientele with after-sales technical assistance and spare parts and this activity is very significant also in relation to the revenue it earns. The research and development activities also contribute to the volume of business with revenues from reimbursements for expenses sustained for those research projects which are financed by grants, but, above all, they represent the essence of the Group by guaranteeing the sales structures a continuous flow of innovative products, which is the key to success on the high tech markets in which the companies of the Group compete at a global level.

As mentioned in the introduction, the growth of the consolidated sales volume during the first nine months of 2007 was about 27,8% and is above the average growth rate forecast for this year. Consolidated operating profits are also above expectations.

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

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Industrial systems and lasers	15.166	11,09%	15.642	14,62%	-3,04%
Medical and aesthetic lasers	102.884	75,24%	78.228	73,10%	31,52%
Service	18.683	13,66%	13.141	12,28%	42,17%
<b>Total</b>	<b>136.732</b>	<b>100,00%</b>	<b>107.012</b>	<b>100,00%</b>	<b>27,77%</b>

The customer assistance service and spare parts sales show an increase in revenue of over 40%, which was achieved not only because of the natural increase in the amount of equipment installed, but also thanks to the sale of consumer items which are required for some of the medical and aesthetic applications. The With Us company, moreover, is directly involved in technical assistance to customers in Japan and has brought into the area of consolidation of the Group the technical assistance and spare parts sales for hundreds of pieces of equipment installed in Japan.

In the medical sector there was still a high growth rate, which was well above that of the market in general.

The industrial sector has shown no growth, although the outlook is still good for the end of the year with respect to 2006, especially as far as profits are concerned.

Results for this period in relation to the geographic distribution of the sales volume, are shown on the chart below.

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Italy	20.221	14,79%	20.224	18,90%	-0,02%
Europe	39.346	28,78%	33.944	31,72%	15,91%
Rest of the world	77.166	56,44%	52.843	49,38%	46,03%
<b>Total</b>	<b>136.732</b>	<b>100,00%</b>	<b>107.012</b>	<b>100,00%</b>	<b>27,77%</b>

The Group operates at a global level and consequently the growth shown during this period is due mainly to the greater penetration of the international markets; in fact, while the sales volume for Italy remained substantially unchanged, that in Europe and, in particular, the rest of the world increased.

The chart below shows sales, divided according to the various categories, for the medical aesthetic sector, which represents almost 75% of the sales of the Group:

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Surgical CO2	2.250	2,19%	1.845	2,36%	21,98%
Physical therapy	2.821	2,74%	3.203	4,09%	-11,94%
Aesthetic	83.229	80,90%	58.898	75,29%	41,31%
Dental	5.794	5,63%	5.665	7,24%	2,27%
Other medical lasers	8.183	7,95%	8.116	10,37%	0,83%
Accessories	607	0,59%	502	0,64%	21,12%
<b>Total</b>	<b>102.884</b>	<b>100,00%</b>	<b>78.228</b>	<b>100,00%</b>	<b>31,52%</b>

The third quarter registers positive signs in all sectors with the sole exception of physical therapy, which, however, in 2006 had registered exceptional results which were a consequence of a one-time non-repeatable sale.

Sales volume of the medical-aesthetic sector demonstrate that this category is the most important and the most dynamic one, with a growth of over 41% driven by Cynosure and the United States. Among the most successful products during this period, we would like to mention Smartlipo which was also the subject of a certain amount of media attention in the U.S. thanks to the innovative, minimally invasive procedure of laser-lipolysis, but also the new skin-tightening products promoted by Quanta, Cynosure and Deka and the so-called “fractional” products.

The CO<sub>2</sub> type laser “DOT” used with a special scanner which permits the specific dot type treatment belongs to this category of products and drives the sales volume for the CO<sub>2</sub> sector up to a significant level of growth, of over 20%. In the sector of “Others medical lasers”, of particular interest is the sales volume for “Dye” equipment of which Cynosure is one of the two main manufacturers in the world, and for which they have developed the innovative “Multiplex” procedure, a technological tour-de-force which is particularly useful for some of the vascular treatments. The dental sector has also shown a positive trend and again shows signs of growth, even though slight.

For the industrial applications sector, the chart below shows a break-down of the sales volume according to the market segments in which the Group operates.

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Cutting	6.398	42,19%	6.713	42,91%	-4,69%
Marking	5.811	38,32%	5.610	35,87%	3,58%
Laser sources	2.805	18,49%	2.919	18,66%	-3,92%
Welding, other industrial systems	152	1,00%	400	2,56%	-62,01%
<b>Total</b>	<b>15.166</b>	<b>100,00%</b>	<b>15.642</b>	<b>100,00%</b>	<b>-3,04%</b>

Even after the third quarter the sales volume is still slightly inferior to that registered for 2006.

The cutting sector felt the impact of the reorganization of Lasercut and has not yet benefited from the acceleration which the operations in China and Brazil should offer to this segment. Two new products, Hypercut, which was developed for the Chinese market and Plus, developed for the European market, registered their first sales in this quarter.

The core sector of laser sources showed a slight drop in this period although outlook in this sector continues to be good. The marking sector showed an increase, thanks mainly to the start up of a new distribution activity in the United States by Lasit, which facilitated the increase in sales volume.

The welding and restoration sector, which has always been marginal in its importance, shows a decrease in revenue.

The tables below show the composition of the consolidated sales volume of the sub-consolidated which excludes Cynosure, with the exclusion of the break-down chart for the industrial sector in which Cynosure does not operate:

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Industrial systems and lasers	15.166	19,73%	15.642	23,63%	-3,04%
Medical and aesthetic lasers	49.943	64,98%	43.175	65,22%	15,67%
Service	11.748	15,29%	7.386	11,16%	59,06%
<b>Total</b>	<b>76.856</b>	<b>100,00%</b>	<b>66.203</b>	<b>100,00%</b>	<b>16,09%</b>

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Italy	20.142	26,21%	20.024	30,25%	0,59%
Europe	27.062	35,21%	24.506	37,02%	10,43%
Rest of the world	29.653	38,58%	21.673	32,74%	36,82%
<b>Total</b>	<b>76.856</b>	<b>100,00%</b>	<b>66.203</b>	<b>100,00%</b>	<b>16,09%</b>

	30/09/2007	Inc%	30/09/2006	Inc%	Var%
Surgical CO2	2.250	4,51%	1.823	4,22%	23,41%
Physiotherapy	2.821	5,65%	3.203	7,42%	-11,94%
Aesthetic	35.223	70,53%	28.694	66,46%	22,76%
Dental	5.793	11,60%	5.665	13,12%	2,26%
Other medical lasers	3.249	6,50%	3.289	7,62%	-1,22%
Accessories	607	1,22%	502	1,16%	21,12%
<b>Total</b>	<b>49.943</b>	<b>100,00%</b>	<b>43.175</b>	<b>100,00%</b>	<b>15,67%</b>

As already occurred in the first half of 2007, the growth of Cynosure in the medical sector is greater than the average of the Group, which, in any case, is over 15% thanks mainly to the aesthetic sector which has increased by more than 20%. The considerations previously made also apply to the other segments, with the exception of the "Others" category, which is the only one in which Cynosure operates, with its Dye equipment. These are the products which generated growth at the Group level, which does not appear in this sub-consolidation.

As far as the geographic distribution of the sales volume is concerned, the tendency is the same as that for the consolidated sales volume.

The margin of contribution was registered at about 76.987 thousand Euros, an increase of 35% with respect to the 56.901 for the same period last year, with an increase in terms of incidence on the sales volume which rose to 56,3% from 53,2% for the same period last year. Cynosure contributed decisively to this excellent result and improved its margins notwithstanding the payment of royalties to Palomar in accordance with the contract signed in 2006, and, to a lesser degree, so did the other activities of the Group.

The costs for operating services and charges were 28.102 thousand Euros, a decrease of 6% with respect to September 30<sup>th</sup> 2006 and with an incidence on the sales volume which fell to 20,6% with respect to 27,8% for this period last year. It should be mentioned that as of September 30<sup>th</sup> 2006 these aggregate costs included the one-time charge of 8 million Euros paid by Cynosure for the concession of licenses on some of the patents for laser hair-removal devices and this cost heavily influenced all of the profit margins of the company and of the Group. Net of this one-time charge, the costs for operating services and charges would have been 21.690 thousand Euros, and the costs for 2007 would have registered an increase of 29,6%.

The costs for personnel was 30.235 thousand Euros, an increase of 26,5% with respect to the 23.906 thousand Euros for the same period last year, with a slight decrease in terms of the incidence on the sales volume which fell from 22,3% for the first nine months of 2006 to 22,1% on September 30<sup>th</sup> 2007. The calculated costs entered into accounts in relation to the stock options assigned to employees are part of the personnel costs. As of September 30<sup>th</sup> 2006 these costs amounted to 1.626 thousand Euros, whereas on September 30<sup>th</sup> 2007 they had risen to 3.426 thousand Euros; of this amount 3.187 thousand Euros are related to the stock options issued by the subsidiary Cynosure Inc.



As a consequence of the reform in the severance pay (TFR) policy, the accounting method used for calculating the amount in accordance with IAS 19 has changed. The different evaluation of the TFR fund which matured on December 31<sup>st</sup> 2006 with respect to the evaluation made according to the old rules, must be treated as a “curtailment” and consequently entered into the Profit and Loss Account, including the actuarial profits and losses which had not been previously entered into accounts in application of the so-called “corridor method”. This change generated a lower liability of about 200 thousand Euros which is reflected in a decreased cost for personnel of the same entity.

As of September 30<sup>th</sup> 2007 there were 773 employees in the Group, 76 of which were brought in by the newly acquired companies With US, Cutlite do Brasil and Wuhan-Chutian Penta, thus maintaining the tendency to increase with respect to the 635 employees registered for the end of the year 2006 and with respect to the 609 registered for September 30<sup>th</sup> 2006.

A considerable portion of the personnel expenses is directed towards research and development costs, for which the Group also receives grants and reimbursements on the basis of specific contracts undersigned by the institutions created for this purpose. These grants make it possible to broaden the range of research by limiting the economic impact. Grants were entered into accounts during this financial period amounted to 449 thousand Euros.

The EBITDA was registered for an amount of 18.650 thousand Euros compared with 3.271 thousand Euros on September 30<sup>th</sup> 2006, with an incidence on the sales volume which rises from 3,1% to 13,6%. Again in this case, the effects of the one-time charge of 8 million Euros should be mentioned, without which the EBITDA for 2006 would have been 11.305 thousand Euros, 10,6% of the sales volume for the period.

The costs for depreciations, amortizations and accruals were 3.585 thousand Euros, an increase of 3,6% with respect to the same period last year, but decreasing in the incidence on the sales volume which fell from 3,2% to 2,6%. Under this heading, among other things, we have entered the accruals for product guarantees and for credit devaluation.

The EBIT was 15.065 thousand Euros (-188 thousand Euros on September 30<sup>th</sup> 2006, 7.846 net of the “Palomar” charges) showing an incidence on the sales volume of approx. 11%.

The result of the financial management which was 813 thousand Euros compared to the 1.691 thousand Euros for the same period last year, was influenced by the reduction in interest earned on bank deposits as well as the negative exchange rate difference which was a result of the weakness of the US dollar in relation to the Euro.

Other net income and charges showed a negative result for an amount of 1.419 thousand Euros and were influenced by the rectification of consolidation which derived from the increase in capital of Cynosure for the assignment of stock options at a price which was below the charging price of the stock in consolidation (they were, in fact, options assigned mostly before the IPO of 2005 with an option price of less than five dollars per share) with the consequent reduction of the percentage of El.En.’s ownership in Cynosure.

The earnings before taxes therefore were 14.419 thousand Euros, an increase over the 1.343 thousand Euros registered for September 30<sup>th</sup> 2006, and an increase also with respect to the earnings for 2006 without the Palomar charges, which would have been 9.377 thousand Euros.

In relation to the results of the Group excluding Cynosure, it should be noted that the growth in sales was around 16%, with a level of profits for the sales substantially constant with respect to last year. Considering that manufacture takes place within the Euro area, sustaining constant margins of profit for an activity with a high percentage of exports in the face of a such a negative Euro-Dollar exchange rate is, in any case, an indicator of the Group’s high level of competitiveness on the markets.

Notwithstanding a slight worsening of the incidence of set structural costs, in terms of both operating costs and costs for personnel, the increase in the volume of business still made it possible to register an increase in the overall value of the earnings before interest and taxes which was essentially in conformity with expectations. It should be pointed out that the costs sustained for the reorganization of some of the companies as well as the start-up of others had a negative influence on the earnings for this period.

Financial charges were on the increase, especially in relation to the difference in the exchange rate for receivables in American dollars and an exceptional net charge was registered for the founding of the Cutlite do Brasil company, for which El.En. allowed the minority partners to enter the partnership structure free of charge, thus recognising on their behalf a goodwill which was entered into accounts this quarter.

The earnings before taxes for the Group without Cynosure therefore register a slight decrease with respect to last year.

## Comments on the net financial position of the Group

The amount of cash held by the Group is still sizeable and is registered for an amount of 61,8 million Euros.

Of this amount, the majority is held by Cynosure Inc., as a result of the IPO of December 2005 and is detained in dollars; after that time Cynosure has not made any investments of particular importance but has used the cash available to finance its own operations and in this endeavour has been extremely successful.

The value of the Euros in cash held by Cynosure Inc. during 2007 decreased, solely on account of the exchange rate, by 4 million Euros, of which 2,7 million Euros in the third quarter.

Besides the absorption of cash which was a consequence of the increase in the volume of business of the Group, there were many cash payments of an extraordinary nature, in particular for real estate activity by El.En, which enlarged their premises in Calenzano, and made the final payment for the building in Torre Annunziata acquired to house the production and development operations of the subsidiary Lasit SpA, and by Asclepion which is building a new factory. Cash was also absorbed for the payment of dividends to third parties for approx. 1.800 thousand Euros.

As described in the paragraph below, the volume of investments during 2007 has greatly increased with respect to 2006.

## Gross investments made during this quarter

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

<i>Progressive</i>	30/09/07	30/09/06
Intangible assets	496	104
Tangible assets	6.149	2.755
Equity investments	51	0
<i>Total</i>	6.696	2.859

<i>3 Months</i>	30/09/07	30/09/06
Intangible assets	323	19
Tangible assets	3.176	915
Equity investments	0	0
<i>Total</i>	3.499	934

The investments made during the quarter and described in this report are of a particular entity and for the first nine months represent an amount which is twice the overall volume registered for last year.

Some operations of an extraordinary nature are the reasons for these investments. Lasit SpA acquired plants and equipment in order to complete its manufacturing structure and bring it up to the dimensions required for the expected future growth, and made investments for an amount of over one million Euros as part of an industrialization project which, among other things, will be the object of a grant. Asclepion is proceeding with the construction of a new factory in Jena, for which they have already entered investments for 1,3 million Euros, of which about 900 thousand Euros during this quarter; this investment also will benefit from a grant issued by the region of Turgia. Cynosure has continued with its policy of investing in equipment for demonstrations. El.En. SpA has entered into accounts among its tangible assets under construction approx. 800 thousand Euros since the beginning of the year, of which 350 thousand during this quarter, for the enlargement of their premises in Calenzano.

Generally speaking, the activities of the Group do not involve the purchase of single technical assets of great value, but rather they require various typologies of equipment and instruments for research, development and production. Among the investments in tangible fixed assets, the most significant is in equipment, and in particular laser systems made available for use for sales demonstrations and clinical experimentation. Cynosure in particular assigns to most of its sales agents in the US one or more pieces of equipment to use as demos; this is an major investment but has given excellent results in facilitating sales.

## Comments on Research and Development activities

During the first nine months of 2007 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.

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.

Research projects which are conducted in order to obtain results according to a mid-term schedule are characterized by the fact that they are oriented towards higher risk subjects inspired by intuitions which arise within the company and by prospects indicated by the scientific work in laboratories and in advanced research centres around the world, some of which we collaborate with.

Research which is dedicated to achieving results according to a short-term schedule, above all for 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.

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

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

### Systems and applications for lasers in medicine.

We have continued the activity aimed at developing equipment and laser devices for the cure of skin ulcers.

We have concluded the project on laser micro-surgery which was conducted as part of the New Medical Engineering sector of the FIRB (Basic Research Investment Fund) program, financed in part by MIUR (Ministero Istruzione Università e Ricerca).

The verification phases of the experimental studies on the determination of the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels have now been completed and we have completed the formulation of the specifications for a compact CO<sub>2</sub> source which will be especially designed for this application.

We have now concluded the manufacture of prototypes for a directable laser micro-tweezer.

We are continuing the research activity aimed at identifying the manufacturing technology required for new optical-acoustic and acoustical-optical micro-probes for minimally invasive diagnostics. These probes will be used for early detection of the malignant nature of small lesions; we are now examining the results of trials on the prototypes of optical-acoustic transmitters and acoustical-optical receivers using different technologies.

We are also involved in trials for the purpose of obtaining FDA approval at a prestigious eye clinic in the USA (Bascon Palmer of Miami) for performing operations first on animals and subsequently on human patients, using lasers to glue the cornea to the eye without the use of stitches. This activity is a result of the research projects conducted with IFAC of the CNR by the associated company, Actis Active Sensors.

In collaboration with the IFAC institute of the CNR we are now conducting an important research project involving the creation of a technique and the related equipment for the laser assisted anastomosis of blood vessels.

In collaboration with the CSO we have begun research on a new instrument for retinal coagulation associated with a fissure light.

We continued to work on the development of instruments and the clinical experiments for innovative laser equipment for uses in physical therapy and orthopaedics, and the experiments have now been extended also to the USA in collaboration with the Rizzoli Institute of Bologna which has been a partner of ours for several years now.

With the University of Aquila, we are now conducting research on some laser biological tissue interactions in the dermatological and in the future, cardiologic field.

A new research project has been initiated involving new methods for the characterisation of cellulitis by means of ultrasound.

Research has also begun on new devices for aesthetic medicine, in particular for the stimulation of the regeneration of collagen in the derma layers of the face.

Research is also in progress on a new micro-manipulator for uses in otorhinolaryngology of the CO<sub>2</sub> laser.

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 and thyroid, as part of the activity conducted by the consortium company IALT (Image Aided Laser Therapy) created by El.En. and Esaotele.

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

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

The research activity aimed at developing a diode laser for neurosurgery applications with minimally invasive techniques was continued.

With a grant from the European Union, a research program on mecha-tronic and micro-technological applications for the biomedical industry is now being concluded.

We have started tests to determine the effects of photo-mechanic stimulation of Chondrocytes.

At Cynosure they have concluded the development of refractive lenses for laser rejuvenation of the skin have been developed and a patent has been deposited for the device.

Activities for the completion of the laser lipolysis experiments were continued at Cynosure.

At Quanta we have continued activities for the development of lasers for the therapy of prostate hypertrophy.

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

#### Laser systems and applications for industry

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

Experimental trials on the electronics based on a "Digital Signal Processor" for on-line setting and numerical control of the galvanometers for scanning heads have been conducted.

A research project was conducted on the evolution of position sensors of galvanometers with characteristics of high stability over long periods of time.

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

We are about to complete experimental trials on a new ultra-compact radio-frequency pumped CO<sub>2</sub> laser source.

Research activity as part of a project for a solid state high power laser source with active material in an amorphous ceramic support is now in progress.

The development of new laser equipment for use in diagnosing and documenting the condition of art objects was completed.

As part of this same project we ran trials consisting in the insertion, into the special crates used for transporting important works of art, of equipment for the referenced acquisition and memorisation over time and space of the data of three-dimensional sensors of acceleration, temperature, pressure, humidity and light exposure on the various bands from infra-red to ultra-violet.

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

Work on the development of a new diagnostic system using lasers on the paper of antique books has continued and recently been granted a patent.

At OTLAS they have completed the development and production of a system with a pyro-electric matrix for centering the laser ray on the basis of the recording of the shape of the ray in various portions of the cross-section.

At OTLAS they have conducted research on a means of perfecting the laser cutting process of tiles of composite materials as a light-weight support for marble slabs.

At Cutlite Penta they continued work on the development of an electronic system for tele-diagnosis and tele-assistance of industrial machines. In the future it may be possible to develop applications of them for uses in medicine.

The following table shows the expenses for Research and Development during this period:

<i>thousands of euros</i>	30/09/2007	30/09/2006
Costs for staff and general expenses	6.500	5.642
Equipment	109	261
Costs for testing and prototypes	1.044	704
Consultancy fees	231	386
Other services	262	69
Intangible assets	2	3
<b>Total</b>	<b>8.148</b>	<b>7.065</b>

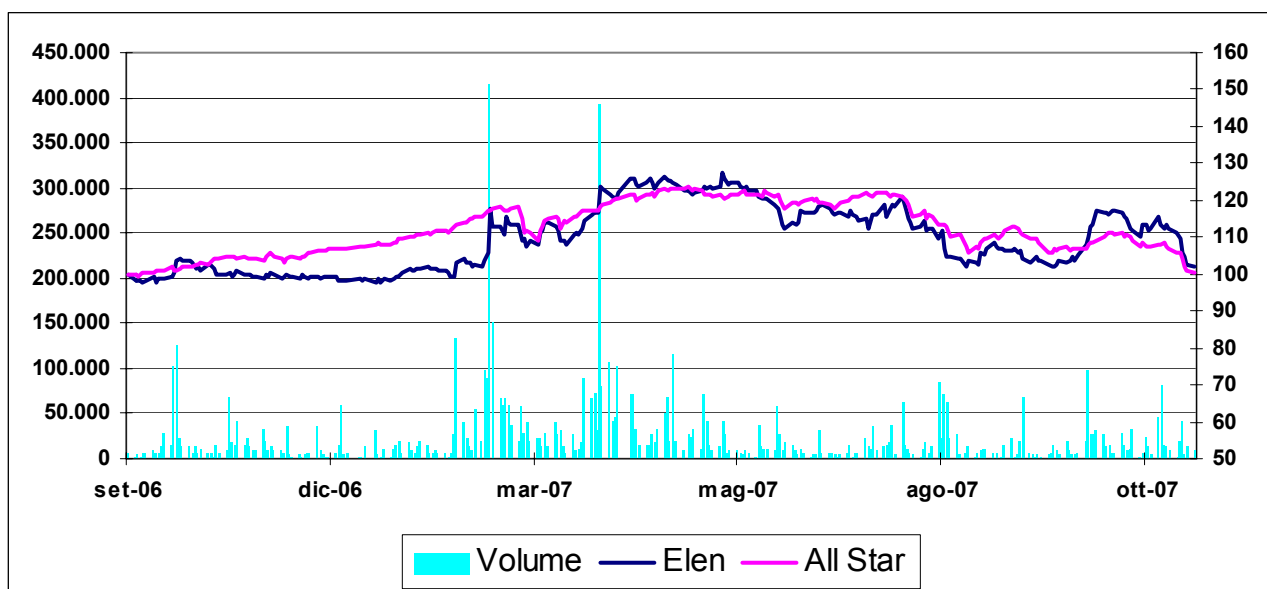
As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity the company conducts in this sector. The amount of expenses sustained by Cynosure during this period for research and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

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

The amount of the expenses sustained corresponds to 6% of the consolidated sales volume of the Group. The amount related to Cynosure, as stated above, is 4,7 million dollars which represents about 5% of its sales volume; the rest of the expenses were sustained mostly by El.En. SpA and represents 8% of its sales volume

## Trend of the El.En. stock

The trend of the El.En. stock is shown in the graph below with reference to the quotation on September 29<sup>th</sup> 2006 which was for approx. 28 Euros.



Analysis of the trend of the Cynosure stock is also interesting: thanks to the excellent results of the company, in October the stock reached its historic maximum of 45 dollars per share, a considerable increase over the 15 dollars per share of the IPO of December 2005. Since then the stock has fallen off and is now quoted at about 32 dollars per share.

## **Other significant events which occurred during this quarter**

During this quarter the subsidiary Lasercut Inc. (now CL Tech. Inc.) acquired 30 % of its own stock from its minority shareholder, at a symbolic price, which brought the controlling quota of the parent company El.En. to 100%. BRCT Inc. moreover, created Laser Technologies Inc. which acquired the activities of Lasercut Inc. (in the meantime renamed CL Tech Inc.) and of which it has 100% control.

## **Other events which took place after the quarter was closed**

On November 8<sup>th</sup> 2007 the parent company El.En. SpA reported that they has sold a block of 950.000 shares of the subsidiary Cynosure Inc. (NASDAQ:CYNO), at the price of 32,65 US dollars per share, and therefore for a total amount of about 31 million dollars.

After the sale of the stock El.En. is still the majority shareholder in Cynosure Inc. with approx. 2,9 million Class B shares, which represents 23,82% of the shares as of September 30<sup>th</sup> 2007, and therefore, with over 20% of the shares, they maintain the statutory right to appoint and to remove members of the Board of Directors. El.En. will continue to wholly consolidate the results of the subsidiary.

The gross consolidated capital gains was 14 million Euros.

The company has commented on the sale by pointing out that, in procuring the parent company a sizeable quantity of cash, with this sale it is not their intention to loosen the strategic bond that exists between El.En. Spa and Cynosure Inc, which, among other things, is at the base of the success of products like Smartlipo. The collaboration with Cynosure, which represents the direct presence of the Group in the United States, remains at the centre of the attention of the management, which intends to maintain the important operating advantages offered by the partnership independently of the amount of their equity in the company.

During the month of October, the parent company El.En. S.p.A. increased the amount of its equity in DEKA M.E.L.A. Srl, by purchasing 10% of the quotas of one of the minority partners at the price of 600.000 Euros. This is an operation of a certain significance which brings to 70% the quota owned by El.En. in one of the original companies of the Group which is involved in the distribution of medical lasers manufactured by El.En. itself.

## **Short term evolution foreseen for the financial period now in progress**

The positive business trend for 2007 has continued during this quarter, with annual sales volume and earning goals, set at 185 million Euros for the consolidated sales volume and 19 million Euros for the consolidated EBIT, will be achieved ahead of schedule.

On the basis of the objectives achieved by September 30<sup>th</sup>, the management believes that the results originally predicted can now be considered as achieved and that they should work towards further improving them. In relation to the net income for the year, for which no particular objectives had been set, it will benefit from the substantial capital gains acquired from the sale of a block of shares of Cynosure Inc., as described in the previous paragraph.

For the Board of Directors

Deputy Board Member  
Ing. Andrea Cangioli

**ANNEX A:**

**DECLARATION IN CONFORMITY WITH ART. 154BIS, COMMA 2, D.LGS. N.58 / 1998**

The undersigned, Enrico Romagnoli, acting as executive responsible for drawing up the corporate accounting documents of El.En. S.p.A.

declares

that in conformity with comma 2° of art. 154-bis of the Legislative Decree n. 58 February 24<sup>th</sup> 1998, that, to his knowledge, the Quarterly Report dated September 30<sup>th</sup> 2007 for the El. En. Group corresponds to the information reported in the documents, accounting books and accounting entries.

Calenzano, November 14<sup>th</sup> 2007.

Executive in charge of the financial reports  
Enrico Romagnoli