

El.En. Group

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

(Approved by the Board of Director of the company on August 4th 2006)

Quarterly Report closed on June 30th 2006

Introduction

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

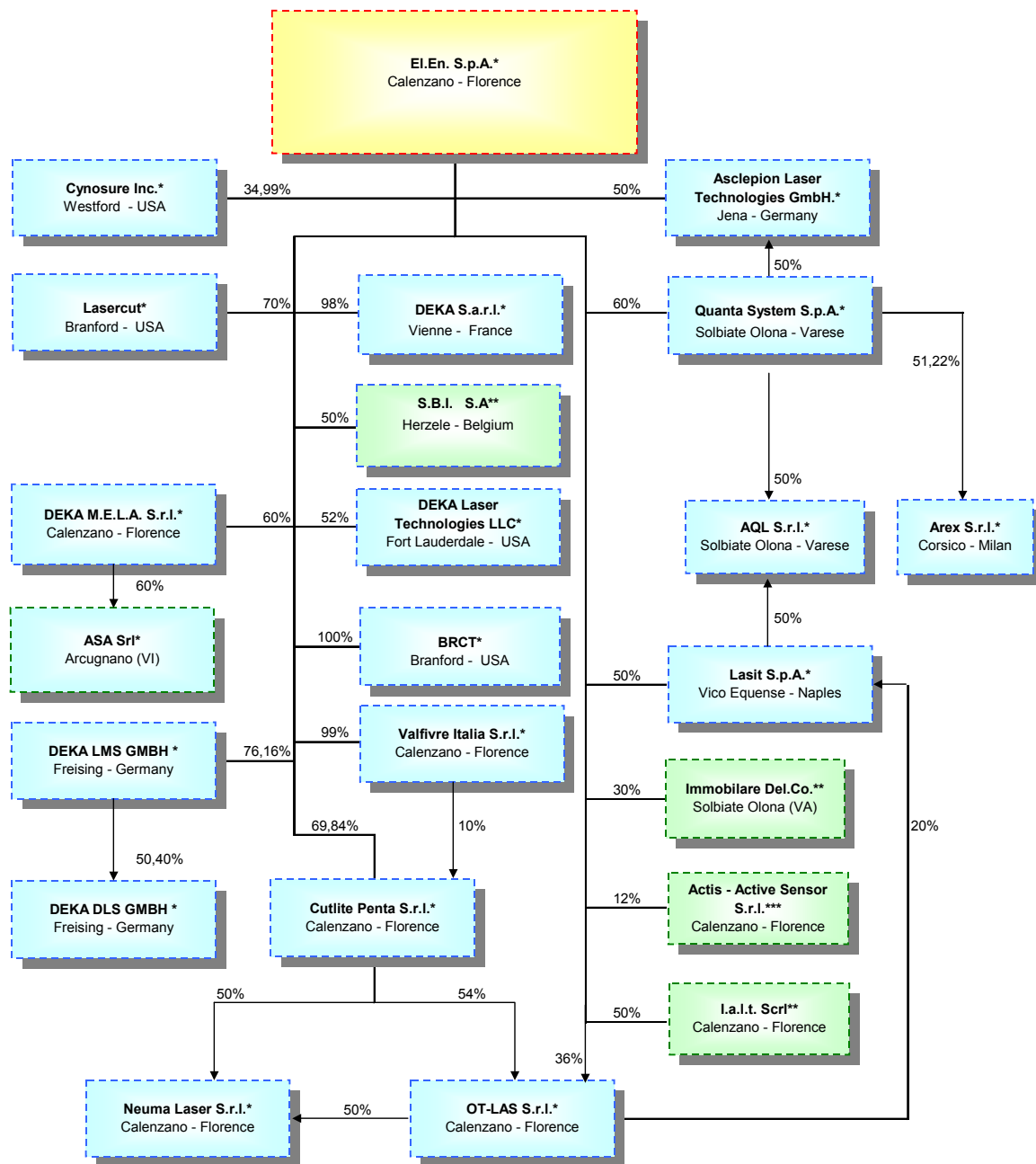
The information which is shown below was organized in conformity with the international accounting principles, IAS/IFRS, which have been obligatory since 2005 for the creation of the consolidated statements of companies which are listed on the regulated stock markets.

The results for the quarter ending June 30th 2006 are shown in comparative form with the corresponding data for the same quarter last year. All of the amounts are expressed in Euros unless otherwise stated.

Description of the Group

El. En. SpA control a group of companies which operate in the field of design, manufacture and distribution of laser sources and systems which are intended for a variety of applications. El.En. SpA itself conducts important operations within the Group, in particular research and development activities, design and manufacture.

As of June 30th 2006 the structure of the Group was as follows:



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

On April 27th the subsidiary Deka Lms Gmbh completed the purchase of 100% of the shares in its subsidiary Deka Dls GmbH, by acquiring them from the minority partner at the nominal price. At the same time the two companies voted to merge by incorporating Deka Dls into the controlling company. The merger will become effective only upon completion of the procedures required by German law, but will be considered retroactive starting from December 31st 2005.

On May 2nd El.En. SpA acquired from a third party a 21 % share in Otlas Srl and a 16,34% share of Cutlite Penta Srl, for a total amount of 550,000.00 Euros. This operation represents a consolidation of the position of the parent company among the companies operating in the industrial sector and was initiated as a result of the sudden death of Mr. Sandro Favilli, a partner in the subsidiary companies as well as President of the Board of Directors of Otlas Srl.

Cynosure Inc., a company which is listed on the American stock market Nasdaq, controls five companies which are involved in the distribution of its products, four of which (two in Germany, one in France and one in Japan) it owns 100% and one of which, in China, it owns 51,6%.

Financial results of the Group

The table below shows the profit and loss account for the second quarter of 2006 in comparative form with that for the same quarter last year.

Profit and loss account – 3 months	30/06/06	Inc.%	30/06/05	Inc.%	Var.%
Revenues	37.803	100,0%	26.774	100,0%	41,2%
Change in inventory of finished goods and WIP	1.299	3,4%	1.911	7,1%	-32,0%
Other revenues and income	340	0,9%	388	1,4%	-12,3%
Value of production	39.442	104,3%	29.074	108,6%	35,7%
Purchase of raw materials	16.944	44,8%	12.339	46,1%	37,3%
Change in inventory of raw material	(1.445)	-3,8%	(843)	-3,1%	71,4%
Other direct services	4.032	10,7%	2.683	10,0%	50,3%
Gross margin	19.912	52,7%	14.894	55,6%	33,7%
Other operating services and charges	7.705	20,4%	5.963	22,3%	29,2%
Added value	12.207	32,3%	8.931	33,4%	36,7%
For staff costs	8.132	21,5%	6.341	23,7%	28,2%
EBITDA	4.075	10,8%	2.590	9,7%	57,4%
Depreciation, amortization and other accruals	1.027	2,7%	830	3,1%	23,7%
EBIT	3.048	8,1%	1.759	6,6%	73,2%
Net financial income (charges)	564	1,5%	147	0,5%	284,5%
Share of profit of associated companies	(16)	-0,0%	47	0,2%	
Other Income (expense) net	(64)	-0,2%	(233)	-0,9%	-72,4%
Income before taxes	3.532	9,3%	1.720	6,4%	105,3%

The table below shows the data of the profit and loss account for the first half of 2006 in comparative form with the results for the same period last year.

Profit and loss account	30/06/06	Inc.%	30/06/05	Inc.%	Var.%
Revenues	72.147	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	911	1,3%	683	1,3%	33,5%
Value of production	77.708	107,7%	54.926	106,1%	41,5%
Purchase of raw materials	34.548	47,9%	22.967	44,4%	50,4%
Change in inventory of raw material	(2.503)	-3,5%	(1.505)	-2,9%	66,3%
Other direct services	7.685	10,7%	4.890	9,4%	57,2%
Gross margin	37.978	52,6%	28.575	55,2%	32,9%
Other operating services and charges	14.909	20,7%	11.151	21,5%	33,7%
Added value	23.069	32,0%	17.424	33,7%	32,4%
For staff costs	16.083	22,3%	12.522	24,2%	28,4%
EBITDA	6.986	9,7%	4.902	9,5%	42,5%
Depreciation, amortization and other accruals	2.238	3,1%	1.680	3,2%	33,2%
EBIT	4.748	6,6%	3.222	6,2%	47,4%
Net financial income (charges)	1.005	1,4%	247	0,5%	307,1%
Share of profit of associated companies	(16)	-0,0%	47	0,1%	
Other net income (expense)	(79)	-0,1%	(233)	-0,4%	-66,0%
Income before taxes	5.658	7,8%	3.283	6,3%	72,3%

The table below shows an analysis of the financial position of the Group:

Net financial position	30/06/2006	31/03/2006	31/12/2005
Financial mid and long term debts	(2.140)	(2.145)	(1.961)
<i>Financial mid and long term debts</i>	<i>(2.140)</i>	<i>(2.145)</i>	<i>(1.961)</i>
Financial liabilities due within 12 months	(1.574)	(1.747)	(2.192)
Cash and cash equivalents	65.065	74.645	77.539
<i>Net financial short term position</i>	<i>63.491</i>	<i>72.897</i>	<i>75.346</i>
Total financial net position	61.351	70.753	73.385

Comments on management results

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

The growth rate of the company remained strong in the second quarter of the year and was well over expectations. This growth was achieved almost entirely without the benefit of new acquisitions, and demonstrates the capacity of the Group to adapt its organization to the changing requirements of the market and to the increasingly important role it plays in this specific market.

Along with the increase in the volume of business, there has been an even more significant rise in the operating revenue, thanks mostly to the operating power which, during this half, was able to offset a slight drop in the sales margin. Notwithstanding some accruals made as a consequence of the break in relations with Sona International, an important client of the subsidiary Cynosure Inc., and the fall in profits of some of the companies in the Group, the operating profits remained steadily in line with forecasts.

The table below illustrates the sales volume divided according to the category of activity for the first half of 2006, shown in comparison with the data for the same period 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	8.915	12,36%	7.161	13,83%	24,50%
Total	72.147	100,00%	51.779	100,00%	39,34%

The industrial sector shows the highest growth rate and contributes substantially to the overall growth which is almost 40%.

The positive results in the industrial sector, which were already beginning to appear in the first quarter, for the first time in several years make it possible to stabilize the relative importance of the two main sectors of activity of the Group and are a concrete demonstration of the potential of this sector. The increase in sales volume for after-sales service and assistance and for spare parts is also substantial.

No income was registered during this quarter from research projects or from the relative reimbursements. It should be pointed out, however, that the effects of this particular activity are entirely registered in the financial statement under the heading of "Other income": during the first six months of 2006 income from this source was 463 thousand Euros with respect to the 295 thousand Euros for the same period last year.

The table below shows the business volume for this quarter divided according to geographic distribution.

	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%
Total	72.147	100,00%	51.779	100,00%	39,34%

The European markets, including the Italian one, are still those showing the highest growth rate in an environment of sustained growth in all the geographical areas in which we do business, with the percentages of Europe and the rest of the world being about equal.

In the medical/ aesthetic sector, which represents about 70% of the sales volume of the Group, the following table shows the particular sectors of activity and the amount of their sales volume.

	30/06/2006	Inc%	30/06/2005	Inc%	Var%
Surgical CO2	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%
Total	52.488	100,00%	37.214	100,00%	41,04%

A chart like this one showing exceptional growth rates, and in which only one sector, surgical CO₂ (which is also increasing) does not exceed 30%, is obviously a source of great satisfaction for the company.

Instead of making a detailed analysis of the results of the individual sectors, for which the favorable moment of the market has combined with the fortunate position that our products maintain, we prefer to give a brief description of the wide range of products and their market positions which have 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 fact that the sales of Asa Srl have been completely consolidated as of January 1st 2006; the three figure growth rate therefore should be interpreted in this sense, considering that the traditional CO₂ 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 sector 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. Medistar, 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 CO₂ 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 CO₂ 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 CO₂, 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%
Total	10.744	100,00%	7.402	100,00%	45,16%

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 penalized 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 CO₂ 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 CO₂ 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 the “residual” sector.

The gross margin is about 37.978 thousand Euros, an increase of 32,9% 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 52,6% from the 55,2% of the first half of 2005. The fall of 2,6 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 14.909 thousand Euros, an increase of 33,7% with respect to the first half of 2005 with an incidence on the sales volume which decreases from 21,5% to 20,7% for the same period last year.

The cost for personnel was 16.083 thousand Euros, a substantial increase (+28,4%) with respect to the 12.522 thousand Euros registered on June 30th 2006, 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 599, 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 463 thousand Euros.

The earnings before interest, taxes, depreciation and amortizations (EBITDA) were 6.986 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 depreciations, amortizations and accruals was 2.238 thousand Euros, which was an increase of 33,2% 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 4.748 thousand Euros, with an incidence of 6,6% 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 5.658 thousand Euros, an increase of 72,3% over the same period last year.

Comments on the evolution of the net financial position

The cash which was registered in accounts with the IPO of Cynosure in December 2005 caused the financial position to remain strongly in the black, and well over 60 million Euros.

The amount of cash in hand on June 30th 2006 dropped by about 12 million Euro with respect to December 31st 2005.

The two main causes of this decrease in cash are the payment of dividends to third parties by El.En. SpA , Deka M.E.L.A. Srl, ASA Srl and Deka Lms GmbH for a total of 2,8 million Euros, and the purchase of shares in Otis Srl and Cutlite Penta Srl for an amount of 550 thousand Euros.

The net amount of working capital contributed substantially to the decrease in cash, with particular reference to Cynosure Inc. and El.En. SpA, which, with their manufacturing and distribution structures, were involved in maintaining a high growth rate and the necessity of accumulating a sufficient quantity of reserves in order to sustain this growth.

Besides the ordinary and extraordinary cash flow, an important role is played by the exchange rate of the dollar, in relation to the substantial amount of cash held in dollars by Cynosure Inc., and the effects of this rate on the consolidation with our earnings expressed in Euros. If the rate had been constant, the cash in hand would have been about 3,7 million Euros more.

Gross investments made during this quarter

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

<i>Progressive</i>	30/06/06	30/06/05
Intangible assets	85	29
Tangible assets	1.840	1.881
Equity investments	0	0
<i>Total</i>	1.925	1.911

<i>3 Months</i>	30/06/06	30/06/05
Intangible assets	67	14
Tangible assets	1.018	587
Equity investments	0	0
<i>Total</i>	1.085	600

Investments made during this period mainly involved the purchase of new laser equipment for experiments and demonstrations in both the industrial and medical sectors, made in particular by the parent company El.En. and Cynosure. Cynosure in particular was expending efforts in terms of investments, a policy which was both facilitated by

the availability of cash and necessary in order to carry out the ambitious development projects of the company. One important example of this was the purchase of the minivans which are needed for the distribution network using their own employees, like that used by Cynosure in the United States.

The rests of the investments are mostly of the ordinary variety typical of those made normally by the Group and involve the usual electronic office machinery and equipment for research and manufacture.

Comments on the Research and Development activities

During the second quarter 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 the most recent 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 centers 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 second quarter 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 the a project on the New Medical Engineering program of FIRB (Investment Fund for Basic Research) financed in part by MIUR (Ministero Istruzione Università e Ricerca) after a selection process based on the opinions of a jury of international experts.

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 international 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 centers in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odonto-stomatology, cardiac surgery, 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 scanning heads are now in progress.

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

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

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

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

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

<i>thousands of euros</i>	30/06/2006	30/06/2005
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
Total	4.788	3.991

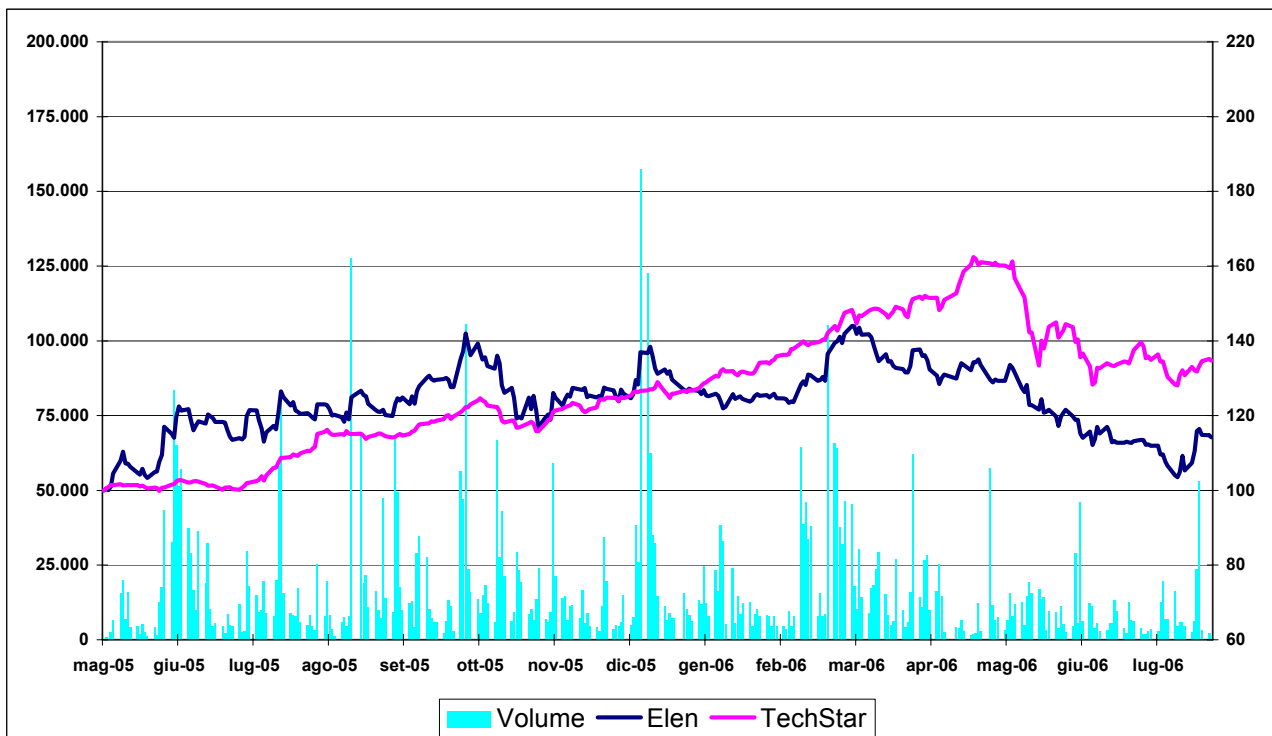
As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity they conduct in this sector. The amount of expenses sustained by Cynosure for research and development in this quarter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

Trend of the El. En. stock

The graph below shows the quotations for El. En stock with reference to the quotation on May 2nd 2005 which was for 23,95 Euros.



Other significant events which took place during this quarter

No significant events, other than those described above, took place during this quarter.

Other events which took place after the end of the quarter

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

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 foreseen, exceeding them as far as the sales volume is concerned and equaling 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 of the Board
Gabriele Clementi