

# **HALF YEARLY REPORT 2006**

**El.En. Group**

# 1. COMPANY OFFICERS

## **Board of Directors**

PRESIDENT

Gabriele Clementi

BOARD MEMBERS AND DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Angelo Ercole Ferrario

Michele Legnaioli

Francesco Muzzi (\*)

Alberto Pecci

## **Board of Auditors**

PRESIDENT

Vincenzo Pilla

ACTING AUDITORS

Paolo Caselli

Giovanni Pacini

## **Controlling Auditors**

Reconta Ernst & Young S.p.A.

(\*) resigned as of May 23<sup>rd</sup> 2006 – At the time that this half-yearly report was drawn up, it should be noted that the Board Meeting held on August 4<sup>th</sup> 2006 had drafted, in accordance with article 2386, clause I, Stefano Modi to replace the resigning board member.

## 2. EXPLANATORY NOTES

### 2.1. Adoption of international accounting principles

This Half-yearly Report has been drawn up in accordance with art. 81 of the Regulations issued no.11971/1999 and later modifications, in conformity with the international accounting principles (IFRS) and, in particular, the IAS 34 – *Interim Financial Reporting*.

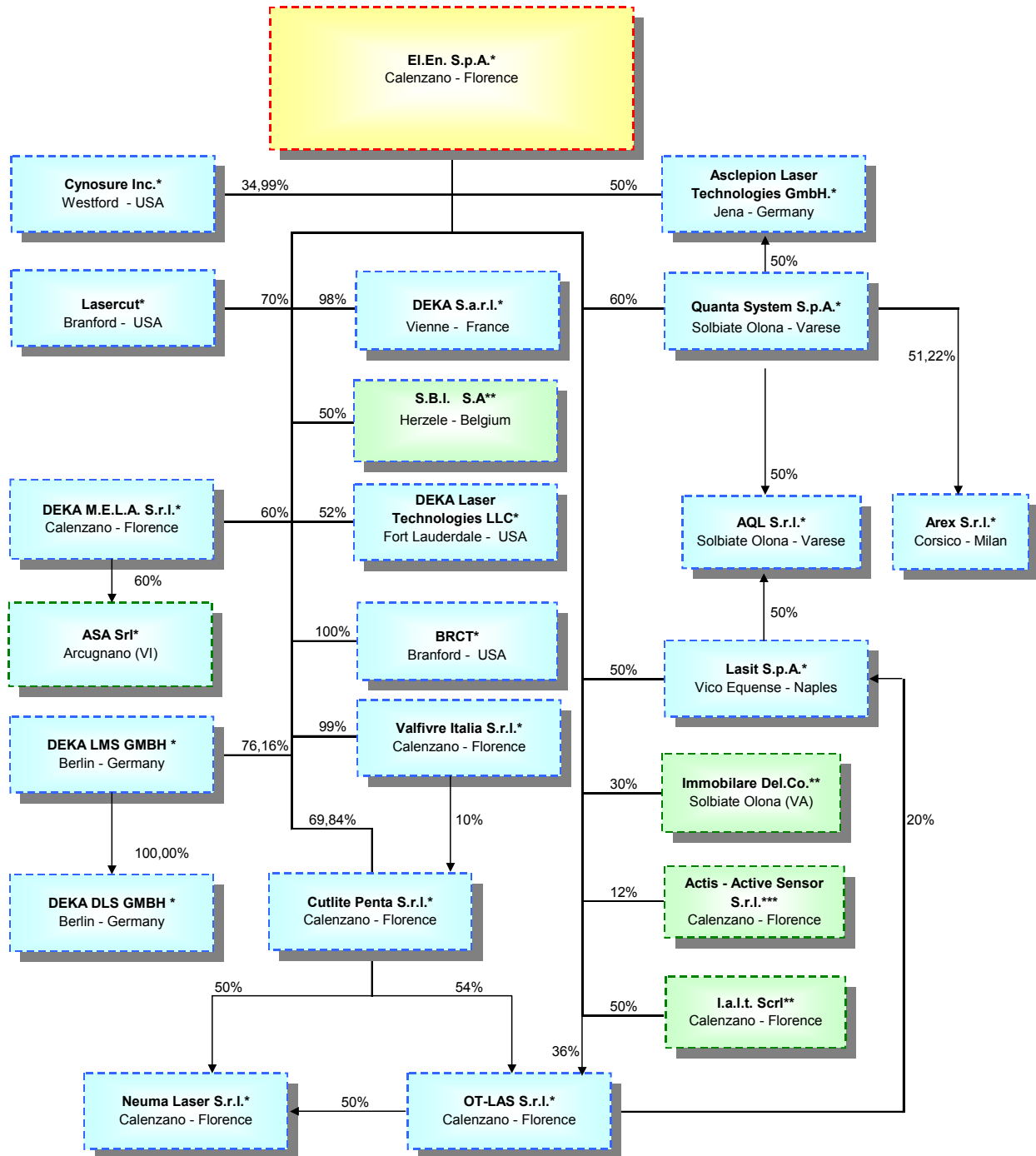
In accordance with the above mentioned article 81, along with this report we are enclosing the financial tables of the Parent Company El.En. S.p.A. which, after the issuance of the European Union Regulation no.1606/2002 and in conformity to legislative decree n. 38/2005, starting with the financial year 2006, draws up its individual financial statement according to the international accounting principles (IFRS). For the purpose of illustrating the effects of the transition to the IFRS, and in order to comply with the Consob n. DEM/6064313 communication of July 28<sup>th</sup> 2006, along with the accounting tables of the Parent Company El.En. S.p.A. we have included a document entitled “Transition to International Accounting Principles (IFRS)”, attached to the Half-yearly Report, which shows the reconciling tables for the amounts shown on January 1<sup>st</sup>, 2005 and on December 31<sup>st</sup> 2005 according to the previous accounting principles and those revised on the basis of the international principles, along with the explanatory notes.

The accounting principles and the criteria of evaluation used for this Half-yearly Report have not been changed with respect to those used for drawing up the statements for the consolidated financial report for the financial period ending December 31<sup>st</sup> 2005.

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

## 2.2. Description of the Group

As of June 30<sup>th</sup> 2006, the structure of the Group was as follows:

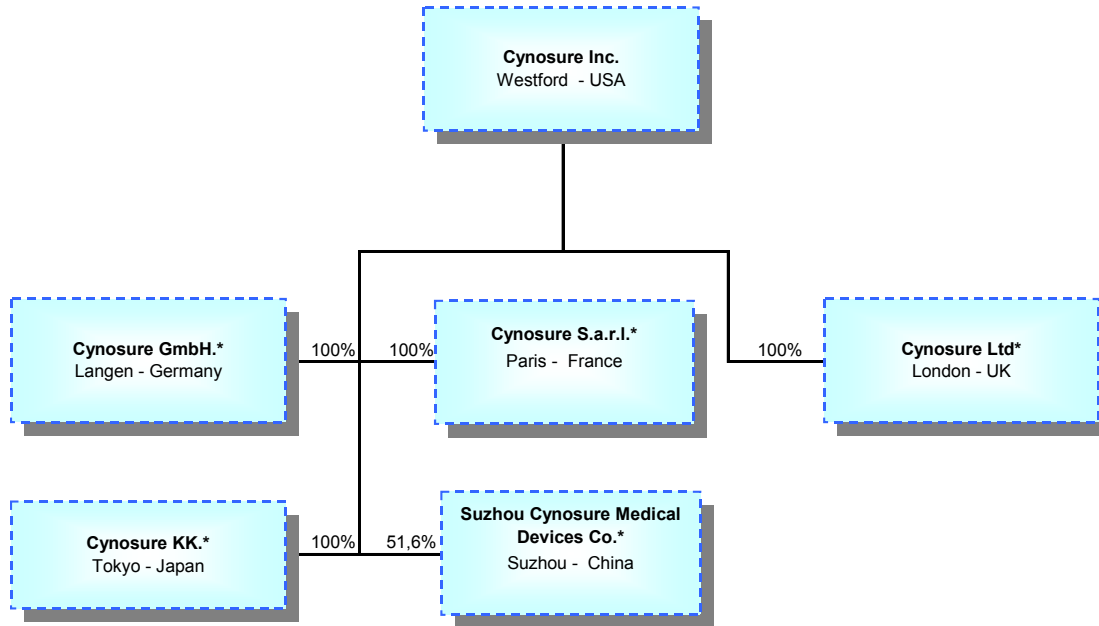


\* Entirely consolidated

\*\* Consolidated using the equity method

\*\*\* Kept at cost

Cynosure Inc. in turn, also controls a Group of companies. As of June 30<sup>th</sup> 2006, the structure of the Cynosure Group was as follows:



\* Entirely consolidated

### 2.3. Activities of the subsidiary companies

El.En. S.p.A. controls a Group of companies active in the same overall field of laser technology, with each company occupying a different sector and having a particular role on the market.

The following table summarizes the half-yearly results of the companies belonging to the Group which are included in the area of consolidation. The table is followed by brief descriptions explaining the activity of each company with a comment on the results for the first half of 2006.

	Net Turnover 30-giu-06	Net Turnover 30-giu-05	Var. %	Net income 30-giu-06	Net income 30-giu-05
Cynosure (*)	28.507	19.405	46,90%	1.674	227
Deka Mela Srl	9.097	9.899	-8,10%	156	410
Cutlite Penta Srl	3.761	3.076	22,27%	11	-63
Valfivre Italia Srl	214	168	26,85%	-12	4
Deka Sarl	567	509	11,39%	-161	-115
Deka Lms GmbH	682	483	41,25%	-126	-117
Deka Dls GmbH	84	246	-65,76%	-84	-14
Deka Laser Technologies LLC	1.349	1.044	29,23%	114	145
Quanta System SpA	7.242	4.736	52,92%	380	214
Asclepion Laser Technologies GmbH	7.138	4.594	55,39%	559	-242
Asa Srl (**)	2.368	0		310	0
Arex Srl	457	401	13,93%	53	20
AQL Srl	854	959	-10,98%	30	8
Ot-Las Srl	1.682	944	78,19%	142	-87
Lasit Spa	2.018	1.815	11,19%	17	-33
Lasercut Inc.	1.413	858	64,72%	-421	-150
BRCT Inc.	0	0		22	-7
Neuma Laser Srl	120	142	-15,34%	26	21

(\*) consolidated data

(\*\*) entirely consolidated since November 2005.

**Cynosure Inc.**

This company operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications. Cynosure is one of the world leaders in the sector of medical lasers and has reached its present size thanks to the superior performance and the high quality of its products, in particular the dye laser (DYE) for vascular applications, and the alexandrite laser for hair removal.

The company does its own sales and marketing for their products on the American and international markets by using their subsidiary companies and a network of distributors. Manufacturing takes place almost entirely at Westford, as does research and development, a key factor for success in this field.

Cynosure Inc., in turn, controls a Group of companies which operate on an international level in the laser market: the companies Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are 100% subsidiary and act as local distributors and provide after-sales service; Suzhou Cynosure in the Peoples Republic of China is 52% controlled and also manufactures special dermatological equipment.

After having procured considerable financial means through the IPO of December 2005, Cynosure began the financial year 2006 by registering major growth in its sales volume and increasing the profitability margin of its sales. The break in relations with one of its main clients, the chain of hair removal centers Sona International, determined the registration of losses in accounts receivable and a devaluation of the inventory which had an impact on the operating revenue for an amount of approx. one million dollars.

The available financial resources shown will be used for development programs which the management intends to implement in order to guarantee a constant growth of the company in the field of aesthetic laser applications, a sector which, at this time, offers major opportunities for development.

**Deka M.E.L.A. Srl**

This company is involved in the distribution in Italy and abroad of the medical laser equipment manufactured by El.En. SpA, in particular that related to dermatology, aesthetics, and surgery, and has established profitable relationships of collaboration with the dental sector in Italy (Anthos Impianti). The company has also taken control (60%) of ASA Srl, the company which, among those in the Group, has been assigned the field of physical therapy.

During the first half of 2006 the company worked hard to overcome the difficulties created by the sudden loss of its single most important client, the distributor for Japan, which first underwent a financial crisis and eventually went bankrupt. The loss of the sales volume in Japan was almost entirely made up for by the excellent results obtained on the European and non-European markets and by a good response from the Italian distribution networks. The drop in sales volume and the different mix of products which the geographic distribution of this volume comported, determined a decrease in the operating revenue.

**Cutlite Penta Srl**

This company is active in the manufacture of laser systems for industrial cutting applications and installs the laser power sources produced by El. En. SpA on movements controlled by CNC.

During the first semester of 2006 the improvement in the trend of the specific markets was confirmed and the sales volume increased by 20%, thus registering a return to profitability also on a half-yearly basis.

During the first six months of 2006, the Parent Company increased the amount of its equity in Cutlite Penta, by purchasing a further equity of 16,34%; with this purchase, the equity of El.En. S.p.A. in the company now amounts to 69,84%.

**Valfivre Italia Srl**

As in preceding years, this company conducted manufacturing activity and provided technical assistance for special laser systems for industrial applications besides service activity for the companies of the Group. It ended the financial year with a slight loss, due to a small drop in sales margins.

**Ot-Las Srl**

Ot-Las designs and manufactures special laser systems for CO<sub>2</sub> laser marking of large surfaces, a field where it operates by offering advanced technological solutions thanks to its close technical collaboration with the Parent Company, El.En. for the development of strategic components.

The company showed a sizeable increase in sales volume and profitability on account of the increased consumer base for its sophisticated systems and an overall improvement in the general situation of the market.

During the first six months of 2006, the Parent Company acquired an equity for an amount of 21%, thus re-enforcing the presence of the Group in this company.

**Lasit SpA**

The company designs and manufactures laser marking systems complete with controls and software which can be used for marking not only metals, but also wood, glass, leather, and fabrics.

The creation of a new range of innovative products in which the company was deeply involved up to now has made it possible to register an increase in sales volume and in profits; in the opinion of the management, this tendency should

continue through the next few months, considering the favourable position that the company's products have now acquired on the market.

#### **Neuma Laser Srl**

Neuma Laser conducts activity of after-sales technical assistance as well as a service of technical support in the Far East and in South America, for the laser equipment and industrial systems sold by the Group and in particular on the systems manufactured by the controlling companies, Cutlite Penta Srl and Ot-Las Srl. The positive trends in the activities of the Group on the specific markets in which Neuma operates have determined the good results shown for this financial period.

#### **Deka Sarl**

In France Deka Sarl distributes the medical-aesthetic laser equipment and relative accessories manufactured by El.En. and provides after-sales service for medical and aesthetic lasers. During 2006 the management structure of the activities of the company was re-enforced for the purpose of allowing the company to reach a sales volume consistent with its potential on the French market. The financial trend of the company which has been negative for many years, felt the impact of the expenses sustained in order to facilitate the entry of the new management, so that the results of the company turned out to be worse than those registered for the first six months of 2005. We expect to start seeing the first positive results of our efforts starting in the second half of this financial year.

#### **Deka Lms GmbH**

In Germany Deka Lms GmbH distributes the medical and aesthetic laser equipment manufactured by El.En. SpA. In 2005 the founder and minority stockholder left the company, which consequently came under new management. In March 2006, the headquarters of the company was transferred to Berlin, to a location suitable for the marketing and promotion of the products in Germany. Though the company got off to a good start in the first quarter, the activity slowed down in the second quarter and underwent further losses on account of the merger with the subsidiary Deka DLS, as described in the following paragraph.

#### **Deka Dls GmbH**

Deka Dls GmbH, a subsidiary of Deka Lms, distributes laser systems for the dental sector in Germany. During the first six months of 2006, the minority shareholder and administrator left the company and sold his shares to the controlling company, Deka LMS. In order to simplify a company structure which was redundant in relation to the volume of business being done, we initiated the incorporation of Deka DLS into Deka LMS. The negative trends shown in the first semester which were made even worse by the phase of transition for the departure of the administrator and by the expenses thus incurred, should improve by the second semester, during which the company will be constituted as a business unit specialized in the dental sector within Deka LMS.

#### **Deka Laser Technologies LLC**

This company, now in its third year, distributes dental laser systems produced by El. En. Spa in the United States, using a minimal but highly efficient distribution structure. El.En. Spa, which is the majority shareholder, and principal supplier of Deka LLC notes with satisfaction its growth on the American market, with a well organized distribution network, a considerable consumer base and an excellent position on the market, all of which have contributed to the positive results in its profits.

#### **Lasercut Inc.**

Lasercut is an American company with headquarters in Branford (CT), acquired in the month of April 2003; it designs, manufactures and sells laser systems for flat cutting.

The company continues to show negative results. It should be noted that the continued weakness of the dollar has undermined from the very beginning the main strategic program of the Group when it opened these American headquarters for the activities of the industrial sector, practically reducing to nothing the margins on the distribution of laser systems produced in Italy. The manufacture of systems in the Branford factory has turned out not to be profitable, and the effort made in 2005 and part of 2006 to renew the technology of the products has led to further financial losses. In the middle of 2006, we proceeded with a rotation of the employees involved in the management of the company, with an aim to reducing the losses and in any case, to identify those sectors of activity which will allow us to maintain an operating base in a market as important as the American one.

#### **Asclepion Laser Technologies GmbH**

This company, which was acquired from Carl Zeiss Meditec has their headquarters in Jena, the birthplace of electro-optics and one of the most important international centers for this kind of technology thanks to the quality of its products and the fame of the brand name on the international markets. After the initial phase of integration of the company into the Group, during which the operating difficulties caused by the change in management were alleviated by the favourable conditions for the acquisition of the inventory, and a phase of reorganization in early 2005, the company has now begun a strong phase of development of its position both on the domestic German market and on the

international markets, with excellent results. During 2006 the main operating headquarters of the company was transferred to another area in Jena, without any negative impact on the sales volume, which, quite to the contrary, showed strong growth. The company is owned 50% by El.En. Spa and 50% by the subsidiary Quanta System SpA.

#### Quanta System SpA

The company became a consolidated member of the Group in 2004 and since then has continued to grow and to show good profits. Quanta System is one of the liveliest companies in the Group thanks to the innovative character of its technological research in the laser field; its highly qualified research team participates in the most important development projects, often cooperating with other companies of the Group and with the most prestigious research centers in Italy and the rest of Europe.

#### Arex Srl

Arex became a member of the Group in April of 2004; it is involved in the management of a medical center in Milan which it conducts with good financial results.

#### ASA Srl

Control of this company, which operates in the physical therapy sector, was acquired in November of 2005. Thanks mostly to the HIRO high-powered laser products manufactured by El.En., ASA has shown a considerable increase in sales volume and profits.

#### AQL Srl

AQL Srl, is a company that was created in Milan in June of 2004, for the design, manufacture and sale of laser systems for the "Industrial business" sector, as well as research and development of industrial processes and products, manufacturing processes and creation of new technologies in the photonic sector. Up to now, its area of activity has been limited to the Italian market, and therefore great increases in sales volume and profits are not expected in the near future although the company is expected to break even. We foresee that the company will gradually increase its visibility on the market and become an important point of reference for the Group on the industrial marking market.

#### BRCT Inc.

BRCT Inc. is the owner of the real estate in Branford, Connecticut, previously held by El.En. SpA, which is the property where the premises of Lasercut Inc. are located.

## 2.4. Structure of the company administration

In compliance with Art. 19 of the company statutes, 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 9<sup>th</sup> 2006 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 31<sup>st</sup> 2008, voted that there should be eight members making up the administrative organ of the company.

As of June 30<sup>th</sup> 2006, the Board of Directors was composed as follows:

NAME	POSITION	PLACE AND DATE OF BIRTH
Gabriele Clementi	President and CEO	Incisa Valdarno (FI), 8 <sup>th</sup> July 1951
Barbara Bazzocchi	Board Member and director	Forli, 17 <sup>th</sup> June 1940
Andrea Cangoli	Board Member and director	Firenze, 30 <sup>th</sup> December 1965
Francesco Muzzi (**)	Board Member	Firenze, 9 <sup>th</sup> September 1955
Paolo Blasi (*)	Board Member	Firenze, 11 <sup>th</sup> February 1940
Michele Legnaioli (*)	Board Member	Firenze, 19 <sup>th</sup> December 1964
Angelo Ercole Ferrario	Board Member	Busto Arsizio, 20 <sup>th</sup> June 1941
Alberto Pecci	Board Member	Pistoia, 18 <sup>th</sup> September 1943

(\*) Independent administrators, as per art. 3 of the Codice di Autodisciplina delle Società Quotate

(\*\*) resigned as of May 23<sup>rd</sup> 2006 – At the time that this half-yearly report was drawn up, it should be noted that the Board Meeting held on August 4<sup>th</sup> 2006 had drafted, in accordance with article 2386, clause 1, Stefano Modi to replace the resigning board member.

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 (FI), Via Baldanzese 17.



On May 15<sup>th</sup>, 2006, the Board of directors assigned to the President of the Board, Gabriele Clementi and to the Board members, 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 art. 2381 of the Civil Code and company statutes.

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

- a) On August 31<sup>st</sup> 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) On September 5<sup>th</sup> 2000 the Board created the following committees composed mainly by non-executive administrators:
  1. the “Nomination committee”, which has the task of proposing nominations, receiving them from the shareholders, and verifying that the procedures outlined in the company statutes for the selection of the candidates are followed;
  2. the “Compensation committee” which has the task of supplying information and clarification regarding the fees paid to the members of the Board of Directors;
  3. the “Internal controls committee” which has the task of acting as consultant and support for the Board in relation to the creation and monitoring of the internal controls system.
- c) On September 5<sup>th</sup> 2000 the Board designated a provost for internal controls.

The Board of Directors meets at least every quarter in order to guarantee adequate information for the Board of 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 and 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.

On February 24<sup>th</sup> 2006 those adhering to the auditing pact stipulated in the year 2000 and renewed in 2003, and for which ample information was given in the half-yearly report closed on June 30<sup>th</sup> 2005, agreed that the Pact should be dissolved in advance of the established date and with immediate effect.

## 2.5. Consolidated reclassified Profit and Loss Account as of June 30<sup>th</sup> 2006

The reclassified consolidated profit and loss account for the financial period ending June 30<sup>th</sup> 2006 compared with that for the same period last year is shown below:

Profit and loss account	30/06/06	Inc. %	30/06/05	Inc. %	Var. %
Revenues	72.146	100,0%	51.779	100,0%	39,3%
Change in inventory of finished goods and WIP	4.650	6,4%	2.464	4,8%	88,7%
Other revenues and income	1.009	1,4%	683	1,3%	47,7%
<b>Value of production</b>	<b>77.805</b>	<b>107,8%</b>	<b>54.926</b>	<b>106,1%</b>	<b>41,7%</b>
Purchase of raw materials	34.561	47,9%	22.967	44,4%	50,5%
Change in inventory of raw material	(2.502)	-3,5%	(1.505)	-2,9%	66,2%
Other direct services	7.691	10,7%	4.890	9,4%	57,3%
<b>Gross margin</b>	<b>38.053</b>	<b>52,7%</b>	<b>28.575</b>	<b>55,2%</b>	<b>33,2%</b>
Other operating services and charges	14.841	20,6%	11.151	21,5%	33,1%
<b>Added value</b>	<b>23.212</b>	<b>32,2%</b>	<b>17.424</b>	<b>33,7%</b>	<b>33,2%</b>
For staff costs	16.088	22,3%	12.522	24,2%	28,5%
<b>EBITDA</b>	<b>7.124</b>	<b>9,9%</b>	<b>4.902</b>	<b>9,5%</b>	<b>45,3%</b>
Depreciation, amortization and other accruals	2.295	3,2%	1.680	3,2%	36,6%
<b>EBIT</b>	<b>4.829</b>	<b>6,7%</b>	<b>3.222</b>	<b>6,2%</b>	<b>49,9%</b>
Net financial income (charges)	1.005	1,4%	247	0,5%	307,2%
Share of profit of associated companies	(16)	-0,0%	47	0,1%	
Other net income (expense)	(149)	-0,2%	(233)	-0,4%	-35,8%
<b>Income before taxes</b>	<b>5.669</b>	<b>7,9%</b>	<b>3.283</b>	<b>6,3%</b>	<b>72,7%</b>
Income taxes	3.002	4,2%	1.709	3,3%	75,7%
<b>Income for the financial period</b>	<b>2.667</b>	<b>3,7%</b>	<b>1.575</b>	<b>3,0%</b>	<b>69,4%</b>
Minority interest	1.787	2,5%	192	0,4%	830,2%
<b>Net income</b>	<b>880</b>	<b>1,2%</b>	<b>1.382</b>	<b>2,7%</b>	<b>-36,3%</b>

## 2.6. Comments on management results

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

Growth of the Group remained rapidly on the rise and above expectations throughout the first half of the year. This increase, which was achieved substantially without acquisitions, demonstrates the ability of the Group to adapt its structure to the changing requirements of the markets and to its own increasingly important role on the specific markets.

Along with the increase in the volume of business, the Group has registered an even greater rise in operating revenue, which, during this semester, counteracted a slight drop in sales margins. Notwithstanding some accruals made after the break in relations with Sona International, an important client of the subsidiary, Cynosure Inc., and the drop in profitability of some of the Group companies, the operating profit remained consistent with expectations.

The following table shows the volume of business, subdivided into the various categories of activity of the Group, for the first half of 2006, compared with the same data for the first half of last year.

	30/06/2006	Inc%	30/06/2005	Inc%	Var%
Industrial systems and lasers	10.744	14,89%	7.402	14,29%	45,16%
Medical and aesthetic lasers	52.488	72,75%	37.214	71,87%	41,04%
Research and Development	-		3	0,01%	-100,00%
Service	8.914	12,36%	7.161	13,83%	24,49%
<b>Total</b>	<b>72.146</b>	<b>100,00%</b>	<b>51.779</b>	<b>100,00%</b>	<b>39,33%</b>

The industrial sector showed the highest growth rate, and thus contributed substantially to the overall growth, which is almost 40%.

The positive results in the industrial sector which had already begun to become evident in the first quarter, make it possible for the first time in many years to stabilize the relative importance of the two main manufacturing sectors of the Group, and reveal the potential for this type of product. The rise in the sales volume for after-sales service and spare parts is also considerable.

No income was registered during this financial period for research projects and for the relative reimbursements. In any case, it should be noted that the effects of these activities are entered in their entirety in the statement under the heading of "Other income"; during the first half of 2006, the income was 560 thousand Euros compared to the 295 thousand Euros for the same period last year.

The table below shows the results for this period based on the geographic distribution of sales.

	30/06/2006	Inc%	30/06/2005	Inc%	Var%
Italy	14.201	19,68%	9.782	18,89%	45,17%
Europe	22.824	31,64%	15.804	30,52%	44,42%
Rest of the world	35.121	48,68%	26.193	50,59%	34,09%
<b>Total</b>	<b>72.146</b>	<b>100,00%</b>	<b>51.779</b>	<b>100,00%</b>	<b>39,33%</b>

The European markets, including the Italian one are still those showing the highest growth rate, even within an overall picture of sustained growth in all the geographical areas in which the company operates; the amounts registered for Europe and the rest of the world are about equal.

The medical-aesthetic sector represents about 70% of the sales of the Group. The table below shows the various areas of this sector along with the relative amount of sales for each sector.

	30/06/2006	Inc%	30/06/2005	Inc%	Var%
Surgical CO <sub>2</sub>	1.340	2,55%	1.233	3,31%	8,67%
Physiotherapy	2.189	4,17%	348	0,94%	528,43%
Aesthetic	39.215	74,71%	29.268	78,65%	33,99%
Dental	3.935	7,50%	2.801	7,53%	40,48%
Other medical lasers	5.422	10,33%	3.330	8,95%	62,83%
Accessories	387	0,74%	233	0,63%	65,61%
<b>Total</b>	<b>52.488</b>	<b>100,00%</b>	<b>37.214</b>	<b>100,00%</b>	<b>41,04%</b>

A chart like this one which shows brilliant growth rates in all sectors and in which only one, surgical CO<sub>2</sub> (which is also on the rise) is under 30%, is obviously a source of great satisfaction to the management.

Rather than commenting in detail on the trends in the different segments, and the situation in which the favourable moment on the market has combined with the excellent position that our products maintain on these same markets, we would like to describe briefly the vast range of products the Group is now offering and the position which has made these results possible.

The Group operates in the medical sector with four brand names, Deka, Cynosure, Asclepion and Quanta System, which have independent distribution networks and a distinct position on the market which is derived from the country in which they are producing (Italy, Germany, USA), by the type of market that they cover and by the particular merchandise sector in which they work within that market.

The physical therapy sector is the only one of those whose results we are commenting here that has benefited from an acquisition, and that is, the complete consolidation of the sales of Asa Srl as of January 1<sup>st</sup> 2006; the three figure growth rate therefore should be interpreted in this sense, considering that the traditional CO<sub>2</sub> and Nd:YAG products for physical therapy also include sales made to the final user, and therefore at a higher average price, and that the range of products includes those manufactured by ASA Srl, in particular semi-conductor laser systems and systems for magneto-therapy.

The aesthetic segment is the most important category of products for the Group and is covered by all of the different brands; Cynosure is the leading company in the United States and in the world for hair-removal and vascular laser systems based on Alexandrite and Nd:YAG technology and the Elite system is its strongest product. Mediostar, a diode system for vascular treatments and hair removal is the main product of Asclepion in this field. Deka is present with a vast range of pulsating light systems for hair removal and rejuvenation and with its traditional long impulse Nd:YAG systems: the latest products of our research laboratories are the multi-functional platforms Synchro and Synchro HP. This later is a state of the art device which represents a point of reference for the market on account of its unbeatable performance and the versatility offered by the multi-functional platform technology. The Smart Lipo system for laser lipo-suction, a treatment method which is becoming increasingly popular, has also been highly successful. The applications for the Triactive system, used for the treatment of cellulitis, are similar, and are distributed by Deka throughout the world except in the United States where Cynosure is the sole distributor. Quanta System, besides the attractive range of pulsating light systems, also offers its traditional range of high performance laser systems including the Q-Plus Q-switched system for the removal of tattoos.

In the dental sector Deka offers systems based on Erbium, on Nd:YAG, on CO<sub>2</sub> with infrared diodes and visible diodes, with a complete range of products with a complete range that is without equal in the world. Quanta System offers diode systems, while Asclepion supplies its own Erbium laser systems for distribution in OEM to an important international partner.

Smartxide is the most significant among the CO<sub>2</sub> surgical lasers, and is offered by Deka together with the powerful Smart Clinic, which is more suited to ORL and gynaecological applications, whereas the standards of Smartxide are highly suited for dermatology.

The residual sector "Others" includes many other fields of application; closely related to the aesthetic sector are the dermatological uses for the Dye laser with colouring agents, for which Cynosure is the world leader (together with their competitor, Candela) and in which Cynosure has now made a strong return thanks to its new product, Cynergy, and its innovative multiplex function. Erbium lasers for skin ablation are the traditional product of Asclepion (MCL 30), which has a vast number of the devices installed in Germany. The range of Smart 1064 systems is offered by Deka in the surgical sector, while the Excilite systems are offered for the treatment of skin disorders like psoriasis and vitiligo. For these same applications, Quanta System offers a system based on different principles, the Ratok system.

Accessories are the instruments which are sold as a set with the laser devices, improve their performance and make specialized applications possible. Accessories include scanners which are devices with galvanometers which make it

possible to apply laser radiation uniformly to a specified surface. Deka offers the so-called Hiscan type scanners for CO<sub>2</sub>, Erbium and ND:YAG applications.

The range, of course, is in a state of continual evolution and new models are continually placed on the market. Among those recently offered is the Affirm system manufactured by Cynosure on the occasion of the ASPS conference in Boston and used for “skin rejuvenation” and “skin-tightening”. Outstanding sales results are expected for these two products.

For the industrial sector, the table below shows the break-down of the sales volume according to the various sectors of the market in which the Group operates.

	30/06/2006	Inc%	30/06/2005	Inc%	Var%
Cutting	4.466	41,57%	3.416	46,16%	30,74%
Marking	3.965	36,90%	2.778	37,53%	42,71%
Laser sources	2.045	19,03%	904	12,21%	126,25%
Welding, other industrial systems	269	2,50%	304	4,10%	-11,55%
<b>Total</b>	<b>10.744</b>	<b>100,00%</b>	<b>7.402</b>	<b>100,00%</b>	<b>45,16%</b>

The Group is particularly satisfied with the strong growth in this sector, which contributes significantly to the increase in the consolidated volume.

In the cutting sector, the results of Cutlite Penta are good and, in terms of the increase in sales volume, so are those of Lasercut in the United States. In the case of the former, the increase in sales also brought about a good result in profits, while on the U.S. market, which, for imports from the Euro countries, has always been penalised by the weak dollar, the difficulties continue. The marking sector has been successful, both in the field of special applications and for large surfaces for decoration using CO<sub>2</sub> systems, as well as the traditional marking systems using Nd:YAG.

The growth in sales volume for laser sources again shows a three-digit growth increase mainly due to the success of some of the solutions offered by our CO<sub>2</sub> power sources with slow axial flow and with fast axial flow, and to the solid state sources for industrial applications, produced by Quanta System. As has been mentioned in earlier comments on the quarterly results, this sector represents one of the core activities for El.En. Spa and Quanta System, and the capacities and technology which characterize the Group have been developed around this particular activity.

In the residual sector, sales have fallen off slightly, partially as a result of the decrease in the sales volume in the scientific sector for Quanta System, which is included in this sector.

Having analyzed in detail the trend in revenues, we will now comment on the profitability trends. The gross margin is about 38.053 thousand Euros, an increase of 33,2% over the 28.575 thousand Euros of the first half of 2005, and a decrease in terms of the incidence on the sales volume which falls to 52,7% from the 55,2% of the first half of 2005. The fall of 2,5 percentage points can be attributed mainly to the medical sector, for which the mix of sales, both on account of the geographical location of the markets as well as the typologies of the products, brought about a reduction in the margins.

The costs for operating services and charges was 14.841 thousand Euros, an increase of 33,1% with respect to June 30<sup>th</sup> 2005 with an incidence on the sales volume which falls to 20,6% from the 21,5% for the same period last year.

The cost for personnel was 16.088 thousand Euros, a substantial increase (+28,5%) with respect to the 12.522 thousand Euros registered on June 30<sup>th</sup> 2005, although a slight drop in the incidence on the sales volume, which decreased from 24,2% to 22,3%, was registered. A part of the staff costs is represented by the expenses entered into accounts in relation to the stock options offered to the employees. These costs were 371 thousand Euros in the first half of 2005 and they rose to 863 thousand Euros for the first half of 2006, 644 thousand Euros of which refer to the stock options issued by the subsidiary Cynosure Inc.

Continuing the trend to increase, as of June 2006 the number of employees working for the Group was 598, as opposed to 548 employees at the end of 2005 and 514 employees at the end of the first half of 2005.

A substantial part of the personnel expenses is represented by the research and development costs, for which the Group also receives reimbursements and contributions for specific contracts which have been undersigned by the relative institutions. These grants make it possible to broaden the field of research by limiting their economic impact; the contributions entered into accounts during this half amounted to 560 thousand Euros.

The earnings before interest, taxes, depreciation and amortizations (EBITDA) were 7.124 thousand Euros with respect to 4.902 thousand Euros for the same period last year; profitability increased substantially, as well as the incidence on the sales volume.

The costs for amortizations and accruals was 2.295 thousand Euros, which was an increase of 36,6% over the same period last year, although the incidence on the sales volume remained practically unchanged. Among other items entered under this heading, the complete devaluation of the goodwill of the German subsidiary Deka Lms and the accruals for product guarantees.

The earnings before interest and taxes (EBIT) were 4.829 thousand Euros, with an incidence of 6,7% on the sales volume with respect to the 6,2% shown for the same period last year. As already mentioned, these results correspond closely to those forecast for this period.

The results of the financial management show a net financial income for an amount of 1.005 thousand Euros, equal to four times the 247 thousand Euros for the first half of 2005, an increase occasioned by the obvious benefits to this category derived from the cash held by Cynosure as a result of the IPO.

The other revenue and charges do not show significant variations, therefore the income before taxes are 5.669 thousand Euros, an increase of 72,7% over the same period last year.

The overall amount of taxes for this period increased in comparison to last year as an result of the rise in revenue. The average tax rate is about 53%, a slight increase with respect to the ca. 52% for the first six months of 2005.

## 2.7. Consolidated balance sheet as of June 30<sup>th</sup> 2006

The table below shows the reclassified balance sheet compared with that of last year:

	30/06/2006	31/12/2005	Var.
<b>Balance Sheet</b>			
Intangible assets	7.079	7.354	-275
Tangible assets	11.380	11.322	59
Equity investments	707	774	-67
Deferred tax assets	4.065	3.466	599
Other non current assets	189	193	-4
<b>Total non current assets</b>	<b>23.421</b>	<b>23.109</b>	<b>312</b>
Inventories	38.679	32.797	5.881
Accounts receivables	31.796	30.587	1.209
Tax receivables	3.944	2.963	981
Other receivables	2.573	1.876	696
Financial instruments	46.832	467	46.365
Cash and cash equivalents	18.238	77.071	-58.833
<b>Total current assets</b>	<b>142.061</b>	<b>145.763</b>	<b>-3.702</b>
<b>TOTAL ASSETS</b>	<b>165.481</b>	<b>168.872</b>	<b>-3.390</b>
Common stock	2.438	2.437	1
Additional paid in capital	35.390	35.324	66
Other reserves	13.451	7.998	5.452
Retained earnings / (deficit)	18.646	3.275	15.371
Net income / (loss)	880	24.704	-23.824
<b>Parent stockholders' equity</b>	<b>70.805</b>	<b>73.738</b>	<b>-2.933</b>
Minority interests in consolidated subsidiaries	49.108	50.385	-1.277
<b>Total equity</b>	<b>119.913</b>	<b>124.123</b>	<b>-4.209</b>
Severance indemnity	2.347	2.173	174
Deferred tax liabilities	557	723	-166
Other accruals	3.642	4.046	-404
Financial liabilities	2.081	1.961	120
<b>Non current liabilities</b>	<b>8.627</b>	<b>8.904</b>	<b>-276</b>
Financial liabilities	1.632	2.192	-560
Accounts payables	22.916	20.251	2.664
Tax payables	2.495	3.680	-1.186
Other payables	9.898	9.722	176
<b>Current liabilities</b>	<b>36.941</b>	<b>35.845</b>	<b>1.095</b>
<b>TOTAL LIABILITES AND STOCKHOLDERS' EQUITY</b>	<b>165.481</b>	<b>168.872</b>	<b>-3.390</b>

**Comparative chart showing the consolidated balance compared with that of the Parent Company**

	<b>Profit and loss account 30/06/2006</b>	<b>Capital and reserves 30/06/2006</b>	<b>Profit and loss account 31/12/2005</b>	<b>Capital and reserves 31/12/2005</b>
<b>Balance as per statement of the parent company E.L.En.</b>	<b>261.466</b>	<b>51.936.760</b>	<b>8.188.870</b>	<b>53.965.386</b>
Elimination of investments in:				
Companies entirely consolidated	872.706	11.883.686	15.603.386	12.291.305
Companies consolidated with the shareholders' equity method	-16.228	-38.645	4.202	-2.200
Goodwill	-150.298	6.090.884		6.027.095
Elimination of dividends	-238.404		-426.747	
Elimination of intercompany profits on inventory (*)	-573.875	-1.542.591	-65.301	-958.786
Elimination of intercompany profits from sales of fixed assets (*)	5.911	-13.772	29.767	-19.682
Value adjustments on equity investments (*)	719.169	2.489.051	1.370.037	2.435.225
Effect of early amortisations (*)				
Other				
<b>Balance as per consolidated statement – Group quota</b>	<b>880.447</b>	<b>70.805.373</b>	<b>24.704.214</b>	<b>73.738.343</b>
<b>Balance as per consolidated statement – Third party quota</b>	<b>1.786.826</b>	<b>49.108.028</b>	<b>1.408.535</b>	<b>50.384.545</b>
<b>Balance as per consolidated statement</b>	<b>2.667.273</b>	<b>119.913.401</b>	<b>26.112.749</b>	<b>124.122.888</b>

(\*) net of relative fiscal effects



## 2.8. Comments on Research and Development activities

During the first half of 2006 an intense research and development activity was conducted by the Group for the purpose of finding new applications for lasers in both the medical and industrial fields, and in order to place innovative new products on the market.

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

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

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

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

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

### Systems and applications for lasers in medicine

We continued our activity for the development of equipment and devices for mini-invasive micro-surgery assisted by a robot; this activity is developed as part of a project on the New Medical Engineering program of FIRB (Investment Fund for Basic Research) financed in part by MIUR (Ministero Istruzione Università e Ricerca) after a selection process based on the opinions of a jury of international experts.

For some parts, the verification phases of the experimental studies on the determination of the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels are now being conducted.

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

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

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

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

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

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

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

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



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

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

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

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

We have begun trials on the photo-mechanical stimulation of Chondrocytes.

In the USA, we have started to make contact for experiments on animals for cartilage regeneration therapy.

At Cynosure we have just concluded the experiments on laser lipolysis.

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

#### For industrial systems and applications

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

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

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

We are now running verification tests on a new ultra compact radio frequency pumped CO<sub>2</sub> laser source.

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

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

As part of the same program, the development of a new system of sensors and memorization of environmental stress on works of art while being moved from a museum to an exhibition space has continued; the creation of a "black box" for recording the transfer of works of art was developed by the subsidiary Actis - Active Sensors. The black box was applied to a priceless painting during shipment from the Vatican Museums to the Uffizi Gallery in order to measure the stress to which it was subjected.

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

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

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

We have just completed the first prototypes of beryllium mirrors which were designed using finite element methods for apertures of one and a half and three inches.

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

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

The table below shows the expenses incurred for Research and Development during the first half of 2006.

<i>thousands of euros</i>	<b>30/06/2006</b>	<b>30/06/2005</b>
Costs for staff and general expenses	3.833	3.000
Equipment	196	188
Costs for testing and prototypes	433	427
Consultancy fees	280	338
Other services	45	36
Intangible assets	1	2
<b><i>Total</i></b>	<b>4.788</b>	<b>3.991</b>

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

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

The amount of the expenses sustained represents 7% of the consolidated sales volume of the Group. The amount related to Cynosure, which, as indicated above, was 2.2 million dollars, represents 6% of its sales volume. The remaining portion of expenses is paid for almost entirely by El.En. S.p.A. and amounts to 12% of its sales volume.

## **2.9. Other significant events which took place during this quarter**

On July 5<sup>th</sup> 2006 the subsidiary Quanta System SpA acquired an equity of 51% of the capital of “Quanta Laser System India Private Limited” a business company with headquarters in New Delhi. The objective of this purchase is to create a local base in order to pursue the expansion of the Indian market.

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

As mentioned above, the results achieved for this financial period correspond to the those predicted, exceeding them as far as the sales volume is concerned and equalling them as far as the EBIT is concerned, despite some extraordinary expenses sustained during this half.

If the present market situation remains stable, we expect to conclude the period respecting the results which had been originally forecast and exceeding them as far as the sales volume is concerned. Since the sales margin dropped during the first half, as had been expected in any case, the forecasts for the earnings can be confirmed only with due caution and will have to be re-evaluated in the months to come only after confirming an actual improvement in the profitability of the sales.

***For the Board of Directors***

***The President***

Gabriele Clementi

# EL.EN. GROUP. CONSOLIDATED FINANCIAL TABLES AS OF JUNE 30<sup>TH</sup> 2006 AND EXPLANATORY NOTES

## *Consolidated Balance Sheet*

	Notes	30/06/2006	31/12/2005	Var.
<b>Balance Sheet</b>				
Intangible assets	1	7.079.112	7.354.173	-275.061
Tangible assets	2	11.380.265	11.321.697	58.568
Equity investments	3	707.097	774.050	-66.953
Deferred tax assets	4	4.065.465	3.466.113	599.352
Other non current assets	4	188.667	193.052	-4.385
<b>Total non current assets</b>		<b>23.420.606</b>	<b>23.109.085</b>	<b>311.521</b>
Inventories	5	38.678.531	32.797.138	5.881.393
Accounts receivables	6	31.795.747	30.587.069	1.208.678
Tax receivables	7	3.944.170	2.963.348	980.822
Other receivables	7	2.572.506	1.876.466	696.040
Financial instruments	8	46.831.859	467.233	46.364.626
Cash and cash equivalents	9	18.238.070	77.071.374	-58.833.304
<b>Total current assets</b>		<b>142.060.883</b>	<b>145.762.628</b>	<b>-3.701.745</b>
<b>TOTAL ASSETS</b>		<b>165.481.489</b>	<b>168.871.713</b>	<b>-3.390.224</b>
Common stock	10	2.438.412	2.436.963	1.449
Additional paid in capital	11	35.390.065	35.324.009	66.056
Other reserves	12	13.450.722	7.998.342	5.452.380
Retained earnings / (deficit)	13	18.645.727	3.274.815	15.370.912
Net income / (loss)		880.447	24.704.214	-23.823.767
<b>Parent stockholders' equity</b>		<b>70.805.373</b>	<b>73.738.343</b>	<b>-2.932.970</b>
Minority interests in consolidated subsidiaries		49.108.028	50.384.545	-1.276.517
<b>Total equity</b>		<b>119.913.401</b>	<b>124.122.888</b>	<b>-4.209.487</b>
Severance indemnity	14	2.347.000	2.173.430	173.570
Deferred tax liabilities	15	557.083	722.923	-165.840
Other accruals	16	3.642.061	4.046.235	-404.174
Financial liabilities	17	2.081.288	1.960.970	120.318
<b>Non current liabilities</b>		<b>8.627.432</b>	<b>8.903.558</b>	<b>-276.126</b>
Financial liabilities	18	1.632.259	2.192.170	-559.911
Accounts payables	19	22.915.546	20.251.139	2.664.407
Tax payables	20	2.494.559	3.680.064	-1.185.505
Other payables	20	9.898.292	9.721.894	176.398
<b>Current liabilities</b>		<b>36.940.656</b>	<b>35.845.267</b>	<b>1.095.389</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>165.481.489</b>	<b>168.871.713</b>	<b>-3.390.224</b>

## Consolidated Profit and Loss Account

Profit and loss account	Note	30/06/06	Inc. %	30/06/05	Inc. %	Var. %
Revenues	21	72.146.079	100,0%	51.779.110	100,0%	39,3%
Change in inventory of finished goods and WIP		4.649.711	6,4%	2.464.069	4,8%	88,7%
Other revenues and income	22	1.008.821	1,4%	682.885	1,3%	47,7%
<b>Value of production</b>		<b>77.804.611</b>	<b>107,8%</b>	<b>54.926.064</b>	<b>106,1%</b>	<b>41,7%</b>
Purchase of raw materials	23	34.561.405	47,9%	22.966.985	44,4%	50,5%
Change in inventory of raw material		(2.501.523)	3,5%	(1.505.421)	2,9%	66,2%
Other direct services	24	7.691.455	10,7%	4.889.790	9,4%	57,3%
Other operating services and charges	24	14.840.940	20,6%	11.150.628	21,5%	33,1%
For staff costs	25	16.088.414	22,3%	12.522.116	24,2%	28,5%
<b>EBITDA</b>		<b>7.123.920</b>	<b>9,9%</b>	<b>4.901.966</b>	<b>9,5%</b>	<b>45,3%</b>
Depreciation, amortization and other accruals	26	2.294.882	3,2%	1.679.831	3,2%	36,6%
<b>EBIT</b>		<b>4.829.038</b>	<b>6,7%</b>	<b>3.222.135</b>	<b>6,2%</b>	<b>49,9%</b>
Net financial income (charges)	27	1.005.484	1,4%	246.931	0,5%	307,2%
Share of profit of associated companies		(16.228)	0,0%	46.875	0,1%	
Other net income (expense)	28	(149.396)	0,2%	(232.642)	0,4%	-35,8%
<b>Income before taxes</b>		<b>5.668.898</b>	<b>7,9%</b>	<b>3.283.299</b>	<b>6,3%</b>	<b>72,7%</b>
Income taxes	29	3.001.625	4,2%	1.708.748	3,3%	75,7%
<b>Income for the financial period</b>		<b>2.667.273</b>	<b>3,7%</b>	<b>1.574.551</b>	<b>3,0%</b>	<b>69,4%</b>
Minority interest		1.786.826	2,5%	192.086	0,4%	830,2%
<b>Net income</b>		<b>880.447</b>	<b>1,2%</b>	<b>1.382.465</b>	<b>2,7%</b>	<b>-36,3%</b>
Basic net (loss) income per share		0,19		0,30		
Diluted net (loss) income per share		0,18		0,29		
Basic weighted average common shares outstanding		4.687.861		4.662.244		
Diluted weighted average common shares outstanding		137.214		61.557		

## Consolidated Financial Statement

Financial statement (cash flow)	30/06/2006	30/06/2005
<b>Cash flow generated by operating activity:</b>		
Profit (loss) for the financial period	880.447	1.382.465
Amortizations and depreciations	1.561.307	1.360.280
Change of employee severance indemnity	173.570	141.728
Change of provisions for risks and charges	-404.174	460.469
Change of provisions for deferred income taxes	-765.192	-188.509
Stocks	-5.881.393	-5.072.530
Receivables	-1.208.678	-1.132.740
Tax receivables	-980.822	7.782
Other receivables	-606.040	214.365
Payables	2.664.407	2.610.726
Tax payables	-1.185.505	-1.156.150
Other payables	176.398	144.153
	-6.456.122	-2.610.426
<b>Cash flow generated by operating activity:</b>	-5.575.675	-1.227.961
<b>Changes in non current assets:</b>		
(Increase) decrease in tangible assets	-1.486.631	-2.072.447
(Increase) decrease in intangible assets	141.817	525.468
(Increase) decrease in equity investments and non current assets	71.338	-61.393
	-1.273.476	-1.608.372
<b>Cash flow from purchase of subsidiary companies</b>		
<b>Cash flow from financial activity:</b>		
Increase (decrease) in non current financial liabilities	120.318	186.843
Increase (decrease) in current financial liabilities	-559.911	-2.030.735
Increase (decrease) in financial receivables	-90.000	-19.371
(Increase) decrease investments which are not permanent	-46.364.626	-9.050
Change in Capital and Reserves	-1.235.859	1.840.122
Change in Capital and Reserves of third parties	-1.276.517	1.069.595
Dividends distributed (31)	-2.577.558	-1.631.785
	-51.984.153	-594.381
<b>Increase (decrease) in cash at bank and on hand</b>	-58.833.304	-3.430.714
<b>Cash and cash equivalents at the start of the financial period</b>	77.071.374	15.069.818
<b>Cash and cash equivalents at the end of the financial period</b>	18.238.070	11.639.104

### Table showing Variations in the Stockholders' Equity

<i>STOCKHOLDERS' EQUITY:</i>	<b>Balance 31/12/2004</b>	<b>Net income allocation</b>	<b>Dividends distributed</b>	<b>Adjustments</b>	<b>Other operations</b>	<b>Balance 31/12/2005</b>
Common stock	2.424.367	-	-	-	12.596	2.436.963
Additional paid-in capital	34.954.351	-	-	-	369.658	35.324.009
Legal reserve	537.302	-	-	-	-	537.302
Reserve for own shares	-	-	-	-	-	0
Own shares	- 255.937	-	-	-	255.937	-
Others reserves	5.955.213	269.390	-	-	1.236.437	7.461.040
Retained earnings	31.471	4.376.908	- 1.631.785	-	498.221	3.274.815
Profits (loss) of the year	4.646.298	- 4.646.298	-	-	24.704.214	24.704.214
<i>Parent company's stockholders' equity</i>	48.293.065	-	- 1.631.785	-	27.077.063	73.738.343
Capital and reserves of third parties	3.849.531	1.760.958	- 259.172	-	43.624.693	48.976.010
Profit (loss) of third parties	1.760.958	- 1.760.958	-	-	1.408.535	1.408.535
<i>Minority interests</i>	5.610.489	-	- 259.172	-	45.033.228	50.384.545
	-	-	-	-	-	-
<i>Total Stockholders' equity</i>	53.903.554	-	- 1.890.957	-	72.110.291	124.122.888

<i>STOCKHOLDERS' EQUITY:</i>	<b>Balance 31/12/2005</b>	<b>Net income allocation</b>	<b>Dividends distributed</b>	<b>Adjustments</b>	<b>Other operations</b>	<b>Balance 30/06/2006</b>
Common stock	2.436.963	-	-	-	1.449	2.438.412
Additional paid-in capital	35.324.009	-	-	-	66.056	35.390.065
Legal reserve	537.302	-	-	-	-	537.302
Reserve for own shares	-	-	-	-	-	0
Own shares	-	-	-	-	-	-
Others reserves	7.461.040	7.001.992	-	-	- 1.549.612	12.913.420
Retained earnings	3.274.815	17.702.222	- 2.577.558	-	246.248	18.645.727
Profits (loss) of the year	24.704.214	- 24.704.214	-	-	880.447	880.447
<i>Parent company's stockholders' equity</i>	73.738.343	-	- 2.577.558	-	- 355.412	70.805.373
Capital and reserves of third parties	48.976.010	1.408.535	- 301.441	-	- 2.761.902	47.321.202
Profit (loss) of third parties	1.408.535	- 1.408.535	-	-	1.786.826	1.786.826
<i>Minority interests</i>	50.384.545	-	- 301.441	-	- 975.076	49.108.028
	-	-	-	-	-	-
<i>Total Stockholders' equity</i>	124.122.888	-	- 2.878.999	-	- 1.330.488	119.913.401

# FORM AND CONTENT OF THE HALF-YEARLY REPORT

## INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese n. 17.

Ordinary stock of the company is quoted on the MTAX which is managed by Borsa Italiana SpA.

The consolidated Half-yearly Report, including the appendix concerning the “Transition to the international accounting principles (IFRS) of El.En. S.p.A., was examined and approved by the Board of Directors on September 29<sup>th</sup> 2006.

## CRITERIA USED FOR DRAWING UP THE STATEMENTS

The consolidated half-yearly report of the El.En. Group dated June 30<sup>th</sup> 2006 has been drawn up in conformity with art. 81 of the *Regolamento Emittenti* (Delibera Consob n. 11971 of May 14<sup>th</sup> 1999 and later modifications and amendments), in conformity with the International Financial Reporting Standards (IFRS) and in particular the IAS 34 – *Bilanci Intermedi*, issued by the International Accounting Standard Board and approved by the European Union, in effect since June 30<sup>th</sup> 2006, which include the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as well as the earlier International Accounting Standards (IAS) and the interpretations of the Standard Interpretations Committee (SIC) which were still in effect at that time. For reasons of simplification, all of the above mentioned principles and interpretations used in this text will be referred to as “IFRS”.

This half-yearly consolidated report which represents an intermediate balance sheet, is made up of the Balance Sheet, the Profit and Loss Account, the Financial Statement, the tables showing Variations in the Stockholders’ Equity, and this commentary of Explanatory Notes. The financial information which is provided refers to the first half of 2006 and the first half of 2005. The Balance Sheets instead refers those on June 30<sup>th</sup> 2006 and December 31<sup>st</sup> 2005.

The consolidated half-yearly report dated June 30<sup>th</sup> 2006 has been drawn up in Euros which is the working currency of the Parent Company and of many of its subsidiaries; in this commentary all of the amounts are expressed in Euros unless otherwise noted.

In conformity with Art. 81 of the *Regolamento Emittenti*, the accounting charts of the parent company El. En S.p.A. as of June 30<sup>th</sup> 2006, drawn up in accordance with the IFRS are attached (Appendix 1). In this regard, it should be noted that El.En. S.p.A., consequent to the issuance of the EU Regulations n. 1606/2005 and in conformity to the Legislative Decree 38/2005, starting in the financial year 2006 draws up its individual balance sheet according to the IFRS. For the purpose of illustrating the effects of the transition to the IFRS and in order to respect the decrees of the *Comunicazione Consob* n. DEM/6064313 of July 28<sup>th</sup> 2006, the accounting charts of El.En. S.p.A. have been completed by a document entitled “Appendix 2 – Report on the transition to International Accounting Principles (IFRS) of El.En. S.p.A.” which includes all of the reconciliation tables for the amounts determined as of January 1<sup>st</sup> 2005 and December 31<sup>st</sup> 2005 according to the preceding accounting principles and the new ones established by IFRS, along with the commentary of explanatory notes.

El.En. SpA hired the auditing firm of Reconta Ernst & Young SpA to make a complete accounting revision of the required reconciliation tables for January 31<sup>st</sup> 2005 and for December 31<sup>st</sup> 2005 and included in Appendix 2, as well as the limited audit of the Half-yearly report as of June 30<sup>th</sup> 2006.

## AREA OF CONSOLIDATION

### SUBSIDIARY COMPANIES

The Half-yearly report of the El.En. Group includes the statements of the Parent Company and those of the Italian and foreign firms in which El. En. SpA controls directly or indirectly the majority of votes which can be given in an ordinary assembly, or, in the case of Cynosure Inc., has the power to nominate or to remove the majority of the members of the Board of Directors. The companies that are, as of this date, included in the area of consolidation are shown on the following table:

Company name:	Notes	Headquarters	Currency	Subscr. capital	Percentage held:			Consolidated Percentage
					Direct	Indirect	Total	
<b>Parent company:</b> El.En. SpA		Calenzano (I)	EURO	2.438.412				
<b>Subsidiary companies:</b> Deka M.E.L.A. Srl		Calenzano (I)	EURO	40.560	60,00%		60,00%	60,00%
Cutlite Penta Srl	1	Calenzano (I)	EURO	103.480	69,84%	10,00%	79,84%	79,74%
Valfivve Italia Srl		Calenzano (I)	EURO	47.840	99,00%		99,00%	99,00%
Deka Sarl		Vienne (F)	EURO	76.250	98,00%		98,00%	98,00%
Deka Lms GmbH		Berlin (D)	EURO	51.129	76,16%		76,16%	76,16%
Deka Dls GmbH	2	Berlin (D)	EURO	50.000		100,00%	100,00%	76,16%
Deka Laser Technologies LLC		Fort Lauderdale (USA)	USD	1.000	52,00%		52,00%	52,00%
Ot-las Srl	3	Calenzano (I)	EURO	57.200	36,00%	54,00%	90,00%	79,06%
Lasit SpA	4	Vico Equense (I)	EURO	1.000.000	50,00%	20,00%	70,00%	65,81%
Neuma Laser Srl	5	Calenzano (I)	EURO	46.800		100,00%	100,00%	79,40%
Lasercut Inc.		Branford (USA)	USD	1.000	70,00%		70,00%	70,00%
BRCT Inc.	A	Branford (USA)		no par value	100,00%		100,00%	100,00%
Quanta System SpA		Solbiate Olona (I)	EURO	1.500.000	60,00%		60,00%	60,00%
Asclepion Laser Technologies GmbH	6	Jena (D)	EURO	1.025.000	50,00%	50,00%	100,00%	80,00%
Arex Srl	7	Corsico (I)	EURO	20.500		51,22%	51,22%	30,73%
AQL Srl	8	Solbiate Olona (I)	EURO	100.000		100,00%	100,00%	62,91%
ASA Srl	9 B	Arcugnano (VI)	EURO	46.800		60,00%	60,00%	36,00%
Cynosure Inc.		Westford (USA)	USD	11.112	34,99%		34,99%	34,99%
Cynosure GmbH	10	Langen (D)	EURO	25.565		100,00%	100,00%	34,99%
Cynosure Sarl	10	Paris (F)	EURO	114.336		100,00%	100,00%	34,99%
Cynosure KK	10	Tokyo (J)	YEN	10.000.000		100,00%	100,00%	34,99%
Cynosure UK	10	London (UK)	GBP	1		100,00%	100,00%	34,99%
Suzhou Cynosure Medical Devices Co.	10	Suzhou (China)		no par value		51,60%	51,60%	18,05%

(1) owned by Elen SpA (69,84%) and Valfivve Italia Srl (10%)

(2) owned by Deka Lms GmbH

(3) owned by Elen SpA (36%) and Cutlite Penta Srl (54%)

(4) owned by Elen SpA (50%) and Ot-las (20%)

(5) owned by Cutlite Penta Srl (50%) and Ot-las Srl (50%)

(6) owned by Elen SpA (50%) and Quanta System SpA (50%)

(7) owned by Quanta System SpA

(8) owned by Quanta System SpA (50%) and Lasit Srl (50%)

(9) owned by Deka Mela Srl

(10) owned by Cynosure Inc.

(A) P&L consolidated since Jan. 2005

(B) P&L consolidated since Nov. 2005

On April 27<sup>th</sup> the subsidiary Deka Lms GmbH completed the acquisition of 100% of the shares of its subsidiary Deka Dls GmbH, by purchasing them from the minority stockholder at their nominal value. At the same time, the two companies decided to merge by incorporating Deka Dls into its parent company; the merger, which became effective on August 1<sup>st</sup> 2006, upon completion of the documents required by the German authorities, will be retroactive in its effects starting on December 31<sup>st</sup> 2005.

On May 2<sup>nd</sup> El.En. SpA acquired from a third party an equity of 21% in Otlas Srl and of 16,34% in Cutlite Penta Srl, for a total amount of 550.000,00 Euros. This operation, which comports the consolidation of the position of the Parent Company of the Group among the companies operating in the industrial sector, was initiated on account of the sudden demise of Sandro Favilli, who was a partner in the subsidiaries as well as Chairman of the Board of Otlas Srl.



## ASSOCIATED COMPANIES

El. En. SpA holds, directly and indirectly, equities in several companies which, however, it does not control. These companies have been evaluated using the shareholders' equity method. The equities held in associated companies are as follows:

Company name:	Headquarters	Subscr.capital	Percentage held:			Consolidated percentage
			Direct	Indirect	Total	
Immobiliare Del.Co. Srl	Solbiate Olona (I)	24.000	30,00%		30,00%	30,00%
Actis Srl	Calenzano (I)	10.200	12,00%		12,00%	12,00%
SBI S.A.	Herzele (B)	300.000	50,00%		50,00%	50,00%
IALT Srl	Calenzano (I)	10.000	50,00%		50,00%	50,00%

Capital stock is expressed in Euros unless otherwise specified

## PRINCIPLES OF CONSOLIDATION

The interim financial statements used for the consolidation are the interim reports of the single companies as of June 30<sup>th</sup> 2006. These statements have been opportunely reclassified and adjusted for the purpose of standardizing the accounting principles and the IFRS evaluation criteria chosen by the Parent Company.

In drawing up the consolidated statement the assets and liabilities as well as the revenue and operating charges of the companies included in the area of consolidation have been entirely reported. Payables and receivables, revenue and charges, profits and losses which originated from operations made between consolidated companies have been eliminated.

The accounting value of the equity held in each of the subsidiary firms has been eliminated in the place of the corresponding value of the net shareholders' equity of each of the subsidiary companies including any adaptation to fair value on the date of purchase; the difference which emerges, if positive, is treated like start-up expenses or goodwill, and as such is entered into accounts in accordance with IFRS 3, as illustrated below, and if negative, is entered directly into the profit and loss account.

The amount of capital and reserves of the subsidiaries corresponding to equities held by third parties is entered under a heading in the shareholders' equity which is called "capital and reserves of third parties"; the part of the consolidated economic result which corresponds to equities held by third parties is entered under the heading "profit (loss) pertaining to minority interest".

## CONVERSION OF AMOUNTS IN CURRENCY

The interim accounting situation for each consolidated company is drawn up using the functional currency which is related to the economic context in which it operates. In this accounting situation, all of the transactions which occur using currency different from the functional one are reported at the exchange rate in effect on the date of the operation. Monetary assets and liabilities existing in a currency other than the functional one are consequently adapted to the exchange rate in effect on the closing date for the period being reported. Non-monetary assets and liabilities existing in currency and entered at the original cost are converted using the exchange rate in effect at the time the operation was first reported. The non-monetary assets and liabilities in currency and entered at the fair market value are converted using the exchange rate in effect at the time that their value was determined.

## CONVERSION OF FINANCIAL STATEMENTS IN CURRENCY

For the purpose of drawing up the consolidated financial statement, the results, the assets and the liabilities are expressed in Euros, which represent the functional currency of the parent company, El. En. SpA. For the purpose of organizing the consolidated financial statement, the interim financial situations with functional currency which is not the Euro, have been converted to Euros by applying, to the assets and liabilities, including start-up and adjustments made during the consolidation phase, the exchange rate in effect on the day that the financial period was closed and to the entries in the profit and loss account, the average rates of the period which are closest to the exchange rates in effect on the date of the relative operations. The relative differences in rates are reported directly in the net shareholders' equity and are shown separately in a special reserve of the latter. The differences in rates are reported in the profit and loss account at the moment of sale of the subsidiary.

When the IFRS were first used, the cumulative conversion differences generated by the consolidation of the foreign firms with functional currencies other than Euros were reclassified as the results of the preceding financial years as is

permitted by the IFRS 1; for this reason, only the differences of conversions accumulated and entered into accounting after January 1<sup>st</sup> 2004 are involved in the determining of the capital gains and losses which are a result of their sale. The exchange rate used for the conversion of dollars to Euros for the financial statements of Cynosure, Lasercut and Deka Laser Technologies are: final exchange rate: 1,2713; average rate: 1,2296.

## INFORMATION ON THE DIVISION INTO SECTORS

The “sector” is a distinct part of the Group which supplies a homogeneous set of products and services (activity sector) or supplies products and services in a defined economic area (geographic sector). Within the El.En. Group two primary levels of activity have been defined: i) “medical” and ii) “industrial” and a third residual area iii) “others”. As a secondary category, the sectors have been divided by geographical location, with the net profits from sales divided according to the location of the clients.

## USE OF ESTIMATES

The creation of the consolidated half-yearly report, with application of the IFRS, requires the use of estimates and assumptions which influence the value of the assets and the liabilities in the report and the relative information on the potential assets and liabilities for the period being reported. The results which are actually achieved may differ from these estimates. Estimates are used to report the provisions for credit risks, for obsolescence of warehouse inventory, amortizations, devaluation of assets, benefits to employees, taxes and other accruals and funds. The estimates and assumptions are periodically re-evaluated and the effects of each variation are reflected in the profit and loss account.

## EVALUATION CRITERIA

### A) FIXED ASSETS WITH DEFINED AND UNDEFINED LIFE SPAN

The intangible fixed assets are activities which do not have an identifiable physical consistency and are capable of producing future economic benefits. They are entered into accounts at the original cost of purchase and shown net of amortizations made during the financial period and ascribable to the single entries. The Group uses the cost criteria, as opposed to fair value, as the criteria for evaluating the intangible fixed assets. In the case where, independently from the amortization which has already been entered into accounts, a loss of value is shown, the asset will be correspondingly devaluated; if, during the following financial periods, the assumptions of the devaluation do not occur, the asset will be returned to an amount within its original value adjusted only by the amortizations.

The costs sustained by the company for the development of new products and services represent, depending on the individual case, internally generated intangible assets or tangible assets and the costs sustained are entered as assets only when all the following conditions have been met: 1) the existence of the technical possibility or the intention to complete the activity in such a way as to make it available for use and sale; 2) capacity of the Group to sell or use the activity; 3) existence of a market for the products or services which are derived from the activity or rather, the utility for company purposes; 4) capacity of the activity to generate future economic benefits; 5) existence and availability of adequate technical and financial resources to complete the development and the sale or use of the products and services which are derived from it; 6) reliability of evaluation of the costs attributed to the activity during its development. The costs of development which are capitalized include only the expenses sustained which can be attributed directly to the development process. The costs of research are entered in the profit and loss account for the period in which they are sustained. The other intangible assets with a defined life span are evaluated at the price of purchase or manufacture and amortized at a constant quota for all of their estimated life span.

Start-up and other activities which have an indefinite life span are not subject to systematic amortization, but are subject to an annual impairment test.

### Goodwill

All acquisitions are entered into accounting using the “purchase method”.

Goodwill, which is derived from the acquisition of subsidiary or associated companies or *joint ventures*, represents the excess of the purchase price with respect to the *fair value* of the activities acquired net of the current or potential liabilities assumed and has been allocated to each of the “cash generating units” (CGU) identified. After the initial entry, goodwill is not amortized and is reduced for potential reductions in value, as determined in accordance with the method described below. The goodwill which is related to the equity in associated companies is included in the value ascribed to each company. In the case in which a negative start up has emerged, it is immediately entered in the profit and loss account.

The goodwill deriving from the acquisitions made before January 1<sup>st</sup> 2004 is entered at the value registered under that heading in the last consolidated financial statement drawn up according to the previous accounting principles (December 31<sup>st</sup> 2003).

#### B) TANGIBLE ASSETS

The assets are entered at the price of purchase or manufacture including accessory charges, and net of amortizations. The ordinary maintenance expenses are entirely entered into the profit and loss account. Maintenance expenses of an incremental nature are attributed to the source of reference and amortized in function of the residual possibility of utilizing that source.

The Group uses the cost method as opposed to the fair value system, as criteria for evaluating the tangible assets. In particular, according to that principle, the value of the real estate and buildings which are part of it are separated and only the buildings are subject to amortization.

The aliquots used for amortization are shown on the table below:

<i>Description</i>	<i>Amortization percentage</i>
<i>Buildings</i>	
- buildings	3.00%
<i>Plants and machinery</i>	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
<i>Industrial and commercial equipment</i>	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
<i>Other goods</i>	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture and décor	12.00%

#### C) FINANCIAL CHARGES

Financial charges are entered into the profit and loss account at the time that they are sustained.

#### D) LOSS OF ASSET VALUE

For each date of reference in the financial period being reported, the tangible and intangible assets with a defined life span are analyzed for the purpose of determining if there has been a reduction in their value. The recoverable amount spent for goodwill and for intangible assets with a undefined life span, when present, is estimated at each date of reference. If there is an indication of a reduction in value, we proceed to the estimate of the recoverable value.

The presumed worth is represented by either the net sale price or the use value, whichever is greater. For purposes of determining the use value, the expected future financial flows are implemented by utilizing a pre-tax discount rate which reflects the current market value of the cost of money in relation to the time of the investment and the specific risks of the activity. For an activity which does not generate financial flow which is fully independent, the cost price is determined in relation to the *cash generating unit* to which the activity belongs. A reduction in the value is recognized in the profit and loss account when the amount entered for the activity or for the relative *cash generating unit* to which it belongs, is greater than the presumed cost price. With the exception of Goodwill, the reductions in value are returned when the reasons that generated it no longer exist.

#### E) FINANCIAL ASSETS: EQUITIES

The financial assets which consist of equities in associated companies are evaluated using the shareholders' equity method, that is, for an amount equal to the corresponding fraction of the net capital and reserves shown in the last statement of the same companies, after having subtracted the dividends and made the adjustments required by the principles used for formulating the consolidated annual report in conformity with the IFRS in order to make them consistent with the accounting principles used by the parent company.

The companies with joint control (*joint-ventures*) are evaluated using the shareholders' equity method, starting on the date in which the joint venture was initiated and ending when the joint venture ceases to exist.

## F) FINANCIAL INSTRUMENTS

### **Equities in other companies**

Equities in companies which are not subsidiaries or associated (generally with less than 20% ownership) are classified, at the time of purchase, among the financial assets which are “held for sale” or among the assets which are evaluated at the fair value through the profit and loss account as part of the current or non-current assets.

The equities described above are evaluated at the fair market value or else at cost in the case of equities which are not quoted or of equities for which the fair value is not reliable or not determinable, adjusted for loss of value, according to the rules described in IAS 39. The variations in the value of equities classified as “held for sale” are entered in a reserve of the shareholders’ equity which will be entered into the profit and loss account at the time of sale. The variations in the value of the equities classified at fair market value through the profit and loss account are entered directly into the profit and loss account.

### **Stocks**

The financial assets which are not included among the equities classified among the current assets are included in the category called “held for negotiation” and evaluated at “fair value through the profit and loss account ” or “available for sale” and valued at “ fair value through the profit and loss account and the Capital and Reserves”.

### **Trade accounts receivable**

Receivables are entered at cost (identified by their nominal value) net of any reduction in value, which corresponds to their presumed sale value.

### **Other financial assets**

Financial assets are reported and subtracted in the financial statement on the basis of the date of negotiation and are initially evaluated at cost, including the charges directly related to the acquisition. On the following statement dates, the financial assets which are to be held until expiration date are reported at the amortized cost according to the method of the actual interest rate, net of any devaluations made in order to reflect loss in value.

Financial assets which are not the kind to be held until the maturity date are classified as “held for negotiation” or “available for sale” and are evaluated at the fair value for each period with the effects being entered, respectively, either in the profit and loss account under the heading of “Financial charges/income” or in the special reserve of the shareholders’ equity, in this latter case until they are sold or have suffered a reduction in value.

### **Cash at bank and in hand and other equivalent assets**

Cash and checking accounts at banks and other short term financial investments which are easily convertible into cash with no significant risk of change in value are included in this category.

### **Treasury stock**

The company’s own shares are entered in reduction of the shareholders’ equity. No profit or loss is recorded in the profit and loss account for the purchase, sale, issue or cancellation of treasury stock.

### **Accounts payables**

Trade debts with due dates which fall within the usual commercial limits are not implemented and are entered at cost (identified by their nominal value).

### **Financial liabilities**

Financial liabilities are initially reported at fair value net of the costs of the transactions directly related to them. Afterwards, financial liabilities are evaluated using the criteria of the amortized cost with the actual interest rate method.

## G) INVENTORY

Residual stock of raw materials and finished products are evaluated at the cost or the market value, whichever is less; the cost is determined with the weighted average cost method. The evaluation of warehouse stock includes the costs directly related to materials and labour and the indirect costs of manufacture (variable and fixed). Funds are also accrued for depreciation of materials, finished products, spare parts and other supplies considered obsolete or with slow turnover, and considering their expected future use and sale price.

Stocks of semi-finished products are evaluated on the basis of the cost of manufacture, with reference to the calculated average cost.

## H) EMPLOYEE BENEFITS

### *FUND FOR SEVERANCE INDEMNITY (TFR).*

Severance indemnity is classified as a type of “post-employment benefit”, of the kind called “defined benefit plan”, the matured amount of which is projected in order to estimate the amount which must be paid when employment is terminated and afterwards, using the “Projected unit credit method”. This method is based on hypotheses of a demographic and financial nature in order to make a reasonable estimate of the amount of benefits which each employee has accumulated in relation to the work he/she has performed.

Through the actuarial evaluation under the heading of “cost of labour” the current service cost (which defines the amount of the benefits matured during the financial period by the employees) is entered in the profit and loss account, and, under the heading of Financial Charges/ Income, the interest cost which constitutes the figurative charge that the company would sustain by requesting an amount equal to the severance pay from the financial market.

The actuarial profits and losses accumulated up to the preceding financial period are recorded *pro-quota* in the profit and loss account, with the cost for personnel for the rest of the average working life of the employees, within the limits of which the net value not recorded at the end of the preceding financial year is in excess by 10% of the liabilities (the so-called corridor system).

### *STOCK OPTION PLANS*

The cost of the labour of the employees paid by means of the stock option plan is determined on the basis of the *fair value* of the options that are granted to the employees on the date in which they are acquired.

The method used to calculate the *fair value* takes into account all of the characteristics of the options (duration of the option, price and conditions, etc.) as well as the date on which they are assigned, the volatility of the stock and the curve of the interest rates on the date of assignment compatibly with the duration of the plan.

The pricing model used is Black & Scholes.

The cost is recognized in the profit and loss accounts through the period of maturation of the options that have been granted taking into account the highest possible estimation of the number of options that will be picked up.

## I) PROVISIONS FOR CONTINGENCIES AND OTHER LIABILITIES

The Group reports the funds for contingencies and other liabilities when, in the presence of a legal or implicit obligation on behalf of a third party, it is likely that the use of resources of the Group will have to be implemented in order to meet the obligation, and when it is possible to make a reliable estimate of the amount of this same obligation. Variations in the estimated amount are reflected in the profit and loss account for the period in which the variation.

## L) RECOGNITION OF REVENUE

Revenue from sales of goods is recorded when the significant risks and benefits of the property are transferred to the purchaser.

The financial income and charges are recorded on the basis of the interest matured on the net value of the relative financial assets and liabilities using the actual interest rate.

## M) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT

Grants from public institutions as well as from third parties are registered at fair value when there is a reasonable certainty that they will actually be received and that the conditions for obtaining them will be satisfied. Grants received as payment for specific expenses are recorded with the other liabilities and credited to the profit and loss account when the conditions for entering them have been satisfied. Grants received for specific goods, the value of which is entered among the tangible and intangible assets, are recorded either by direct reduction of the assets themselves or among the other liabilities and credited to the profit and loss account on the basis of the period of amortisation of the goods to which they refer. Operating grants are registered entirely in the profit and loss account as soon as they have satisfied the conditions required for entry.

## N) FINANCIAL LEASING

Financial leasings are entered into accounts in accordance with the financial method which requires the entering into accounts of the asset which has been acquired and of the relative financing. The relative amortization quoted and financial charges related to the financing are entered into the profit and loss account.

**O) TAXES**

Current taxes on income for the period are determined on the basis of the estimate of the taxable income and in conformity with the laws in effect at the time. Deferred income tax assets and liabilities are calculated on the temporary differences between the capital value and the corresponding values recognized for tax purposes by applying the fiscal aliquot in effect at the time or substantially valid on the referral date. Deferred tax assets are entered when their recovery is likely, i.e., when it is expected that taxable revenue that is sufficient to recover the asset will be available in the future. The possibility of recovering the deferred tax assets is re-examined at the closure of each financial period. On the cost of labour registered in relation to the salary programs as equities in the capital of the parent company El. En., no fiscal effect has been registered since the shares which will be assigned to the employees will arise from the increase in capital.

**P) PROFIT PER SHARE**

The base profit per ordinary share is calculated by dividing the quota of the economic result of the Group attributed to ordinary shares by the weighted average of the ordinary shares in circulation during that financial period, excluding treasury stock. For the purpose of calculating the profit diluted by ordinary shares, the diluted weighted average of the common shares outstanding is modified assuming the underwriting of all the potential shares deriving from the conversion of bonds and the exercising of a warrant having a diluting effect. The net result of the Group is also rectified in order to adjust for the effects, net of taxes, of these operations.

## STOCK OPTION PLANS

A stock option plan has been created by the company in order to provide the Group with an instrument for promoting employee incentive and loyalty.

### *El.En. SpA*

The following table illustrates the essential elements of the stock option plan for El.En. SpA stock, implemented in the first half of 2006

	Max. expiration date	Existing options at 01.01.06	Options issued from 01.01.06 to 30.06.06	Options cancelled from 01.01.06 to 30.06.06	Options picked up from 01.01.06 to 30.06.06	Expired option not picked up from 01.01.06 to 30.06.06	Existing options at 30.06.06	Options which can be picked up at 30.06.06	Pick up price
Plan 2006/2007	July, 16 2007	140.000	0	0	2.786	0	137.214	67.214	€ 24,23
		140.000	0	0	2.786	0	137.214	67.214	

For the stock option plan for 2006/2007 the purpose of determining the fair value using the pricing model “Black & Scholes”, the following hypotheses have been formulated:

market interest rate for no-risk investments: 2,5%

historic volatility: 26,20%

time interval used for calculating the volatility: 1 year before date of issue

During the first half of 2006 the average price registered for El.En. S.p.A. stock during the period in which it was possible to pick up the option was approx. 28 Euros.

For the characteristics of the individual stock option plan 2006/2007 used by El. En. SpA., as well as the increases in capital voted in order to implement them, see the description contained in the chapter concerning the composition of the capital.

### *Cynosure Inc.*

The following table shows the stock option plans of Cynosure Inc. which were effective in the first half of 2006. (worth/000)

Existing options at 01.01.06	Options issued from 01.01.06 to 30.06.06	Options cancelled from 01.01.06 to 30.06.06	Options picked up from 01.01.06 to 30.06.06	Expired options which were not picked up from 01.01.06 to 30.06.06	Existing options at 30.06.06	Options which can be picked up at 30.06.06
1.821	242	0	47	29	1.987	763

The table which follows shows the pick-up prices and the average lifespan of the options in circulation (worth/000) on June 30<sup>th</sup> 2006.

Pick up price	Existing Options at 30.06.06	Options which can be picked up at 30.06.06	lifespan Average
\$3,00	1.337	623	8,28
\$3,25	28	28	3,91
\$3,50	4	4	5,34
\$4,00	6	6	3,33
\$4,50	351	98	8,88
\$15,00	24	0	9,44
\$15,84	10	0	9,88
\$17,54	227	4	9,86
	1.987	763	8,51



## COMMENTS ON THE MAIN ASSETS

### *Assets which are not current*

#### *Intangible fixed assets (note 1)*

Changes registered in this financial period for intangible assets are the following:

<i>Categories</i>	<b>Balance 31/12/05</b>	<b>Variation</b>	<b>Revaluation (Devaluation)</b>	<b>Other Operations</b>	<b>(Amortisations)</b>	<b>Translation Adjustemnts</b>	<b>Balance 30/06/06</b>
Goodwill	6.274.088	45.519	-228.724	1			6.090.884
Costs of research, development	17.520				-4.560		12.960
Patents and rights to use patents of others	277.011	10.686			-28.559	-17.148	241.990
Concessions, licences, trade marks and similar rights	465.967	67.593			-93.982	-4.391	435.187
Other	15.517	5.001			-6.143	-26	14.349
Intangible assets in progress and payments on account	304.070	1.589				-21.917	283.742
<i>Total</i>	<b>7.354.173</b>	<b>130.388</b>	<b>-228.724</b>	<b>1</b>	<b>-133.244</b>	<b>-43.482</b>	<b>7.079.112</b>

The amount entered under the heading "Goodwill" includes:

- the amount resulting from the acquisition of Cynosure in 2002 by the parent company of 60% of the Cynosure Group. This amount has been justified by the sale of 2,5% of the Cynosure made by El. En. SpA as part of the plan to buy Quanta System SpA; it is also influenced by the increase in the equity after the operations on the capital made at the end of the financial year 2004, and the effects of the sale of part of the stock to the management of the company and to subjects close to the management and the later sale of 1.000.000 shares; this operation was described in detail in the commentary which accompanied the financial statement for the year ending on December 31<sup>st</sup> 2005. As of June 30<sup>th</sup> 2006 this value was approx. 3.226 thousand Euros.
- the amount resulting from the purchase of 30% of the shares of Quanta System SpA effected during 2004 by the Parent Company. The amount entered into accounts on June 30<sup>th</sup> 2006 was approx. 2.079 thousand Euros;
- the amount that resulted from the purchase made during 2004 by the subsidiary Valfivre Italia Srl of a 6% equity in Cutlite Penta Srl. The amount entered into accounts on June 30<sup>th</sup> 2006 was approx. 211 thousand Euros;
- the amount that was paid for goodwill by the subsidiary Asclepion Laser Technologies GmbH for the purchase of the dermatology and odontoiatric business belonging to Carl Zeiss Meditec. The amount entered into accounts on June 30<sup>th</sup> 2006 was for approx. 73 thousand Euros;
- the amount resulting from the purchase of two branches of companies operating in the same macro-sector by Arex Srl in the last financial period. The amount entered into accounts on June 30<sup>th</sup> 2006 was approx. 55 thousand Euros;
- the amount which resulted from the purchase, effected during 2005, by the parent company El.En. SpA of 15% of Ot-Las Srl, a company which was already controlled indirectly through Cutlite Penta Srl. The amount entered into accounts on June 30<sup>th</sup> 2006 was for approx. 7 thousand Euros;
- the amount resulting from the purchase of ASA Srl by the subsidiary Deka MELA Srl. The amount entered into accounts on June 30<sup>th</sup> 2006 was for approx. 439 thousand Euros.

In the re-evaluation/devaluation column we have entered the devaluation of the goodwill attributed to CGU Deka Lms which emerged after the annual impairment test.

The estimate of the recoverable value of the Goodwill entered into accounts was made using the *Discounted Cash Flow* model which, for determining the use value of an asset, uses the estimate of the future cash flow and the application of the appropriate actualization rate. In particular, the rate used (WACC) was 8,6% and the explicit time range in which the cash flows were implemented was 10 years.

The "costs of research and development" are related to the capitalization of the costs sustained in the past financial years by the subsidiaries ASA Srl, Quanta System SpA and its subsidiary Arex Srl.

The "rights to industrial patents and use of patents of others" are related to the capitalization of the costs sustained by Cynosure Inc., Deka Laser Technologies and Arex Srl for patents and license agreements.

Under the heading "concessions, licenses, trade marks and other similar rights" the overall costs sustained by the parent company for the acquisition of new management software – implementation of which was terminated in 2002 – was entered into accounts among other items; the costs sustained by the company for the license to use a patent related to a



safety device to be applied to laser systems. ASA Srl has also entered into accounts brand names for an amount of approx. 273 thousand Euros.

Under the heading “other “ we have also entered, in particular for the Parent Company, the amounts related to the purchase of generic software.

Among the “intangible assets in progress” we have entered the costs sustained by the subsidiary Cynosure for the purchase of new management software which is still in the implementation phase.

## ***Tangible assets (note 2)***

The table below shows the changes which have taken place in the tangible assets during the last six months:

<i>Cost</i>	<b>Balance</b>		<b>Revaluations and devaluations</b>	<b>Other operations</b>	<b>(Disposals)</b>	<b>Translation Adjustments</b>	<b>Balance</b>
	<b>31/12/05</b>	<b>Increments</b>					
Lands	1.412.008					-13.713	1.398.295
Buildings	3.096.028	1.212				-38.222	3.059.018
Plants and machinery	1.087.639	143.583			-5.164	-5.319	1.220.739
Industrial and commercial equipment	10.376.715	886.491		468	-134.317	-473.388	10.655.969
Other goods	7.256.209	613.859		962	-294.943	-199.528	7.376.559
Tangible assets under construction	249.696	194.836				-79	444.453
<i>Total</i>	<b>23.478.295</b>	<b>1.839.981</b>		<b>1.430</b>	<b>-434.424</b>	<b>-730.249</b>	<b>24.155.033</b>

<i>Amortisation provisions</i>	<b>Balance</b>		<b>Devaluations</b>	<b>Other operations</b>	<b>(Disposals)</b>	<b>Translation Adjustments</b>	<b>Balance</b>
	<b>31/12/05</b>	<b>Amortisations amount</b>					
Lands							
Buildings	486.697	44.540		1		-1.192	530.046
Plants and machinery	544.567	72.140		-3.648	-4.389	-2.779	605.891
Industrial and commercial equipment	6.881.031	851.661		467	-78.678	-338.771	7.315.710
Other goods	4.244.303	459.722		960	-273.663	-108.201	4.323.121
Tangible assets under construction							
<i>Total</i>	<b>12.156.598</b>	<b>1.428.063</b>		<b>-2.220</b>	<b>-356.730</b>	<b>-450.943</b>	<b>12.774.768</b>

<i>Net value</i>	<b>Balance</b>		<b>Revaluations and other operations</b>	<b>(Amortisations and devaluations)</b>	<b>(Disposals)</b>	<b>Translation Adjustments</b>	<b>Balance</b>
	<b>31/12/05</b>	<b>Increments</b>					
Lands	1.412.008					-13.713	1.398.295
Buildings	2.609.331	1.212	-1	-44.540		-37.030	2.528.972
Plants and machinery	543.072	143.583	3.648	-72.140	-775	-2.540	614.848
Industrial and commercial equipment	3.495.684	886.491	1	-851.661	-55.639	-134.617	3.340.259
Other goods	3.011.906	613.859	2	-459.722	-21.280	-91.327	3.053.438
Tangible assets under construction	249.696	194.836				-79	444.453
<i>Total</i>	<b>11.321.697</b>	<b>1.839.981</b>	<b>3.650</b>	<b>-1.656.787</b>	<b>-77.694</b>	<b>-279.306</b>	<b>11.380.265</b>

According to the current accounting principles, the value of the land has been separated from that of the buildings that are located on it, and the lands have not been amortized as they are considered elements with an unlimited useful lifespan. The value of the lands on June 30<sup>th</sup> 2006 was 1.398 thousand Euros.

The most valuable single fixed asset is the real estate complex in Via Baldanzese at Calenzano (FI) where the parent company and three of the subsidiaries operate. Moreover, the subsidiary BRCT Inc., after it was created by the parent company, holds the real estate in Branford, Connecticut, where the Lasercut Inc. factory is located. Another important item in this table is the equipment owned by the subsidiary Cynosure, which includes laser systems used for sales demonstrations.

Most of the investments made this half-year involved new laser equipment for experiments and demonstrations in both the industrial and medical sector. Of particular importance, in terms of investments, were the efforts made by the subsidiary Cynosure, facilitated by the cash that became available after the quotation on the stock market, to further the ambitious development plans of the company; one example of this was the purchase of minivans necessary for running the distribution network using their own employees.

Among the “assets in progress and payments on account” we have entered the costs sustained by the parent company for the architectural and structural design and planning, as well as the charges for the construction permit, for enlarging the buildings in Via Baldanzese at Calenzano.

### ***Equities (note 3)***

The chart below shows the analysis of the equities.

	<b>30-giu-06</b>	<b>31-dic-05</b>	<b>Variation</b>	<b>Var. %</b>
<b><i>Equity investments in:</i></b>				
associated companies	391.795	428.241	-36.446	-8,51%
other companies	315.302	345.809	-30.507	-8,82%
<i>Total</i>	<b>707.097</b>	<b>774.050</b>	<b>-66.953</b>	<b>-8,65%</b>

The associated companies, Immobiliare Del.Co. Srl, SBI SA and IALT Srl have been consolidated using the shareholders’ equity method.

### ***Deferred tax assets/Other non-current assets (note 4)***

<u><i>Other non current assets</i></u>	<b>30/06/2006</b>	<b>31/12/2005</b>	<b>Variation</b>	<b>Var. %</b>
Deferred tax assets	4.065.465	3.466.113	599.352	17,29%
Other non current assets	188.667	193.052	-4.385	-2,27%
<i>Total</i>	<b>4.254.132</b>	<b>3.659.165</b>	<b>594.967</b>	<b>16,26%</b>

For the analysis of the entry “Deferred tax assets”, see the next chapter relative to the “deferred tax assets and liabilities”.

## Current assets

### Inventory (note 5)

Analysis of inventory is shown on the table below:

<i>Stocks:</i>	30-giu-06	31-dic-05	Variation	Var. %
Raw materials and consumables	16.068.235	13.778.952	2.289.283	16,61%
Work in progress and semi finished products	7.027.291	6.269.023	758.268	12,10%
Finished products and goods for sale	15.583.005	12.749.163	2.833.842	22,23%
<i>Total</i>	38.678.531	32.797.138	5.881.393	17,93%

The difference in the final inventories, and in particular that between the raw materials and the finished products shows the increase in their quantity which is, among other things, the direct result of the considerable increase in the production volume. In particular, the increase in finished goods is derived from the company policy of increasing the number of products available to the distribution networks for sales demonstrations.

### Accounts receivables (note 6)

The table below shows the trade receivables:

<i>Debtors:</i>	30-giu-06	31-dic-05	Variation	Var. %
Trade debtors	31.777.446	30.569.776	1.207.670	3,95%
Associated debtors	18.301	17.293	1.008	5,83%
<i>Total</i>	31.795.747	30.587.069	1.208.678	3,95%

<i>Trade debtors:</i>	30/06/2006	31/12/2005	Variation	Var. %
Italy	11.132.525	9.620.210	1.512.315	15,72%
European Community	8.538.471	8.263.108	275.363	3,33%
Outside of European Community	15.305.261	14.868.750	436.511	2,94%
minus: devaluation provision for debtors	-3.198.811	-2.182.292	-1.016.519	46,58%
<i>Total</i>	31.777.446	30.569.776	1.207.670	3,95%

The rapid growth of the sales volume of the Group, and in particular that of Cynosure, caused the rise in the number of trade receivables, as shown in the above table.

For a detailed analysis of the trade receivables and financial receivables (shown in note 7) towards associated firms, see the following chapter relative to "Correlated parties".

## Tax credits/other receivables (note 7)

The table below shows the subdivision of the other receivables:

	30/06/2006	31/12/2005	Variation	Variation %
<i>Financial credits</i>				
Financial credits v. third parts	50.000		50.000	0,00%
Financial credits v. associated companies	132.682	92.682	40.000	43,16%
<i>Total</i>	182.682	92.682	90.000	97,11%
<i>Tax debtors</i>				
VAT credits	3.550.772	2.634.983	915.789	34,76%
Income tax credits	393.398	328.365	65.033	19,81%
<i>Total</i>	3.944.170	2.963.348	980.822	33,10%
<i>Other credits</i>				
Security deposits	214.934	156.140	58.794	37,65%
Down payments	731.137	466.945	264.192	56,58%
Other credits	1.443.753	1.160.699	283.054	24,39%
<i>Total</i>	2.389.824	1.783.784	606.040	33,97%
<i>Total other credits</i>	6.516.676	4.839.814	1.676.862	34,65%

The half-year was closed with a VAT credit of over 3 million Euros which was due to the intense export activity. Tax credits were mostly derived from the difference between advances and the tax debt which had matured by the date of this statement.

## Financial instruments (note 8)

<i>Investments which are not permanent:</i>	30/06/2006	31/12/2005	Variation	Var. %
Other investments	46.831.859	467.233	46.364.626	9923,23%
<i>Total</i>	46.831.859	467.233	46.364.626	9923,23%

The amount entered under the heading "Other investments" refer to temporary uses of cash.

They consist mostly of investments in public and private financial instruments which will mature by July 31<sup>st</sup> 2007, made by the subsidiary Cynosure for a total amount of 44 million Euros, using part of the cash which became available after the IPO of 2005.

The category also includes investments in financial instruments made by the subsidiary BRCT for an amount of 400 thousand Euros, in monetary funds made by the Parent Company El.En. S.p.A. for 2 million Euros, and by the subsidiary Lasit SpA for approx. 358 thousand Euros, as well as an investment in CCT made by the subsidiary ASA Srl for approx. 232 thousand Euros.

In accordance with the requirements of the of accounting principle IAS 39 the "other investments" are evaluated at "fair value". The "fair value" is the market value.

## Cash at bank and in hand (note 9)

Cash at bank and in hand is composed as follows.

<i>Cash at Bank and in hand:</i>	30/06/2006	31/12/2005	Variation	Var. %
bank and postal current accounts	18.162.086	77.020.977	-58.858.891	-76,42%
cash in hand	75.984	50.397	25.587	50,77%
<i>Total</i>	18.238.070	77.071.374	-58.833.304	-76,34%

The amount entered for June 30<sup>th</sup> 2006 under the heading "Bank and postal current accounts" includes, among other things, fast turnover cash investments (fixed deposits and monetary funds) made by the subsidiary Cynosure and having a maturity date of 90 days maximum from the date of purchase. These investments amount to approx 5,2 million Euros.

For the analysis of the variations in cash in hand, see the table of the financial statement.

### ***Net financial position as of June 30<sup>th</sup> 2006***

The net financial position of the Group as of June 30<sup>th</sup> 2006 is as follows:

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

The cash received as a consequence of the IPO of Cynosure in December 2005 has determined a positive financial position which remains well over 60 million Euros.

The amount of cash in hand on June 30<sup>th</sup> 2006 dropped by about 12 million Euros with respect to December 31<sup>st</sup> 2005. Among the causes which have determined this decrease, are the payment of dividends by El.En. SpA, Deka M.E.L.A. Srl, ASA Srl and by Deka Lms GmbH for a total of 2,8 million Euros, paid to third parties, and the purchase of equities in Otlas Srl and Cutlite Penta Srl for an amount of 550 thousand Euros.

The increase in working capital contributed substantially to the decrease in cash, in particular as far as Cynosure Inc. and El.En. SpA, were concerned, as their production and distribution structures are heavily involved in the effort to sustain this growth rate, and they are supplied with the large inventories necessary to meet the demands of this growth. The exchange rate for the dollar in relation to the considerable amount of cash held by Cynosure Inc., and on the effect it had on the consolidation of our results expressed in Euros. If the exchange rate had been constant, the cash position would have been greater by an amount of approx. 3,7 million Euros.

## COMMENTS ON THE MAIN LIABILITIES

### *Capital and reserves*

The main items making up the capital and reserves are as follows:

#### *Capital stock (note 10)*

On June 30<sup>th</sup> 2006 the capital stock of the El. En. Group, coinciding with that of the parent company was as follows:

Authorised	euro	2.509.763
Underwritten and deposited	euro	2.438.412

*Nominal value of each share*

0,52
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<i>Categories</i>	<b>31/12/2005</b>	<b>Increase.</b>	<b>(Decrease.)</b>	<b>30/06/2006</b>
No. of Ordinary Shares	4.686.468	2.786		4.689.254
<i>Total</i>	<b>4.686.468</b>	<b>2.786</b>		<b>4.689.254</b>

The increase in the number of shares with respect to December 31<sup>st</sup> 2005, derives from the underwriting of the capital stock after the employees exercised their right to pick up the stock option as part of the “2006/2007 incentive plan” which is described in the chapter dedicated to the increases in capital.

The shares are nominal and indivisible; each of them assigns the right to vote in all of the ordinary and extraordinary assemblies as well as financial and administrative rights in accordance with the laws and the Statutes. The net operating profit must be destined for at least 5% for the legal fund, as per Art. 2430 of the Civil Code. The residual amount is divided up among the shareholders, unless the assembly decides otherwise. Advance payments on dividends are not authorized by the Statutes. Dividends which are not cashed within five years of the date of emission are turned over to the company. There are no particular clauses in the Statutes related to the equity of shareholders in the residual assets in the case that the company is liquidated. There are also no clauses in the Statutes which grant special privileges.

#### *Increases in the capital for use in the stock option plan*

During the extraordinary assembly of El.En. SpA held on the 16<sup>th</sup> of July 2002, in compliance Art. 2443 of the Civil Code, the Board of Directors voted to increase the capital stock of the company through one or more payments, and for a maximum period of five years after the date of approval, for a maximum amount of 124.800 nominal Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each with maturity the same as that of the ordinary shares of the company at the date of the underwriting, to be released with the payment of a price determined by the Board of Directors in accordance with the regulations contained in Art. 2441, comma VI, c.c. – that is, on the basis of the shareholders’ equity and in consideration of the trend of the quotation on the stock market during the last quarter – and for a unit value, including share premium equal to the greater of the following: a) the value per share determined on the basis of the consolidated net capital and reserves of El. En. Group on December 31<sup>st</sup> of the year preceding the date of issue of the options; b) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 6 months preceding assignment of the options; c) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 30 days preceding assignment of the options; d) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the period of time preceding the assignment of the options established by the Board of Directors in the regulations of the incentive plan.

On September 6<sup>th</sup> 2002, the Board of Directors voted to partially implement the proposal of the shareholders’ assembly of July 16<sup>th</sup> 2002 and voted for an increase in capital stock of 31.817,76 Euros to be used for the stock option plan of

2003/2004 and approved the relative regulations. Option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 30.600 shares could be picked up by those having the right from November 18<sup>th</sup> to December 31<sup>st</sup> 2003, from August 15<sup>th</sup> to September 30<sup>th</sup> 2004, and from November 18<sup>th</sup> to December 31<sup>st</sup> 2004; the second phase, for a maximum of 30.588 shares could be picked up by the assignees from August 15<sup>th</sup> to September 30<sup>th</sup> 2004 and from November 18<sup>th</sup> to December 31<sup>st</sup> 2004.

In reference to this plan, as of December 31<sup>st</sup> 2004 (the last day the option could be picked up) 61.188 option rights had been assigned.

Moreover, on November 13<sup>th</sup> 2003, the Board of Directors voted to partially implement the approval of the shareholders' assembly of July 16<sup>th</sup> 2002 by voting to increase the capital stock by 13.145,60 Euros for use in the stock option plan of 2004/2005 and approved the relative regulations. The option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who, at the time of assignment of the options, were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase for a maximum of 12.640 shares could be picked up by those having the right from November 18<sup>th</sup> to December 31<sup>st</sup> 2004, from August 15<sup>th</sup> to September 30<sup>th</sup> 2005 and from November 18<sup>th</sup> to December 31<sup>st</sup> 2005; the second phase, for a maximum of 12.640 shares could be picked up from August 15<sup>th</sup> to September 30<sup>th</sup> 2005 and from November 18<sup>th</sup> to December 31<sup>st</sup> 2005.

In reference to this plan, as of December 31<sup>st</sup> 2005 (the last day the option could be picked up) 25.280 option rights had been assigned in all.

Lastly, the Board of Directors, with the vote given on May 13<sup>th</sup> 2005 and the later modification of May 13<sup>th</sup> 2005, partially implemented the decision made by the Shareholders' assembly of July 16<sup>th</sup> 2002 to increase the capital stock by 72.800 Euros to be used for the stock option plan for 2006/2007 and approved the relative regulations. The option rights were assigned exclusively to the category of management, executives and white-collar workers who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 70.000 shares can be picked up by those having the right from May 16<sup>th</sup> 2006 until the date on which the annual report for 2006 is approved and from May 29<sup>th</sup> 2007 to July 16<sup>th</sup> 2007; the second phase, for a maximum of 70.000 shares can be picked up by the assignees from May 29<sup>th</sup> 2007 to July 16<sup>th</sup> 2007.

With reference to this vote, as of June 30<sup>th</sup> 2006, for the first phase, 2,786 option rights have been picked up.

### ***Share premium account (note 11)***

On June 30<sup>th</sup> 2006 the share premium account which corresponds to that of the Parent Company, amounted to 35.390 thousand Euros, an increase with respect to December 31<sup>st</sup> 2005 on account of the effect of the increase in capital stock caused by the picking up of stock options described in note 10, above.

### ***Other reserves (note 12)***

<i>Other reserves</i>	<b>30/06/2006</b>	<b>31/12/2005</b>	<b>Variation</b>	<b>Var. %</b>
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	13.327.651	6.339.051	6.988.600	110,25%
Reserve for translation adjustments	-1.430.100	339.471	-1.769.571	-521,27%
Stock options reserve fund	575.820	355.861	219.959	61,81%
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Other reserves	13.392		13.392	0,00%
<i>Total</i>	<b>13.450.722</b>	<b>7.998.342</b>	<b>5.452.380</b>	<b>68,17%</b>

As of June 30<sup>th</sup> 2006 the "extraordinary reserve" was approx. 13.328 thousand Euros; the variation which took place during the financial year is related to the accrual of the residual quota of the operating profit for 2005, as per the vote of the shareholders' assembly of the Parent Company El. En. S.p.A. on May 9<sup>th</sup> 2006.

The amount entered under the heading of “Other reserves” is related to the accrual of the “reserve for the evaluation of assets and liabilities in currency, ex art. 2426 c.c. b. 8-bis)” ad voted by the shareholders’ assembly of the Parent Company El. En. S.p.A. on May 9<sup>th</sup> 2006.

The “stock option” reserve fund includes the costs determined in accordance with IFRS 2 of the stock option plan assigned by El.En. SpA, for the quota which matures on June 30<sup>th</sup> 2006.

### ***Profit/Loss brought forward (note 13)***

This category includes the contributions of all of the consolidated companies to the stockholders’ equity of the Group. During this half the variation which occurred is due to the clearance account for the results of last year, to the payment of the dividends, and to the entering into accounts of the Cynosure stock options in compliance with the IFRS 2 regulations.



## Non-current liabilities

### Employee severance indemnity fund (note 14)

The following table shows the changes which occurred this year:

Balance 31/12/2005	Provision	Utilization	Other	Balance 30/06/2006
2.173.430	310.811	-137.240	-1	2.347.000

For IAS purposes the correspondence of the severance indemnity represents a “long-term benefit which takes place after employment has ceased”; this is considered an obligation with “defined benefit” which comports the entry of a liability analogous to that which arises in “defined benefit” pension plans.

It should be noted that the company has used the so-called “corridor method” on the basis of which the net accumulated value of the actuarial profits and losses is not recorded until it exceeds the overall value of 10% of the present value of the debenture loan. On June 30<sup>th</sup> 2006, the net accumulated value of the actuarial profits and losses not recorded was for an amount of approx. 97 thousand Euros. The value of the debenture loan as of June 30<sup>th</sup> 2006 was 2.430 thousand Euros.

The hypotheses used in order to determine the plan are summarized in the table below:

Financial hypotheses	Year 2005	Year 2006
Annual implementation rate	4,00%	4,50%
Annual inflation rate	2,00%	2,00%
Annual growth rate of severance indemnity	3,00%	3,00%
Annual increase rate of salaries (including inflation)	Executives 4,50% White collar workers 3,00% Blue collar workers 3,00%	Executives 4,50% White collar workers 3,00% Blue collar workers 3,00%

### ***Analysis of deferred tax assets and liabilities (note 4) (note 15)***

Deferred tax assets and liabilities have been accrued based on the temporary difference between assets and liabilities recognized for fiscal purposes and those that have been entered into accounts.

The analysis is shown on the chart below:

	<b>Balance 31/12/2005</b>	<b>Provision</b>	<b>(Utilization)</b>	<b>Other</b>	<b>Translation Adjustments</b>	<b>Balance 30/06/2006</b>
Deferred tax assets on loss account from subsidiary companies						
Deferred tax assets on stock devaluations	605.283	129.042	-13.712	1		720.614
Deferred tax assets for provisions on guarantee products	96.105	19.184				115.289
Deferred tax assets on credit devaluation	303.859	7.351	-120.720			190.490
Deferred tax assets on loss brought forward from the previous years	772.252	80.553	-24.049	278.736	-53.768	1.053.724
Deferred tax assets on intercompany profits	600.287	333.281				933.568
Deferred tax assets on actualization of severance indemnity accruals	9.823	3.260	-1.676			11.407
Other deferred tax assets	1.078.504	26.099	-164.627	163.167	-62.770	1.040.373
<i>Total</i>	3.466.113	598.770	-324.784	441.904	-116.538	4.065.465
Deferred tax liabilities on advanced amortizations	270.905	12.207	-5.746	21.631		298.997
Other deferred tax liabilities	452.018	18.226	-190.729	-21.429		258.086
<i>Total</i>	722.923	30.433	-196.475	202	0	557.083
<i>Net amount</i>	2.743.190	568.337	-128.309	441.702	-116.538	3.508.382

The credits for deferred tax assets amount to approx. 4.065 thousand Euros. The main changes which occurred during the first half of 2006 are the increased activity for deferred tax assets calculated on the devaluation of warehouse inventory and on the elimination of inter-Group profits effected during the consolidation. The main decreases are those related to activities for deferred tax assets calculated on the depreciation of receivables as a consequence of its use following the definition of a legal process. A further decrease during this semester was due to the payment of an extraordinary bonus granted to two administrators and the President of the scientific-technical commission, which was approved by El. En S.p.A. last year, for which the tax deductible status follows the cash criteria.

The deferred tax liabilities amount to 557 thousand Euros; they were used, in particular in relation to the variation in the difference in the exchange rates which were not realized and the variations which occurred, after the closure of the financial year 2005, in the fiscal treatment of the unpaid commissions which, by the end of last year, comported the entry of deferred taxes.

### ***Other provisions (note 16)***

The following chart shows the movements which have taken place during this financial year:

	<b>Balance 31/12/2005</b>	<b>Provision</b>	<b>(Utilisation)</b>	<b>Other</b>	<b>Translation Adjustments</b>	<b>Balance 30/06/2006</b>
Reserve for pension costs and similar	229.535	28.682	-2.226	-1		255.990
<i>Others:</i>						
Reserve for guarantee on the products	2.115.204	331.426			-137.260	2.309.370
Reserve for risks and charges	1.236.749	113.859	-406.507			944.101
Other minor reserves	464.747	93.000		-425.147		132.600
<i>Total other reserves</i>	3.816.700	538.285	-406.507	-425.147	-137.260	3.386.071
<i>Total</i>	4.046.235	566.967	-408.733	-425.148	-137.260	3.642.061

The agents and clients indemnity fund included in the entry “provisions for pensions and similar obligations” on June 30<sup>th</sup> 2006 amounted to approx. 254 thousand Euros as opposed to the 228 thousand Euros for December 31<sup>st</sup> 2005. According to the IAS 37, the amount due must be calculated using implementing techniques in order to estimate, as closely as possible, the overall costs to be sustained for the payment of benefits to agents after severance.

The technical evaluations have been made on the basis of the hypotheses described below:

Financial hypotheses	Year 2005	Year 2006
Annual rate of implementation	2,00%	3,00%
Annual rate of inflation	2,00%	2,00%

The product warranty fund is calculated on the basis of the costs of spare parts and assistance given under warranty, which have been sustained during the last financial period, adjusted for the sales volume of the period.

The decrease in the fund called “other risks and charges” is chiefly due, among other items, to a provision made by the parent company El.En. S.p.A. in 2005 for a bonus to be paid to two administrators and the President of the Technical-Scientific Commission.

The category “Other minor funds” shows an accrual made by the subsidiary Quanta System S.p.A., in response to a request by the Financial Administration, along with the issuance of a tax file.

### ***Financial debts and liabilities (note 17)***

<i>Financial m/l term debts</i>	30/06/2006	31/12/2005	Variation	Var. %
Bonds				0,00%
Amounts owed to banks	12.614	24.908	-12.294	-49,36%
Amounts owed to other financiers	2.068.674	1.936.062	132.612	6,85%
<i>Total</i>	2.081.288	1.960.970	120.318	6,14%

Among the non-current “Financial debts and liabilities” we have included debts towards other financiers; the heading is constituted, among other things, by the amounts which are not due by this year, as follows:

- a) Facilitated IMI financing for applied research, reference DIFF 3 granted to the Parent Company El.En. S.p.A. for an amount of 487.095 Euros at the fixed annual rate of 3,70%, last instalment July 1<sup>st</sup> 2008
- b) Facilitated MPS financing for applied research, reference TRL01, granted to the Parent Company El.En. S.p.A. for an amount of 681.103 Euros at the fixed annual rate of 2% , last instalment July 1<sup>st</sup> 2012
- c) Facilitated IMI financing for applied research, issued to the subsidiary Quanta System SpA, granted for an amount of 929.157 Euros at the fixed annual rate of 2% to be paid back in 16 deferred semi-annual payments starting on July 1<sup>st</sup> 2003
- d) Centrobanca financing issued to the subsidiary Lasit S.p.A., for an amount of 57.765 Euros at the annual rate of 0,96% to be paid back in 9 yearly instalments.
- e) Debts toward leasing companies for an amount of 877 thousand Euros (807 thousand Euros as of December 31<sup>st</sup> 2005).

### ***Debts guaranteed by real estate collateral***

The building in Via Baldanzese, 17, Calenzano has a ten-year mortgage on it which was issued by Cassa di Risparmio di Firenze described in the preceding paragraphs.

## Current liabilities

### Financial debts (note 18)

Financial debts are shown on the table which follows:

<i>Financial short term debts</i>	30/06/2006	31/12/2005	Variation	Var. %
Bonds	645.967	619.748	26.219	4,23%
Amounts owed to banks	401.456	800.617	-399.161	-49,86%
Amounts owed to other financiers	584.836	771.805	-186.969	-24,22%
<i>Total</i>	1.632.259	2.192.170	-559.911	-25,54%

The entry called “bonds” refers to the debenture loan issued by the parent company for 619 thousand Euros, and payable in a single instalment on December 31<sup>st</sup> 2006, which has a fixed interest rate of 9,75% adjusted annually on December 31<sup>st</sup>. It also includes the interest which has matured on the debt contracted.

The entry “amounts owed to banks” refers, for 103 thousand Euros refer instead to the remainder of a ten-year mortgage loan issued by the Cassa di Risparmio di Firenze, contracted by the parent company for 1.652.662 Euros to be paid back in constant bi-annual instalments of 103.291 Euros starting on March 31<sup>st</sup> 1999, with an interest rate equal to that of the quarterly EURIBOR plus a spread of 0,95%, with interest paid quarterly. The remaining amount is related to overdrafts on current accounts granted by banking institutions to subsidiary companies.

The entry “amounts owed other financiers” which includes the short-term amounts of the financing described in the preceding paragraph, shows a considerable decrease with respect to December 31<sup>st</sup> 2005 refers, among other things, to the extinguishing of the facilitated IMI for applied research, reference TMR 4, granted to the Parent Company El. En. S.p.A. for an amount of 492.431 at a fixed annual rate of 3,70%. The entry also includes the short-term amounts of the debts towards leasing companies for an amount of 314 thousand Euros (335 thousand Euros on December 31<sup>st</sup> 2005).

The Group shows a strongly positive net financial position. The financial debts are shown at the variation of the interest rates because no covering operations were put into effect.

### Trade debts (note 19)

For a detailed analysis of the trade debts towards associated companies, see the next chapter relative to the “Correlated parties”.

<i>Trade debts:</i>	30/06/2006	31/12/2005	Variation	Var. %
Amounts owed to suppliers	22.803.283	20.098.929	2.704.354	13,46%
Amounts owed to associated companies	112.263	152.210	-39.947	-26,24%
<i>Total</i>	22.915.546	20.251.139	2.664.407	13,16%

### ***Tax debts/Other short term debts (note20)***

	<b>30/06/2006</b>	<b>31/12/2005</b>	<b>Variation</b>	<b>Variation %</b>
<i>Tax debts</i>				
Taxes on profit	1.430.712	2.412.303	-981.591	-40,69%
Debts owed to tax administration for VAT	365.548	526.109	-160.561	-30,52%
Debts owed to tax administration for deductions	698.299	741.652	-43.353	-5,85%
<i>Total</i>	2.494.559	3.680.064	-1.185.505	-32,21%
<i>Social security debts</i>				
Debts owed to INPS	858.416	955.556	-97.140	-10,17%
Debts owed to INAIL	62.931	94.773	-31.842	-33,60%
Debts owed to other Social Security Institutions	52.112	50.114	1.998	3,99%
<i>Total</i>	973.459	1.100.443	-126.984	-11,54%
<i>Other debts</i>				
Owed to staff for wages and salaries	3.996.274	3.238.282	757.992	23,41%
Down payments	1.573.066	1.480.167	92.899	6,28%
Other debts	3.355.493	3.903.002	-547.509	-14,03%
<i>Total</i>	8.924.833	8.621.451	303.382	3,52%
<i>Total</i>	12.392.851	13.401.958	-1.009.107	-7,53%

The debts owed for taxes on profits which have matured for several companies of the Group, are entered net of the relative pre-payments and deductions.

The amounts owed to staff include, among other things, the debt on deferred salaries matured by the employees by June 30<sup>th</sup> 2006.

The entry "down payments" includes down payments received from clients for an amount of 1.238 thousand Euros.

Included in the entry "other debts" there are the advanced revenues related to the subsidiary Cynosure Inc. for service contracts entered among the revenues on the basis of the duration of the same.

## SECTORIAL INFORMATION

30/06/06	Total	Medical	Industrial	Other
Revenues	72.146	59.818	12.314	15
Other revenues and income	1.009	245	70	694
<b>Margin</b>	<b>38.053</b>	<b>32.181</b>	<b>5.277</b>	<b>595</b>
	<i>Inc.%</i>	<i>52%</i>	<i>54%</i>	<i>43%</i>
Not assigned charges	33.224			
<b>EBIT</b>	<b>4.829</b>			
Net financial income (charges)	1.005			
Share of profit of associated companies	(16)	(18)	0	2
Other Income (expense) net	(149)			
<b>Income before taxes</b>	<b>5.669</b>			
Income taxes	3.002			
<b>Income for the financial period</b>	<b>2.667</b>			
Minority interest	1.787			
<b>Net income</b>	<b>880</b>			

30/06/05	Total	Medical	Industrial	Other
Revenues	51.779	43.092	8.683	3
Other revenues and income	683	236	151	295
<b>Margin</b>	<b>28.575</b>	<b>24.536</b>	<b>3.776</b>	<b>262</b>
	<i>Inc.%</i>	<i>54%</i>	<i>57%</i>	<i>43%</i>
Not assigned charges	25.353			
<b>EBIT</b>	<b>3.222</b>			
Net financial income (charges)	247			
Share of profit of associated companies	47	45	0	2
Other Income (expense) net	(233)			
<b>Income before taxes</b>	<b>3.283</b>			
Income taxes	1.709			
<b>Income for the financial period</b>	<b>1.575</b>			
Minority interest	192			
<b>Net income</b>	<b>1.382</b>			

## COMMENTS ON THE MAIN ENTRIES IN THE PROFIT AND LOSS ACCOUNT

### *Revenue from sales and services (note 21)*

During the first half of 2006 the sales volume grew more rapidly than that registered for the same period last year; the duration of this accelerated growth rate is proof of the favourable situation on all the most important of the specific markets and demonstrates the ability of the Group to take advantage of the opportunities offered by these markets.

	30/06/2006	30/06/2005	Variation	Var. %
Sales of industrial laser systems	10.744.246	7.401.517	3.342.729	45,16%
Sales of medical laser systems	52.487.528	37.213.871	15.273.657	41,04%
Consulting and research		3.182	-3.182	-100,00%
Service and sales of spare parts	8.914.305	7.160.540	1.753.765	24,49%
<i>Total</i>	<b>72.146.079</b>	<b>51.779.110</b>	<b>20.366.969</b>	<b>39,33%</b>

The industrial sector showed the most rapid progress (+45%) and contributed significantly to the overall growth of the business volume. This result has made it possible to stabilize the relative importance of the two main sectors and demonstrates the considerable potential of this sector. The technical assistance and spare parts sector also showed a considerable increase, which, however, was not unexpected considering the continual rise in the number of units installed.

For this period no amounts deriving from research projects or the related reimbursements have been registered. It should be recalled, in any case, that the effects of this activity are entirely entered under the heading of "Other income"; during the first half of 2006 the income entered amounted to 560 thousand Euros as opposed to the 295 thousand Euros for the same period last year.

Our type of business is not usually affected by seasonal oscillations, however, as far as the first half of the year is concerned, it should be recalled that in January there is usually a slight drop in sales which is caused by the sudden rise usually shown for sales in December of the preceding year. Moreover, as far as the second half of the year is concerned, there is usually a drop in sales in the month of August, particularly in Italy and in Europe in general.

### *Other revenue and income (note 22)*

The analysis of the other types of revenue and income is shown on the table below:

	30/06/2006	30/06/2005	Variation	Var. %
Recovery for accidents and insurance reimbursements	9.280	39.940	-30.660	-76,77%
Expense recovery	350.695	255.614	95.081	37,20%
Capital gains on disposal of fixed assets	75.708	66.033	9.675	14,65%
Other income	572.688	320.848	251.840	78,49%
Contribution on fiscal year account and on capital account	450	450	-	0,00%
<i>Total</i>	<b>1.008.821</b>	<b>682.885</b>	<b>325.936</b>	<b>47,73%</b>

Under the heading of "Other income" grants for research projects for an amount of 560 thousand Euros have been entered into accounts. The heading "Expense recovery" refers mostly to the recovery of transportation costs.

### Costs for purchase of goods (note 23)

The following table shows the analysis of the purchases:

	30/06/2006	30/06/2005	Variation	Var. %
Purchase of raw materials and finished products	33.774.415	22.471.793	11.302.622	50,30%
Purchase of packaging	254.903	133.708	121.195	90,64%
Shipment of purchases	332.060	218.908	113.152	51,69%
Other purchase expenses	79.994	71.410	8.584	12,02%
Other purchases	120.033	71.166	48.867	68,67%
<i>Total</i>	<b>34.561.405</b>	<b>22.966.985</b>	<b>11.594.420</b>	<b>50,48%</b>

The increase in the purchases is a direct result of the increase in the volume of sales and is reflected, among other things, in the increase in final warehouse stock registered at the end of this financial period.

### Other direct services / services and operating charges (note 24)

This category is composed as follows:

	30/06/2006	30/06/2005	Variation	Var. %
<i>Direct services</i>				
Expenses for work in progress at third parties'	2.403.150	1.207.611	1.195.539	99,00%
Technical services	443.946	149.811	294.135	196,34%
Shipment on sales	602.083	451.064	151.019	33,48%
Commissions	3.343.960	2.207.502	1.136.458	51,48%
Royalties	92.837	111.528	-18.691	-16,76%
Travel expenses	652.198	567.396	84.802	14,95%
Other direct services	153.281	194.878	-41.597	-21,35%
<i>Total</i>	<b>7.691.455</b>	<b>4.889.790</b>	<b>2.801.665</b>	<b>57,30%</b>
<i>Operating services and charges</i>				
Maintenance	93.264	51.038	42.226	82,73%
Services and commercial consulting	603.303	486.124	117.179	24,10%
Insurances	561.419	353.577	207.842	58,78%
Travel and overnight expenses	1.386.447	920.627	465.820	50,60%
Promotional and advertising expenses	2.575.227	1.926.421	648.806	33,68%
Utility charges	674.327	497.972	176.355	35,41%
Other taxes	160.057	104.454	55.603	53,23%
Expenses for vehicles	194.159	199.588	-5.429	-2,72%
Rent	1.578.780	1.358.784	219.996	16,19%
Other operating services and charges	7.013.957	5.252.043	1.761.914	33,55%
<i>Total</i>	<b>14.840.940</b>	<b>11.150.628</b>	<b>3.690.312</b>	<b>33,10%</b>
<i>Total</i>	<b>22.532.395</b>	<b>16.040.418</b>	<b>9.293.642</b>	<b>57,94%</b>

In the entry "Other operating services and charges" we have included, among other things, the salaries paid to the members of the administrative branches and the auditors commission, as well as the cost of legal consultation and for the auditing of accounts.

### Cost for personnel (note 25)

This category of costs can be broken down as follows:

	30/06/2006	30/06/2005	Variation	Var. %
<i>For staff costs</i>				
Wages and salaries	12.734.638	10.031.871	2.702.767	26,94%
Social security costs	2.225.560	1.878.786	346.774	18,46%
Accruals for severance indemnity	264.755	240.814	23.941	9,94%
Stock options	863.461	370.645	492.816	132,96%
<i>Total</i>	<b>16.088.414</b>	<b>12.522.116</b>	<b>3.566.298</b>	<b>28,48%</b>



## Depreciations, amortizations and other accruals (note 26)

This category of costs can be broken down as follows:

<i>Depreciations, amortizations, and other accruals</i>	30/06/2006	30/06/2005	Variation	Var. %
Amortization of intangible assets	133.244	91.254	41.990	46,01%
Depreciation of tangible assets	1.428.063	1.269.026	159.037	12,53%
Devaluations of fixed assets	228.724		228.724	0,00%
Accrual for risk on receivables	59.566	70.067	-10.501	-14,99%
Other accruals for risks and charges	445.285	249.484	195.801	78,48%
<i>Total</i>	2.294.882	1.679.831	615.051	36,61%

The entry “Depreciation of tangible and intangible assets” is related to the depreciation for the goodwill attributed to CGU Deko Lms which emerged following the annual impairment test.

## Financial management (note 27)

This category of costs can be broken down as follows:

	30/06/2006	30/06/2005	Variation	Var. %
<b>Financial incomes:</b>				
Interests from banks	1.269.527	80.226	1.189.301	1482,44%
Dividends	1		1	0,00%
Interests from associated companies	992	989	3	0,30%
Interests on investments	5.445		5.445	0,00%
Income from negotiations	27.061	9.050	18.011	199,02%
Other financial incomes	49.379	15.637	33.742	215,78%
<i>Total</i>	1.352.405	105.902	1.246.503	1177,03%
<b>Financial charges:</b>				
debenture loans	-29.964	-29.964	-	0,00%
bank debts for account overdraft	-46.233	-57.683	11.450	-19,85%
bank debts for medium and long - term loans	-19.799	-24.558	4.759	-19,38%
losses from negotiation-investments	-160		-160	0,00%
other financial charges	-52.595	-44.372	-8.223	18,53%
<i>Total</i>	-148.751	-156.577	7.826	-5,00%
<b>Foreign exchange loss or gain:</b>				
Foreign exchange loss	-315.928	-400.146	84.218	-21,05%
Foreign exchange gain	117.758	697.752	-579.994	-83,12%
<i>Total</i>	-198.170	297.606	-495.776	-166,59%
<i>Total</i>	1.005.484	246.931	758.553	307,19%

The amount entered under the heading “Interest from banks” shows a strong increase with respect to the same period last year; this category has benefited considerably from the cash held by Cynosure after the 2005 IPO.

In this table we have entered interest and income from negotiations relative to operations involving temporary cash investments.

The bank charges for account overdrafts refer mostly to the overdrafts granted by Banking institutions to the subsidiaries, whereas the bank debts for medium and long-term loans refer, among other things, to the loan granted to the Parent Company El. En S.p.A by the Cassa di Risparmio di Firenze and the facilitated financing granted by MIUR (ex MURST) and issued by IMI and by MPS.

The heading “Other financial charges” includes 46 thousand Euros for the entry of the interests paid which derived from the application of the IAS 19 accounting principle regarding severance pay.

The differences in exchange rates are due to the adaptation of the amounts in foreign currency at the time that they were actually exchanged, if this occurred during the financial period, or, evaluating the amounts opened at the end of the

period, on the basis of their respective exchange rates. On the whole, and as a consequence of the weakness of the dollar with respect to the Euro, negative exchange differences are shown for the European companies (El.En. in particular) which have receivables in dollars from American and oriental clients, and positive exchange rate differences on the debts in dollars of some of the European companies (in particular the European subsidiaries of Cynosure).

### ***Other income and charges (note 28)***

	30/06/2006	30/06/2005	Variation	Var. %
<i>Other income or charges</i>				
Loss on equity investments	-87.783	-232.642	144.859	-62,27%
Profit on equity investments	73.212		73.212	0,00%
Revaluation (Devaluation) of equity investments	-14.790		-14.790	0,00%
Taxes related to the previous years	-120.035		-120.035	0,00%
<i>Total</i>	<b>-149.396</b>	<b>-232.642</b>	<b>83.246</b>	<b>-35,78%</b>

The entry "Loss on equity investments" quantifies the decrease in value of the equity in Cynosure Inc. following the increase in capital used for the stock option plan in favour of third parties.

The entry "Profit on equity investments" on the other hand, quantifies the effects which were a consequence of the purchase by the Parent Company El.En. SpA of 16,34% of Cutlite Penta Srl and of 21% of Ot-las Srl which occurred during this semester.

The entry "Taxes related to the previous year" concerns, among other things, the entry of the amount requested from Quanta System SpA by the Financial Administration to through a tax file.

### ***Income tax (note 29)***

<i>Description:</i>	30/06/2006	30/06/2005	Variazione	Variazione %
IRES and other foreign income taxes	2.938.265	1.617.244	1.321.021	81,68%
IRAP	503.388	371.932	131.456	35,34%
IRES and other foreign income taxes - Deferred (Advanced)	-433.895	-270.509	-163.386	60,40%
IRAP - Deferred (Advanced)	-6.133	-9.919	3.786	-38,17%
<i>Total income taxes</i>	<b>3.001.625</b>	<b>1.708.748</b>	<b>1.292.877</b>	<b>75,66%</b>

The overall amount of taxes paid during this financial period increased with respect to last year on account of the increase in profits. The tax rate on the other hand remained practically unchanged: 52,96% as opposed to the 52,06% for the same period last year.

### ***Dividends distributed (note 30)***

The Shareholders' Assembly held on May 13<sup>th</sup> 2005 voted to distribute 1.631.785,40 Euros as a dividend to be assigned to the shareholders, at the rate of 0,35 Euros for each of the 4.662.244 ordinary shares.

The Shareholders' Assembly of May 9<sup>th</sup> 2006 voted to distribute 2.577.557,40 Euros as a dividend to be assigned to the shareholders, at the rate of 0,55 Euros for each of the 4.686.468 ordinary shares.

## Information on the correlated parties

In accordance with the I.A.S. 24 the following subjects are considered correlated parties:

- Subsidiary and associated companies as presented in this document;
- Members of the Board of Directors and the Board of Auditors of the parent company and other management with strategic responsibilities;
- Physical persons who are shareholders of the parent company, El.En. SpA;
- Legal entities in which a significant equity is held by one of the main shareholders of the parent company, by a member of the Board of Directors of the parent company, by a member of the Board of Auditors, or by another manager with strategic responsibilities.

One of the Board Members, majority shareholder of the parent company is the outright owner of a quota of 25% of Immobiliare del Ciliegi Srl, which is also a shareholder of the parent company.

All transactions with the correlated parties took place under normal market conditions.

The table below shows an analysis of the transactions which occurred between the associated companies, concerning both commercial exchanges as well as assets and liabilities.

Associated companies:	Financial credits		Commercial credits	
	< 1 year	> 1 year	< 1 year	> 1 year
SBI SA			2	
Actis Srl	40		12	
Immobiliare Del.Co. Srl	14			
IALT Srl	79		4	
<i>Total</i>	<b>133</b>		<b>18</b>	

Associated companies:	Financial payables		Commercial payables	
	< 1 year	> 1 year	< 1 year	> 1 year
IALT Srl			72	
Immobiliare Del.Co. Srl			26	
SBI SA			14	
<i>Total</i>			<b>112</b>	

Associated companies:	Sales	Service	Total
	SBI S.A.	2	
<i>Total</i>	<b>2</b>	<b>0</b>	<b>3</b>

Associated companies:	Other revenues
IALT Srl	1
Actis Srl	1
<i>Total</i>	<b>2</b>

Associated companies:	Purchase of raw materials	Services	Other	Total
	Actis Srl	1		
SBI S.A.	14			14
IALT Srl		10		10
<i>Total</i>	<b>15</b>	<b>10</b>		<b>25</b>

The amounts shown on the table above refer to transactions which are inherent to the typical management practices of the company.

## Management procedures for financial risks

The main financial instruments of the Group include short term checking accounts and deposits, short and long-term financial liabilities, financial leasing, and debenture loans.

Besides these, the Group has trade debts and receivables derived from their manufacturing activity.

The main financial risks to which the Group is exposed are those related to currency exchange and credit.

### *Currency exchange risks*

Again in 2006 about 50% of the consolidated sales were made in markets outside of the European Union: most of these transactions were conducted in US\$; it should be remembered that the presence of stable structures within the United States, in particular Cynosure, make it possible to partially cover these risks since both the costs and the revenues are shown in the same currency.

### *Credit risks*

For commercial transactions, the Group deals with parties on which credit checks are periodically run. The losses on receivables traditionally recorded therefore are limited on the basis of the sales volume and of an entity which does not require special coverage or insurance.

## Other information

The table below shows the average number of employees subdivided by category

	Average 2006		Average 2005		Variation	Var. %
	30/06/2006		31/12/2005			
<i>Total</i>	573,0	598	506,0	548	50	9,12%

The increase in the number of employees reflects the increase in the volume of business.

## Appendix 1 – Accounting tables for El.En. S.p.A. as of June 30<sup>th</sup> 2006

(Tables drawn up in accordance with IFRS)

### Balance Sheet - El.En. S.p.A.

	Notes	30/06/2006	31/12/2005	Var.
<b>Balance Sheet</b>				
Intangible assets		36.888	42.653	-5.765
Tangible assets		4.856.090	4.834.946	21.144
Equity investments		19.127.767	18.962.223	165.544
Deferred tax assets		785.541	800.997	-15.456
Other non current assets		3.108	3.108	
<b>Total non current assets</b>		<b>24.809.394</b>	<b>24.643.927</b>	<b>165.467</b>
Inventories		15.185.372	12.020.954	3.164.418
Accounts receivables		15.885.168	14.554.657	1.330.511
Tax receivables		2.040.075	723.491	1.316.584
Other receivables		3.986.986	4.163.033	-176.047
Equity investments				
Financial instruments		2.022.607		2.022.607
Cash and cash equivalents		6.287.114	15.111.445	-8.824.331
<b>Total current assets</b>		<b>45.407.322</b>	<b>46.573.580</b>	<b>-1.166.258</b>
<b>TOTAL ASSETS</b>		<b>70.216.716</b>	<b>71.217.507</b>	<b>-1.000.791</b>
<b>Total equity</b>				
Severance indemnity		1.117.615	1.025.525	92.090
Deferred tax liabilities		432.402	526.022	-93.620
Other accruals		2.865.898	2.810.897	55.001
Financial liabilities		503.795	577.131	-73.336
<b>Non current liabilities</b>		<b>4.919.710</b>	<b>4.939.575</b>	<b>-19.865</b>
Financial liabilities		894.937	1.012.229	-117.292
Accounts payables		9.849.182	7.978.507	1.870.675
Tax payables		324.440	1.421.351	-1.096.911
Other payables		2.291.687	1.900.459	391.228
<b>Current liabilities</b>		<b>13.360.246</b>	<b>12.312.546</b>	<b>1.047.700</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>70.216.716</b>	<b>71.217.507</b>	<b>-1.000.791</b>

## *Profit and Loss Account - EL.En. S.p.A.*

<b>Profit and loss account</b>	<b>Note</b>	<b>30/06/06</b>	<b>Inc.%</b>	<b>30/06/05</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues		19.365.847	100,0%	15.200.787	100,0%	27,4%
Change in inventory of finished goods and WIP		1.810.514	9,3%	613.061	4,0%	195,3%
Other revenues and income		782.868	4,0%	550.503	3,6%	42,2%
<b>Value of production</b>		<b>21.959.229</b>	<b>113,4%</b>	<b>16.364.351</b>	<b>107,7%</b>	<b>34,2%</b>
Purchase of raw materials		12.548.870	64,8%	7.663.426	50,4%	63,8%
Change in inventory of raw material		(1.503.904)	7,8%	(512.595)	3,4%	193,4%
Other direct services		2.321.086	12,0%	1.454.164	9,6%	59,6%
Other operating services and charges		2.577.506	13,3%	2.375.276	15,6%	8,5%
For staff costs		3.519.019	18,2%	2.910.803	19,1%	20,9%
<b>EBITDA</b>		<b>2.496.652</b>	<b>12,9%</b>	<b>2.473.277</b>	<b>16,3%</b>	<b>0,9%</b>
Depreciation, amortization and other accruals		396.719	2,0%	380.376	2,5%	4,3%
<b>EBIT</b>		<b>2.099.933</b>	<b>10,8%</b>	<b>2.092.901</b>	<b>13,8%</b>	<b>0,3%</b>
Net financial income (charges)		(160.504)	0,8%	802.194	5,3%	
Share of profit of associated companies			0,0%		0,0%	
Other net income (expense)		(776.613)	4,0%	(591.492)	3,9%	31,3%
<b>Income before taxes</b>		<b>1.162.816</b>	<b>6,0%</b>	<b>2.303.603</b>	<b>15,2%</b>	<b>-49,5%</b>
Income taxes		901.350	4,7%	948.873	6,2%	-5,0%
<b>Income for the financial period</b>		<b>261.466</b>	<b>1,4%</b>	<b>1.354.730</b>	<b>8,9%</b>	<b>-80,7%</b>

## Variations in the Stockholders' Equity

<i>STOCKHOLDERS' EQUITY:</i>	<b>Balance 31/12/2004</b>	<b>Net income allocation</b>	<b>Dividends distributed</b>	<b>Adjustments</b>	<b>Other operations</b>	<b>Balance 31/12/2005</b>
Common stock	2.424.367	-	-	-	12.596	2.436.963
Additional paid-in capital	34.954.351	-	-	-	369.658	35.324.009
Legal reserve	537.302	-	-	-	-	537.302
Reserve for own shares	-	-	-	-	-	0
Own shares	- 255.937	-	-	-	255.937	-
Others reserves and retained earnings	6.423.407	2.159.687	- 1.631.785	-	526.933	7.478.242
Profits (loss) of the year	2.159.687	- 2.159.687	-	-	8.188.870	8.188.870
<i>Total Stockholders' equity</i>	46.243.177	-	- 1.631.785	-	9.353.994	53.965.386

<i>STOCKHOLDERS' EQUITY:</i>	<b>Balance 31/12/2005</b>	<b>Net income allocation</b>	<b>Dividends distributed</b>	<b>Adjustments</b>	<b>Other operations</b>	<b>Balance 30/06/2006</b>
Common stock	2.436.963	-	-	-	1.449	2.438.412
Additional paid-in capital	35.324.009	-	-	-	66.056	35.390.065
Legal reserve	537.302	-	-	-	-	537.302
Reserve for own shares	-	-	-	-	-	0
Own shares	-	-	-	-	-	-
Others reserves and retained earnings	7.478.242	8.188.870	- 2.577.558	-	219.961	13.309.515
Profits (loss) of the year	8.188.870	- 8.188.870	-	-	261.466	261.466
<i>Total Stockholders' equity</i>	53.965.386	-	- 2.577.558	-	548.932	51.936.760

## Financial Statement (Cash Flow)

Financial statement (cash flow)	30/06/2006	30/06/2005
<b>Cash flow generated by operating activity:</b>		
Profit (loss) for the financial period	261.466	1.354.730
Amortizations and depreciations	330.943	335.392
Change of employee severance indemnity	92.090	78.918
Change of provisions for risks and charges	55.001	209.750
Change of provisions for deferred income taxes	-78.164	-53.891
Stocks	-3.164.418	-1.083.803
Receivables	-1.330.511	-827.698
Tax receivables	-1.316.584	-409.402
Other receivables	-62.365	15.074
Payables	1.870.675	727.320
Tax payables	-1.096.911	-708.040
Other payables	391.228	3.329
	-4.309.016	-1.713.051
<b>Cash flow generated by operating activity:</b>	-4.047.550	-358.321
<b>Changes in non current assets:</b>		
(Increase) decrease in tangible assets	-335.392	345.669
(Increase) decrease in intangible assets	-10.930	-31.820
(Increase) decrease in equity investments and non current assets	-165.544	-180.052
	-511.866	133.797
<b>Cash flow from purchase of subsidiary companies</b>		
<b>Cash flow from financial activity:</b>		
Increase (decrease) in non current financial liabilities	-73.336	-117.558
Increase (decrease) in current financial liabilities	-117.292	-1.841.289
Increase (decrease) in financial receivables	238.412	-428.580
(Increase) decrease investments which are not permanent	-2.022.607	993.526
Change in Capital and Reserves	287.466	542.113
Change in Capital and Reserves of third parties		
Dividends distributed (31)	-2.577.558	-1.631.785
	-4.264.915	-2.483.573
<b>Increase (decrease) in cash at bank and on hand</b>	-8.824.331	-2.708.097
<b>Cash and cash equivalents at the start of the financial period</b>	15.111.445	6.305.507
<b>Cash and cash equivalents at the end of the financial period</b>	6.287.114	3.597.410



## Appendix 2 – Report on the “Transition to International Accounting principles (IFRS)” by El.En. SpA

### 1. Transition to international accounting principles (IAS – IFRS)

Following the coming into force of the EC Regulation no. 1606/2002 emanated by the European Parliament and by the European Council in July 2002, and in compliance with:

- the issuing regulations n. 11971/1999, as modified by the Consob with vote n. 14990 of April 14<sup>th</sup> 2005,
- with legislative decree 38/2005, regarding the adoption in Italy of the above mentioned European regulations,

all companies with stock which can be negotiated on a market regulated by the nations which are members of the European Union, starting in 2005 must draw up their consolidated balance sheets in conformity with the international accounting principles (IAS/IFRS) issued by the International Accounting Standard Boards (IASB) approved by the European Union. The Group has applied international accounting principles retroactively to all the periods included in the first IFRS financial statement and to the opening Statement of Assets and Liabilities (January 1<sup>st</sup> 2004) in compliance with IFRS1, save some exceptions as described in the following paragraph.

In accordance with the above mentioned regulations, in order to draw up the financial statements, the company decided to adopt the IFRS starting in January 2006, and therefore will present its first complete financial statements drawn up in conformity with the IFRS on December 31<sup>st</sup> 2006.

### 2. Reconciliation required by IFRS1

This Appendix provides the reconciliation and relative explanatory notes foreseen by IFRS1- First application of the IFRS- of the Net Assets and Net Result of El.En. SpA according to the previous principles (accounting principles) and according to the new principles. With this purpose in mind the following documents have been drawn up:

- the reconciliation tables of the net assets consolidated according to the previous accounting principles and those entered in accordance with IAS/IFRS principles at the following dates:
  - date of transition to IAS/IFRS ( January 1<sup>st</sup> 2005);
  - date of closing of the last financial year in which the financial statement was drawn up according to the previous principles (December 31<sup>st</sup> 2005);
- the reconciliation tables of the net result shown in the last financial statement drawn up according to the previous accounting principles (financial year 2005) compared to the one in which IAS/IFRS principles have been applied for the same financial year;
- comments on the reconciliation tables;
- the statements of assets and liabilities consolidated according to IAS/IFRS as of January 1<sup>st</sup> 2005 and as of December 31<sup>st</sup> 2005 and the profit and loss account consolidated according to IAS/IFRS for the financial year ending December 31<sup>st</sup> 2005.

As illustrated below in a more analytical manner, the statements of assets and liabilities consolidated according to IAS/IFRS and the IAS/IFRS profit and loss account have been obtained by making the appropriate adjustments and IAS/IFRS reclassifications to the consolidated final figures, drawn up according to Italian law so as to reflect the modifications to the criteria for presentation, identification and estimation required by the IAS/IFRS.

The adjustments have been made in observance of the IAS/IFRS accounting principles currently in force.

The effects of the transition to the IAS/IFRS are derived from the changes in the accounting principles, and, consequently, as required by the IFRS-1 principle, are reflected in the initial stockholders' equity on the date of transition (January 1<sup>st</sup> 2005). In particular, as stipulated by paragraph 25 of this principle, since the company is proceeding with the transition to the IFRS for the purpose of drawing up its own financial statements based on the IFRS, having already drawn up its complete consolidated financial statements based on the IFRS, the assets and liabilities of the company already opportunely evaluated at that time, are entered into accounts using the same amounts as those used for the consolidated statements.

The main choices made by the company, including the exemptions provided by IFRS-1 and applicable to the company are listed below, along with an indication of those used for drawing up the initial balance sheet for January 1<sup>st</sup> 2005.

- **employee benefits (severance indemnity):** IAS 19 permits, in the revaluation of defined benefit plans (a category which includes severance payments) the suspension of the actuarial gains/losses which do not exceed a certain limit (so-called “corridor method”). The retrospective application of IAS 19 implies the quantification of the actuarial gains/losses produced from the date of foundation of the company for all the employees present at the date of changeover in separating what should be shown and what should not. The El. En. SpA has chosen this forward-looking application of the corridor approach which is allowed by IFRS. Actuarial losses and gains accumulated by January 1<sup>st</sup> 2004 have therefore been entered fully at the date of transition to the IFRS.
- **equities:** according to IAS 27, equities in the subsidiary companies, in entities with joint control, and in non-classified associated companies like those possessed for sale (IFRS 5) must be entered into accounts at cost or in conformity with IAS 39. In the individual statements of the Parent Company, El.En. S.p.A. has used the cost criteria.
- **evaluation of real estate, equipment and machinery and intangible activities** at fair value or, as an alternative, at the re-estimation of the cost as replacement value of the cost: for all categories of fixed assets El.En. S.p.A. has used the cost criteria.

The accounting treatment chosen among the accounting options offered by IAS/IFRS are the following:

- **inventories:** according to IAS 2, the cost of inventories must be determined using the FIFO method or the weighted average cost method. The El.En. SpA has decided to use the weighted average cost method;
- **evaluation of tangible and intangible assets:** subsequent to initial entering at cost, IAS 16 and IAS 38 stipulate that these kinds of assets may be evaluated (and amortized) at cost or at fair value. The El.En. SpA has chosen to use the cost method;
- **evaluation of property investments:** according to IAS 40, property held as an investment must initially be entered at cost, inclusive of the accessory charges directly attributable to it. Subsequent to acquisition, such property may be evaluated at fair value or at cost. The El.En. SpA has decided to adopt the cost criteria;
- **financial charges:** for the entering of financial charges directly attributable to the acquisition, construction or production of an asset which may be capitalized, IAS 23 stipulates that a company may apply the relevant accounting treatment, which imposes the entering of financial charges directly in the profit and loss account or the alternative accounting treatment which imposes, under certain conditions, the obligation to capitalize the financial charges. The El.En. SpA has decided to enter such financial charges in the profit and loss account.

The reconciliation tables of the cash flow are not included here since the effects of the application of IAS/IFRS accounting principles have not comported any significant differences. Moreover, the reconciliation tables for the net financial position have not been included since these also have not undergone any significant variation due to the adoption of the new principles.

## MAIN IMPACT OF THE APPLICATION OF IAS/IFRS ON THE OPENING STATEMENT OF ASSETS AND LIABILITIES AS OF JANUARY 1<sup>ST</sup> 2005 AND ON THE FINANCIAL STATEMENT AS OF DECEMBER 31<sup>ST</sup> 2005.

The differences resulting from the application of the IAS/IFRS compared to Italian accounting principles, as well as the choices made by the El.En. SpA as regards the accounting options foreseen by the IAS/IFRS illustrated above, entail a re-elaboration of the accounting figures set out according to previous Italian legislation on the matter of financial statements with significant effects, in some cases, on the net assets. For such purposes the IAS/IFRS statement of assets and liabilities compared to the statement of assets and liabilities as per Italian accounting principles are shown, as of January 1<sup>st</sup> 2005 and December 31<sup>st</sup> 2005.

	Notes	IAS GAAP	ITA GAAP	Adjustments
		01/01/05	01/01/05	IAS/IFRS
<b>Balance Sheet</b>				
Intangible assets		81.934	81.934	
Tangible assets	1	5.404.209	5.126.523	277.686
Equity investments	2	21.699.462	21.806.998	-107.536
Deferred tax assets	3	460.639	436.013	24.626
Other non current assets	4	3.108	213.915	-210.807
<b>Total non current assets</b>		<b>27.649.352</b>	<b>27.665.383</b>	<b>-16.031</b>
Inventories	5	11.135.861	10.881.937	253.924
Accounts receivables		12.822.539	12.822.539	
Tax receivables		255.185	255.185	
Other receivables		2.733.103	2.733.103	
Equity investments		993.526	993.526	
Own shares	6		255.937	-255.937
Financial instruments				
Cash and cash equivalents		6.305.507	6.305.507	
<b>Total current assets</b>		<b>34.245.721</b>	<b>34.247.734</b>	<b>-2.013</b>
<b>TOTAL ASSETS</b>		<b>61.895.073</b>	<b>61.913.117</b>	<b>-18.044</b>
Common stock		2.424.367	2.424.367	
Additional paid in capital	6	34.954.351	34.698.414	255.937
Own shares	6	-255.937		-255.937
Other reserves and retained earnings / (deficit)		6.960.709	7.289.556	-328.847
Net income / (loss)		2.159.687	1.901.175	258.512
<b>Total equity</b>		<b>46.243.177</b>	<b>46.313.512</b>	<b>-70.335</b>
Severance indemnity	7	913.366	847.255	66.111
Deferred tax liabilities	8	388.097	191.110	196.987
Other accruals	4	1.494.330	1.705.137	-210.807
Financial liabilities		1.462.528	1.462.528	
<b>Non current liabilities</b>		<b>4.258.321</b>	<b>4.206.030</b>	<b>52.291</b>
Financial liabilities		2.373.875	2.373.875	
Accounts payables		6.082.611	6.082.611	
Tax payables		1.245.353	1.245.353	
Other payables		1.691.736	1.691.736	
<b>Current liabilities</b>		<b>11.393.575</b>	<b>11.393.575</b>	
<b>TOTAL LIABILITES AND STOCKHOLDERS' EQUITY</b>		<b>61.895.073</b>	<b>61.913.117</b>	<b>-18.044</b>

	Notes	IAS GAAP	ITA GAAP	Adjustments
		31/12/2005	31/12/2005	IAS/IFRS
<b>Balance Sheet</b>				
Intangible assets		42.653	42.653	
Tangible assets	1	4.834.946	4.523.397	311.549
Equity investments	2	18.962.223	19.962.618	-1.000.395
Deferred tax assets	3	800.997	784.953	16.044
Other non current assets	4	3.108	42.108	-39.000
<b>Total non current assets</b>		<b>24.643.927</b>	<b>25.355.729</b>	<b>-711.802</b>
Inventories	5	12.020.954	11.767.042	253.912
Accounts receivables		14.554.657	14.554.657	
Tax receivables		723.491	723.491	
Other receivables		4.163.033	4.163.033	
Equity investments				
Own shares	6			
Financial instruments				
Cash and cash equivalents		15.111.445	15.111.445	
<b>Total current assets</b>		<b>46.573.580</b>	<b>46.319.668</b>	<b>253.912</b>
<b>TOTAL ASSETS</b>		<b>71.217.507</b>	<b>71.675.397</b>	<b>-457.890</b>
Common stock		2.436.963	2.436.963	
Additional paid in capital	6	35.324.009	35.324.009	
Own shares	6			
Other reserves and retained earnings / (deficit)		8.015.544	7.303.010	712.534
Net income / (loss)		8.188.870	9.579.550	-1.390.680
<b>Total equity</b>		<b>53.965.386</b>	<b>54.643.532</b>	<b>-678.146</b>
Severance indemnity	7	1.025.525	976.904	48.621
Deferred tax liabilities	8	526.022	315.387	210.635
Other accruals	4	2.810.897	2.849.897	-39.000
Financial liabilities		577.131	577.131	
<b>Non current liabilities</b>		<b>4.939.575</b>	<b>4.719.319</b>	<b>220.256</b>
Financial liabilities		1.012.229	1.012.229	
Accounts payables		7.978.507	7.978.507	
Tax payables		1.421.351	1.421.351	
Other payables		1.900.459	1.900.459	
<b>Current liabilities</b>		<b>12.312.546</b>	<b>12.312.546</b>	
<b>TOTAL LIABILITES AND STOCKHOLDERS' EQUITY</b>		<b>71.217.507</b>	<b>71.675.397</b>	<b>-457.890</b>

### 1) Tangible Assets:

According to Italian accounting principles the land on which buildings are situated was amortized along with the buildings themselves while according to IAS/IFRS they must be classified separately and no longer amortized. This different kind of accounting treatment determines an increase in tangible assets of approximately 278 thousand Euro gross of the fiscal effects in FTA and of 311 thousand Euros on December 31<sup>st</sup> 2005.

### 2) Equity investments

The difference in the IAS/IFRS amounts and the amounts entered in compliance to the previous accounting principles, refer to equity investments in subsidiary companies. The criteria used by the company is that of cost, in accordance with IAS 27. The differences which emerged during transition are related to two companies in which equities are held:

#### DEKA LMS

On the basis of the evaluation made during the transition, the impairment test of the subsidiary Deka LMS showed a loss in value deemed not be of a lasting nature according to the preceding accounting principles. The adjustment of the cost value makes it possible to align the value of the equity with the contribution it made to the consolidated IFRS/IAS financial statement. With the FTA the impact of the depreciation of Deka LMS is about 107 thousand Euros. This adjustment was made by decreasing the net capital and reserves on January 1<sup>st</sup> 2005.

During 2005 the company decided that the depreciation was going to be lasting even for the non-fiscal effects of the statement drawn up according to the Italian accounting principles, and depreciated the equity for a total of 664 thousand Euros. Since, as far as the IAS is concerned, a part of the depreciation had already been effected in the FTA, the impact of the depreciation for the year in question was less than that which had been entered using the Italian accounting principles.

#### Cynosure

In 2005, the company sold more than a million shares of the American subsidiary. The sale created a capital gains equal to the amount of the sale minus the cost value of the equity. The cost of the equity in Cynosure consisted of several phases and in the statements drawn up according to the earlier principles, the company used the LIFO for entering the sale into accounts. Since IAS principles do not allow this type of procedure, the adjustment of the value produced a decrease in the equity of about 1 million Euros, which corresponds to the lower capital gains that the company entered into accounts after the adoption of the criteria of the weighted average cost.

#### 3) Assets for advanced taxes

The amount refers to the advanced taxes entered among the assets most of which refer to the effects of the adjustment of the severance pay fund.

#### 4) Other current assets

The amount refers to the re-classification of credit towards insurances for the severance pay of the administrators in the "Other funds". This re-classification was made in compliance with IAS 19 for definitive benefit plans.

#### 5) Inventory

IAS 2 prohibits the use of the LIFO criteria. As an alternative, El.En. S.p.A. has chosen to use the criteria of the weighted average cost. The amount of this, before taxes, is about 254 thousand Euros.

#### 6) Treasury stock

According to Italian accounting principles, treasury stock was entered among the assets, while in the stockholders' equity it had to be constituted into a special reserve fund; according to the IAS/IFRS these shares must be entered into accounts reducing the stockholders' equity. This difference in accounting criteria, as of January 1<sup>st</sup> 2005 determines a reduction in current assets for an amount of 256 thousand Euros. Since this stock was sold during 2005, no difference emerged on December 31<sup>st</sup> 2005.

#### 7) Severance indemnity

Italian accounting principles require that the liabilities for severance indemnity be entered on the basis of the nominal debt matured in accordance with the dispositions of civil law at the date of closure of the financial statement; according to the IAS/IFRS, the institution of severance payment falls within the type of defined benefit plans subject to measurement of an actuarial nature (mortality, foreseeable wage variations, etc.) expressing the current value of the benefit to be paid at the end of the employment contract which employees have matured at the date of the financial statement. For IAS/IFRS purposes all the actuarial gains and losses have been shown at the date of transition to the IAS/IFRS. Applying the corridor method in a forward-looking perspective, the company has not evaluated the net actuarial differences as of December 31<sup>st</sup> 2004. The accounts did however take into consideration the financial component of the cost of severance indemnity. As a result, as of January 1<sup>st</sup> 2005, the severance indemnity figure rose by approximately 66 thousand Euros compared to calculations based on Italian accounting principles. The amount of the difference as of December 31<sup>st</sup> 2005 drops to 49 thousand Euros.

#### 8) Deferred tax liabilities

The figure for deferred tax liabilities shows both at FTA and as of December 31<sup>st</sup> 2005 the fiscal effects of the differences entered for the transition, with particular reference to the inventory and the failure to amortize the real estate property.

Profit and loss account	Note	IAS GAAP	ITA GAAP	Adjustments
		31/12/05	31/12/05	IAS/IFRS
Revenues		33.897.925	33.897.925	0
Change in inventory of finished goods and WIP	1	475.190	457.510	17.680
Other revenues and income		1.553.741	1.553.741	0
<b>Value of production</b>		<b>35.926.856</b>	<b>35.909.176</b>	<b>17.680</b>
Purchase of raw materials		16.814.912	16.814.912	0
Change in inventory of raw material	1	(668.136)	(685.828)	17.692
Other direct services		3.139.630	3.139.630	0
Other operating services and charges	2	4.573.591	4.511.722	61.869
For staff costs	3	6.042.118	5.868.621	173.497
<b>EBITDA</b>		<b>6.024.741</b>	<b>6.260.119</b>	<b>(235.378)</b>
Depreciation, amortization and other accruals	4	1.172.402	1.209.055	(36.653)
<b>EBIT</b>		<b>4.852.339</b>	<b>5.051.064</b>	<b>(198.725)</b>
Net financial income (charges)	5	1.268.743	1.623.037	(354.294)
Share of profit of associated companies	6	0	(1.985.193)	1.985.193
Other net income (expense)	6	4.659.339	7.563.276	(2.903.937)
<b>Income before taxes</b>		<b>10.780.421</b>	<b>12.252.184</b>	<b>(1.471.763)</b>
Income taxes	7	2.591.551	2.672.634	(81.083)
<b>Income for the financial period</b>		<b>8.188.870</b>	<b>9.579.550</b>	<b>(1.390.680)</b>

#### 1) Variations in warehouse inventory

The value calculated according to the IAS/IFRS criteria produces an insignificant result because of the fact that the positive impact on the variations in the inventory of finished goods and work in progress is compensated for by the negative impact of the variation in inventory of raw materials.

#### 2) General expenses – Stock Options

In compliance with IFRS2 the stock option plans granted by the company have been entered into accounts in the profit and loss accounts. The effect has been divided into two categories, according to whether the beneficiaries are employees (entered into accounts with personnel costs) or others (entered into accounts with general expenses). This category includes those items which, according to the preceding accounting principles, were considered asset or liability contingencies and were reclassified accordingly in the extraordinary management.

#### 3) Personnel costs – Stock Options and entering into accounts of Severance Indemnity Fund

This category includes both the effects of the entering into accounts of the stock options as well as part of the effect of the entering of the Severance Indemnity Fund in compliance with IAS 19.

#### 4) Amortizations and accruals

The effect refers essentially to the lack of amortization of the lands separated from the value of the buildings.

#### 5) Financial investments

The difference is due to:

- the entering into accounts of the Severance Indemnity Fund in compliance with IAS 19 which states that the financial component must be entered under the special heading in the profit and loss account. The effect, for 2005, amounts to about 41 thousand Euros.

- The entering into accounts of the capital gains which emerged as a consequence of the sale of treasury stock, which was entered directly into the shareholders' equity in compliance with IAS 32 (about 313 thousand Euros)

#### 6) Other net income and charges

This category includes the reclassification of those items which, for the preceding accounting principles, were considered value adjustments. As already mentioned above, a part of the depreciation (107 thousand Euros) refers to the equity in Deka LMS was effected in the FTA. The item includes the lower capital gains earned by the partial sale of the Cynosure shares after the modification of the cost criteria from LIFO to weighted average cost. Because of this change the selling value of the equity in Cynosure is greater by about 1 million Euros.

#### 7) Income tax

The difference between the IAS /IFRS amount and the amount in the statement drawn up according to the Italian accounting principles, reflects the fiscal effects of the differences described above.

### RECONCILIATION TABLE IFRS 1 OF NET ASSETS AS OF JANUARY 1<sup>ST</sup> 2005, DECEMBER 31<sup>ST</sup> 2005 AND THE OPERATING RESULT OF THE FINANCIAL YEAR 2005.

The chart below shows the differences between the Italian accounting principles and the IAS/IFRS principles which have determined changes in the shareholders' equity and on the results during the period of transition. The differences in the transition are shown net of fiscal effects.

<i>(Amounts in thousand of euro)</i>	Stockholders' equity as of Jan. 1 <sup>st</sup> , 2005	Stockholders' equity as of Dec. 31 <sup>st</sup> , 2005	P&L 2005
Italian GAAP amounts	<b>46.313</b>	<b>54.643</b>	<b>9.580</b>
1. Lands	175	195	23
2. Inventory	159	159	0
3. Own shares	(256)	0	(210)
4. Severance indemnity	(41)	(32)	9
5. Stock Options			(317)
7. Equity investments	(107)	(1.000)	(893)
9. Other			(3)
Total IAS/IFRS adjustments	<b>(70)</b>	<b>(678)</b>	<b>(1.391)</b>
IAS/IFRS value	<b>46.243</b>	<b>53.965</b>	<b>8.189</b>

### Land (IAS 16)

According to Italian accounting principles the land on which buildings are situated is amortized along with the buildings themselves while according to IAS/IFRS they must be classified separately and no longer amortized. In FTA, this different accounting treatment determines an increase in tangible assets of approximately 278 thousand Euros and the entry of the relative fiscal effect of approximately 102 thousand Euros. In the profit and loss account 2005 the effect of the changeover produced an improvement of the result of approximately 23 thousand Euros, net of fiscal effects on account of the lack of amortization of the lands.

### Inventories (IAS2)

The El.En. SpA has chosen to use the weighted average cost rather than the LIFO criteria used before the changeover to IAS. During transition and the following year, the weighted average cost was greater by 254 thousand Euros. The most significant effect of the adjustment was had on the raw materials. The fiscal effect was about 95 thousand Euros.

### 3. Treasury Stock (IAS32)

According to the Italian accounting principles, treasury stock had to be entered among the assets, and a special fixed deposit fund had to be constituted within the shareholders' equity; according to the IAS/IFRS these shares are entered into accounts reducing the share holders' equity. The diversity in accounting procedures, on January 1st 2005, determined a reduction in the shareholders' equity equivalent to the purchase price of the treasury stock owned at that time by El.En.. During that year, the company sold off all of its treasury stock and realized a capital gains. This operation caused two different effects:

- in the profit and loss account, the capital gains entered in compliance with the Italian principles (313 thousand Euros) was not entered, as per the IAS principles. In fact, according to the rules established by the IFRS 2, and any capital gains or losses generated by the sale of treasury stock are entered directly in the equity. The fiscal effect (about 103 thousand Euros) also follows the same classification and does not appear in the profit and loss account.
- in the shareholders' equity on December 31<sup>st</sup> 2005 no differences are shown, since the company does not own treasury stock and the effects of the IAS entries on the shareholders' equity re-established the value of the IAS shareholders' equity as equal to the ITA GAAP shareholders' equity.

The chart below shows the effects of the treasury stock owned by El.En. S.p.A. on the shareholders' equity and the profit and loss account for 2005.

€/000		IAS GAAP		ITA GAAP	
		Stockholders' equity	P&L.	Stockholders' equity	P&L.
Amount of own shares	256	1.01.05	(256)	-	-
Own shares sold	256	feb-05	256	-	-
Capital gain	313	feb-05	313	-	313
Income taxes on capital gain	103	feb-05	(103)	-	(103)
Total			210	-	210
Impact on shareholders' equity on Dec.31 <sup>st</sup> , 2005			210		210

### 4. Benefits to employees – Severance Indemnity (IAS 19)

The institution of severance pay indemnity is included in the category of benefit plans subject to measurement of an actuarial nature (mortality, foreseeable wage variations, etc.) expressing the current value of the benefit to be paid at the end of the employment contract which employees have matured at the date of the financial statements. The impact of the transition produced in the FTA an effect of 41 thousand Euros (net of fiscal effects) . This effect, which was slightly lower in the balance sheet on December 31<sup>st</sup> 2005, as a consequence produced an improvement in the profit and loss account of 2005 for an amount of approx. 9 thousand Euros.



### 5. Stock Option (IFRS2)

The fair value of the options assigned which will probably have matured during the *Vesting Period* will be divided *pro-rata temporis* (distributed over time) from the financial period in which it was assigned until the period of maturity. In 2005 therefore the cost pertaining to that financial period was established at 317 thousand Euros.

### 6) Equity Investments (IAS 27)

The differences which emerged during transition are related to two of the companies in which we hold equities, as described above. On the basis of the evaluation made during the transition, the impairment test of the subsidiary Deka LMS showed a drop in value which was considered “not lasting” according to the preceding accounting principles. The adjustment of the cost value makes it possible to align the value of the equity with the contribution of the same to the consolidated IFRS/IAS balance sheet. In the FTA the impact of the depreciation of Deka LMS for that year was approx. 107 thousand Euros.

During the financial year 2005 the company held the opinion that the depreciation, even for the individual balance sheet drawn up according to the Italian principles, was going to be long lasting, and depreciated the equity for a total amount of 664 thousand Euros. Since, for IAS purposes, part of the depreciation had already been entered the FTA, the impact of the depreciation for that year was less than that entered according to the Italian accounting principles.

The most significant impact on the profit and loss account is represented by the entering into accounts of the sale of the equities in Cynosure, entered according to the LIFO criteria in the statements drawn up in compliance with the Italian accounting principles. Since this particular criteria is not allowed by the IAS principles, the adjustment of the value produced a decrease in the equity of approx. 1 million Euros, which corresponds to the lower capital gains that the company entered into accounts according to the IAS/IFRS. The chart below shows a summary of the impact of the adjustments on both the shareholders' equity and the profit and loss account.

		ITA GAAP	IAS GAAP	Impact on Shareholders' equity	Impact on P&L
01-gen-05	Equity investment in Deka LMS	1.033	926	(107)	-
2005	Devaluation of equity investment in Deka LMS	(664)	(557)	-	107
2005	Capital gain on disposal of equity investment in Cynosure	7.544	6.544	(1.000)	(1.000)