

El.En. Group

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

(Approved by the Board of Director of the company on May 15th 2006)

Quarterly Report closed on March 31st 2006

Introduction

This report for the quarter ending March 31st 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 data and the information provided in this report have not been examined by an auditing firm, because it is not compulsory.

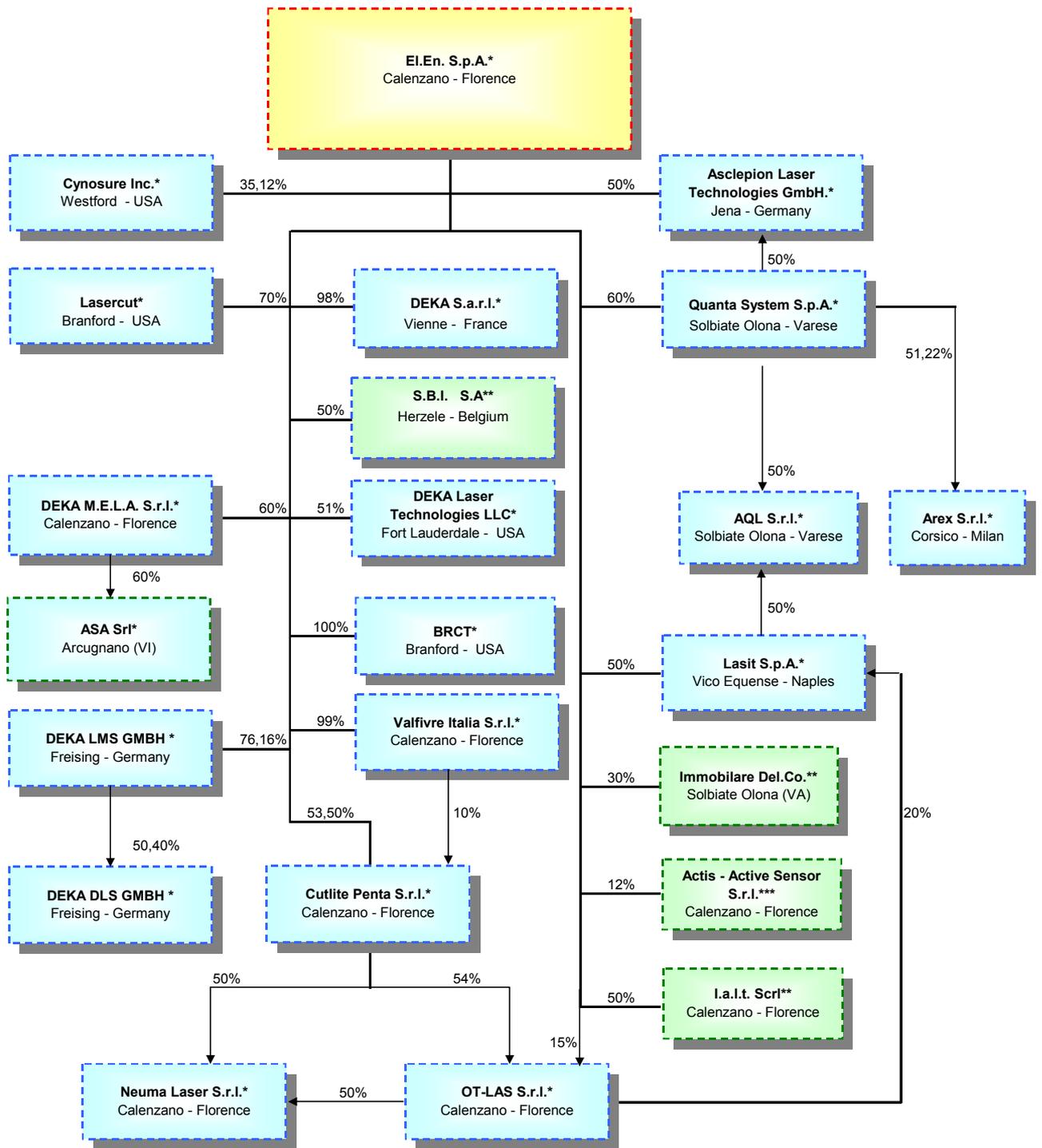
The information which is shown below was organized in conformity with the international accounting principles, IAS/IFRS, which have been obligatory since 2005 for the creation of the consolidated statements of companies which are listed on the regulated stock markets.

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

Description of the Group

El.En. SpA control 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 March 31st 2006 the structure of the Group was as follows:



* Entirely consolidated

** Consolidated using the equity method

*** Kept at cost

Cynosure Inc., a company which is listed on the American market, Nasdaq, controls in turn 5 companies involved in the distribution of its products, four of which are owned 100%, in Germany, France, Germany and Japan, and one owned for 51,6% in China.

Economic and financial results of the Group

The table below shows the data of the profit and loss account for the first quarter of 2006 in comparison with the results for the same quarter last year.

Profit and loss account	31/03/06	Inc.%	31/03/05	Inc.%	Var.%
Revenues	34.343	100,0%	25.005	100,0%	37,3%
Change in inventory of finished goods and WIP	3.351	9,8%	553	2,2%	505,9%
Other revenues and income	571	1,7%	295	1,2%	93,7%
Value of production	38.266	111,4%	25.853	103,4%	48,0%
Purchase of raw materials	17.604	51,3%	10.628	42,5%	65,6%
Change in inventory of raw material	(1.058)	-3,1%	(662)	-2,6%	59,7%
Other direct services	3.653	10,6%	2.207	8,8%	65,6%
Gross margin	18.066	52,6%	13.680	54,7%	32,1%
Other operating services and charges	7.204	21,0%	5.187	20,7%	38,9%
Added value	10.862	31,6%	8.493	34,0%	27,9%
For staff costs	7.951	23,2%	6.181	24,7%	28,6%
EBITDA	2.911	8,5%	2.312	9,2%	25,9%
Depreciation, amortization and other accruals	1.211	3,5%	850	3,4%	42,5%
EBIT	1.700	5,0%	1.463	5,8%	16,2%
Net financial income (charges)	441	1,3%	100	0,4%	340,2%
Share of profit of associated companies	0	0,0%	0	0,0%	
Other Income (expense) net	(15)	-0,0%	0	0,0%	
Income before taxes	2.127	6,2%	1.563	6,3%	36,1%

The chart below shows the analysis of the financial position of the Group.

Net financial position	31/03/2006	31/12/2005
Financial mid and long term debts	(2.145)	(1.961)
<i>Financial mid and long term debts</i>	<i>(2.145)</i>	<i>(1.961)</i>
Financial liabilities due within 12 months	(1.747)	(2.192)
Cash and cash equivalents	74.645	77.539
<i>Net financial short term position</i>	<i>72.897</i>	<i>75.346</i>
Total financial net position	70.753	73.385

Comments on management results

No changes occurred in the activities of the Group: during the first quarter 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 these two main sectors, a third area which is significant also from the point of view of revenue, is that of after-sales technical assistance service and supplying of spare parts to the clientele; research and development activities also contribute to the sales volume with revenue from research, and grants which represent reimbursement of expenses.

The financial year 2006 began with a rapid acceleration of the sales volume with respect to the same quarter in 2005. The high growth rate which has continued now for several quarters demonstrates the presence of favourable economic conditions on all the specific markets, and shows the capacity of the Group to take advantage of the opportunities which the markets offer.

The operating structures of the various companies belonging to the Group have adapted to the growing volume of business, with the consequent increase in the cost of personnel, both commercial and general, which, in any case, have moved with a speed that is inferior to that of the revenue and the margins. During this quarter, the business relations between Cynosure and Sona entered a profound crisis, and consequently credit risks and risks for obsolescent stock for an amount of over 750.000 Euro were entered into accounts. This devaluation penalized the results of Cynosure as well as the consolidated results, which prevented the Group from registering growth also from the point of view of the operating return on sales (ROS), a growth which under any other circumstance would have occurred. This episode, however, did not prevent them from showing an increase in operating revenue, and it is likely that it will not comport any negative effect in the future which could prevent it from reaching the revenue objectives of the Group.

The following table shows the division of the sales volume by sector of activity for the first quarter of 2006, compared with these same sectors for the same period last year.

	31/03/2006	Inc%	31/03/2005	Inc%	Var%
Industrial systems and lasers	4.351	12,67%	3.828	15,31%	13,66%
Medical and aesthetic lasers	25.336	73,77%	17.587	70,34%	44,06%
Service	4.656	13,56%	3.589	14,35%	29,72%
Total	34.343	100,00%	25.005	100,00%	37,35%

The growth rate is over 35%, which represents an excellent result. Again, it is the medical and aesthetic sector which shows the fastest progression, almost 45%. The growth of the industrial sector also reached a two digit number, notwithstanding the postponement to the next quarter of several important deliveries which would have made the result even more significant in terms of sale volume. Although the growth rate is still well below that of the medical sector, the industrial sector has confirmed the signs of recovery which had begun to appear last year. With the attenuation of the effects of the changes in the contractual terms for some of the sales, which had characterized the results of the revenues for service last year, the sector of customer assistance and spare parts showed a marked, though not unexpected, increase.

For this quarter 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 quarter of 2006 the income was 331 thousand Euros compared with the 107 thousand Euros for the same period last year.

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

	31/03/2006	Inc%	31/03/2005	Inc%	Var%
Italy	6.583	19,17%	4.523	18,09%	45,56%
Europe	11.070	32,23%	7.428	29,70%	49,04%
Rest of the world	16.690	48,60%	13.054	52,21%	27,85%
Total	34.343	100,00%	25.005	100,00%	37,35%

European markets showed a growth rate that was greater than that for the rest of the world, and this demonstrates the success of the distribution network of the various Group companies on the European market. In any case, the growth rate of “only” 28% shown for the rest of the world appears to be a very positive result. It is evident, therefore, that the Group is conducting their activity at a global level, earning 80% of their revenues outside of Italy and 50% outside of Europe.

For the medical/aesthetic sector, which represents more than 70% of the sales of the Group, the following table shows the sales volume for specific areas within the sector.

	31/03/2006	Inc%	31/03/2005	Inc%	Var%
Surgical CO2	743	2,93%	429	2,44%	73,27%
Physiotherapy	1.029	4,06%	107	0,61%	864,89%
Aesthetic	19.239	75,94%	14.338	81,52%	34,18%
Dental	1.975	7,80%	1.245	7,08%	58,67%
Other medical lasers	2.123	8,38%	1.375	7,82%	54,35%
Accessories	227	0,89%	94	0,53%	142,02%
Total	25.336	100,00%	17.587	100,00%	44,06%

The ability of the Group to acquire portions of the market and exploit the growth of these same markets is demonstrated by the results shown on this table. The “worst” result in term of growth, is that registered for the most important sector, aesthetics, with an excellent +34%; all of the other sectors grew more than 50% with respect to the first quarter of 2005.

The high demand for aesthetic applications performed with laser equipment was confirmed during this quarter. It should be recalled that hair removal, photo-rejuvenation, vascular treatments and cellulitis treatments represent the most important use of our laser systems. The Group is present on the market with four different brand names: Deka, Cynosure, Asclepion and Quanta System and their capillary distribution network make it possible to cover the entire market efficiently especially in view of the fact that each network operates in a different area in order to satisfy the demand of a market that is substantially different from that covered by the other Group companies.

The increase in the physical therapy field is particularly apparent, and this is due mainly, but not exclusively to the consolidation of the results of ASA Srl, a company of which the Group gained control in the fourth quarter of 2005. As of November of 2005 its sale volume has been entirely included in that of the other companies working in this sector which belong to the Group. In any case, net of the sales volume contributed by ASA, the growth rate would still have been 86%.

In the dental sector, the various distribution channels which the Group uses to offer its complete range of products (Erbium, Neodimium, CO₂, infra-red diode and visible lasers) showed a marked improvement and confirmed the trends of the last few quarters, all of which were much more satisfying than the first quarter of 2006.

Sales volume of accessories often depends on specialistic applications of CO₂ surgical lasers, so it is not surprising that the two sectors are both involved in a major recovery.

In the category of “Others” we begin to see the results of the introduction of Cynosure’s new product, Cynergy, which is a new version of the old favourite of the American company, the long impulse DYE laser, now offered in an attractive new model complete with emission instructions, which promises to be a major market success in the future.

For the industrial applications sector, the table below shows the details of the sales volume broken down by the market area in which the Group operates.

	31/03/2006	Inc%	31/03/2005	Inc%	Var%
Cutting	1.443	33,16%	1.645	42,98%	-12,30%
Marking	1.755	40,33%	1.475	38,52%	19,02%
Laser sources	1.066	24,49%	524	13,68%	103,46%
Welding	87	2,01%	185	4,82%	-52,58%
Total	4.351	100,00%	3.828	100,00%	13,66%

The growth rate is well over 10% and substantially confirms the recovery of this sector of the Group's activities. The market appears to be lively, especially in a few particular areas and some leading companies and competitors have achieved excellent results in this sector. The companies belonging to the Group are working to improve their results by taking advantage of this favourable situation. In general terms, in any case, the return of a Euro/ Dollar exchange rate to around 1,30 is worrisome, since, in the past, this rate contributed greatly to the decline of manufacturing activity in the Euro countries, and activity and demand had started to become stronger just when the exchange rate with the dollar seemed to be stabilizing around 1,20.

The sales volume for laser sources doubled, thanks to the high powered CO₂ sources manufactured by El.En. and to the solid state sources for industrial applications produced by Quanta System. It should be noted, in fact, that the vocation of the parent company, and also of Quanta System, is, in fact, the development and manufacture of laser sources, and it is on the basis of this original product that all the companies belonging to the Group and using El. En. technologies for the production of laser systems for manufacturing activity have developed. In the sectors of application, during the first quarter, marking exceeded cutting, thank to an increase in sale volume of 19% a opposed to a decrease shown in the cutting sector.

The demand for marking systems is particularly high at this time, both for traditional identification systems and small markings, as well as for decorating systems for large surfaces. It is hoped that the technologies which the Group already has and is about to acquire, will lead to a further growth of the sales volume in this field.

Considering the general recovery of the specific market, the decrease in the cutting sector is not cause for worry, since it is due to a few specific circumstances which, considering the brevity of the period of reference and the large amount of the individual sales, excessively penalized the sales volume for this period. The task facing Lasercut, on the other hand, appears to be more arduous considering the weak dollar which narrows the margins for the distribution of European products in the United States.

Sales in the residual sector dropped, mostly as a consequence of the drop in the sales volume of the scientific sector by Quanta System, since this type of sales is included in this sector.

The gross margin was 18.066 thousand Euros, an increase of 32,1% with respect to the 13.680 for the first quarter of last year. A decrease was shown in terms of incidence on sales volume, which fell from 54,7% in the first quarter of 2005 to 52,6%, partly as a result of the devaluations described above which were a consequence of the crisis in the relations Cynosure and Sona, without which the incidence would have been 53,7%.

The costs for services and operating charges was 7.204 thousand Euros, an increase of 38,9% with respect to the first quarter of 2005 and with an incidence on the sales volume of 21%. Notwithstanding the inevitable structural adaptation which the Group must implement in relation to the increase in the sales volume, the growth of this cost aggregate to a greater extent with respect to the sales volume and the margins, is neither natural nor expected. The effect of the Sona/Cynosure crisis weighed heavily on this cost aggregate, without which the growth rate of the operating costs would have been 31,6%

The costs for personnel was 7.951 thousand Euros, a marked increase (+28,6%) with respect to March 31st 2005 although a slight decrease was shown in terms of incidence on the sales volume, which fell from 24,7% to 23,2%.

The costs which have been entered into accounts in relation to the stock options assigned to employees are considered part of the costs for personnel. These costs amounted to 216 thousand Euros in 2005 and rose to 358 thousand Euros in 2006, of which 249 thousand Euros were related to the stock options issued by the subsidiary Cynosure Inc.

As of March 31st 2006, the number of employees in the Group was 599, an increase with respect to the 548 at the end of 2005 and even more with respect to the 499 at the end of the first quarter of 2005.

A substantial part of the expenses for personnel is directed towards research and development, for which the Group receives grants and reimbursements on the basis of specific contracts underwritten by the specific institutions. These grants make it possible to widen the scope of the research activities since they limit the economic impact; the grants entered into accounts during the first quarter amounted to 331 thousand Euros.

As a result of the various operations and the resulting entries described above, the EBITDA was 2.911 thousand Euros, an increase of 25,9% over the same quarter last year.

The costs for amortizations, depreciations and accruals was 1.211 thousand Euros, which represents an increase of 42,5% with respect to the same quarter last year, although the incidence on the sales volume remained the same. Besides the amortizations normally registered for the amortizable goods, some accruals for potential credit risks and for product guarantee have been included in this cost aggregate.

The EBIT is 1.700 thousand Euros, with an incidence of 5% on the sales volume with respect to 5,8% for the first quarter last year. The reasons for the drop in this incidence, including the exceptional causes, have already been discussed above.

Financial incomes are 441 thousand Euros, four times that for the first quarter of 2005. This result demonstrates the beneficial effects that the cash held by Cynosure after the IPO (approx. 64 million dollars), had on this category.

The other net income and charges were not cause for particular variations in the results, and therefore the before-tax result is 2.127 thousand Euros, an increase of 36,1% with respect to the first quarter of last year.

Comments on the evolution of the net financial position.

The cash received with the IPO of Cynosure in December of 2005 meant that the net financial position of the company remains extremely favourable, over 70 million Euros. During the financial period, the amount was reduced by about 2,5 million Euros, in the absence of significant operations of an extraordinary nature.

The decrease is in part due to the weakness of the dollar, since, at a constant exchange rate, the deposits in dollars held by the subsidiary Cynosure would be worth around 1,3 million Euros more.

In any case, during this quarter a certain amount of cash was absorbed on account of the variations in working capital and the investments which were made, as described below.

Gross investments made during this quarter

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

<i>Progressive</i>	31/03/06	31/03/05
Intangible assets	18	16
Tangible assets	822	1.295
Equity investments	0	0
<i>Total</i>	840	1.311

The investments made during the quarter 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.

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 quarter 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 our laboratories and in advanced research centres around the world.

On the other hand, 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.

A brief summary of the research activities of the Group conducted during the first quarter of 2006 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.

Some phases of the theoretical and 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 concluded.

Studies are now at an advanced state for the development of a directable micro-tweezer and a multiple-way catheter for endoscopes, endoluminal photo-dynamic therapy. 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 opto-acoustic micro-probes for mini-invasive diagnostics. These micro-probes will be used for early diagnosis of small sized malignant lesions.

Negotiations with a prestigious eye clinic in the United States were concluded for the first operations with live use of laser for attaching the cornea without stitches on the basis 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 continued the development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics and agreements were made with for conducting research in the USA and at the Lahey Clinic in Boston in collaboration with the Rizzoli Institutes of Bologna, who has been our partner now for several years.

Research on new devices and methods for the percutaneous laser ablation of the liver and thyroid, as part of the activity conducted in collaboration with the consortium company IALT (Image Aided Laser Therapy) recently 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 approved. For this project we are collaborating with prestigious European institutions like Fraunhofer IBMT.

We have designed 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

Experimentation with a new laser system for depilation which; for its high performance, can be considered at the top of the range on the international market, is now in progress.

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: odontostomatology, cardiac surgery, gastroenterology, ophthalmology, phlebology, eco-located interstitial hyperthermia, dermatology and aesthetics. A new multi-fiber system for laparoscopic or interstitial laser hyperthermia is being developed for mini-invasive micro-surgery on the liver and thyroid guided by ultrasound imaging.

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 mechatronic and microtechnological applications for the biomedical industry is now in progress

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.

For industrial systems and applications

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

The creation of 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 is 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.

Development of a new ultra compact CO₂ laser source pumped by radio frequency was brought to a conclusion.

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 a place of display 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 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.

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

The following table shows the expenses sustained this quarter for research and development:

<i>thousands of euros</i>	31/03/2006	31/03/2005
Costs for staff and general expenses	1.888	1.389
Equipment	83	37
Costs for testing and prototypes	196	253
Consultancy fees	203	220
Other services	18	19
Intangible assets	1	0
<i>Total</i>	2.389	1.918

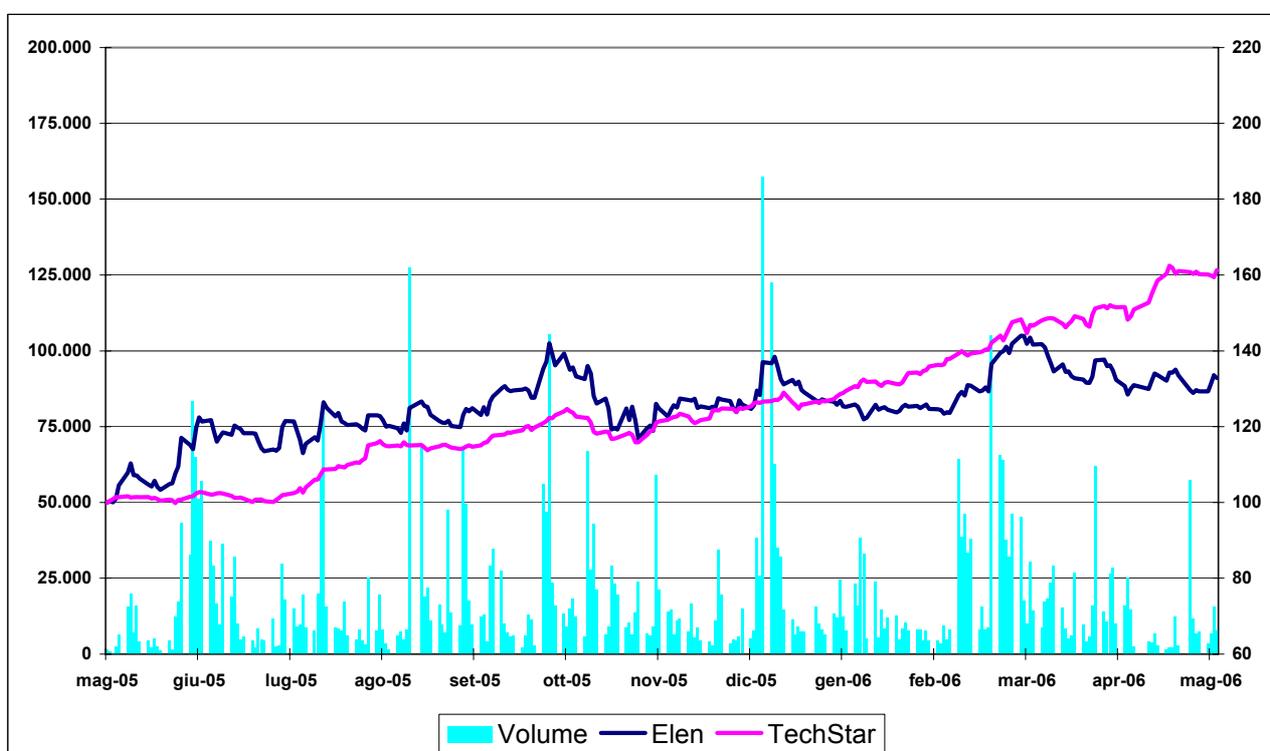
As was the case for sales and results , the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity they conducted in this sector. The amount of expenses sustained by Cynosure for research and development in this quarter was approx. 1,2 million dollars.

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

The amount of expenses sustained corresponds to 7% of the consolidated sales volume of the Group. The amount sustained by Cynosure was, as mentioned above, 1,2 million dollars which represents about 7% of its sales volume; the remaining expenses were paid almost entirely by El.En. S.p.A and represent 11% of its sales volume.

Trend of El. En. stock

The trend of El. En stock is shown in the graph below, with reference to the quotation on May 2nd 2005, for 23,95 Euros.



Other significant events which occurred during this quarter.

In the month of February, Mr. Sandro Favilli, President of the subsidiary Ot-las Srl, and partner in both Ot-las and the subsidiary Cutlite Penta Srl died. He was deeply involved in the activities of the Group for the industrial sector and in particular that of marking. We wish to recall at this time his dedication to his work and his intuitions which opened new markets for the Group.

Other events which occurred after the closing of the quarter

On May 2nd the parent company, El.En. acquired from third parties a quota of 21% of Ot-las Srl and a quota of 16,34% of Cutlite Penta Srl, for an overall amount of 550.000 Euros. The operation which comported the consolidation of the position of El. En among the companies in the industrial sector, was concluded because of the sudden death of one of the partners, Sandro Favilli, as mentioned in the preceding paragraph.

Short term evolution foreseen for the financial year now in progress

As already mentioned in some of the preceding paragraphs of this report, the main consumer markets for our products remain very lively, to the extent that it has been possible to reach the growth rates projected by the Group. Neither the Sona episode nor the sudden weakening of the US dollar would seem to be elements sufficient for modifying the consolidated “guidance” announced for 2006, which we can confirm at this time for a sales volume of about 140 million Euros and an operating profit of about 12 million.

For the Board of Directors

Chairman of the Board
Gabriele Clementi