

# **El.En. Group**

## **COMMENTS MADE BY THE DIRECTORS ON CONSOLIDATED DATA AS OF 31ST MARCH 2007**

(Approved by the Board of Directors of the company on 15th May 2007)

### **Quarterly Report as of 31/03/2007**

#### **Introduction**

This quarterly report as of 31/03/2007 on the consolidated economic financial results of El.En SpA has been drawn up and divulged in accordance with Article IA 2.16.2 of the Instructions to Market Regulations and article 82 of the CONSOB Regulation adopted by means of deliberation n. 11971 and subsequent modifications. The quarterly data and information has not been subject to examination by an auditing company because, as of today's date, such an assignment has not been request (as it is not obligatory).

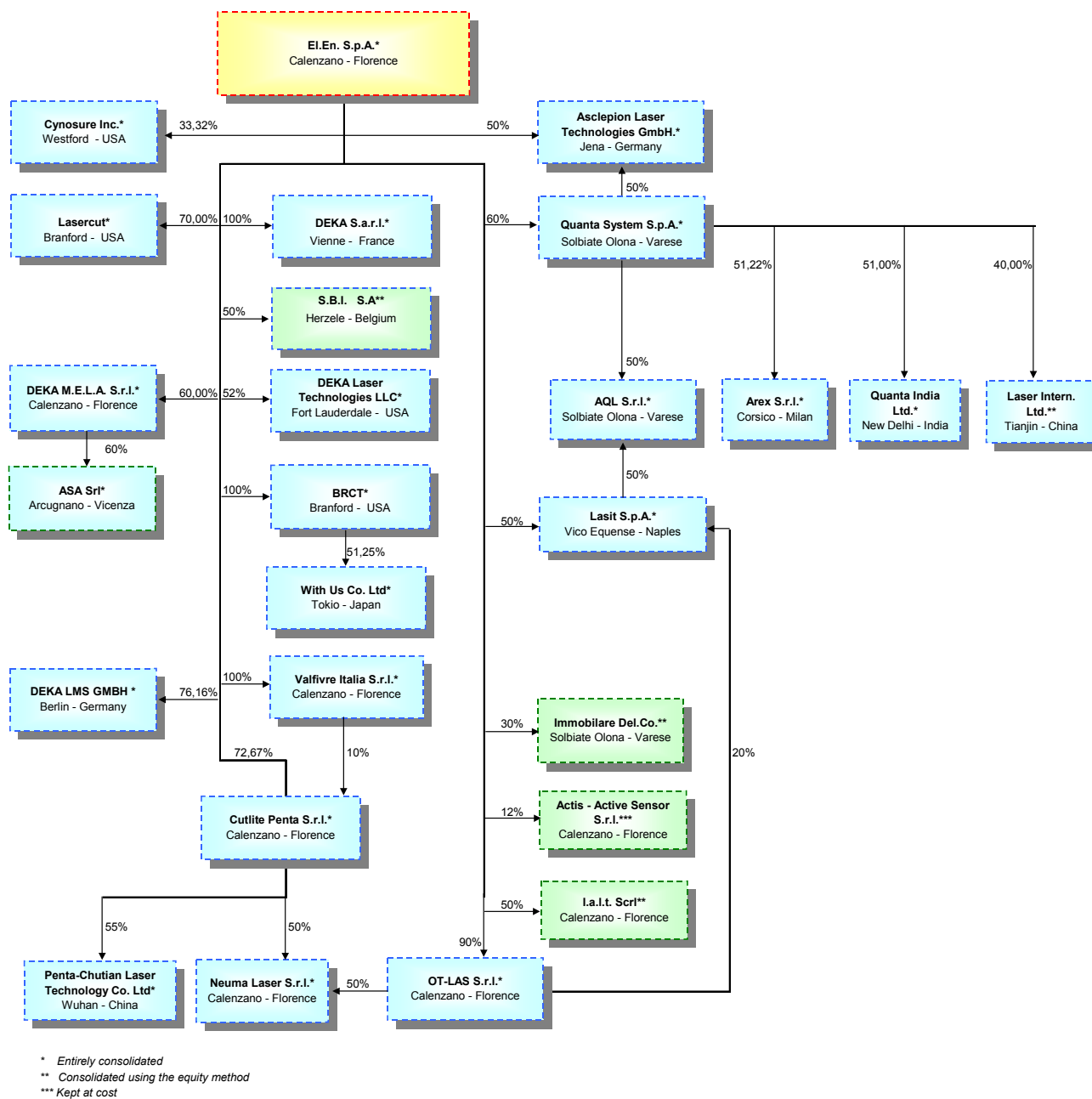
The following informative note has been drawn up according to the International Accounting Principles IAS/IFRS, obligatory since 2005 in the preparation of consolidated statements of companies which are listed on the regulated stock markets.

The quarterly results as of 31/03/2007 are presented in a comparative form with those of the corresponding quarter of the previous year. All of the amounts are expressed in thousands of euro, unless indicated to the contrary.

#### **Description of the Group**

El.En. SpA controls a group of companies operating in the design, production and distribution of laser sources and systems destined for a variety of applicative segments. El.En. SpA itself performs important activities within the group, in particular in research and development, design and production.

As of 31/03/2007 the group structure is the following:



On 2nd February 2007 the Group completed acquisition, performed through the subsidiary company BRCT Inc., for the control quota (51.25%) of With Us. Co., a Japanese company involved in the local distribution of laser systems for medical and aesthetic applications and relative accessories.

On 5th February 2007 the parent company, El.En SpA, completed acquisition of a property located in the City of Torre Annunziata for a general value of 1,375 thousand euro, 700,000 euro of which had already been paid at the end of the year, and another 650,000 had been paid when the Seller handed over the property. The building is to be used for research, development and production of the subsidiary company Lasit SpA, from which in this way El.En sustains encouraging growth perspectives.

On 27th February 2007 the Group communicated that it had established the company Penta-Chutian Laser Technology (Wuhan) Co. Ltd in China, through the subsidiary company Cutlite Penta Srl, a Joint Venture for the distribution and production of laser systems for industrial applications. The company acquired its business licence in Wuhan, in central China, the most important Chinese centre for electro-optical technologies and will be able to take advantage of the

localisation concessions deriving from the so-called “Optics Valley of China” as well as the Wuhan East Lake Hi-Tech Development Zone.

The partner in this Joint Venture is the Wuhan Chutian Industrial Laser Equipment Co., Ltd, a company from the Wuhan Chutian Group, a leader on the Chinese market for the production of welding systems and laser marking, also present on the market of medical laser systems and third-party production using laser systems. In the last 18 months the Chutian Group was a distributor of the El.En group of its laser systems for industrial applications and will provide the company with its own skills in the organisation of an efficient production structure and a widespread distribution network on the Chinese territory. Cutlite Penta Srl owns 55% of the share capital of the company, quantified in one million Euro. In the initial phase both partners have paid half of the respective share quota, for a total capitalisation of the company of 500,000 Euro, therefore expenditure by the El.En Group of 275,000 Euro. No contributions to capital in nature are expected.

Cynosure Inc., a company listed on the American Nasdaq market (NASDAQ:CYNO), in turn controls 6 distribution companies of its products, 100% owned in Germany, France, Great Britain, Spain, Japan and China.

## Economic and financial results of the group

The first three months of 2007 have seen your group strengthen its competitive positions on a global level, continuing its rapid development with an increase in turnover of more than 25%.

Such a high speed of growth is supported by some segments of the market and by some geographical areas in which the structures in charge of selling our laser products have succeeded in taking advantage of the opportunities that the favourable economic trend is offering.

Other fields and geographical areas have registered less successful results. It is important to point out that the success registered in some segments and markets of particular excellence, for example the most obvious case being Cynosure in the field of aesthetic, is made easier and in some cases entirely due to the close collaboration with other structures belonging to the group. This is to illustrate how the articulated structure of the group is permitting the achievement of excellent results even in the presence of some segments with regards to which management is interpreting incisive restructuring action.

Due to the importance of the subsidiary company Cynosure on the consolidated results and on the considerable share of the company held by third parties (the control quota owned by El.En. SpA is 33.32%), we will complete the informative note by illustrating the results related to the group, excluding Cynosure from the perimeter of consolidation, as well as data related to the consolidated group.

We illustrate here below the results of the Profit and Loss Account related to the first quarter of 2007, presented in a comparative form with the same results of the previous year.

<b>Profit and loss account</b>	<b>31/03/07</b>	<b>Inc. %</b>	<b>31/03/06</b>	<b>Inc. %</b>	<b>Var. %</b>
Revenues	43.000	100,0%	34.343	100,0%	25,2%
Change in inventory of finished goods and WIP	3.288	7,6%	3.351	9,8%	-1,9%
Other revenues and income	312	0,7%	571	1,7%	-45,3%
<b>Value of production</b>	<b>46.601</b>	<b>108,4%</b>	<b>38.266</b>	<b>111,4%</b>	<b>21,8%</b>
Purchase of raw materials	19.204	44,7%	17.604	51,3%	9,1%
Change in inventory of raw material	(876)	-2,0%	(1.058)	-3,1%	-17,2%
Other direct services	4.215	9,8%	3.647	10,6%	15,6%
<b>Gross margin</b>	<b>24.058</b>	<b>55,9%</b>	<b>18.072</b>	<b>52,6%</b>	<b>33,1%</b>
Other operating services and charges	8.839	20,6%	7.210	21,0%	22,6%
<b>Added value</b>	<b>15.218</b>	<b>35,4%</b>	<b>10.862</b>	<b>31,6%</b>	<b>40,1%</b>
For staff costs	10.202	23,7%	7.951	23,2%	28,3%
<b>EBITDA</b>	<b>5.017</b>	<b>11,7%</b>	<b>2.911</b>	<b>8,5%</b>	<b>72,3%</b>
Depreciation, amortization and other accruals	1.188	2,8%	1.211	3,5%	-1,9%
<b>EBIT</b>	<b>3.829</b>	<b>8,9%</b>	<b>1.700</b>	<b>5,0%</b>	<b>125,2%</b>
Net financial income (charges)	246	0,6%	441	1,3%	-44,3%
Share of profit of associated companies	(1)	-0,0%	0	0,0%	
Other net income (expense)	(614)	-1,4%	(15)	-0,0%	4049,1%
<b>Income before taxes</b>	<b>3.460</b>	<b>8,0%</b>	<b>2.127</b>	<b>6,2%</b>	<b>62,7%</b>

The net financial position of the group is analysed in the following table:

<b>Net financial position</b>	<b>31/03/2007</b>	<b>31/12/2006</b>
Financial mid and long term debts	(1.864)	(1.930)
<i>Financial mid and long term debts</i>	<i>(1.864)</i>	<i>(1.930)</i>
Financial liabilities due within 12 months	(1.137)	(1.301)
Cash and cash equivalents	61.445	58.372
<i>Net financial short term position</i>	<i>60.308</i>	<i>57.071</i>
<b>Total financial net position</b>	<b>58.444</b>	<b>55.141</b>

The Profit and Loss Account of the first quarter 2007 is illustrated below together with the net financial position of the group, excluding Cynosure from the area of consolidation.

<b>Profit and loss account</b>	<b>31/03/07</b>	<b>Inc. %</b>	<b>31/03/06</b>	<b>Inc. %</b>	<b>Var. %</b>
Revenues	24.760	100,0%	21.495	100,0%	15,2%
Change in inventory of finished goods and WIP	1.578	6,4%	1.562	7,3%	1,1%
Other revenues and income	227	0,9%	472	2,2%	-51,9%
<b>Value of production</b>	<b>26.565</b>	<b>107,3%</b>	<b>23.529</b>	<b>109,5%</b>	<b>12,9%</b>
Purchase of raw materials	13.844	55,9%	12.507	58,2%	10,7%
Change in inventory of raw material	(1.233)	-5,0%	(1.677)	-7,8%	-26,5%
Other direct services	2.384	9,6%	2.335	10,9%	2,1%
<b>Gross margin</b>	<b>11.570</b>	<b>46,7%</b>	<b>10.364</b>	<b>48,2%</b>	<b>11,6%</b>
Other operating services and charges	3.901	15,8%	3.446	16,0%	13,2%
<b>Added value</b>	<b>7.669</b>	<b>31,0%</b>	<b>6.918</b>	<b>32,2%</b>	<b>10,8%</b>
For staff costs	5.381	21,7%	4.495	20,9%	19,7%
<b>EBITDA</b>	<b>2.288</b>	<b>9,2%</b>	<b>2.423</b>	<b>11,3%</b>	<b>-5,6%</b>
Depreciation, amortization and other accruals	591	2,4%	632	2,9%	-6,4%
<b>EBIT</b>	<b>1.696</b>	<b>6,9%</b>	<b>1.791</b>	<b>8,3%</b>	<b>-5,3%</b>
Net financial income (charges)	(91)	-0,4%	(208)	-1,0%	-56,4%
Share of profit of associated companies	(1)	0,0%	0	0,0%	
Other net income (expense)	(16)	-0,1%	(15)	-0,1%	7,4%
<b>Income before taxes</b>	<b>1.588</b>	<b>6,4%</b>	<b>1.568</b>	<b>7,3%</b>	<b>1,3%</b>

<b>Net financial position</b>	<b>31/03/2007</b>	<b>31/12/2006</b>
Financial mid and long term debts	(1.097)	(1.118)
<i>Financial mid and long term debts</i>	<i>(1.097)</i>	<i>(1.118)</i>
Financial liabilities due within 12 months	(797)	(841)
Cash and cash equivalents	14.765	14.903
<i>Net financial short term position</i>	<i>13.967</i>	<i>14.062</i>
<b>Total financial net position</b>	<b>12.870</b>	<b>12.944</b>

## Comments on management results

Even during the current year there have not been any structural modifications to Group activities, operating in the design, production and distribution of laser systems and sources; the main selling markets are those of laser equipment for medicine and aesthetic and laser systems for industrial processes. Laser system production has always been backed by the technical after sales assistance and the supply of spare parts to all clients, an important activity also in terms of the revenue achieved; the research and development activities also contribute to turnover with revenue from research and income from expense refunds, but most importantly they represent the soul of the Group and guarantee the sales structure a constant innovation in terms of offer, the key to the success of High Tech markets in which the group companies compete on a global level.

As mentioned in the introduction, the growth in consolidated turnover reached approximately 25%, exceeding the average growth rate expected for the year and marking an extremely positive start to the year. The trend in operative profitability was also anticipated slightly compared with the assumptions of annual distribution formulated during the forecast. We must remember that the group companies typically operate with a portfolio of orders that can cover less of two months of activities and that any kind of extrapolation of the quarterly result on an annual basis is based exclusively on a market forecast and not on orders received.

The following table illustrates the division of turnover among the various sectors of activity of the group during the quarter, compared with a similar division for the same period of the previous year.

	31/03/2007	Inc%	31/03/2006	Inc%	Var%
Industrial systems and lasers	5.525	12,85%	4.351	12,67%	26,97%
Medical and aesthetic lasers	31.608	73,51%	25.336	73,77%	24,76%
Consulting and Research	-		-		
Service	5.867	13,64%	4.656	13,56%	26,01%
<b>Total</b>	<b>43.000</b>	<b>100,00%</b>	<b>34.343</b>	<b>100,00%</b>	<b>25,21%</b>

The consolidated growth rate is substantially in line for three reference fields: the medical-aesthetic segment in which we provide doctors, private clinics, hospitals and aesthetic centre with our laser equipment; the industrial segment in which we provide cutting, marketing and laser welding systems for the creation of a whole range of production processes; and the field of assistance, that is to say the after sales maintenance service and the supply of spare parts.

The residual heading "Consulting and research" is zero for this period; we are keeping the heading however, since this item is integrated, as part of the revenue from research activities, under the heading of "other income". During 2007 the revenue from research activity was 68 thousand Euros as opposed to the 331 thousand Euros for the same period of the previous year.

In terms of geographical distribution of turnover, the trend of the period is illustrated in the following table.

	31/03/2007	Inc%	31/03/2006	Inc%	Var%
Italy	6.477	15,06%	6.583	19,17%	-1,62%
Europe	13.294	30,92%	11.070	32,23%	20,09%
Rest of the world	23.230	54,02%	16.690	48,60%	39,18%
<b>Total</b>	<b>43.000</b>	<b>100,00%</b>	<b>34.343</b>	<b>100,00%</b>	<b>25,21%</b>

The table highlights how international markets and, in particular, non European markets, are becoming more and more decisive with regards to group turnover, that owes one of its most interesting competitive factors, in terms of distribution and also in terms of production, to its global presence. The Italian market has fallen to the 15% limit, even though it is still second to the American market as the single selling market.

Among other things, it is important to remember how international competition, in particular competition between countries from the Dollar area and the Euro area has undergone a clear competitive advantage during this period for manufacturers in the Dollar area, who can take advantage of the favourable exchange rate in order to increase market shares and profit by selling in the Euro area: within the Group this situation favours Cynosure without a doubt and

penalises companies with an operative base in Europe. A similar situation is being created in Japan with the Yen that has been lower than the Euro for some time.

Within the medical/aesthetic field, representing more than 70% of group sales, the trend in sales in various segments is illustrated in the following table:

	31/03/2007	Inc%	31/03/2006	Inc%	Var%
Surgical CO2	624	1,97%	743	2,93%	-16,04%
Physiotherapy	1.099	3,48%	1.029	4,06%	6,79%
Aesthetic	25.262	79,92%	19.239	75,94%	31,30%
Dental	1.551	4,91%	1.975	7,80%	-21,46%
Other medical lasers	2.878	9,11%	2.123	8,38%	35,58%
Accessories	194	0,61%	227	0,89%	-14,47%
<b>Total</b>	<b>31.608</b>	<b>100,00%</b>	<b>25.336</b>	<b>100,00%</b>	<b>24,76%</b>

The predominance of the segment of aesthetic has been highlighted even further during this quarter, during which other segments market a reduction in turnover compared with the first quarter of 2006. We believe that the reference period is too short to be able to comment on these results and extract a sufficiently reliable perspective, that is to say we believe that there is space for growth on an annual basis in other segments also.

Furthermore, we must point out that integration of the company With US within the group, starting from February 2007, allows for consolidation of turnover to the end user for the Japanese market and, therefore, with the same number of systems delivered in Japan there will be an equivalent increase in turnover to the distribution margin. The launch of the distribution company in Japan is one of the main articulations through which growth expected for the year in the medical and aesthetic sector.

Together with hair removal and photo rejuvenation products that represent the essential basis of the laser systems for aesthetic applications, the start of 2007 was characterised by the success of the Smartlipo system, produced by El.En. SpA and distributed in the United States by Cynosure for fat removal; the application, approved by the FDA at the end of 2006, has undergone rapid diffusion thanks to some special application details protected by a solid intellectual property.

The other applications for which the group proposes “light based” solutions in the field of aesthetic including the removal of cellulite, the removal of tattoos and vascular treatment; the results in terms of turnover have been satisfactory in these applications also.

The field of physiotherapy, entrusted to the company ASA, marks an increase compared with 2006, an excellent result considering that the trend of the previous year can be considered unique due to some extraordinary orders received.

In the field of “Others”, the result achieved by the sale of Dye equipment is very interesting, once one of the main Cynosure products and subsequently surpassed by hair removal products, but now having returned to a high level of turnover thanks to application of the “Multiplex” technique, a technological virtuosity of Cynosure property allowing for a high level of efficiency of some vascular treatments.

Surgical systems, the dental field and accessories have made their mark during the quarter. As previously mentioned, we have reason to believe that, the results in these segments can improve on an annual basis. For example, in the dental field, the potentials of distribution in the United States were not fully expressed, carried out through the subsidiary company Deka Laser Technologies from Fort Lauderdale, however expected to achieve good results in the next few months.

With regards to the field of industrial applications, the following table illustrates details of turnover according to the various market segments in which the group operates.

	31/03/2007	Inc%	31/03/2006	Inc%	Var%
Cutting	2.345	42,45%	1.443	33,16%	62,51%
Marking	2.170	39,28%	1.755	40,33%	23,65%
Laser sources	987	17,87%	1.066	24,49%	-7,35%
Welding, other industrial systems	22	0,40%	87	2,01%	-74,74%
<b>Total</b>	<b>5.525</b>	<b>100,00%</b>	<b>4.351</b>	<b>100,00%</b>	<b>26,97%</b>

The cutting field highlights an exceptional growth rate, due to contingent events: therefore, even though the segment appears to be in a good state of health, it is not possible that similar growth rates are re-proposed in the following quarters. On the other hand, one of the companies operating in this field, Lasercut of Branford, Connecticut, is going



through a phase of deep restructuring aimed at redefining its own operative field, a field that had never contributed to group profitability in the past.

It is also important to highlight how the group believes in the possibilities of growth in this segment, as confirmed by the important investment that our key company in this field, Cutlite Penta Srl, has made in China by creating a Joint Venture destined to become a supporting operative and production structure for the local market.

At this specific point it is not worth lingering on the importance of the Chinese market for production activities, that our production of laser cutting systems refers to as a potential selling market.

The field of marking, within which the group covers the segment of the so-called large surfaces, that is to say systems with a high added value that allow our clients to add a high creative value to their production and the segment of small surfaces, a market mainly aimed at product identification, in which we mainly operate with the companies Lasit and AQL, is also on the increase.

Even though the volume of production of laser sources has increased, sales have been mainly absorbed by the group companies and therefore have merged into the cutting and marking systems, while a slight reduction has been registered for the sources. The increase in production volumes is expected to transform into sales to systems outside of the group in the next few months, highlighting an increase in turnover in this specific segment also.

The field of welding and restoration, marginal in the entirety, marks a net reduction in revenue.

The following tables illustrate the composition of turnover for sub-consolidated, that excludes Cynosure.

<b>Without Cynosure</b>	<b>31/03/2007</b>	<b>Inc%</b>	<b>31/03/2006</b>	<b>Inc%</b>	<b>Var%</b>
Industrial systems and lasers	5.525	22,31%	4.351	20,24%	26,97%
Medical and aesthetic lasers	15.539	62,76%	14.654	68,17%	6,03%
Consulting and Research Service	-		-		
	3.696	14,93%	2.490	11,58%	48,48%
<b>Total</b>	<b>24.760</b>	<b>100,00%</b>	<b>21.495</b>	<b>100,00%</b>	<b>15,19%</b>

	<b>31/03/2007</b>	<b>Inc%</b>	<b>31/03/2006</b>	<b>Inc%</b>	<b>Var%</b>
Surgical CO2	624	4,02%	743	5,07%	-16,04%
Physiotherapy	1.099	7,07%	1.029	7,02%	6,79%
Aesthetic	11.070	71,24%	9.689	66,12%	14,26%
Dental	1.551	9,98%	1.975	13,48%	-21,46%
Other medical lasers	1.001	6,44%	992	6,77%	0,88%
Accessories	194	1,25%	227	1,55%	-14,47%
<b>Total</b>	<b>15.539</b>	<b>100,00%</b>	<b>14.654</b>	<b>100,00%</b>	<b>6,03%</b>

	<b>31/03/2007</b>	<b>Inc%</b>	<b>31/03/2006</b>	<b>Inc%</b>	<b>Var%</b>
Italy	6.390	25,81%	6.461	30,06%	-1,10%
Europe	9.117	36,82%	7.316	34,03%	24,63%
Rest of the world	9.253	37,37%	7.719	35,91%	19,87%
<b>Total</b>	<b>24.760</b>	<b>100,00%</b>	<b>21.495</b>	<b>100,00%</b>	<b>15,19%</b>

The medical and aesthetic fields have marked a less important increase than Cynosure and the group in its entirety, comparatively stirring the increase in revenue for the after sales service. As Cynosure's turnover is concentrated in the fields of aesthetic and in the residual field of "Others", we can see how the removal of Cynosure from these two segments has generated a fall in the growth rate, still maintaining an important 14% in the field of aesthetic.

In terms of geographical distribution of turnover, the trend is substantially similar to the consolidated one, even in the presence of a distribution that clearly highlights a much more important weight in Italian and European markets.

The margin of contribution has reached 24,058,000 euro, with an increase of 33% compared with the 18,072 from the same period of the previous year, with an increase in terms of incidence on turnover from 55.9% to 52.6% during the first quarter of 2006. We must remember that the margin of contribution of the subsidiary company Cynosure, also

includes, in 2007, costs for royalties paid to Palomar Technologies Inc, the licence holder of a laser hair removal technology owned by the Massachusetts General Hospital.

Costs for services and operative charges are 8,839,000 euro, with an increase of 22.6% compared with the same period of 2006 and with an incidence on turnover increasing from 20.6% to 21% for the same period of the previous year.

Staff costs have reached 10,202,000 euro, increased by 28.35% compared with 7,951,000 euro of the first quarter of 2006, with a slight increase in terms of incidence on turnover from 23.2% as of 31<sup>st</sup> March 2006, to 23.7%. The figurative costs registered in the financial statement with regards to stock options allocated to employees are included in staff costs. During the first quarter of 2006 these costs reached 358,000 euro and increased to 1,140,000 euro during the first quarter of 2007: among these, 1031,000 thousand refer to the stock options issued by the subsidiary company Cynosure Inc..

As of 31<sup>st</sup> March 2007 the group had 692 employees, 19 of which belonged to the newly acquired With US, maintaining its upward trend compared with the 635 at the end of 2006 and compared with 599 as of 31<sup>st</sup> March 2006.

A consistent part of staff costs merges into research and development costs for which the group also receives contributions and reimbursements for specific contracts undersigned with authorities. These contributions allow for much more extensive research activities to be carried out, something that limits the economic impact: the amount of contributions registered during the year were 68,000 euro.

The EBITDA reached 5,017,000 euro compared with the 2,911,000 euro of the same period of the previous year with an incidence on turnover increasing from 8.5% to 11.7%.

Costs due to depreciation and accruals, equivalent to 1,188,000 euro, have undergone a slight decrease (-1.9%) compared with the same period of the previous year, with a reduction in the incidence on turnover from 3.5% to 2.8%. Among other things, reserves due to product warranty and credit devaluation are also included in this item.

The operative result of 3,829,000 euro compared with the 1,700,000 euro as of 31<sup>st</sup> March 2006 has more than doubled and has an incidence on turnover increasing from 5% as of 31<sup>st</sup> March 2006 to 8.9% during the three month period examined.

The result of financial management, equivalent to 246,000 euro, (441,000 euro from the same period of the previous years) has been less affected by active interest on bank deposits as well as foreign exchange loss, a result of weakening of the American currency compared with the Euro.

The other net income and charges with a negative result of 614,000 euro, have been affected by changes in consolidation deriving from an increase in Cynosure capital per year of stock options at a value lower than the loading price of the consolidated shares (this is the case of options allocated before the 2005 IPO with a price of less than 5 American Dollars per share) with a consequent dilution of the percentage owned by El.En in Cynosure.

The result before taxes is therefore around 3,460,000 euro, with an increase of 62.7% compared with 2,127,000 euro as of 31<sup>st</sup> March 2006.

If we briefly mentioned the group results, excluding Cynosure, we can see an increase in sales of approximately 15% and a slight fall in profitability of sales themselves.

The increase in operative costs and personnel costs exceeds that of the gross contribution margin, therefore resulting in a fall in the operative result in an absolute value and in terms of incidence on turnover.

The improvement in financial management guarantees that the result before taxes of this sub-consolidation is equivalent to that of the previous year.

In general terms we can say that the mix of products sold during the first three months was less favourable than in the past, favouring production with a lower added value due to the market with lower unit margins, as in the case of the industrial market, and due to the unfavourable phase in the life cycle of some products, resulting in a competitive pressure on prices and a reduction in margins.

## **Comments on the evolution of the net financial position**

The cash position of the group has remained consistent and increased during the period to 58.5million Euro.

The majority of this is owned by Cynosure Inc, following the IPO of December 2005: after this date Cynosure did not make any very important single investments but used its cash available to fund the internal growth within its activities, with very important results, so much so that during the first three months the company generated cash despite a growth rate (in American Dollars) of approximately 50%.

The activities of the first three months of 2007 included some expenditure of an extraordinary nature, such as payment of the property in Torre Annunziata purchased by El.En. SpA in order to carry out production and development activities of the subsidiary company Lasit SpA, as already mentioned in the introduction, acquisition by the subsidiary company BRCT Inc. of the control quota of With Us Co, with an expenditure of approximately 200,000 Dollars and the creation of the Chinese Joint Venture by Cutlite Penta Srl that invested 275,000 euro and committed to paying the same amount in the next 3 years.

## Gross investments made during the three months

The gross investments made during the period in question are illustrated below:

<i>Progressive</i>	31/03/07	31/03/06
Intangible assets	93	18
Tangible assets	1.358	822
Equity investments	0	0
<i>Total</i>	1.451	840

<i>3 Months</i>	31/03/07	31/03/06
Intangible assets	93	18
Tangible assets	1.358	822
Equity investments	0	0
<i>Total</i>	1.451	840

The value of investments in tangible assets marks a drastic increase compared with the amount registered during the first three months of 2006.

According to the nature of our activities, there are no single investments of any real importance, excluding investments in property. The category of costs that generated the drastic acceleration of investments in tangible assets is that of equipment, that is to say the use of laser systems to support commercial demonstration activities and clinical experiments. Cynosure in particular provides the majority of its salesmen throughout the country with one or more pieces of equipment to be used for demonstration, an important investment but with excellent return in terms of simplifying sales.

## A comment on Research and Development activities

During the first three months of 2007 intense Research and Development activities were carried out within the Group with the objective of opening up new laser applications in the medical as well as industrial fields and providing the market with innovative products.

The global market, especially with regards to high technology products, needs to face competition with constant introduction on the market of new products and modern versions in terms of performance using technologies and components that are constantly updated. Therefore extensive and intense Research and Development activities, organised according to short and medium term programme lines, are required.

Research aimed at achieving medium term results is characterised by the fact that it aims at topics at greatest risk, inspired by internal institutions within our company and perspectives indicated by the scientific work of advanced laboratories and research centres in the world with which we collaborate. Research dedicated to achieving short term results, especially for products developed for new laser applications, is active in topics for which pre-feasibility control work has already been carried out in the past. Furthermore, the choice and preparation of functional characteristics and specifications has been applied to these topics. The elements for these activities are defined on the basis of information acquired through the work performed by internal specialists and also as a result of the activities performed by the public and private structures involved, acting as consultants during the preliminary stages. The research which is conducted is mainly applied and is basic for some specific subjects. Applied research as well as the development of pre- prototypes and prototypes were backed by own financial resources and partially from contributions made by research contracts stipulated with managing authorities on behalf of the Ministry of Education, University and Research and the European Union, directly as well as through Research Authorities or regional structures.

The most important details on research carried out by the group during the period is shown below.

#### Laser systems and applications for medicine

Activities related to the development of laser apparatus and devices for mini-invasive microsurgery assisted by robot have continued: the development activities in the field of a project on New Medical Engineering as the FIRB project (Investment Fund for Basic Research), partially funded by MIUR (the Ministry for Education University and Research) following selection based on the opinion of international experts.

The experimental inspections based on the completion of doses and techniques for cutting and ablation processes of soft tissues and cauterisation of small vessels have been completed.

Specifications have been prepared for a specific compact CO<sub>2</sub> laser source for this application. The execution of prototypes of a laser adjustable micro-pliers is currently in its conclusive phase.

Collaboration with the non destructive Ultrasound and Controls laboratory of the Department of Electronics and Telecommunications from the University of Florence for identification of the executive technologies for new opto-acoustic micro-probes and acoustic-optical receivers made using several different technologies has continued. These probes should be used for the premature diagnosis of small malignant wounds: the results of prototypes of opto-acoustic transmitters and acoustic optical receivers created using several forms of technology are underway.

The preliminary phases for execution in a prestigious Ophthalmologic clinic in the USA (Bascon Palmer of Miami) of in vivo intervention activities on animals and subsequently on patients are underway, using a laser to glue the cornea without any suture stitches. This activity follows the development carried out in collaboration with the IFAC of the CNR, from the associated company Actis Active Sensors.

In collaboration with the IFAC institution of the CNR, important research activities are underway for the development of a technique and relative devices in order to perform anastomosis of blood vessels assisted by laser.

The development of instruments and clinical experiments on modern laser apparatus for uses in physiotherapy and orthopaedics has continued and experimentation activities have been extended to the USA, in collaboration with the Rizzoli Institutes of Bologna, our partners for several years.

In vivo research and experiment activities are currently underway on new devices and methods for laser ablation on the liver and thyroid, within the activities of the consortium company IALT (Image Aided Laser Therapy) created by El.En. and Esaote.

The activities and execution of prototypes of laser equipment for a project funded by the European Union on the new methods of diagnosis using nano-particles and laser systems and inter-acting ultrasounds have continued: a collaboration is underway with prestigious European institutions, including Fraunhofer IBMT for this project.

Prototypes of new equipment for use in aesthetic treatment for the stimulation of skin collagen have been developed. Clinical experimentation activities continue at the same time in Italy and in qualified European and American centres in order to confirm and prove the efficiency of modern therapeutic treatments using laser in various fields of medicine: odontology-stomatology and aesthetic.

Research into the development of diode laser for applications in neuro-surgery with mini-invasive techniques continued. Thanks to a contribution provided by the European Union, a research programme is currently underway on applications of mechatronics and micro-technologies for the biomedical industry.

Tests on the stimulating and photo-mechanical effect of **Condrociti** have begun. Contacts for the execution of experimental on animals in the USA of regenerative cartilage therapy have been made.

Cynosure has developed diffracting lenses for applications with photo rejuvenation of the skin with a laser: the relative patent has been registered.

Cynosure has also carried out completion activities on experiments on laserlipolysis. Activities with the objective of increasing the intellectual Property in the Group through the preparation of international patents and assistance on an international level have continued.

#### Laser systems and applications for the industry

The activity related to a excimer laser system to be used in the nano-production of devices for electronics and optoelectronics has continued.

Experimental controls on electronics based on a "Digital Signal Processor" for line calibration and numerical control of galvanometers for scanning heads have been completed.

Studies have continued in order to perfect the algorithms, calculation programmes and Hardware structures for artificial sight systems to be used for the automation of superficial decorations, through the use of laser marking of leather and other materials for cutting and marking of objects on the work surface.

Experimental tests are currently being completed on a new CO<sub>2</sub> laser source pumped with an ultra compact radio frequency. Research planned by a project for a high power laser source in a solid state with active material in an amorphous ceramic support is currently underway.

The development of new laser diagnosis equipment and documentation for cultural heritage is still underway within the NOP's (National Operative Plans) for the development of strategic strategies for Southern Italy. In this field experiments have been carried out by inserting acquisition and storage equipment referenced in time and in space with

data from 3D acceleration sensors, pressure, temperature and illumination in the various bands from infrared to ultraviolet, in special containers for transport.

A new representation system of thermal transients for the study of the level of preservation of works of art and industrial products during the completion stage in the production process is currently undergoing development.

Development work on a new diagnostic system on paper from ancient books using a laser, involved in a recent patent, has continued.

An electronic system for remote diagnosis and remote assistance for industrial machines is currently undergoing development and, in perspective, for industrial machines used in medicine.

The following table lists the expenses that can be attributed during the period to Research and Development.

<i>thousands of euros</i>	<b>31/03/2007</b>	<b>31/03/2006</b>
Costs for staff and general expenses	2.150	1.888
Equipment	34	83
Costs for testing and prototypes	394	196
Consultancy fees	173	203
Other services	21	18
Intangible assets	1	1
<b><i>Total</i></b>	<b>2.774</b>	<b>2.389</b>

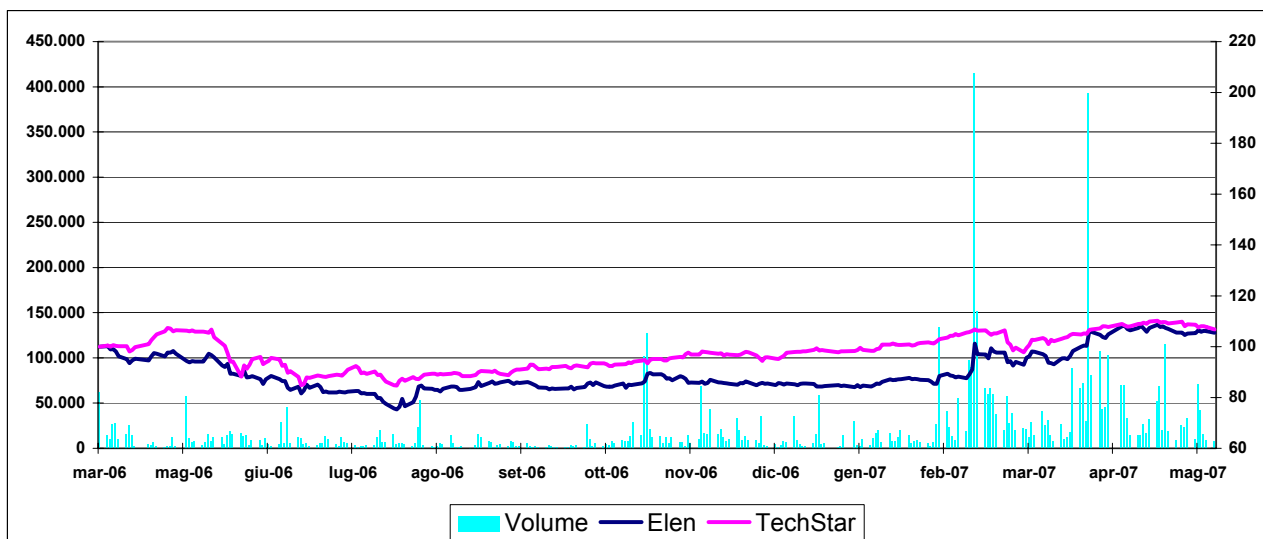
As in the case of turnover items and income items, the contribution provided by Cynosure is also important in terms of research and development costs due to the intense activities carried out in this specific field. The amount of costs for research and development sustained by Cynosure in the three-month period was approximately 1.7 million Dollars.

According to consolidated company practice, the expenses listed in the table have been entirely registered in the management costs.

The amount of costs sustained corresponds to 6% of the consolidated turnover of the group. The quota related to Cynosure, as previously mentioned, equivalent to 1.7 million Dollars, represents approximately 7% of its turnover: the remaining part of costs is borne almost completely by El.En. SpA and represents 9% of its turnover.

## Trend of the El.En stock

The trend of the stock is represented in the following drawing, with reference to the quotation as of 31st March, that was approximately 33 euro.



## Other significant events that occurred during the quarter

No other important events have been registered during the first quarter of 2007.

## Other events that occurred after closure of the quarter

As of today's date the meeting of El.En shareholders, summoned in order to discuss and deliberate on an item on the agenda, also including approval of the 2006 annual results and the deliberation of dividends applied to the 2006 results, has approved the distribution of a dividend of 0.30 euro per share, whose detachment date is planned for 28<sup>th</sup> May 2007.

## Foreseeable development of activities for the current year

The year 2007 began in a very promising way, with turnover and profitability in advance compared with the schedule planned for the achievement of annual objectives that, as we remember, indicate the consolidated turnover as 185 million euro and the consolidated operative result in 19 million.

Management, however, has no intention of modifying the aforementioned forecasts for the moment and hereby confirms them.

For the Board of Directors

The President of the Board of Directors  
Gabriele Clementi