

El.En. Group

**COMMENTS OF THE MANAGEMENT ON THE
CONSOLIDATED DATA FOR THE QUARTER ENDING
SEPTEMBER 30th 2006**

(Approved by the Board of Directors of the company on November 13th 2006)

Report for the quarter ending on 30/09/2006

Introduction

This report for the quarter ending September 30th 2006 on the consolidated data of El.En. SpA was drawn up and divulged in compliance with Art. IA 2.18.2 of the Instruction for the Regulations of the Markets (*Istruzioni al Regolamento dei Mercati*) and to Art. 82 of the CONSOB regulations adopted after vote no. 11971 and later modifications. The quarterly data and information provided in this report have not been examined by an auditing firm, since no firm has yet been assigned this task because it is not compulsory.

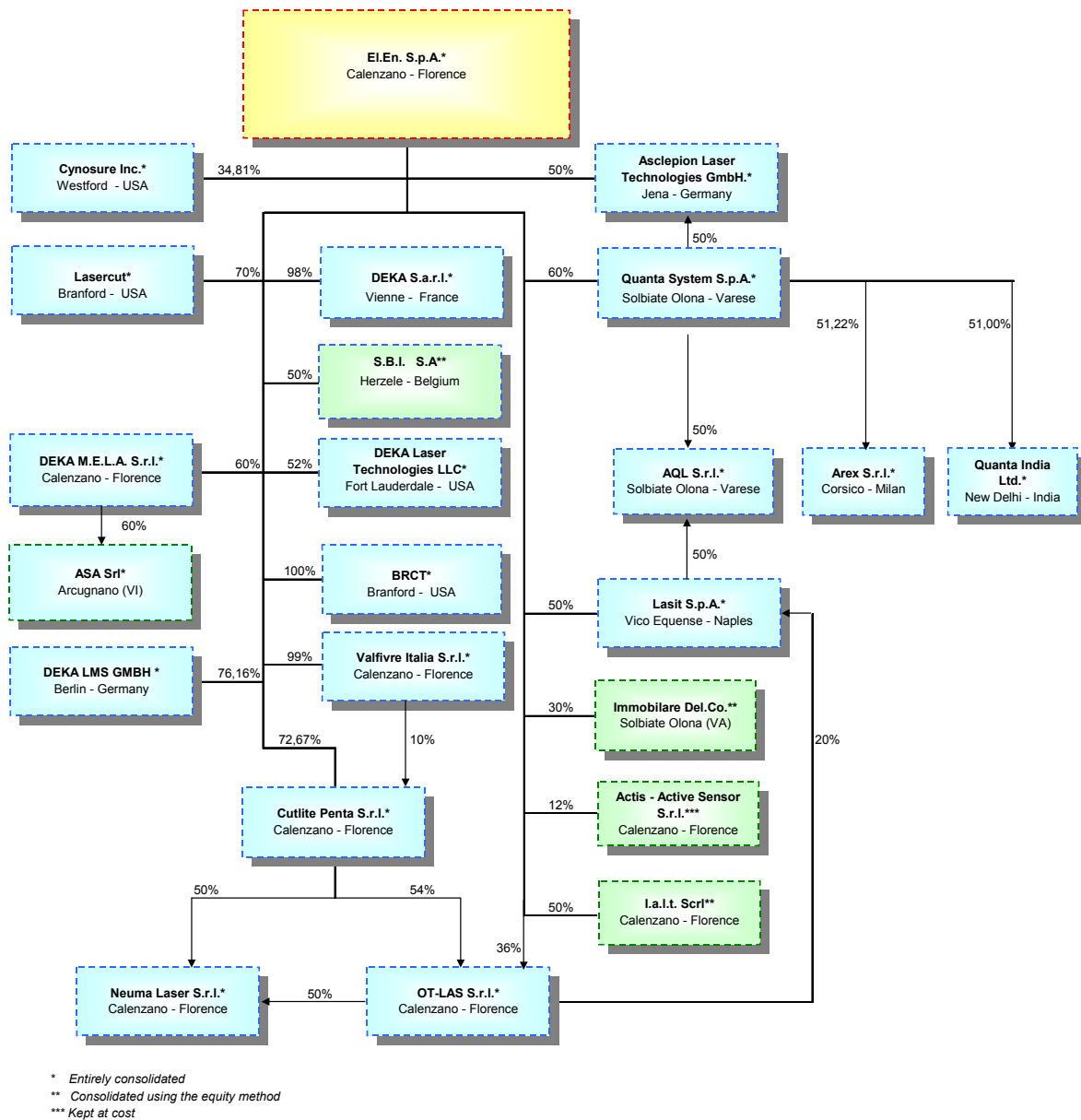
The information which is shown below was organized in conformity with the international accounting principles, IAS/IFRS, which have been obligatory since 2005 for the creation of the consolidated statements of companies which are listed on the regulated stock markets.

The results for the quarter ending September 30th 2006 are shown in comparative form with the corresponding data for the same quarter last year. All of the amounts are expressed in thousands 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 30th 2006 the structure of the Group was as follows:



On July 5th 2006 the subsidiary Quanta System Spa acquired an equity of 51% of the capital of “Quanta Laser System India Private Limited” a commercial company with headquarters in New Delhi. The purpose of this acquisition is to facilitate expansion on the Indian market by making use of a local structure.

On August 1st 2006 the merger of Deka LMS Gmbh with its subsidiary Deka DLS Gmbh by incorporation became effective. The merger, which was voted by the two companies on April 27th 2006, is retroactive in its effects starting on December 31st 2005.

On September 28th 2006, moreover, El.En. Spa acquired from other partners a 2,83% interest in Cutlite Penta Srl, for a total amount of approx. 106 thousand Euros, thus further re-enforcing the position of the parent company among the companies of the Group which operate in the industrial sector.

Cynosure Inc., a company quoted on the American stock market Nasdaq (NASDAQ:CYNO), controls in turn 5 companies which are involved in the distribution of its own products, four of which are owned 100% (in Germany, France, Great Britain and Japan) and one of which is owned 51,6% (in China).

Economic and financial results of the Group

It should first be mentioned that the economic results for this quarter have been overwhelmingly influenced by the effects of an agreement signed by the subsidiary Cynosure Inc. and its competitor Palomar Technologies Inc. (NASDAQ:PMTI), involving the granting of licenses on some patents related to hair removal with laser devices. This agreement, which saw the entering into the accounts of Cynosure Inc. the non-repeatable cost of 10 million U.S. dollars (8,34 million Euros, which is equal to 7,5% of the consolidated sales volume over 9 months and 23% over 3 months) and will comport the payment of a royalty to Palomar for all the hair removal laser systems sold by Cynosure, will be described in further detail later in this report.

The analysis of the consolidated profit and loss accounts which are shown below must necessarily be based on this non-repeatable cost which has been entered.

Considering the importance of the impact that the subsidiary Cynosure has on the consolidated results of the Group, even though the parent company El. En. Spa holds an equity in it of only 34% , in order to supply more detailed and complete information, besides the data related to the consolidated results of the Group, we are also showing those related to the Group excluding Cynosure from the area of consolidation.

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

Profit and loss account - 3 months	30/09/06	Inc.%	30/09/05	Inc.%	Var.%
Revenues	34.866	100,0%	29.219	100,0%	19,3%
Change in inventory of finished goods and WIP	2.014	5,8%	641	2,2%	214,3%
Other revenues and income	341	1,0%	641	2,2%	-46,8%
Value of production	37.221	106,8%	30.501	104,4%	22,0%
Purchase of raw materials	15.162	43,5%	12.468	42,7%	21,6%
Change in inventory of raw material	(203)	-0,6%	(316)	-1,1%	-35,9%
Other direct services	3.424	9,8%	2.598	8,9%	31,8%
Gross margin	18.837	54,0%	15.751	53,9%	19,6%
Other operating services and charges	14.873	42,7%	5.493	18,8%	170,8%
Added value	3.964	11,4%	10.258	35,1%	-61,4%
For staff costs	7.817	22,4%	6.386	21,9%	22,4%
EBITDA	(3.853)	-11,1%	3.872	13,3%	
Depreciation, amortization and other accruals	1.164	3,3%	936	3,2%	24,3%
EBIT	(5.017)	-14,4%	2.936	10,0%	
Net financial income (charges)	686	2,0%	(78)	-0,3%	
Share of profit of associated companies	0	0,0%	0	0,0%	
Other Income (expense) net	(121)	-0,3%	0	0,0%	
Income before taxes	(4.452)	-12,8%	2.858	9,8%	

The table below shows the results of the profit and loss account for the first nine months of 2006, displayed in comparative form with the results for the same period last year.

Profit and loss account – 9 months	30/09/06	Inc.%	30/09/05	Inc.%	Var.%
Revenues	107.012	100,0%	80.998	100,0%	32,1%
Change in inventory of finished goods and WIP	6.663	6,2%	3.105	3,8%	114,6%
Other revenues and income	1.350	1,3%	1.324	1,6%	2,0%
Value of production	115.025	107,5%	85.427	105,5%	34,6%
Purchase of raw materials	49.724	46,5%	35.435	43,7%	40,3%
Change in inventory of raw material	(2.704)	-2,5%	(1.822)	-2,2%	48,4%
Other direct services	11.105	10,4%	7.454	9,2%	49,0%
Gross margin	56.901	53,2%	44.360	54,8%	28,3%
Other operating services and charges	29.724	27,8%	16.678	20,6%	78,2%
Added value	27.177	25,4%	27.682	34,2%	-1,8%
For staff costs	23.906	22,3%	18.908	23,3%	26,4%
EBITDA	3.271	3,1%	8.774	10,8%	-62,7%
Depreciation, amortization and other accruals	3.459	3,2%	2.616	3,2%	32,2%
EBIT	(188)	-0,2%	6.158	7,6%	
Net financial income (charges)	1.691	1,6%	169	0,2%	899,5%
Share of profit of associated companies	(16)	-0,0%	47	0,1%	
Other net income (expense)	(270)	-0,3%	(233)	-0,3%	16,2%
Income before taxes	1.217	1,1%	6.141	7,6%	-80,2%

The net financial position of the Group is analyzed in the table below.

Net financial position	30/09/2006	30/06/2006	31/12/2005
Financial mid and long term debts	(2.034)	(2.081)	(1.961)
<i>Financial mid and long term debts</i>	<i>(2.034)</i>	<i>(2.081)</i>	<i>(1.961)</i>
Financial liabilities due within 12 months	(1.615)	(1.632)	(2.192)
Cash and cash equivalents	62.744	65.070	77.539
<i>Net financial short term position</i>	<i>61.128</i>	<i>63.438</i>	<i>75.346</i>
Total financial net position	59.095	61.356	73.385

In the table below, the profit and loss account for the first nine months of the year and the net financial position of the Group are shown excluding the subsidiary Cynosure from the area of consolidation.

Profit and loss account – 9 months without Cynosure					
	30/09/06	Inc.%	30/09/05	Inc.%	Var.%
Revenues	66.203	100,0%	50.936	100,0%	30,0%
Change in inventory of finished goods and WIP	2.876	4,3%	1.087	2,1%	164,6%
Other revenues and income	1.107	1,7%	1.146	2,2%	-3,4%
Value of production	70.186	106,0%	53.169	104,4%	32,0%
Purchase of raw materials	35.163	53,1%	24.042	47,2%	46,3%
Change in inventory of raw material	(3.752)	-5,7%	(1.281)	-2,5%	193,0%
Other direct services	7.285	11,0%	5.237	10,3%	39,1%
Gross margin	31.490	47,6%	25.170	49,4%	25,1%
Other operating services and charges	10.502	15,9%	8.835	17,3%	18,9%
Added value	20.988	31,7%	16.334	32,1%	28,5%
For staff costs	13.381	20,2%	10.565	20,7%	26,7%
EBITDA	7.607	11,5%	5.769	11,3%	31,8%
Depreciation, amortization and other accruals	1.848	2,8%	1.311	2,6%	41,0%
EBIT	5.759	8,7%	4.458	8,8%	29,2%
Net financial income (charges)	(372)	-0,6%	543	1,1%	
Share of profit of associated companies	(16)	0,0%	47	0,1%	
Other net income (expense)	(186)	-0,3%	(7)	0,0%	2721,3%
Income before taxes	5.184	7,8%	5.042	9,9%	2,8%

Net financial position			
	30/09/2006	30/06/2006	31/12/2005
Financial mid and long term debts	(1.220)	(1.366)	(1.271)
<i>Financial mid and long term debts</i>	<i>(1.220)</i>	<i>(1.366)</i>	<i>(1.271)</i>
Financial liabilities due within 12 months	(1.160)	(1.208)	(1.806)
Cash and cash equivalents	14.279	15.987	22.726
<i>Net financial short term position</i>	<i>13.119</i>	<i>14.779</i>	<i>20.920</i>
Total financial net position	11.900	13.413	19.649

Comments on management results

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

Growth of the Group remained strong also during the third quarter of the year and at a rate slightly above that predicted. This growth, which has been achieved practically without the benefit of new acquisitions, demonstrates the capacity of the Group to adapt its structure to the changing requirements of the market and to the increasingly important role that it maintains on the specific markets.

The increase in sales volume is connected to positive results in the profitability, obviously net of the non-repeatable cost entered for Cynosure. It should be mentioned, however, that other events of an extraordinary nature have had a negative impact on the profit and loss account, in particular, Cynosure, which was forced to enter among its operating costs approx. one million dollars following the insolvency of an important client, Sona International. Excluding these exceptional episodes, the operating revenue remains slightly above predictions.

The table below shows the subdivisions in the sales volume among the various sectors of activity of the Group during the first nine months of 2006, compared with the analogous data for the same period last year.

	30/09/2006	Inc%	30/09/2005	Inc%	Var%
Industrial systems and lasers	15.642	14,62%	11.439	14,12%	36,74%
Medical and aesthetic lasers	78.228	73,10%	58.640	72,40%	33,40%
Research and Development	-		-		
Service	13.141	12,28%	10.919	13,48%	20,36%
Total	107.012	100,00%	80.998	100,00%	32,12%

The industrial sector again shows the highest growth rate and contributes substantially to the overall rate which is well over 30%.

For this period no sales have been entered for research projects and the relative reimbursements. In any case, it should be remembered that the effects of this activity are entirely entered into accounts under the heading "other income": during the first nine months of 2006 the income was 706 thousand Euros compared with the 770 thousand Euros for the same period last year.

The table below shows the geographical distribution of the sales. Results for the period are shown on the following table

	30/09/2006	Inc%	30/09/2005	Inc%	Var%
Italy	20.224	18,90%	13.957	17,23%	44,91%
Europe	33.944	31,72%	23.279	28,74%	45,81%
Rest of the world	52.843	49,38%	43.762	54,03%	20,75%
Total	107.012	100,00%	80.998	100,00%	32,12%

Growth was sustained in all geographical areas in which the Group operates, with the European market, led by the Italian one, showing the highest growth rates. The lower growth rate in the rest of the world is due principally to the excellent trend of Cynosure's European subsidiaries and to the phase of transition of Deka's distribution in Japan after the preceding distributor went out of business.

For the medical/ aesthetic sector, which represents 70% of the sales of the Group, the table below shows the results for sales in the various segments.

	30/09/2006	Inc%	30/09/2005	Inc%	Var%
Surgical CO2	1.845	2,36%	1.706	2,91%	8,14%
Physiotherapy	3.203	4,09%	457	0,78%	601,38%
Aesthetic	58.898	75,29%	46.883	79,95%	25,63%
Dental	5.665	7,24%	4.501	7,68%	25,87%
Other medical lasers	8.116	10,37%	4.666	7,96%	73,92%
Accessories	502	0,64%	427	0,73%	17,33%
Total	78.228	100,00%	58.640	100,00%	33,40%

All of the segments show substantial growth rates, which demonstrate the positive trend of the market and the excellent strategic position of the Group.

Rather than commenting on the results of the single sectors, for which the favourable moment on the market is combined with the excellent position that our products maintain on these same markets, we prefer to give a brief description of the wide range of products offered and the specific market position which has made these results possible.

In the physical therapy sector the growth rate shown is anomalous because it benefits from the inclusion of ASA Srl, a company acquired by the Group for the specific purpose of managing the physical therapy sector, within the area of consolidation. The outcome would have been very good in any case because of the results obtained by our products Hiro 1.0 and Hiro 3.0, laser Nd:YAG for physical therapy and the traditional range of ASA products.

In the aesthetic sector, which is the most important one, there are three main new products which are contributing to the continuance of the extremely high growth rate: Cynosure's Affirm rejuvenation system, the multi-functional Synchro HP platform for photo-rejuvenation, vascular treatment and hair removal, Cynosure's Affinity QS for tattoo removal.

In the residual sector "Others", Cynosure's Cynergy systems, the latest generation of colouring Dye lasers, have given a major impetus. These systems have always been one of the pivotal products for Cynosure and are now improved thanks to the special Multiplex technology which enhances its performance.

For the industrial applications sector, the table below illustrates in detail the sales volume according to the market sector in which the Group operates.

	30/09/2006	Inc%	30/09/2005	Inc%	Var%
Cutting	6.713	42,91%	5.251	45,90%	27,85%
Marking	5.610	35,87%	4.218	36,87%	33,00%
Laser sources	2.919	18,66%	1.447	12,65%	101,74%
Welding, other industrial systems	400	2,56%	524	4,58%	-23,56%
Total	15.642	100,00%	11.439	100,00%	36,74%

The sales volume in the industrial sector remains outstanding. The only decrease in sales volume is shown in the smallest sector, while all the main sectors continue to grow rapidly. This is extremely important for the Group, which continues to invest large amounts of money in research also in the industrial sector, and which, with the recovery of the sales volume can envisage better prospects for the complete absorption of the funds invested in research, and therefore an improvement in profitability.

Within this sector, the best results are still those achieved by laser sources thanks to the ability of El.En. and of Quanta System to offer innovative solutions with extremely attractive price-performance ratios to the market, which is made up specifically of devices for system integration for manufacturing.

The Group is particularly pleased with the remarkable growth in this sector, which contributes substantially to the increase in the consolidated sales volume.

The margin of contribution is approx. 56.901 thousand Euros, an increase of 28,3% with respect to the 44.360 for the same period last year, although lower in terms of incidence on the sales volume, which falls from the 54,8% of 2005 to

53,2%. The decrease is mainly due to the medical sector in which the mix of sales, both from the point of view of the geographical areas of the markets as well as the types of products, determined a decrease in the margins. During the third quarter there was an improvement for this aggregate in terms of incidence on the sales volume, which was not, however, sufficient to reverse the trend which had been registered for the year.

The costs for services and operating charges are 29.724 thousand Euros, an increase of 78,2% with respect to the first nine months of 2005 and has an incidence on the sales volume which rises to 27,8% with respect to the 20,6% for the same period last year. This entry is obviously influenced by the non-repeatable cost derived from the agreement between Palomar and Cynosure (described below in detail). Excluding this cost, the incidence would be only 20,3%, which is slightly less than last year.

The cost for personnel was approx. 23.906 thousand Euros, a marked increase (+26,4%) over the 18.908 thousand Euros recorded on September 30th 2005, but a slight drop in terms of incidence on the sales volume, which decreases from 23,3% to 22,3%.

The sums which have been entered into accounts in relation to the stock options granted to the personnel have been considered among the personnel costs. These costs were 717 thousand Euros for the same period in 2005 and they rose to 1.626 thousand Euros during the first nine months of 2006, of these, 1.294 thousand Euros are related to the stock options issued by the subsidiary Cynosure Inc. .

On September 30th 2006, the number of employees of the Group, which has maintained its tendency to increase, was 609 with respect to the 548 at the end of 2005 and the 525 at the end of September 2005.

A substantial part of the personnel expenses involves research and development, for which the Group receives grants and reimbursements based on specific contracts underwritten by the institutions created for this purpose. These grants make it possible to expand the range of research since the help to limit their economic impact. The grants entered into accounts during this period amount to 707 thousand Euros.

The EBITDA for this quarter was 3.271 thousand Euros with respect to the 8.774 thousand Euros for the same period last year, with an incidence on the sales volume which decreased from 10,8% to 3,1%.

The costs for amortizations and accruals was 3.459 thousand Euros, an increase of 32,2% with respect to the same period last year, and the incidence on the sales volume remained constant. Under this heading we have included, among other things, the complete devaluation of the goodwill related to the German subsidiary Deka Lms and the accruals for product guarantees.

On account of the reasons which have been described above, the EBIT is negative for an amount of 188 thousand Euros, with respect to the 6.158 Euros shown for September 30th 2005. If we exclude the effects of the Palomar agreement, the EBIT would be 7.846 thousand Euros and at 7,3% of the sales volume, an increase of 27% over 2005.

The results of the financial management are for the amount of 1.691 thousand Euros, with respect to the 169 thousand Euros for the same period in 2005, on account of the obvious benefits that the cash held by Cynosure as a result of the IPO has had on this entry.

The other net income and charges did not comport significant variations, and therefore the earnings before taxes are 1.217 thousand Euros which represents a decrease of 80% with respect to the same period last year. Again in this case, if we exclude the effects of the Palomar agreement, we find before-taxes earnings of 9.251 thousand Euros, an increase of 50% with respect to the first 9 months of 2005.

Comments on the evolution of the net financial position

Since there have not been any expenditures of particular entity, the cash received from the IPO of Cynosure in December of 2005 has made it so that the financial position remains positive for an amount of approx. 59 million Euros. It should be pointed out that the 10 million dollar debt deriving from the Palomar agreement has not been entered as a financial debt and therefore when the debt is paid the financial position will be diminished by that same amount.

The cash position as of September 30th 2006 decreases, with respect to December 31st 2005 by about 14 million Euros. Among the causes of this decrease are the payment of dividends by El.En. SpA , Deka M.E.L.A. Srl, ASA Srl and by Deka Lms GmbH for a total amount of 2,8 million Euros paid to third parties, the acquisition of equities in Otlas Srl and Cutlite Penta Srl for a total amount of 656 thousand Euros.

The increase in working capital in any case, contributed considerably to the use of cash, especially by Cynosure Inc. and El.En. SpA, which, with their manufacturing and distribution structures are sustaining a high growth rate and must have available an inventory which is adequate to meet the needs of this growth.

Besides the ordinary and extraordinary cash flow, an important role is played by the exchange rate for the dollar in relation to the large amount of cash held in dollars by Cynosure Inc., and the effect that this has on the consolidation into our results, which are expressed in Euros. If the exchange rate had remained constant with respect of December 31st 2005, the cash position would have been greater by approx. 3,5 million Euros.

Gross investments made during this quarter

The table below shows the gross investments made during this quarter.

<i>Progressive</i>	30/09/06	30/09/05
Intangible assets	104	63
Tangible assets	2.755	2.979
Equity investments	0	0
<i>Total</i>	2.859	3.041

<i>3 Months</i>	30/09/06	30/09/05
Intangible assets	19	34
Tangible assets	915	1.097
Equity investments	0	0
<i>Total</i>	934	1.131

The investments made during the period mostly involved new laser equipment for experimentation and demonstrations both in the industrial and medical sector, especially in relation to the parent company, El. En. and Cynosure. Of particular importance were the investment efforts made by Cynosure, which were, on the one hand facilitated by the availability of cash, and on the other hand were necessary to realize the ambitious development plans of the company. An important example of this, was the purchase of the minivans necessary for the distribution network using their own employees, like the one Cynosure has in the United States, which represented one of the most important investments during this period.

The other investments were of an entirely ordinary nature for the operating activities of the Group, and normally involved electronic office machinery and material required for the research and manufacturing activities.

Comments on research and development activities

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

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

Research which is conducted in order to obtain results according to a mid-term schedule 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.

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

The research which is conducted is mainly applied and forms the foundation for some of the specific subjects. Both the applied research and the development of the pre-prototypes and prototypes are sustained by 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 research activities of the Group conducted during this period is shown below:

Systems and applications for lasers in medicine.

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

The creation of prototypes of a directable micro-tweezer and a multiple-way catheter for endoscopes, for endoluminal photo-dynamic therapy is now in progress. We are collaborating with the Ultrasound and Non-destructive testing Laboratory of the Department of Electronics and Telecommunications of the University of Florence for the development of manufacturing technologies for new optical-acoustic and acoustic-optical micro-probes for mini-invasive diagnostics; these probes will be used for early diagnosis of a malignant nature for small sized lesions.

Operations involving the use of lasers for attaching the cornea without stitches are scheduled in collaboration with the prestigious American eye clinic, Bascon Palmer of Miami. This activity is a direct result of the research conducted in collaboration with IFAC of the CNR by the associated company Actis Active Sensors.

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

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

Research is now in progress on new devices and methods for the percutaneous laser ablation of the liver and thyroid, as part of the activity conducted by the consortium company IALT (Image Aided Laser Therapy) created by El.En. and Esaote.

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

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

We have just concluded experimentation with a new laser system for hair removal which, for its high performance, can be considered at the top of the range on the international market.

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

The research program has been continued for the development of a laser for ophthalmology to execute photo-coagulation of the retina with the use of slot lamps, on the basis of an agreement with an important firm specialised in the production and distribution of diagnostic and therapeutic equipment in the ophthalmology field.

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

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

Now in progress we have the development of a new solid state laser power source capable of producing very high-powered impulses with adjustable duration of impulse and superior in size up to that of a Q-switch laser; the first results have already been obtained and the development of special technologies for the manufacture of hollow reflectors has been scheduled.

We have begun trials on the photo-mechanical stimulation of Chondrocytes. In the USA, we have started to make contact for experiments on animals for cartilage regeneration therapy.

At Cynosure we have developed diffractive lenses for laser skin rejuvenation procedures and a patent has been applied for.

Also at Cynosure, we have started to conclude our laser-lipolysis experiments.

We have just completed the ultra-compact Olmium laser system.

For industrial systems and applications

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

Experimental trials on the electronics based on a “Digital Signal Processor” for transforming into hardware the results of the theoretical research conducted on the numerical control of the galvanometers for scansion heads are now in progress.

We have continued research for the development of algorithms, calculus studies and hardware structures for artificial vision systems to be used for the automation of the surface decoration, by means of laser marking, of leather and other materials and for the cutting and marking of objects laid out on a flat working surface.

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

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

The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.

As part of the same program, the development of a new system of sensors and memorization of environmental stress on works of art while being moved from a museum to an exhibition space has continued; the creation of a “black box” for recording the transfer of works of art was developed by the subsidiary Actis - Active Sensors.

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

A national project regarding the diagnosis of works of art using fluorescent induced spectrometry has been approved.

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

We have modified the mechanical interfaces for the nozzles of Hypertherm cutting heads in order to improve the fluid-dynamics for cutting steel and alloys of particular thickness.

An electronic system for tele-diagnosis and tele-assistance for industrial machinery is now being developed, with the prospect that it may also be used for medical purposes.

The table below shows expenses for Research and Development for this period.

<i>thousands of euros</i>	30/09/2006	30/09/2005
Costs for staff and general expenses	5.642	4.372
Equipment	261	221
Costs for testing and prototypes	704	667
Consultancy fees	386	530
Other services	69	52
Intangible assets	3	3
<i>Total</i>	7.065	5.845

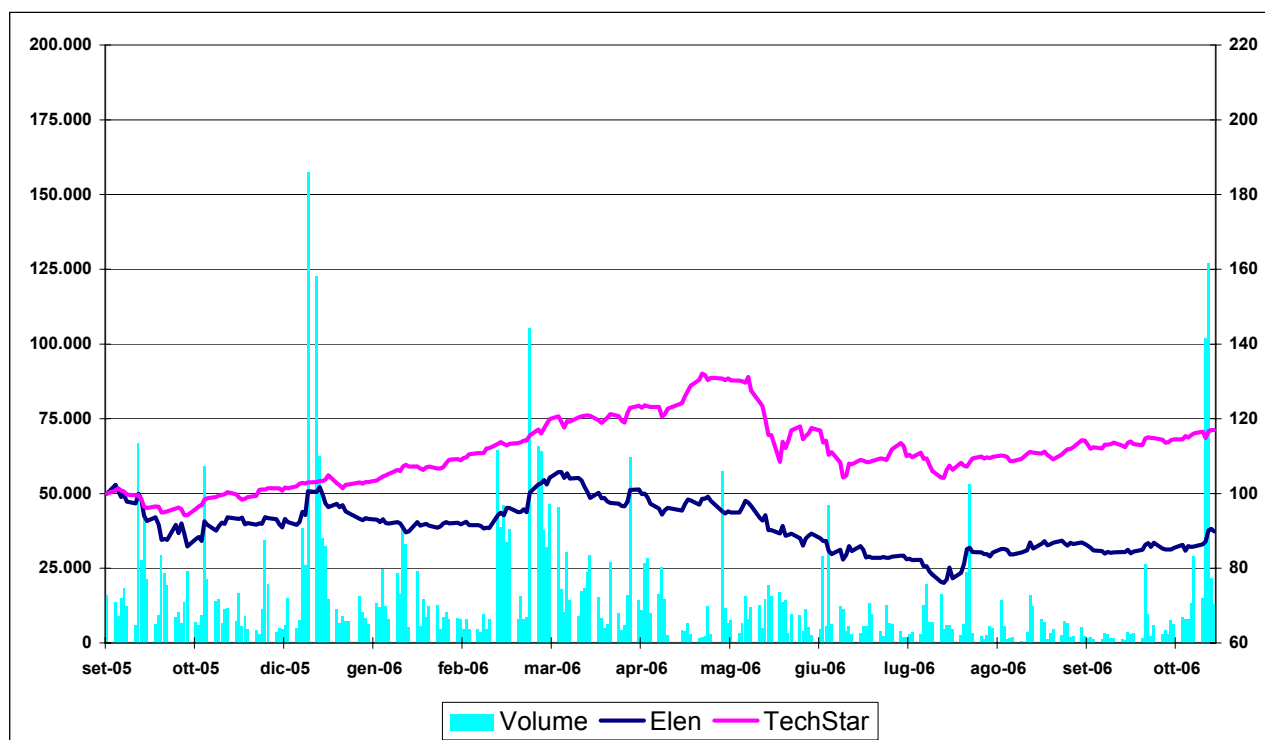
As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity they conduct in this sector. The amount of expenses sustained by Cynosure for research and development in this period was approx. 3.4 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 represents 7% of the consolidated sales volume of the Group. The amount related to Cynosure, which, as indicated above, was 3.4 million dollars, represents 6% of its sales volume. The remaining portion of expenses is paid for almost entirely by El.En. S.p.A. and amounts to 11% of its sales volume.

Trend of the El. En. stock

The graph below shows the quotations for El. En stock with reference to the quotation on September 30th 2005 which was for 32,61 Euros.



Other significant events which took place during this quarter

The most significant event which occurred during this quarter was the agreement between Cynosure and Palomar related to the use of patents for laser hair removal devices.

For some time now Palomar has been aggressively defending the patent rights granted to it by the General Hospital of Massachussets and which involved, generally speaking, laser devices for hair removal. After four years in the courts, in June of 2006 Palomar obtained from Cutera Inc. (NASDAQ:CUTR), another important competitor, a settlement in which Cutera admitted that they had infringed the patent, paid the royalties owed to Palomar for the preceding years, plus interest, and a further penalty of 1%, as well as the legal expenses sustained by Palomar (for a total of about 22 million dollars), and of course promised to pay all future royalties for the hair removal systems. A few weeks later, Palomar sued for patent infringement Candela Inc. (NASDAQ:CLZR) another important competitor, and publicly announced that they would sue anyone who, in their opinion, was making use of the patent.

Although Cynosure is convinced that their own technology is not infringing the Palomar patent rights, as was also confirmed by a legal opinion, Cynosure decided in these last few weeks that it would be opportune to consider an agreement with Palomar before this latter company involved it in a long and costly civil suit. Such a suit, the outcome of which would have been, in any case, uncertain, would have had negative effects both on the stock market, for which it represented a worrisome reason of uncertainty, as well as on the selling markets, where the arguments in the hands of the competitors, even though unfounded, could have undermined the selling activity of Cynosure.

The Board of Directors of Cynosure therefore decided to approve the agreement as it had been rapidly negotiated by the management in the preceding weeks. According to the agreement, which involves the cross licensing of patents, Cynosure will make a one-time payment of 10 million US dollars for royalties related to sale of hair removal-only systems up to September 30th 2006, and, in the future, will pay a royalty of 7,5% on the laser systems for hair removal (a considerable portion of which Palomar will pay to the actual owner of the patent, the General Hospital of Massachussets); although Cynosure has made a pragmatic business decision in accepting to pay the royalties, it has not admitted to infringing the patent rights. Considering the mix of products and services now sold by Cynosure, the overall

impact of the royalty payment for hair removal systems will correspond to about 3,5% of the total sales volume of the company.

Other events which occurred after the end of the quarter

On the 5th of October 2006, the parent company El.En. Spa acquired a real estate property located in the city of Torre Annunziata for a total amount 1.350 thousand Euros, of which 700 thousand Euros has already been paid, and the remaining 650 thousand must be paid when the property is handed over by the seller, which should occur within six months of the date of the contract. This property will be used for the research, development and manufacturing activities of the subsidiary Lasit Spa, and in this way El. En supports and sustains their encouraging outlook for growth.

Short term evolution foreseen for the financial period now in progress

While the forecasts for the sales volume of around 140 million Euros will probably be exceeded, the consequences of the agreement with Palomar will cause the consolidated revenue targets not to be achieved. If we exclude this effect, the earnings before income taxes (EBIT) are as of September, 30, falling only slightly short of forecasts due to another extraordinary event, which is the insolvency of Sona International. During the fourth quarter we believe that we will be able to make up almost entirely for this latter difference between the actual EBIT and the target, which is derived , as mentioned, from the insolvency of Sona International.

For the Board of Directors

The President of the Board of Directors
Gabriele Clementi