EL.EN. S.p.A.

Headquarters in Calenzano (Florence), Via Baldanzese, 17

Capital stock: Underwritten and paid : € 2.508.671,36

Registry of Companies in Florence – C.F. 03137680488

CORPORATE BOARDS OF THE PARENT COMPANY

(as of the date of approval of the financials on June 30th 2013)

Board of Directors

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Michele Legnaioli

Stefano Modi

Alberto Pecci

Board of statutory auditors

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Rita Pelagotti

Executive officer responsible for the preparation of the Company's financial statements in compliance with Law 262/05

Enrico Romagnoli

Independent auditors

Deloitte & Touche S.p.A.

EL.EN. GROUP

HALF YEARLY MANAGEMENT REPORT

EXPLANATORY NOTES

1.1. Adoption of international accounting principles

This half-yearly financial statement for the half ending on June 30th 2013, approved by the Board of Directors on August 29th 2013, drawn up in consolidated form in compliance with to Art. 154-ter of February 24th 1998, Legislative Decree 58 (TUF) and later modifications and additions, has been drawn up in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and ratified by the European Union.

By IFRS we mean also the International Accounting Standards (IAS) which are still in force, as well as all of the interpreting documents issued by the International Financial Reporting Interpretations Committee (IFRIC).

In this report which is drawn up in conformity with IAS 34, Intermediate Reports, we have used the same accounting principles used for the consolidated financial of December 31st 2012 with the exception of the accounting standards that went into force starting on January 1st 2013 described in the Explanatory Notes – paragraph pertaining to the "Accounting Principles and Evaluation Criteria". The application of these principles did not have any effect except for the modification of accounting standard IAS 19 "Employee benefits" ratified by the European Commission with regulation no. 475/2012 issued on June 5th 2012. The new regulations which entered into force on January 1st 2013 required a restatement of the amounts in the statement of financial position as of January 1st 2012 and December 31st 2012.

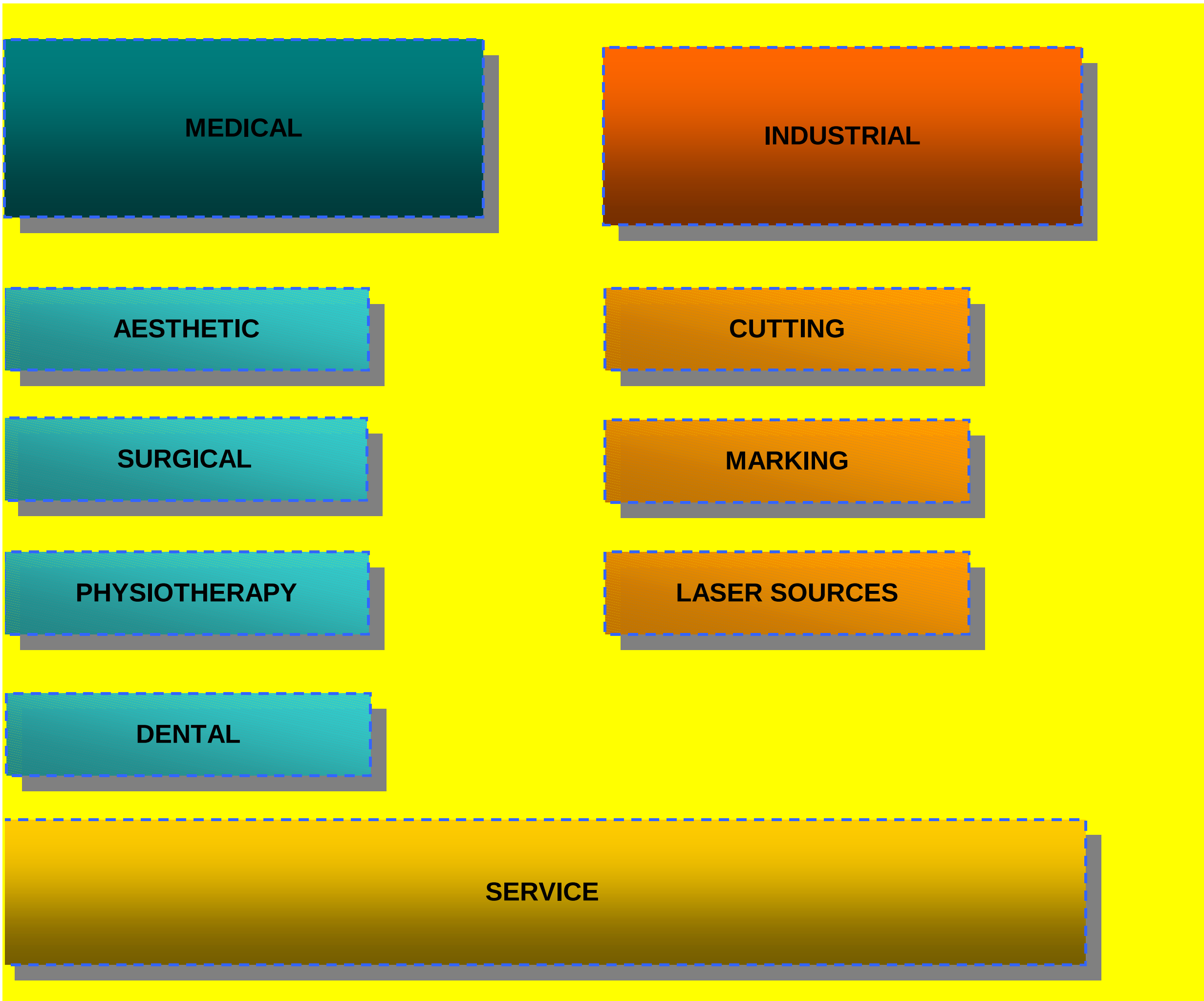
All amounts are expressed in thousands of Euros unless otherwise indicated.

1.2. Description of the activities of the Group

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

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

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



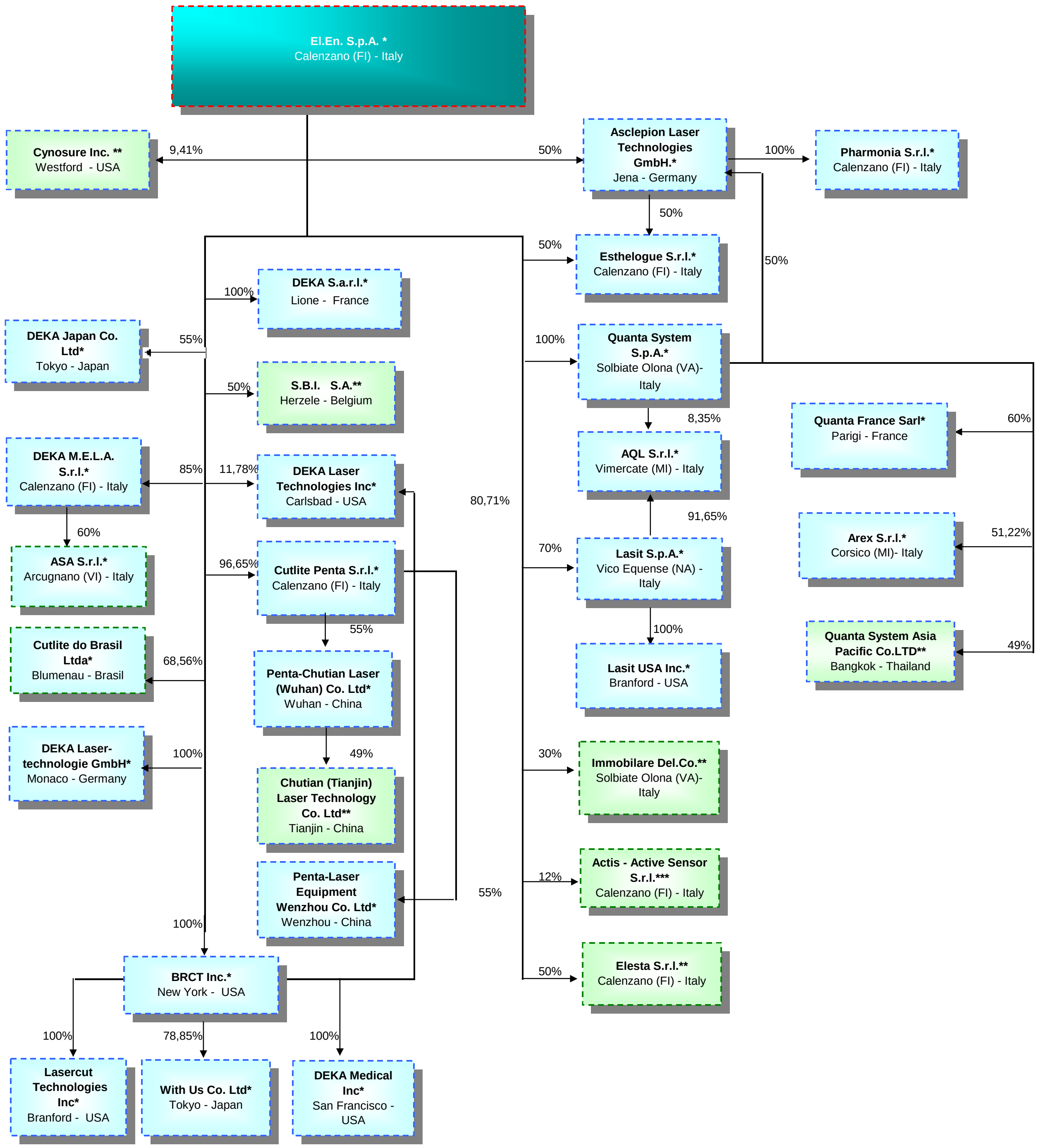
Besides the main company activity of selling laser systems, there is also a post-sales customer assistance service which is not only indispensable for the installation and maintenance of our laser systems but also a source of revenue from the sales of spare parts, consumables and technical assistance.

The division of the Group into multiple companies also reflects the strategy for the distribution of their products and the coordinating of the various research and development and marketing activities. In fact, particularly in the medical sector, the various companies which through acquisitions have gradually become part of the Group (DEKA, Asclepion, Quanta System, Cynosure which left the Group at the end of 2012 and Asa) have always maintained their own special characteristics as far as the product typology and segment and their own distribution network which is independent from those of the other companies in the Group.

At the same time, each one has been able to benefit from the cross-fertilization which the research teams have had on each other, thus creating centres of excellence for certain specific technologies which were made available also to the other companies of the Group. Although this strategy makes management more complex, it is chiefly responsible for the growth of the Group which has become one of the most important companies in the field.

1.3. Group structure

As of June 30th 2013 the structure of the Group was as follows:



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

1.4. Performance indicators

The following performance indicators have been shown for the purpose of supplying additional information on the economic and financial performance of the Group:

	30/06/13	31/12/12 (a) (*)	30/06/12 (a) (*)
Profitability ratios (**):			
ROE	2,1%	26,0%	3,3%
(Net income / Share Capital and Reserves)			
ROS	5,1%	4,9%	5,1%
(EBIT/ Revenues)			
Structure ratios:			
Financial flexibility	0,69	0,68	0,77
(Current assets / Total assets)			
Leverage	1,18	1,18	1,13
((Shareholders' Equity + Financial liabilities) / Shareholders' Equity)			
Current Ratio	2,27	2,52	2,65
(Current assets / Current liabilities)			
Acid ratio	1,47	1,66	1,78
((Current receivables + Cash and cash equivalents)/ Current liabilities)			
Quick ratio	0,66	0,77	1,01
((Cash and cash equivalents + Investments) / Current liabilities)			

(a) Restatement of comparative data after the adoption of IAS 19 Revised
(*) Restatement of data in compliance with IFRS 5
(**) For the interim reports the amounts of the revenue, purchases and the profit results have been annualized.

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

- Own Capital = Shareholders' equity of the Group – Net income (loss)

1.5. Alternative NON-GAAP measures

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

The Group uses the following alternative non-GAAP measures to evaluate the economic performance:

- The **earnings before interests and income taxes** or EBIT represents an indicator of operating performance and is determined by adding to the Net Income (Loss) for the period: the income tax, the other net income and charges, the quota of the associated companies, the results of the financial items;
- the **"EBITDA"**, also represents an indicator of operating performance and is determined by adding to the EBIT, the amount of "Amortizations, depreciations and accruals";
- -the **added value** is determined by adding to the EBITDA the" staff cost";
- the **gross margin** represents the indicator of the sales margin determined by adding to the Added Value the "Costs for operating services and charges".
- the **incidence** that the various entries in the income statement have on the sales volume.

As alternative performance indicators, to evaluate its ability to fulfill their financial obligations the Group uses :

- the **net financial position** which is: cash available + Securities entered as current assets + current financial receivables – debts and non-current financial liabilities - current financial debts.

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

1.6. Group financial highlights

In the first half of 2013 the Group registered a consolidated sales volume of 73,8 million Euros which was just slightly less than the amount registered for the first half of 2012, 74,8 million Euros, and showed a net income of 1.257 thousand Euros which also represented a slight decrease with respect to the 1.605 thousand Euros shown in the first half of 2012. The net financial position of the Group remains solid and increased by about one million Euros during this half year so that it is now over 19 million Euros.

In the first half-year period in which Cynosure Inc. participated in the consolidated income statement only for the quota of its net result (since it is now an associated company for the amount of 9,41%), its influence in any case was felt with a negative result in this case. In fact, for this financial period the amount contributed by Cynosure (which registered a loss of 7,7 million dollars), represented a loss of about 0,6 million Euros which as generated by the one-time costs sustained by Cynosure for the acquisition of Palomar Inc., which took place on the 24th of June. Without this expense the quota of the net result of Cynosure for the Group would have been a net income of about 0,8 million Euros and therefore the net consolidated income for this period would have been about 2,6 million, which represents an amount which is consistent with the contribution of Cynosure to the net result of the Group. This impact on the half-yearly results represents a paradox because the acquisition of Palomar on one hand brought about the loss mentioned above while, on the other hand, it benefitted the Cynosure stock, with obvious advantages for the Group which of course do not appear in the financial statement in compliance with the caution shown in the representation that the financial standards require for this important equity belonging to the Group.

Although business got off to a slow start at the beginning of the year, the second quarter showed a significant improvement with respect to the first with both the sales volume and the EBIT heading in the right direction for achieving the goals which have been set for this year. This fact, along with the considerations which follow, induce us to evaluate positively the results for the period even though they do not show an improvement over those for 2012.

The events that we had forecast would have a negative impact on the sales volume and on the EBIT, in fact, all occurred: the negative trend of the Japanese currency penalized the sales volume and margins of one of the most important markets for the Group in the medical sector; the phase of transformation of some of the production and distribution activities in China, Brazil and the USA caused lower revenue and some costs of transition; the crisis in Italy and in Europe in general continued to afflict our clientele and the stagnation of the selling markets was worsened by the difficulty for the clientele to obtain the financial resources necessary to make investments.

The Group reacted successfully to these difficulties and was able to achieve significant results in Italy where the sales volume registered a two digit growth thanks in particular to the professional aesthetics sector and the systems for industrial applications; the systems for surgical applications, in particular in urology; systems for aesthetic applications, in particular for hair removal and the removal of tattoos and pigmented lesions.

Moreover, although Cynosure is no longer within the area of full consolidation, it continues to have a significant impact on our results which, in this period was negative since the half-yearly results that are entered for it as an associated company, although limited to the 9,41% ownership, had to absorb the major loss of 7,7 million dollars registered by Cynosure during the period for the costs of the transaction for the acquisition of Palomar Inc. which took place on June 24th.

Because the Group operates worldwide, the general economic conditions that prevail are not uniform on the various selling markets. The “local” markets, i.e, Italian and European, continue to be penalized by a weak demand and scarce availability of credit. This was particularly true in Italy where the persistent political instability prevented any and all concrete contributions to the revitalizing of the Italian economy. The American market still benefits from a currency expansion policy which sustains consumption and is now going through a phase of recovery that is concretely demonstrated by the record quotations in the stock market and the revitalized domestic demand. The benefits derived from this situation are evident in the results of our competitors that are based in America who also have the advantage for exports of an exchange rate that has been stabilized around the rather unfavorable amount of 1,3 dollars per Euro. During this half-year we have only partially been able to reap the benefits of the favorable circumstances in America, thanks to the penetration of Quanta System and the supplies sold to Cynosure, while awaiting the effects of the transformation of the activities of our American subsidiaries. The Japanese market is going through a positive phase, in this case due to the deliberate expansion policy implemented by the government and the central bank in order to revitalize the domestic demand in Japan and break the vicious circle of stagnation, non-existent interest rates and deflation that have been typical of the Japanese economy for years. The result of this policy has been the devaluation of the Yen, the effects of which are evident in the reduction of the sales volume in Euros, the margins in Yen since our branches in Japan essentially distribute equipment made in Europe and consequently with costs in Yen sharply increasing respect of the same amounts in Euros.

In general the industrial sector of laser systems for manufacturing continued to grow although this was not so much due to the Chinese market which is in a phase of substantial stability in sales but rather to the revival of the traditional industries conducted at Calenzano in the fields of cutting and marking large surfaces. Despite the fact that the Chinese market has shown no growth in the past few quarters, the sector of Chinese manufacturing remains pivotal in the strategy for development in the sector and there is a project for re-enforcing our position in this area by creating a new company in Wenzhou which will operate along with the company in Wuhan.

In the first half of 2013, for the first time in ten years the results of Cynosure (NASDAQ, CYNO) have not been wholly consolidated in the financial statements of the El.En. Group, although Cynosure continues to be part of the Group in terms of association with an equity of 9,41% held by El.En. S.p.A. The half-yearly results of Cynosure were positive in operational terms but due to the cost of the transactions related to the purchase of Palomar (NASDAQ, PMTI) the net result registered a loss of 7,7 million dollars. This acquisition, which created in Massachusetts one of the largest groups on the market manufacturing laser systems for medical and aesthetic applications, comported a reduction in the quota owned by El.En. because Cynosure issued shares that were not underwritten by our company and which they used to pay half of the purchase price of Palomar for an amount of about 300 million US dollars.

Note: in order to make the results for 2013 comparable with those for last year, also the 2012 results are shown excluding Cynosure from the scope of consolidation, as is explained in detail below.

The chart below shows the breakdown of the sales volume in the various sectors of activity of the Group for the first half of 2013 compared with a similar breakdown for last year.

	30/06/2013	Inc%	30/06/2012 (*)	Inc%	Var%
Industrial systems and lasers	18.709	25,34%	17.951	23,99%	4,22%
Medical and aesthetic lasers	42.405	57,43%	43.129	57,65%	-1,68%
Service	12.723	17,23%	13.734	18,36%	-7,36%
Total	**73.837**	**100,00%**	**74.814**	**100,00%**	**-1,31%**

(*) Data restated in conformity with IFRS 5 for the purpose of making the data for the first half of 2012 which included Cynosure Inc., for which the controlling interest was sold in November 2012,comparable with those of 2013.

The sales volume for the first half did not exceed that for the last year even though there was a good recovery in the industrial sector. The sales volume for medical systems and for services decreased, especially the latter, because of the importance of the services on the Japanese market and the reduction in the sales volume that was caused by the weakness of the Yen.

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

	30/06/2013	Inc%	30/06/2012 (*)	Inc%	Var%
Italy	14.770	20,00%	13.077	17,48%	12,95%
Europe	16.280	22,05%	15.321	20,48%	6,26%
Rest of the world	42.787	57,95%	46.415	62,04%	-7,82%
Total	**73.837**	**100,00%**	**74.814**	**100,00%**	**-1,31%**

(*) Data restated in conformity with IFRS 5 for the purpose of making the data for the first half of 2012 which included Cynosure Inc., for which the controlling interest was sold in November 2012,comparable with those of 2013.

Sales volumes in Italy and in the rest of Europe increased, even showing a two-digit growth in Italy thanks to the industrial systems, particularly marking, and the systems for professional aesthetics; the sales volume in these two areas, however, represents less than half of the consolidated sale volume and its growth was not enough to offset the decrease in sales volume in the non-European countries which was caused by the devaluation of the Japanese currency and the phase of transition of some of our production and distribution activities in China, Brazil and the United States.

The chart below shows the sales volume in the medical/aesthetic sector which represents about 57% of the sales of the Group, broken down according to segment:

	30/06/2013	Inc%	30/06/2012 (*)	Inc%	Var%
Surgical CO2	4.701	11,09%	4.169	9,67%	12,77%
Physiotherapy	3.368	7,94%	2.808	6,51%	19,95%
Aesthetic	25.583	60,33%	27.543	63,86%	-7,11%
Dental	558	1,32%	1.500	3,48%	-62,79%
Other medical lasers	6.421	15,14%	5.242	12,15%	22,51%
Accessories	1.774	4,18%	1.868	4,33%	-5,06%
Total	**42.405**	**100,00%**	**43.129**	**100,00%**	**-1,68%**

(*) Data restated in conformity with IFRS 5 for the purpose of making the data for the first half of 2012 which included Cynosure Inc., for which the controlling interest was sold in November 2012,comparable with those of 2013 .

The overall trend remains stable. It should be recalled that the Group is present in the medical sector with four main distribution structures: one focused on the physical therapy sector (ASA), and the other three (Deka, Quanta, Asclepion) mainly focused on aesthetics but also able to supply products in special areas of the surgical and dental sectors. Each of these companies is able to offer a variety of attractive and specialized products on the market. Their research centers are located, respectively, in Florence, Solbiate Olona and Jena, where they independently develop systems with specific distinctive characteristics that they then distribute through their networks.

Starting with the segments that have registered a decrease, the dental sector was affected by a change that had already begun in the first quarter in the United States, where they switched from an organization with direct distribution through a subsidiary to a distribution through a company not belonging to the Group. This period of transition comported a decrease in sales volume which, in any case will drop, even for the same number of systems sold because it is developed through distributors rather than end users, to the advantage, however, of the EBIT, which will no longer be affected by the operating expenses of the company.

There was also a slight drop in the sales volume of the main sector of aesthetics because the value of the Euro was affected by the drop in the value of the Yen. The market position of the Group remains solid in this sector with a range of products that is continually updated, an indispensable policy for maintaining and increasing our position in a highly competitive market.

The category of “Others” together with the CO_2 sector showed growth mainly due to the surgical applications of lasers both for the solid state systems for the treatment of benign hyperplasia of the prostate and for lithotripsy (represented in the “Others” category as well as the ORL (otolaryngology) systems and gynecology; in this latter sector, the application of the “*Mona Lisa Touch*” for the treatment of vaginal atrophy and the health of mature women has gradually obtained success.

The physical therapy segment managed by Asa of Vicenza is still growing thanks to the gradual innovation of the products, the careful marketing strategy and the clinical experimentation.

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

	30/06/2013	**Inc%**	**30/06/2012**	**Inc%**	**Var%**
Cutting	12.949	69,22%	12.672	70,59%	2,19%
Marking	5.158	27,57%	4.551	25,35%	13,34%
Laser sources	350	1,87%	598	3,33%	-41,55%
Welding, other industrial systems	252	1,35%	130	0,73%	93,44%
Total	**18.709**	**100,00%**	**17.951**	**100,00%**	**4,22%**

The outcome for this half-year is positive thanks especially to the segment of marking large surfaces which benefitted from the merger of Ot-las and Cutlite Penta, which improved their efficacy. Despite the stability of the Chinese market, the cutting segment also showed an increase in sales volume thanks to the good results in Brazil and the revival of Cutlite Penta.

The sale of laser sources to third parties which is part of the marketing strategy which up to now has benefitted our position as manufacturers of systems, represents a secondary outlet with respect to the volume of laser sources produced for installation on systems made by the companies belonging to the Group.

Sales in the sector of conservation and restoration remain interesting. Thanks to our laser systems it is possible to restore works of art of every age to their original splendor; for example, the exciting restoration recently made on the frescoes in the Villa dei Misteri at Pompei, where our lasers succeeded in recovering an intensity of color and a level of chiaroscuro which, using any other means, would have been unthinkable.

1.7 Consolidated income statement as of June 30th 2013

The chart below shows the consolidated income statement reclassified for the period ending on June 30th 2013 compared with that for the same period last year.

It should be recalled that, in 2012, because of the sale of part of the shares of Cynosure held by El.En. (as described in the paragraph “Significant events which occurred during the financial year 2012” in the Management Report as of December 31st 2012) and the consequent loss of control of the American company, starting at the end of November 2012 Cynosure is now entered into accounts using the shareholders’ equity method rather than being fully consolidated and for this reason the financial statement was drawn up in compliance with IFRS 5.

Since the contribution of Cynosure to the results of the Group up to the date of the sale was defined as a *major line of business*, the sales transaction has been represented in the income statement for 2012 as a *Discontinued Operation*. In order to allow a comparison between the results for the first half of 2013 and those for the same period last year, in the income statement for the first half of 2012 which is shown for comparative purposes, the contribution of Cynosure to the results of the Group have been reclassified under the heading of “Net income from *Discontinued Operations*”. In the first half of 2013 the quota of the net result of Cynosure is included in the “Share of profit of associated companies” and amounts to a loss of 594 thousand Euros.

Income Statement	30/06/13	Inc.%	30/06/12(*)	Inc.%	Var.%
Revenues	73.837	100,0%	74.814	100,0%	-1,3%
Change in inventory of finished goods and WIP	1.426	1,9%	1.015	1,4%	40,5%
Other revenues and income	1.067	1,4%	1.432	1,9%	-25,5%
Value of production	**76.330**	**103,4%**	**77.261**	**103,3%**	**-1,2%**
Purchase of raw materials	37.021	50,1%	36.790	49,2%	0,6%
Change in inventory of raw material	(2.874)	-3,9%	(474)	-0,6%	506,0%
Other direct services	5.840	7,9%	5.702	7,6%	2,4%
Gross margin	**36.343**	**49,2%**	**35.244**	**47,1%**	**3,1%**
Other operating services and charges	12.759	17,3%	12.532	16,8%	1,8%
Added value	**23.584**	**31,9%**	**22.712**	**30,4%**	**3,8%**
For staff costs	17.644	23,9%	16.406	21,9%	7,5%
EBITDA	**5.940**	**8,0%**	**6.306**	**8,4%**	**-5,8%**
Depreciation, amortization and other accruals	2.206	3,0%	2.477	3,3%	-10,9%
EBIT	**3.733**	**5,1%**	**3.829**	**5,1%**	**-2,5%**
Net financial income (charges)	70	0,1%	5	0,0%	1383,2%
Share of profit of associated companies	(645)	-0,9%	(270)	-0,4%	138,6%
Other net income (expense)	229	0,3%	(1)	0,0%	
Income (loss) before taxes	**3.387**	**4,6%**	**3.562**	**4,8%**	**-4,9%**
Income taxes	2.058	2,8%	2.018	2,7%	2,0%
Net income (loss) for the financial period from continuing operations	**1.329**	**1,8%**	**1.545**	**2,1%**	**-13,9%**
Net income (loss) for the financial period from discontinued operations	0	0,0%	2.546	3,4%	
Net income (loss) before minority interest	**1.329**	**1,8%**	**4.090**	**5,5%**	**-67,5%**
Minority interest from continuing operations	72	0,1%	849	1,1%	-91,5%
Minority interest from discontinued operations	0	0,0%	1.636	2,2%	
Net income (loss)	**1.257**	**1,7%**	**1.605**	**2,1%**	**-21,7%**

(*) Data restated in conformity with IFRS 5.

Continuing Operations

The gross margin was 36.343 thousand Euros, an increase of 3,1% over the 35.244 thousand Euros for the same period last year, since it benefitted from an increased profitability on the sales volume, in particular that for the medical sector despite the unfavorable exchange rate which was caused by increased impact of sales made through direct channels rather than through distributors. In the industrial sector, the increase in sales in Europe with respect to the Chinese market where the activity favors high volumes and mid- to low profits, contributed to improvement in the gross margin.

It should be noted that, again in 2013, although the Group cashed in the sale price during this year, some of the sales financed by the clientele by means of operative leasing have been considered, in conformity with IAS/IFRS principles, as revenue from multi-year rentals; in any case the phenomenon had a limited effect on the income statement for the period.

Costs for operating services and charges were 12.759 thousand Euros, showing an increase of 1,8% with respect to June 30th 2012, and therefore also on the incidence on the sales volume, considering the decrease.

The costs for personnel was 17.644 thousand Euros, showing an increase of 7,5% with respect to the 16.406 thousand Euros for the same period last year and also shows a rise in the incidence on the sales volume which rose from 21,9% on June 30th 2012 to 23,9% on June 30th 2013. Part of the staff expenses is represented by the figurative costs for the stock options assigned to staff members. On June 30th 2013 these costs were 4 thousand Euros as opposed to the 88 thousand Euros on June 30th 2012. The structure of the operating charges and the cost for personnel during this half-year, encumbered by some expenses of a non-repeatable nature, is capable of sustaining greater sales volumes and consequently to decrease its incidence on the revenue.

On June 30th 2013 there were 822 employees in the Group as opposed to the 812 on December 31st 2012 and the 805 on June 30th 2012.

A large portion of the personnel expenses is directed towards research and development, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. The grants registered into accounts on June 30th 2013 were 548 thousand Euros, much less than the 822 thousand Euros received for the same period in 2012.

Due to the situation described above, the EBITDA is 5.940 thousand Euros, a decrease with respect to the 6.306 thousand Euros registered on June 30th 2012.

The costs for amortization, depreciations and accruals were 2.206 thousand Euros, a decrease of 10,9% with respect to June 30th 2012 when they were 2.477 thousand Euros and the incidence on the sales volume was 3% which was practically unchanged. The amount of accruals for risks and charges and for credit risks was quite significant due to the the cash crisis which affects all economic activity especially in Europe, and remains stable at about 860 thousand Euros.

The EBIT therefore is 3.733 thousand Euros, just slightly under the 3.829 thousand Euros registered on June 30th 2012; the incidence on the sales volume, 5,1%, remains unchanged.

Net financial income amounted to 70 thousand Euros with respect to the 5 thousand Euros for the same period last year; the results of the associated companies includes the quota of the results of Cynosure Inc., which was a determining factor in the negative amount shown for this entry (594 thousand Euros).

The other net income and charges were positive thanks to the sale by Quanta System of the residual share of GLI and the reversal of the amounts originally entered to cover the losses of the company.

Pre-tax profit therefore amounted to 3.387 thousand Euros, which represented a decrease with respect to the 3.562 thousand Euros registered for June 30th 2012.

The fiscal costs for this year amounted to a total of 2 million Euros. The taxes for this year were calculated on the basis of the best estimate of the fiscal aliquotes expected for 2013.
The tax rate for this period was about 61% and was encumbered by the presence of some megative income components that are not tax deductible, like the failure to enter some deferred tax assets on the losses of some companies during this period.

As for the amount of the minority interests, for this period the amount was very small and below the average of the incidence on the results before the minority interests; in fact, during this half the results obtained by the companies with greater minority interests, chiefly the Chinese joint ventures, were in general a loss or below the average of the Group.

Summarizing the reasons why the important equity in Cynosure affects the income statement, it should be mentioned that: in the first half of 2012 on account of the contribution of 2,5 million Euros as net income from discontinued operations which, net of the share due to third parties, it contributed positively for an amount of 0,9 million to the net result of the Group; in the first half of 2013 with the loss of 0,6 million Euros as part of the share of the associated companies, it contributed negatively for the same amount to the results of the Continuing Operations and to the net result of the Group.
Net of the contribution of Cynosure therefore, the results for first half year for Continued Operations in 2013 was 1,9 million with respect to the 1,5 million for 2012; the net result of the Group, net of the contribution of Cynosure was 1,8 million as opposed to the 0,7 million for 2012.
Moreover, considering the impact of Cynosure in conformity with the accounting standards but subtracting the one-time costs of the transaction related to the purchase of Palomar Inc., the half-yearly results from continued operations is 2,7 million Euros and the net result of the Group is 2,6 million Euros, as opposed to the corresponding results of 1,5 and 1,6 million Euros for the first half of 2012.

Discontinued Operations

The chart below shows the break-down of the results of the discontinued operations for the first half of 2012:

	Discontinued Operations Six months 2012
Revenues	54.456
Change in inventory of finished goods and WIP	2.593
Other revenues and income	204
Value of production	**57.252**
Purchase of raw materials	19.471
Change in inventory of raw material	502
Other direct services	5.627
Gross margin	**31.652**
Other operating services and charges	11.777
Added value	**19.875**
For staff costs	13.453
EBITDA	**6.422**
Depreciation, amortization and other accruals	2.844
EBIT	**3.578**
Net financial income (charges)	(83)
Capital gain on stocks sold	0
Revaluations	0
Other net income (expense)	0
Income (loss) before taxes	**3.495**
Income taxes	950
Income taxes on capital gain and revaluation	0
Income (loss) for the financial period from discontinued operations	**2.546**
Minority interest from discontinued operations	1.636
Net income (loss) from discontinued operations	**910**

As mentioned above and as described in the special section of the consolidated explanatory notes, after losing control of Cynosure, starting at the end of November 2012 this company was no longer wholly consolidated, and the statement was drawn up in conformity with IFRS 5. Since, up until that time the contribution of Cynosure to the results of the Group was defined as a *major line of business* the sales transaction was defined as a *Discontinued Operation*.

The net result from "*Discontinued Operations*" for the first half of 2012 includes the contribution of Cynosure Inc. to the net results of the Group.

1.8 Consolidated statement of financial position and net financial position as of June 30th 2013

The reclassified statement of financial position shown on the chart below makes it possible to compare the financial position for this half with that of December 31st 2012.

	30/06/2013	31/12/2012 (a)	Var.
Statement of financial position			
Intangible assets	3.469	3.428	42
Tangible assets	20.866	21.415	-548
Equity investments	33.767	32.550	1.217
Deferred tax assets	5.873	5.812	61
Other non current assets	33	4	29
Total non current assets	**64.009**	**63.209**	**799**
Inventories	49.396	45.465	3.931
Accounts receivables	38.514	38.918	-403
Tax receivables	4.044	3.522	522
Other receivables	7.524	4.763	2.762
Financial instruments	200	1	199
Cash and cash equivalents	40.723	40.475	248
Total current assets	**140.402**	**133.144**	**7.258**
TOTAL ASSETS	**204.411**	**196.353**	**8.057**
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	45.074	37.664	7.410
Treasury stock	-528	-528	
Retained earnings / (deficit)	31.347	10.867	20.480
Net income / (loss)	1.257	23.199	-21.941
Share Capital and Reserves attributable to the Shareholders' of the Parent Company	**118.252**	**112.304**	**5.948**
Share Capital and Reserves attributable to non-controlling interests	6.447	11.651	-5.203
Total equity	**124.699**	**123.954**	**745**
Severance indemnity	3.290	3.340	-50
Deferred tax liabilities	1.237	1.315	-78
Other accruals	4.369	4.385	-16
Financial liabilities	9.004	10.281	-1.277
Non current liabilities	**17.900**	**19.321**	**-1.421**
Financial liabilities	13.917	12.421	1.496
Accounts payables	28.239	22.992	5.248
Income tax payables	1.801	1.101	700
Other payables	17.854	16.337	1.517
Current liabilities	**61.811**	**52.850**	**8.960**
Non current liabilities held for sale		**228**	**-228**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**204.411**	**196.353**	**8.057**

(a) As already mentioned at the beginning of this report and as analyzed in the paragraph “Accounting standards and evaluation criteria” in the Condensed Consolidated Half-yearly Statement, the retroactive application of the amendments to IAS 19 (“Benefits to employees) comported a restatement on December 31st 2012 of the entries “Deferred tax assets, “Severance indemnity” and “Shareholders’ equity”.

Net financial position		
	30/06/2013	**31/12/2012**
Cash and bank	40.723	40.475
Financial instruments	200	1
Cash and cash equivalents	**40.923**	**40.476**
Short term financial receivables	**1.286**	**20**
Bank short term loan	(11.299)	(9.321)
Part of financial long term liabilities due within 12 months	(2.618)	(3.100)
Financial short term liabilities	**(13.917)**	**(12.421)**
Net current financial position	**28.292**	**28.075**
Bank long term loan	(6.104)	(7.187)
Other long term financial liabilities	(2.901)	(3.093)
Financial long term liabilities	**(9.004)**	**(10.281)**
Net financial position	**19.288**	**17.794**

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

1.9 Subsidiary Results

El.En. SpA controls a Group of companies which operate in the same overall area of lasers, and to each of which a special application niche and particular function on the market has been assigned.

The chart below contains a summary of the results of the parent company El.En. and its subsidiaries. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the first half of 2013.

	Revenues 30-giu-13	Revenues 30-giu-12	Var. %	EBIT 30-giu-13	EBIT 30-giu-12	Net income 30-giu-13	Net income 30-giu-12
El.En. SpA	22.613	21.773	3,85%	1.280	2.289	1.258	834
Subsidiary companies:							
Deka Mela Srl	14.509	12.895	12,51%	620	369	652	441
Cutlite Penta Srl	5.980	4.225	41,52%	-203	-393	953	-353
Esthelogue Srl	2.627	1.547	69,81%	-260	-115	-194	-96
Deka Sarl	1.388	1.222	13,58%	-188	-427	-187	-426
Deka Lasertechnologie GmbH	144	40	256,08%	-23	-47	-23	-47
Deka Laser Technologies Inc.	389	876	-55,63%	-149	-192	-162	-199
Deka Medical Inc.	743	1.555	-52,18%	-253	-194	-259	-193
Quanta System SpA	13.692	12.602	8,65%	1.807	1.109	1.084	565
Asclepion Laser Technologies GmbH	10.014	9.101	10,02%	689	180	434	111
Asa Srl	3.392	3.034	11,80%	573	410	354	259
Arex Srl	288	381	-24,36%	-12	5	-20	-5
AQL Srl	60	109	-45,16%	2	-16	0	-17
Ot-Las Srl	0	669	-100,00%	0	-287	0	-218
Lasit Spa	3.660	3.711	-1,39%	268	434	221	288
Lasercut Technologies Inc.	148	80	83,86%	-34	-40	-36	-41
BRCT Inc.	0	0		-8	-2	-5	1
With Us Co LTD	8.845	13.104	-32,51%	-166	922	-124	484
Deka Japan Co LTD	1.907	1.347	41,62%	292	63	157	35
Penta Chutian Laser (Wuhan) Co Ltd	8.652	9.057	-4,46%	-507	388	-497	633
Penta Laser Equipment (Wenzhou) Co Ltd	2.460	0		-103	0	-150	0
Lasit Usa INC	88	460	-80,88%	82	48	81	47
Cutlite do Brasil Ltda	1.840	1.485	23,87%	-226	-227	-175	-284
Pharmonia Srl	1.663	757	119,55%	41	-35	25	-39
Quanta France Sarl	498	215	131,28%	-12	-59	-13	-59

El.En. S.p.A.

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

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

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

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

The trend in operating activity in the first half of 2013 showed a recovery in the sales volume with respect to the first six months of 2012. The decrease in the margin of contribution which was mainly due to the drop in the amount of the research grants, and a slight increase in overhead which is still for a volume of business which is greater than that which was developed during this half, comported a reduction in the EBIT. This latter was also affected by some of the accruals made for receivables from the subsidiary companies. The financial items on the other hand benefitted from the good results of the other subsidiaries and the dividends received from DEKA M.E.L.A., Quanta System and Lasit; the favorable trends in the exchange rates, the tax rates which had already been reduced in part, the receipt of dividends all contributed to a net result which was greater than that for the first six months of last year.

Despite the international economic crisis which is particularly serious here in Italy, the good trend in the acquisition of orders and in the sales volume for the summer months offer a positive outlook for the second half of the year with an improvement in performance and EBIT.

Deka M.E.L.A. S.r.l.

Deka represents the main marketing channel for the range of medical laser systems developed in the laboratories of the El.En. in Calenzano. It was one of the first companies to become part of the Group and has gradually consolidated its position on the market, first in Italy and later in other countries. Deka operates in the sector of dermatology, aesthetics, and surgery and makes use of a network of direct agents Italy and, for export, of highly qualified distributors. DEKA has assigned the management of the physical therapy segment to the subsidiary ASA, and obtained excellent results both in terms of sales volume and profits.

Again in the first half of 2013 Deka obtained brilliant results with a growth of 12,5% with respect to the first half of 2012, which was sustained mainly by sales for export. Sales in Italy in fact were affected by the widespread economic crisis and only thanks to the continual expansion of the of the range of products like, for example, the addition of new systems for surgical applications, was it possible to maintain the position held in the preceding year. On the international markets also the conditions are not all the same and the markets in the Far and Near East are driving the growth and overcoming the difficulties that the European markets are still encountering. The increase in the sales volume in any case was obtained with substantially the same margins so that, with overhead unvaried, it comported a good increase in the EBIT.

The organization of Deka, both in Italy and on the International markets, is now recognized as a synonym for innovation in its products, professionalism in its sales, and excellent performance of the laser systems it offers; this represents a goal which has been achieved by the company in the past few years as well as a condition that will allow for further growth thanks also to their ability to place new products on the market through a consolidated and efficient distribution network.

Cutlite Penta S.r.l.

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

The merger in 2012 in which Cutlite Penta absorbed Ot-las S.r.l., and its business of lasers for marking large surfaces with galvanometric movement of the laser ray was made for the purpose of streamlining the activities of the Group in the industrial sector by reducing the costs of overhead and creating a new management approach. As part of this renovation, most of the minority shares were picked up in 2012 by the partners of Ot-las and, in 2013, by one of the original partners of Cutlite Penta.

The persistence of the economic crisis and the scarce availability of cash for the purchase of systems for industrial uses has comported a series of very difficult years for Cutlite Penta, for which the Italian and European markets are the most important.

The renewed focus on some of the areas in which they traditionally excelled, like the cutting of plastics and hollow punches, and the good work that they have done in the sector of marking systems has allowed Cutlite Penta to make a good recovery in sales volume (+22%) during this half, and there is a positive outlook for the next few months. The EBIT is still a loss but greatly improved.

The rapport between Cutlite and the parent company El.En. S.p.A., remains fundamental both for the supply of laser sources and the collaboration on projects for new systems and new accessories, in particular for “beam delivery” and for the financial support that El.En. offers for mid-term projects like the expansion on the Chinese market through the subsidiary **Penta Chutian Laser (Wuhan).**

This company was founded five years ago for the purpose of acquiring a local manufacturing structure in the most important manufacturing market in the world; this represented a condition that was essential in order to be able to play a primary role to face the local competition which is notoriously fierce as far as prices are concerned, and the international competition which was already established there. The results have been encouraging and a significant portion of the market in the sector of mid- to high- powered sheet metal cutting has been obtained and a company valued at about 20 million Euros. At the beginning of 2013 we began an operation which, with the founding of **Penta Chutian Laser (Wenzhou)**, subsidiary of Cutlite Penta with the same percentage as Wuhan, intended to increase the manufacturing capacity through the construction of a new factory, and revitalize the development of products for the Chinese market thanks in part to grants from the local government. The need to renovate the range of products became obvious during the difficulties encountered in the last 12 months in maintaining the rate of growth and earnings which had been typical of the company up until 2011, and which for the first half of 2013 comported a decrease in sales and a reduction in margins with a consequent loss in EBIT.

Quanta System S.p.A.

Quanta System started as a research laboratory and became part of the area of consolidation of the Group in 2004; it represents a company of excellence at a global level for its innovation and technological research in the laser sector. At the end of 2012 the parent company El.En. acquired 100% of the shares of the company by buying them from the minority partner who also resigned as president of the company. In the past few years Quanta has taken advantage of its superior knowledge of some laser technologies and has acquired an increasing share of the market in some of the applications of medical lasers. Among the most significant of these are: the instruments for the treatment of benign hyperplasia of the prostate, in the initial phase using Nd YAG technology at 532nm, and later with thulium technology; Mid-power holmium laser systems for lithotripsy; Q-switched laser systems for the removal of tattoos and pigmented lesions; alexandrite systems for hair removal.

At this time the products offered by Quanta System are particularly suited the requirements of the market as is demonstrated by the excellent results obtained by the company during this half, thanks in particular to the significant growth in the USA and in the Middle East: increase in sales volume of 9% and increase in revenue with an EBIT of 13% on the sales volume which is well over the average for the Group.

Asclepion Laser Technologies GmbH

This company, located in Jena, was acquired from Carl Zeiss Meditec in 2003 and represents one of the main activities of the Group; thanks to its geographical location in the global cradle of the electro-optical industry and its capacity to associate its image with the highly prestigious consideration which the German high-tech products enjoy throughout the world. In the last few years, Asclepion has gradually acquired a high standing on the international markets for laser equipment for medical applications.

In the first six months of 2013 the company continued the positive trend shown in 2012, and registered a record of over 10 million in sales volume for the period with an EBIT of 7% on the sales volume which was a significant increase over last year. It should be mentioned that several new products were launched during this half, in particular Quadro Star PRO Yellow for vascular applications and the Erbium MCL 31 Dermablate system: these products join Asclepion’s best-seller Mediostar Next for hair removal. Sales in the surgical sector with the Holmium and Thulium systems also contributed to the excellent results for this half.

With Us Co Ltd

This company distributes Deka products on the Japanese market and in the past few years has become one of the most important activities in the Group. Several systems have been developed specifically for the Japanese market and despite the fact that they were designed for just one market they have generated an important volume of business for Deka.

There are several thousand systems installed and the number increases every year; for this reason the all-inclusive customer assistance contracts that are stipulated with the numerous clients represent an important part of the sales volume for With Us.

The end of 2012 and the beginning of 2013 were affected by the devaluation of the Japanese Yen which was initiated by the new government for the purpose of stimulating the economy by facilitating the export of Japanese products. The result of this on our business was a significant increase in the costs of goods imported (from the Group) and consequently a reduction in the sales margins which was only partially offset by the lively local demand which was stimulated by the monetary policy of the government.

The comparison with the same period last year is made more complicated by the fact that there were some very significant sales concluded in the first six months of 2012 and therefore the drop in the sales volume in Yen (-18%) and in Euros (-32,5%) appears to be more significant than it actually was. In the next few months in fact we expect to see a trend with fewer fluctuations than the preceding period and consequently a relative recovery in the second half of the year with a positive effect on inter-Group sales. The economic difficulties caused by the reduced margins remain and comport a loss for this half which is unlikely to be recuperated by the end of the year.

ASA S.r.l.

This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. Srl, and operates in the field of physical therapy; it is involved in the development and the manufacture of a range of laser equipment and also in the distribution and marketing for some types of equipment produced by the parent company El.En. S.p.A.. The perfect balance between the innovation of products and the clinical and commercial activities directed towards the support of the therapeutic methods of the systems developed has consolidated the quality of their offer and along with it their position on the market so that the company has been able to register a constant growth rate, even in these years of crisis. The first half of 2013 showed a two-digit increase in sales and an equally good improvement in the EBIT.

Other companies in the medical sector

In France **Deka Sarl** distributes the range of Deka laser systems. In the first six months of 2013 and in particular in the second quarter, they showed a recovery both in sales volume and in sales margin which were the result of an improved competitive position on the market. Losses for the period were more than cut in half and for the end of the year we expect a significant reduction of the losses with respect to 2012, although it will not be possible to register a net income.

Deka Lasertechnologie GmbH, which has the same purpose as the French company but operates on the German market, at the end of 2012 stopped acting as direct distributor and became a support company for the external distributor. **Deka Japan,** distributes Deka medical laser systems on the Japanese market and has gradually increased their sales volume. The company has consolidated its competitive position also by obtaining the authorization to sell the Smartxide Dot systems from the Ministry of Health (MOH) so that this system can now be marketed and advertised in Japan thus increasing sales. Thanks to the variety and innovation of the products being offered, and despite the problems for the sales margins caused by the devaluation of the Yen, the results for this half are positive thanks to the significant increase in sales.

The two companies that are involved in the distribution of DEKA systems in the United States, **Deka Laser Technologies Inc**. for the dental sector and **Deka Medical Inc**. for the medical/ aesthetic and surgical sector were re-organized during this half; distribution in the medical sector was assigned to another company, external to the Group and Deka Laser Technologies was left with a supporting role. Also in the medical and aesthetic sector distribution will be conducted by another organization in which Deka Medical will maintain a central role in marketing and in the relations with clinical experimenters and contacts. The negative results shown for this half, therefore, should be interpreted as an effect of the period of transition to a new structure which we believe is more suited to deal with the American market in a profitable manner.

Esthelogue S.r.l. since 2009 has been involved in the distribution of the systems manufactured by the Group for the professional aesthetics market in Italy. After the initial expansion in 2010 which was followed by the problems related to the lack of financing and the solvency of the clientele in this sector, the company was reorganized, a procedure which was painful both for the losses incurred, the business and the structure. The company was restructured on a new basis with reduced overhead which was more suited to the market situation and, thanks to the financial and operative support of the partners El.En. and Asclepion, the activity was relaunched and in 2012 began a positive phase which was repeated in the first six months of 2013. In relation to this, one should recall the inter-ministerial decree which defined and clarified the use of laser technologies by beauticians; in 2013 the region of Tuscany, which had originally opposed the decree, finally adopted it. This meant that the hair removal market was open to our laser technologies. Esthelogue then took advantage of this situation by displaying the technological superiority of the performance and reliability of the systems they offered, in particular, the Mediostar Next system which became the leader and point of reference for this sector. The current results are positive but the activity is still encumbered by the necessity to make accruals caused by the difficulty in cashing in mid-term receivables that were incurred in the first years of activity. The support of the parent company remains indispensable for the expansion of a market which has been severely hit by the credit crisis, and which could benefit significantly from a relaxation of the present restrictions on financing granted to the operators in this sector.

Pharmonia S.r.l. along with their business distributing aesthetic systems specifically designed and manufactured for use in pharmacies, the company also distributes in Italy systems for medical applications produced by Asclepion.

During 2011 Quanta System S.p.A. acquired control of their own distributor in France, **Quanta France Sarl**, which for Quanta System represents a small branch for the distribution of medical and aesthetic systems in France and which in the first half of 2013, gave a significant contribution thanks to the increase in their sales volume.
The medical center **Arex S.r.l.,** is specialized in the treatment of psoriasis and vitiligo and continues to obtain good results despite the economic conditions in which it is operating.

Other companies in the industrial sector

Lasit S.p.A. is specialized in the manufacture of marking systems for small surfaces and besides having a dynamic research and development team in the headquarters in Torre Annunziata (Naples), is also equipped with a complete modern mechanical workshop (including laser cutting systems) where they carry out work for other companies of the Group and are able to offer their own clientele customized services which make the company unique on the market.
The capacity to offer personalized products and service and their attention to the specific requirements of the clientele have been the basis for the success which Lasit has achieved since 2011 and which culminated in 2012 with a record in profits for the company and the consolidation of its market position. In the first six months of 2013, with a sales volume that was essentially the same as that for 2012, the increase in costs comported a reduction in profits with respect to the preceding year. The net result is still positive and satisfactory. The subsidiary, **Lasit Usa Inc**. gives logistic and operative support for the sales activity of Lasit in North America, which was organized in 2012 through a different distribution structure. The activity of Lasit Usa contributes to the expansion of sales in the USA and represents a point of reference for both the final clients and the distributor without negatively affecting the results of the controlling company.

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

Cutlite do Brasil Ltda has its headquarters in Blumenau in the state of Santa Catalina and has 30 employees. It manufactures laser systems for industrial applications and is occupied with the distribution of laser systems produced by the Italian companies of the Group. Towards the end of 2012 the minority partners entrusted with the management of the company came to an agreement and jointly increased the capital in order to pay off the losses incurred during the start up of the company. In the first half of 2013 the results of the new management became evident in terms of growth in the sales volume (+ 37% in Brazilian Reals) while the net result was affected, among other things by the costs comported by the extraordinary operations and although a significant improvement was shown with respect to the first six months of 2012, the result is still a loss.

1.10 Comments on Research and Development activities

During 2013 the Group conducted an intense research and development activity for the purpose of discovering new laser applications both in the medical and the industrial sectors and to place innovative products on the market.
This activity was intensified by the economic crisis which required even more attractive items for the market through the presentation of new products and applications. Effective innovations, in fact, can convince both our medical and industrial clients to overcome their fears about investing, since they can look forward to attracting clients with the improvements and novelties that we offer.
In general, for highly technological products in particular, the global market requires that the competition be met by continually placing on the market completely new products and innovative versions of old products which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid- to long-term schedules.

The innovative results consist essentially in the creation of new laser applications and the development of suitable equipment for the new applications. In other words, we conduct research in order to understand unresolved or new problems in the fields of medicine and industry and we look for solutions on the basis of our experience and culture on the interaction between laser light and biological and inert materials. As far as the source of the laser energy is concerned, we operate, on one hand, on the selection of the spectral content, the methods for generating it, and the level of power and, on the other hand, we engineer the ways in which it can be managed over time on the basis of the laws of emission and, in space, as far as the shape and the motion of the beam are concerned.

The research which is aimed at obtaining mid-long-term results is generally oriented towards subjects which represent major entrepreneurial risks, inspired by intuitions which have arisen within our companies or by prospects indicated by the scientific work conducted by advanced research centers throughout the world, some of which we collaborate with.
Research which is dedicated to achieving results according to a short-term schedule is concentrated on subjects for which all the preliminary feasibility studies have been completed. For these subjects a choice has already been made regarding the main functional characteristics and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some in the phase of field verification.

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

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

Systems and applications for lasers in medicine
The parent company, El.En. has developed a new family of equipment and sub-systems for the SMARTXIDE[2] family products for surgical uses and aesthetic medicine. The systems are equipped with a laser source fed by radio frequency with an average power of up to 80w and interface management from personal computer installed on the device.
These are multi-disciplinary systems which can be used in general surgery, otorhinolaryngology, dermatology, gynecology, odontostomatology, neurology, laparoscopic surgery, aesthetic surgery, and, in the same field, research for new clinical applications in gynecology, paradontology and endodontics, in neurology and ophthalmology has been continued or initiated. For this purpose we are now working on further technological innovations contained in scanning systems characterized by optical systems and newly developed electronic controls, which make it possible to perform surgical operations on various parts of the anatomy with extreme precision. For some of the versions of this type of instruments we have developed a way to install a second semiconductor laser source in which the wave length can be selected by the client when ordering. For the semiconductor sources we are now conducting research with medical specialists for the development of uses in other fields. Intense research is also being conducted at various centers in Italy and other countries in order to collect clinical results relating to the innovative possibilities offered by the equipment of this type.

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

We have continued to work on the development of instruments and on the clinical experimentation in the veterinary field, in particular in relation to valuable horses involved in competitive sports, with innovative laser equipment belonging to the HILT family (High Intensity Laser Therapy) and RLT (Regenerative Laser Treatment) not only for the traditional uses in physical therapy with experimentation activities also in various research centers in the USA . We are now in the phase of selecting cases and performing treatments besides conducting clinical tests and verification tests using diagnostic instruments on the subjects being treated.

We have developed a new applicator for endovaginal laser treatment which is being patented; this device has the advantage of being easier to use ease than the earlier El.En. device which is also patent pending.
We are now concluding the development of high performance hair removal systems obtained by increasing the power so that the doctor can cover a greater surface with every position of the handpiece.
We have actively continued the engineering and development activities related to the results of the TRAP project financed by the European Union through the Department of Economic Development of the Region of Tuscany.

We have conducted research and technological development activities on new cooled percutaneous applicators with circulation of liquids and diffusion terminals. Research and experimentation have continued *in vitro* and *in vivo* on animal subjects for new devices and methods for the percutaneous laser ablation of the liver, thyroid, breast, prostate and lungs as part of the activity conducted by the associated company Elesta created by El.En. and Esaote.
We have continued research and experimentation in collaboration with the university clinics of Pisa and Florence and with the Department of Engineering and Telecommunications of the University of Florence; we have continued research for to determine methods to characterize tissue, treated with lasers for purposes of ablation, with radio frequency ultrasound signals to improve the verification phase of the effects of the treatment that has been received.

We have conducted operations for the industrial development and certification of the therapeutic effectiveness of the laser equipment and devices for the treatment of cutaneous ulcers that were developed as part of the TROPHOS project.
This project was conducted with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany.
At the same time, active clinical experimentations have continued in Italy and in qualified foreign centers in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odontostomatology and aesthetics.
We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis; at the same we have been taking the necessary measures for the protection in the most important countries of our brand names and applications.

We have conducted studies on the feasibility of new dye laser applications in dermatology. The dye laser system also underwent new technological developments.

In the PHOTOBIOLAB created at El.En. for research on the interaction between light and biological tissue, we have conducted experiments on new medical applications in the fields of ophthalmology and neurology. We are now conducting experiments with laser devices for surgical operations in the fields of orthopedics and the spinal column.

Quanta System continued their activity for the development of two new laser types, a Holmium and a Thulium infrared, for the treatment of benign hypertrophy of the prostate; they also conducted research on new multiple wave-length laser applications with Q-switch technology.

In part with financing derived from a project of the European Union, Asclepion Laser Technologies continued their clinical experimentation and development of a fiber laser with improved performance with respect to the state of the art.

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

Laser systems and applications for industry

At El.En., in collaboration with the subsidiary Cutlite Penta they are conducting research to optimize the emission wave length of the CO2 power lasers for applications in the field of cutting and welding plastic products. We also continued tests and experiments on scansion heads and focalizing for fiber lasers for remote control welding plants for metal materials in the automotive field and the mass production of furniture parts. As part of this research, we have begun to develop a new dynamic system for high-speed response focalizing. We have also been working on the development of systems for focalizing and beam scanning to be used for the cutting and welding of plastic materials in the sector of equipment for making packaging of food and for chemicals for various uses. We have conducted tests and experiments on algorithms and sensors for new high-speed marking methods with variable jobs in real time, according to the codes that are present on the material that needs to be processed in reels of paper and other materials. We have applied for a patent for this process.

At El.En., in collaboration with SITEC of the Politecnico of Milan, we have conducted research on remote control welding of sheet metal with superficial treatments and applications with optical retroaction systems. We are now conducting feasibility studies for the manufacturing process of subsets for the oil drilling industry.

In the metal cutting sector, Cutlite Penta has been involved in the development of new systems and innovation of technical solutions for systems that are already being manufactured. They have completed tests on the structural and functional innovations developed for sealed CO_2 sources produced by El.En. and they have started new research on sources belonging to this group with higher power and greater level of compaction.
They have developed new compact cutting systems with higher performance and lower costs. They are developing systems to eliminate most of the optical routes of the CO_2 laser ray with solutions that include the direct assembly of the new sources with Radiofrequency pumping on the mobile portal of the machine. They completed the development of the software for the execution using raster scansion for marking metal and other kinds of surfaces on the cutting machine in order to obtain a selective effect of light diffusion for functional and decorative purposes.

They have begun feasibility studies for new laser applications in the manufacturing cycle of glass objects, both for cutting and superficial treatments. They continued the activity for the of systems directed to the OEM market and for the integration on production lines or cells for work on high speed 2D marking lines for 3D cutting of components and thermo-perforated plastics.

The following chart shows the costs for Research and Development for this period.

thousands of euros	**30/06/2013**	**30/06/2012**
Costs for staff and general expenses	3.153	3.095
Equipment	23	24
Costs for testing and prototypes	500	565
Consultancy fees	237	173
Other services	44	44
Total	**3.956**	**3.901**

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 5% of the consolidated sales volume of the Group. The expenses are sustained mostly by El.En. and correspond to 10% of its sales volume.

1.11 Risk factors and procedures for the management of financial risks

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risks
The Group is exposed to the risk of fluctuations in the exchange rates of the currencies in which it conducts financial and commercial transactions. These risks are monitored by the management who then take all the necessary precautions to limit the risks.

Since the parent company draws up its consolidated statements in Euros, the fluctuations in the Exchange rates used to convert the data of the subsidiaries which were originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity expressed in Euros in the consolidated statements of the Group.

Credit risks
As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation fund which is accrued at the end of the period represent about 16% of the total trade receivables from third parties.

In relation to guarantees granted to others, it should be noted that the Parent Company El.En along with a minority partner, in 2009 underwrote a bank guarantee for a maximum of 1 million Euros to guarantee the debt of the subsidiary Quanta System to the Banca Popolare di Milano for facilitated financing of 900 thousand Euros, the installments for which expire up to 84 months after the date of issuance, which took place in the second half of 2009. After the acquisition of the entire equity from the minority shareholder which took place on October 8th 2012, El.En. promised to free this partner from all financial obligations towards the Banca Popolare di Milano.

In 2010 the Parent Company, El.En. SpA underwrote the following guarantees:
- a bank guarantee together with the other companies that participate in the ATS constituted for this purpose, for a maximum of 1.434 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the

"TEMART" research project which has been included in the grant issued by the Bando Regionale in the year 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008, with expiration date in July 2013;
- a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008, with expiration date in November 2013;

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

and this year:
- a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., for temporary imports, with expiration date in June 2014 with possibility of extension annually.

The subsidiary Deka MELA underwrote a bank guarantee for a maximum of 1.178 thousand Euros as a guarantee for the payment of the sum necessary for the reimbursement of the value added tax related to the fiscal year 2010, with expiration date March 2015.

Moreover, the subsidiary Quanta System issued a bank guarantee in favor of some of the banks of the ex-associated company Grupo Laser Idoseme for a residual total of 125 thousand Euros. The bank guarantee that remains was renewed with an expiration date on February 27th 2014.

Cash and interest rate risks
As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this half in such a way as to cover existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are fully covered. In any case it should be recalled that the parent company El.En. and Quanta System have underwritten IRS contracts with some of the main credit institutes in order to cover interest rates on financing in progress.
The coverage was made by neutralizing the potential losses on the financial instrument with the profits made on another element (the derivative).

IAS 39 describes several types of *Hedge Accounting* including that of *Cash Flow Hedge* which was the type used in this case.

The purpose of the *Cash Flow Hedge* is to cover the risk created by fluctuations in the future cash flow that are caused by particular risks associated with certain items entered in the financial statement.

In this case the variations in the *fair value* of the derivative are shown in the shareholders' equity for the amount needed to hedge and shown in the income statement only when, with reference to the amount being hedged, there is a variation in the cash flow to be compensated. If the hedge turns out to be ineffective the variations in *fair value* of the hedging contract must be shown in the income statement.

Operation		*Fair value*	
	Notional value	*Positive*	*Negative*
IRS	€ 1.166.667		(11.019)
IRS	€ 105.263		(1.545)
Total	€ 1.271.930		(12.564)

In order to evaluate the impact that may be derived from the changes in the interest rates applied, it should be noted that since the financing involved are not for great amounts, any variation in the rate would not have a significant impact on the shareholders' equity.

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

1.12 Governance

In compliance with Art. 19 of the company bylaws, the company is administered by a Board of Directors with a number of members which may vary from a minimum of three to a maximum of fifteen. The Assembly which convened on May 15th 2012 to vote on the renewal of the Board of Directors, which will remain in office until the approval of the financial statement closing on December 31st 2014, voted that there should be eight members making up the administrative organ of the company; this number was later reduced to seven by the shareholders' meeting held on November 14th 2012 which was convened in order to express an opinion after the resignation for strictly personal reasons of the board member, Angelo Ercole Ferrario, on August 27th 2012.

As of June 30th 2013 the Board of Directors was composed as follows:

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

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

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

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

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

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

The Board of Directors meets at least every quarter in order to guarantee adequate information for the Board of Statutory Auditors concerning the activities and the most important operations conducted by the Company and its subsidiaries.
Internal auditing of the company is conducted by the parent company of the Group in collaboration with the personnel of the subsidiary companies. From an organizational point of view, the administrators of the parent company of the Group attend the board meetings of the subsidiary companies as board members or have the office of single administrator, or else, the administrative organ of the subsidiary supplies the fully detailed information required for establishing the organization of the activities of the Group.
As far as the accounting information is concerned, before the end of the month following the quarter being considered, the subsidiaries are required to supply to the parent company of the Group all the information necessary for drawing up the consolidated financial and economic reports.

1.13 Inter-group relations and with related parties

In compliance with *Regolamento Consob* dated March 12th 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties ("*Regolamento per la disciplina* delle operazioni con parti correlate") which can be consulted on the internet site of the company www.elengroup.com *section* "*Investor Relations*". These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-*bis* of the civil code, of the recommendations contained in art. 9 (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di Autodisciplina delle Società Quotate*), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties ("*Regolamento Operazioni con Parti Correlate*") n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24th 2010. The procedures contained in the "*Regolamento per la disciplina delle operazioni delle parti correlate*" went into force on January 1st 2011.
The operations conducted with related parties, including the inter-Group relations cannot be qualified as atypical or unusual; these operations are regulated by ordinary market conditions.
In regard to the relations with related parties, please refer to the specific paragraph in the Explanatory Notes.

1.14 Atypical and unusual operations

In compliance with Consob Communication DEM/6064293 of July 28th 2006, we wish to state that during the first half of 2013 the Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

1.15 Regime *opt-out*

It should be recalled that on October 3rd 2012 the Board of Directors of El.En. S.p.A. voted to adhere to the possibility of *opt-out* in compliance with art. 70, sub-sections 8 and 71, sub-section 1-bis of the Consob Regulations 11971/99, exercising their right to waive the requirement to publish the information documents concerning any significant extraordinary operations related to mergers, divisions, increases in capital in kind, acquisitions and sales.

1.16 Significant events during the first half of 2013

In the month of January 2013 formalities were completed for the founding of Penta Laser Equipment (Wenzhou) Co., Ltd a company in which Cutlite Penta S.r.l., has a 55% equity. In the future the company will conduct the manufacturing activities which are now carried out in the factory in Wuhan.

Also in the month of January 2013, in accordance with a vote taken at the end of 2012, Quanta System liquidated its equity in GLI, thus putting an end to an investment that was made futile by the economic crisis in Spain. The investment and the receivables from the company had been accrued as losses in the previous years.

On May 15th 2013 the shareholders' meeting of the Parent Company, El.En. S.p.A., approved the financial statement for the year 2012 and voted to allocate the net income for the year, for an amount of 9.804.911,00 Euros, as follows:
- 7.403.301,00 Euros to an extraordinary reserve;
- to the shares in circulation when coupon no. 11 comes due on May 20th 2013, in compliance with art. 2357-ter, second sub-section of the Civil Code, a dividend for the amount of 0,50 Euros gross for each share in circulation for an overall amount on the day the vote was taken of 2.401.610,00 Euros; they also voted to accrue, in a special reserve for retained earnings, the residual dividend destined for additional treasury stock held by the company on the date that the coupon came due.

The assembly approved the first part of the report on the remuneration in conformity with art. 123-ter, sub-section 6, D. Lgs. February 24th 1998, n. 58.
Moreover, the assembly voted to renew the Board of Auditors for the three-year period 2013-2015 and appointed as president, Vincenzo Pilla and as statutory auditors Paolo Caselli and Gino Manfriani and Rita Pelagotti and Manfredi Bufalini as alternate auditors. All of those elected possess the attributes required by law and by the company by-laws and will remain in office until the approval of the financials on December 31st 2015.
The assembly, during the extraordinary meeting, also modified articles 19 and 25 of the company by-laws which regulate the method for electing, respectively, first, the Board of Directors and, secondly, the Board of Statutory Auditors, by removing the ban to withdraw the certifications proving the legitimacy of the right to present proposals for appointments before the actual date of the meeting. At the same time they approved to delete some typos present in those article which refer to the date of the deposit/ communication of the certification.

In the month of May 2013 we completed operations for the increase of the share capital of Cutlite do Brasil which included the issue of 730.960 new shares, 249.288 of which were underwritten by new partners and 481.672 of which were underwritten by the Parent Company El.En. S.p.A.. As a result, the percentage of Cutlite do Brasil held by El.En. S.p.A. is 68,56%.

Also in the month of May 2013, the Parent Company El.En. S.p.A. increased the amount of its equity in Cutlite Penta srl by acquiring 2,90% from a minority partner for an amount of about 121 thousand Euros. As a result their equity in the company increased to 96,65%.

Also in the month of May 2013, the Parent Company El.En. S.p.A. during the founding of the company, underwrote a share of 17% of Imaginalis srl for an amount of 17 thousand Euros; an additional share of 14%, was underwritten by Actis srl, a company 12% of which is owned by the Parent Company, El.En. S.p.A..

In accordance with the agreements signed in March 2013, on June 24th 2013, the transactions for the acquisition of Palomar Inc. by the associated company Cynosure Inc was closed. This operation, which makes Cynosure one of the most important companies in the sector, allowed Cynosure to acquire a 100% interest in their competitor for an amount of about 300 million dollars, half of which was in cash and the other half in Cynosure shares which had been issued for this purpose. The amount of El.En's equity in Cynosure therefore fell to 9,41%, since our company did not underwrite the newly issued shares. At the same time, Ing. Andrea Cangioli's term on the Board of Directors of Cynosure expired.

Starting on June 25th 2013, after the resignation of Dott. Gino Manfriani received on that day, in order to allow the company to adjust the composition of the members of the statutory Board of Auditors in compliance with art. 148, sub-section 1-*bis*, T.U.F. related to gender quotas, the Board of Auditors of the Parent Company El.En. S.p.A. is now composed as follows: Dott. Vincenzo Pilla, President; Dott. Paolo Caselli, statutory auditor; Dott.ssa Rita Pelagotti, statutory auditor; Dott. Manfredi Bufalini, alternate auditor.

During the second quarter of 2013 the subsidiary Penta-Chutian Laser (Wuhan) Co. Ltd created the Chutian (Tianjin) Laser Technology Company Ltd in which it holds a 49% interest, by paying the amount of 980 thousand Yuan, which is equivalent to about 122 thousand Euros.

1.17 Subsequent events

No significant events occurred after the closing of the first half of 2013.

1.18 Current outlook

During the second quarter of the year we were able to make up for some of the delay in the schedule which we had set for reaching our goals in sales volume and EBIT for 2013 which were a 5% growth in sales volume (10% if there was an improvement in the general economic situation) and an improvement in the EBIT. Despite the unfavorable conditions on some of the markets and the fact that we are still behind schedule, we still believe that we can reach the objectives set for 2013.

For the Board of Directors
Managing Director
Ing. Andrea Cangioli