

El.En. Group

CONSOLIDATED FINANCIALS REPORT AS OF 31ST DECEMBER 2005

(Approved by the Board of Directors of the company held on the 14th February 2006)

Quarterly Report as of 31/12/2005

Introduction

This quarterly report as of 31/12/2005 based on the consolidated figures of El.En. SpA has been drawn up and diffused in compliance with article IA 2.18.2 of the Market Access Regulations and article 82 of the CONSOB Regulations adopted through deliberation n. 11971 and subsequent modifications. The quarterly data and information has not been subject to a control by an auditing company, as up until now the corresponding assignment has not been conferred (because not obligatory).

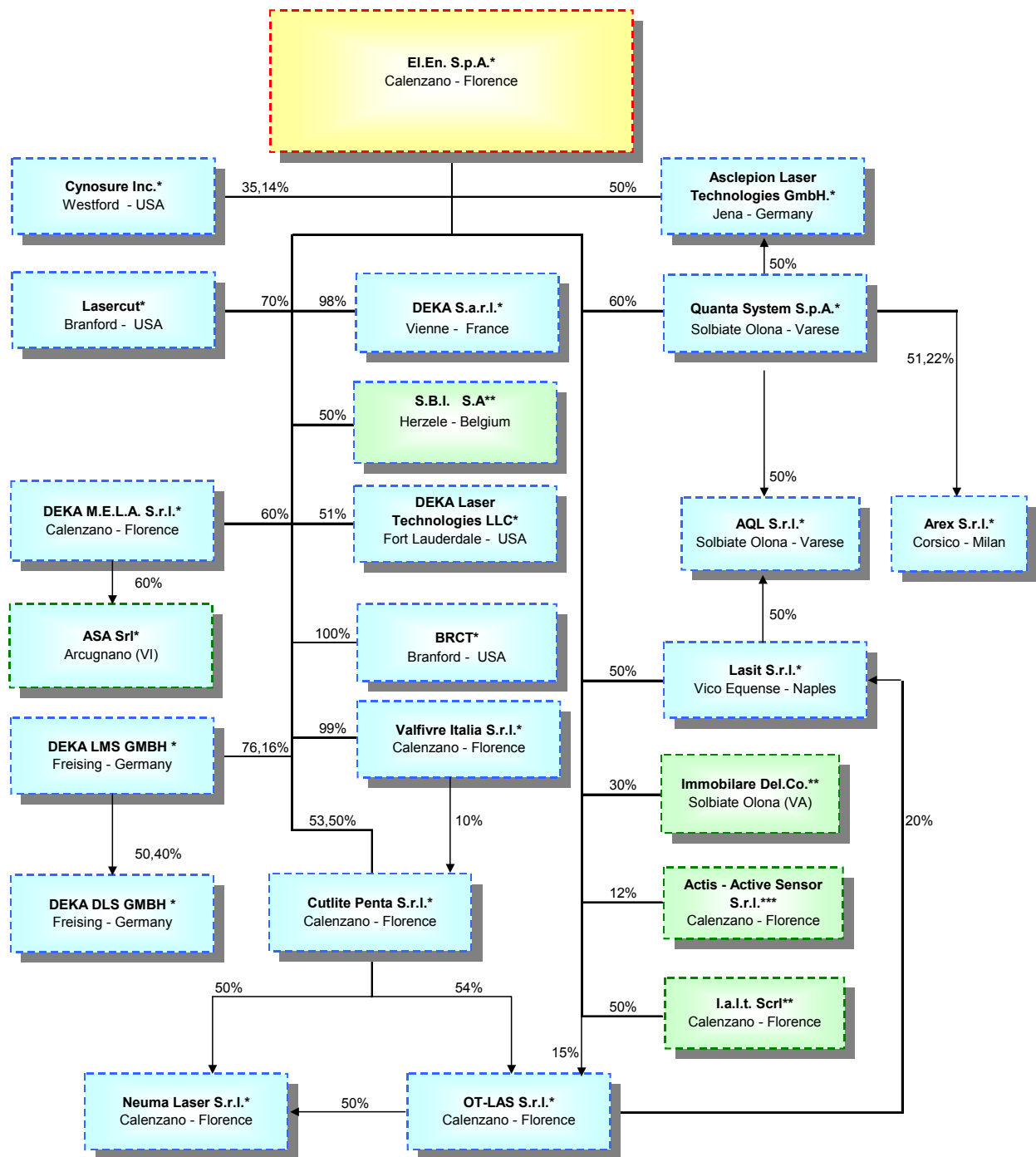
The information produced below has been prepared according to IAS/IFRS international accounting principles, obligatory since 2005 in the predisposition of consolidated company accounts listed in official markets. In order to guarantee data compatibility, data related to 31st December 2004 has also been elaborated according to IFRS regulations.

The quarterly financials as of 31/12/2005 are shown in a comparative form with those of the corresponding quarter of the previous year. All amounts are expressed in thousands of euros, unless indicated otherwise.

Description of the Group

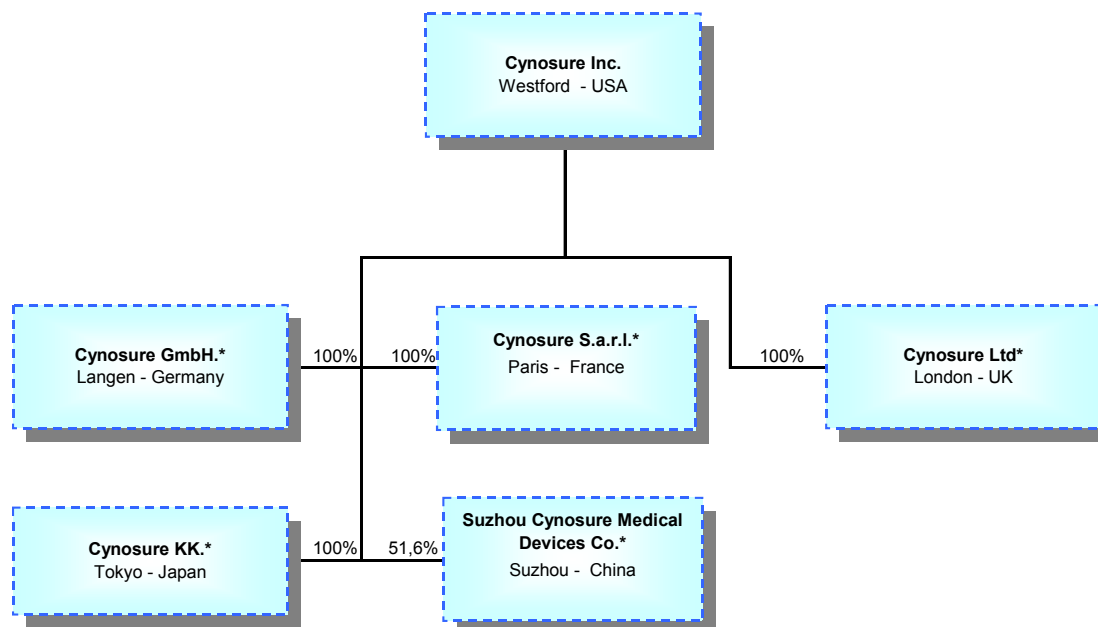
El.En. SpA controls a group of companies operating in the design, production and distribution of laser sources and systems for a variety of applications. El.En. SpA itself carries out important operative activities within the group, in particular in terms of research and development, design and production.

As of 31/12/2005 the structure of the group is the following:



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

In turn Cynosure Inc. controls a group of companies. As of 31/12/2005 the structure of the Cynosure group is the following:



* Entirely consolidated

On 9th December the public offer related to the underwriting and sale of Cynosure Inc. shares on the Nasdaq market was completed. In this operation Cynosure Inc. offered 4 million newly issued shares on the market, while the group put one million ordinary shares up for sale. This market response on the IPO was so positive the original price range expected and transmitted to the market through the prospectus, of between 12 and 14 US Dollars per share, was then exceeded by the final price of 15 Dollars per share. The first few days of negotiations confirmed the huge interest aroused by the sale, leading to a further increase in the market price of the shares, which exceeded 20 Dollars per share. In this context the sponsors of the offering (Citigroup, Needham, Jeffries) exercised the “Greenshoe” option granted to them by purchasing another 750,000 newly issued shares, once again at 15 Dollars per share.

Therefore with regards to the operation El.En. owns 3,888,628 Cynosure shares, equivalent to 35.14% of the capital. By virtue of a specific change to the statute, that created two classes of shares, assigning one group of shares with the specific power to nominate and remove the majority of members of the board of directors of the company, El.En. maintains control of Cynosure “de iure” and therefore continues to fully consolidate the results of the American company in full.

From a financial point of view, Cynosure has therefore completed a share capital increase of 71.25 million Dollars, which net of the 7% commission and approximately 2.2 million Dollars in IPO costs, has put approximately 64 million Dollars into the company’s treasury.

The transfer of one million shares provided the Group with takings, after the allocation commission, of 13.95 million Dollars, registering a consolidated gain on the sale of assets of 9 million Dollars, based on the consolidated carrying value of the Cynosure shares sold, of 4.6 Dollars per share.

It is interesting to remember that the market price of Cynosure shares is currently 21 Dollars per share, corresponding to the theoretical market value of El.En.’s participation of 81 million Dollars, while the consolidated value of participation is approximately 16 million euro.

Financial and economic results of the group

The table below illustrates figures from the Income Statement with regards to the fourth quarter of 2005, shown in comparison with the results of the same period of the previous year:

Profit and loss account - 3 months	31/12/05	Inc.%	31/12/04	Inc.%	Var.%
Revenues	37.333	100,0%	28.426	100,0%	31,3%
Change in inventory of finished goods and WIP	979	2,6%	(965)	-3,4%	
Other revenues and income	650	1,7%	782	2,8%	-16,9%
Value of production	38.962	104,4%	28.243	99,4%	38,0%
Purchase of raw materials	14.736	39,5%	10.021	35,3%	47,1%
Change in inventory of raw material	164	0,4%	(126)	-0,4%	
Other direct services	3.480	9,3%	2.940	10,3%	18,4%
Gross margin	20.582	55,1%	15.408	54,2%	33,6%
Other operating services and charges	6.873	18,4%	5.880	20,7%	16,9%
Added value	13.709	36,7%	9.528	33,5%	43,9%
For staff costs	7.714	20,7%	6.714	23,6%	14,9%
EBITDA	5.995	16,1%	2.814	9,9%	113,1%
Depreciation, amortization and other accruals	2.063	5,5%	696	2,4%	196,5%
EBIT	3.932	10,5%	2.118	7,4%	85,7%
Net financial income (charges)	531	1,4%	(155)	-0,5%	
Share of profit of associated companies	(72)	-0,2%	5	0,0%	
Other Income (expense) net	7.491	20,1%	439	1,5%	1604,7%
Income before taxes	11.881	31,8%	2.407	8,5%	393,6%

The table below illustrates figures from the Income Statement with regards to the year 2005, shown in comparison with the results of the previous year:

Profit and loss account	31/12/05	Inc. %	31/12/04	Inc. %	Var. %
Revenues	118.331	100,0%	94.519	100,0%	25,2%
Change in inventory of finished goods and WIP	4.084	3,5%	3.198	3,4%	27,7%
Other revenues and income	1.974	1,7%	1.511	1,6%	30,7%
Value of production	124.389	105,1%	99.228	105,0%	25,4%
Purchase of raw materials	50.170	42,4%	39.438	41,7%	27,2%
Change in inventory of raw material	(1.657)	-1,4%	(1.308)	-1,4%	26,7%
Other direct services	10.980	9,3%	9.006	9,5%	21,9%
Gross margin	64.896	54,8%	52.091	55,1%	24,6%
Other operating services and charges	23.505	19,9%	19.426	20,6%	21,0%
Added value	41.391	35,0%	32.665	34,6%	26,7%
For staff costs	26.622	22,5%	22.621	23,9%	17,7%
EBITDA	14.769	12,5%	10.044	10,6%	47,0%
Depreciation, amortization and other accruals	4.680	4,0%	4.172	4,4%	12,2%
EBIT	10.089	8,5%	5.872	6,2%	71,8%
Net financial income (charges)	701	0,6%	(2)	-0,0%	
Share of profit of associated companies	(26)	-0,0%	150	0,2%	
Other Income (expense) net	7.258	6,1%	3.344	3,5%	117,0%
Income before taxes	18.023	15,2%	9.364	9,9%	92,5%

The net financial position of the group is analyzed below:

Net financial position	31/12/2005	30/09/2005	31/12/2004
Financial mid and long term debts	(2.581)	(2.680)	(2.580)
<i>Financial mid and long term debts</i>	<i>(2.581)</i>	<i>(2.680)</i>	<i>(2.580)</i>
Financial liabilities due within 12 months	(1.472)	(1.666)	(4.044)
Cash and cash equivalents	77.438	11.634	15.338
<i>Net financial short term position</i>	<i>75.966</i>	<i>9.968</i>	<i>11.294</i>
Total financial net position	73.385	7.288	8.714

Comments on management trends

The operative field of the group has not changed during the period: in 2005 the group operated in the design, production and distribution of laser sources and systems; the main markets being, as in previous years, laser equipment for medical and cosmetic use and laser systems for industrial processes. Alongside these two most important fields, the Group has also achieved turnover for technical after-sales assistance and the supply of spare parts to its clients, and it has received revenue and profit with regards to research and development activities.

The fourth quarter has confirmed the positive trend registered by the Group during the first 9 months of the year, resulting in a consolidated turnover of more than 118 million euros, a result decisively higher than the forecast of 110 million; the excellent trend in sales led to an increase in profitability, in this case also exceeding the objectives indicated

at the beginning of the year for operative income. In this situation of positive growth in operations, the group completed the IPO of the American subsidiary Cynosure Inc. on the Nasdaq market, therefore strengthening its own financial structure and laying the foundations for further expansion; on the other hand, the sale of Cynosure shares carried out within the same IPO allowed the Group to achieve an important gain on the sale of assets, whose effects on results before taxes are clear, doubling the before tax result of the previous year, already considered extraordinary due to its consistency.

Confirming the traditional seasonal nature of our reference markets, the fourth quarter registered a record turnover (27% more than the previous quarter, 31% more than the fourth quarter of 2004) and it also registered the highest level of operative profitability in absolute terms and also in terms of its impact on turnover of the last few years.

The following table illustrates the subdivision of turnover among the various fields of activity of the group during the year 2005, compared with a similar subdivision for the same period of the previous year.

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Industrial systems and lasers	19.395	16,39%	16.302	17,25%	18,97%
Medical and Aesthetic lasers	84.018	71,00%	63.133	66,79%	33,08%
Research and Development	87	0,07%	536	0,57%	-83,83%
Service	14.831	12,53%	14.549	15,39%	1,94%
Total	118.331	100,00%	94.519	100,00%	25,19%

The consolidated growth rate therefore exceeded 25%, higher than the growth rates predicted for our reference markets. Together with the excellent trend in the medical and cosmetic fields, an important progress in the field of industry which, in 2005 went back to providing satisfactory results, also created a stir.

The 33% growth rate proved how the medical field, in particular with regards to the cosmetic segment, is going through a favorable economic period: even our main competitors in this field are achieving excellent results and the success of the Cynosure IPO confirms the state of health and the growth potentials of the reference market, through the interest of the financial market.

As mentioned, the trend in the industrial field is also satisfactory: starting with levels of turnover well below desired levels, it has registered an 18% increase, indicating concrete perspectives of development for the following months thanks to greater vitality of the market in question.

In the field of after-sales services, turnover increased slightly even though it remained substantially stable compared with the previous year. A higher level of turnover was expected for these operations considering that constant development of the installed base should generate increasing revenues for technical assistance services and spare parts: the fall in turnover for “revenue sharing” developed by Cynosure in connection with the Sona client, after revision of the contract that led to a reduction in the share of revenues related to hiring in favour of revenues due to the plain sale of laser systems, was very important in limiting the increase of this revenue aggregate.

Turnover achieved by research projects and related reimbursements by virtue of contracts undersigned with management authorities funded by MUIR is marginal in the period: we have maintained its exposure because it is integrated, considering that the percentage of income from research operations registered among sales is normally lower than the figures registered among other income: throughout the year 1,200 thousand euro of income was achieved through the TRL01, NIM and EUV projects; in 2004 income of just 860 thousand euro was achieved.

From a geographical point of view of turnover, the year trend is illustrated in the following table:

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Italy	20.755	17,54%	21.705	22,96%	-4,38%
Europe	35.514	30,01%	27.622	29,22%	28,57%
Rest of the world	62.061	52,45%	45.192	47,81%	37,33%
Total	118.331	100,00%	94.519	100,00%	25,19%

The globalization trend of turnover does not appear to stop and appears to depend less and less on the percentage achieved in Italy and is increasingly more important outside of Europe. In 2005, the turnover from the rest of the world reached half of our consolidated turnover.

Within the medical/cosmetic field, representing approximately 70% of group sales, we can identify the following segments of activity for which we can illustrate the consistency of turnover:

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Surgical CO2	2.345	2,79%	2.538	4,02%	-7,59%
Physiotherapy	1.049	1,25%	609	0,96%	72,27%
Aesthetic	66.005	78,56%	45.414	71,93%	45,34%
Dental	6.797	8,09%	5.977	9,47%	13,73%
Other medical lasers	7.232	8,61%	7.787	12,34%	-7,14%
Accessories	590	0,70%	808	1,28%	-26,98%
Total	84.018	100,00%	63.133	100,00%	33,08%

The segment of aesthetic pulls the entire sector to a growth rate exceeding 30% despite the fall in sales registered in other segments.

The request for non invasive aesthetic applications is still sustained and it drags the sale of laser equipment for the following kind of specialized applications: hair removal, photo-rejuvenation, vascular applications and treatment against cellulite imperfections represent the most important market applications for the equipment that the various companies of the group can offer the market. Among these, Cynosure was the most outstanding as it was able to take advantage of the situation of the internal American market, where the demand for cosmetic treatment was still very strong and aimed specifically at laser technologies. Deka, Asclepion and Quanta System were also able to snap up the favorable moment and register important increases in turnover and good income results in this segment.

The extraordinary progress made in the segment of physiotherapy can, in reality, be attributed to consolidation of the revenues achieved by ASA Srl, a company that the group acquired control over in the quarter: ASA is specialized in the production of physiotherapy systems and since November its turnover has been totally added onto the turnover achieved in this segment by the other companies of the group. Excluding this external growth, the turnover in this segment appears to remain stable.

Turnover in the dental segment has also increased by two figures, +13%, and very optimistic with closing of the year. However, the other segments have registered falls. It is important to point out how in the segment "Others", the second in terms of turnover, the fall in sales can be attributed to Cynosure Inc's need to renew the range of Dye equipment for vascular applications, who launched the new Cynergy product on the market during 2005 to fill this deficiency and with good expectations in terms of development.

With reference to the field of industrial applications, the table below illustrates turnover according to the market segments in which the group operates.

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Cutting	9.244	47,66%	7.812	47,92%	18,33%
Marking	6.841	35,27%	5.981	36,69%	14,40%
Laser sources	2.869	14,79%	1.903	11,67%	50,77%
Welding	441	2,27%	606	3,72%	-27,27%
Total	19.395	100,00%	16.302	100,00%	18,97%

Growth exceeded 19% and marked a turning point in the trend of the industrial field within the group, confirming a return in interest in our products and a much more interesting development perspective than the results of the previous two years led us to believe.

The increase in sales of sources has been very important, in terms of quantities (+50%) and also in terms of the importance that the production of sources has had within the group. We must remember how the vocation of the group leader was to develop and produce laser sources, a vocation around which the subsidiary companies that use El.En. technologies to produce laser systems for manufacturing activities have developed.

Moving onto the various applications, the main field is cutting, in which Cutlite Penta and Lasercut operate: the 18% increase has also resulted in an improvement in income results of the two companies. During the year new systems were created, in particular systems with linear motors for steel cutting, in which we have put strong expectations for further development of turnover in the field.

We have also registered increases in marking and we have registered very good results in the field of large surfaces and standard to small surfaces. In particular, the latter field is going through a period of sustained demand, by virtue of the growing need to identify products and parts of products in order to be able to find them: the group is ready to intercept this demand by equipping itself with technical development and specific sales structures for the field.

Sales in the residual sector have fallen, in particular as a result of a fall in turnover in the scientific sector by Quanta System, turnover included in this segment.

Gross margin has been registered at around Euro 64.896 thousand, with a definite increase (+24.6%) compared with the previous year even in the presence of a slight fall in terms of the effect on turnover that decreased to 54.8% from 55.1% in 2004. The margin of sales has remained substantially stable compared with the previous year.

Costs related to services and operative expenses are Euro 23.505 thousand and reduce their effect on turnover by 20.6% to 19.9%. The development of sales is supported by important marketing costs and the usual commitment in research and development: therefore, this has resulted in a 21% increase in this ensemble of costs which, in any case, increases its productivity compared with turnover.

Similar considerations can be made in terms of personnel costs that have increased by 17.7%, in a smaller extent of turnover, and have reached 26,622 thousand Euro. At the end of the year the group had 548 employees, 23 more compared with 30th September 2005; with regards to 18 employees the increase was due to introduction in the consolidation perimeter of ASA Srl, which at 31st December had 18 employees. Representational costs registered in accounts with regards to the stock options granted to employees are also included in personnel costs. These costs amounted to 761 thousand Euro in 2004 and increased to 1,142 thousand Euro in 2005: the majority of these costs refers to the stock options issued by the subsidiary company Cynosure Inc, who, among other things and according to American accounting principles, only registers a part of them (825 thousand Euro for 2005), and will be obliged to adapt to the same accounting principles adopted for the elaboration of this report, and therefore integral registration of costs, starting from the first quarter of 2006.

A considerable amount of personnel costs converges into research and development costs for which the group also receives contributions and refunds for specific contracts underwritten with relevant authorities. These contributions provide research activities with much more space, considering that they limit the economic impact. As previously indicated, the contributions received during the year amount to approximately 1,200 thousand Euro.

The EBITDA comes close to 15 million Euro at 14,769 thousand Euro, an increase of 47% compared with the previous year thanks to the combined effect of the ensemble of costs previously described.

Amortization costs and accruals, of approximately 4.6 million Euros, have also increased. Besides depreciation normally allocated on fixed assets some accruals for potential credit risks and for product guarantee also belong to this ensemble of costs. In any case the incidence of depreciation, amortization and accruals on turnover has also fallen to 4%.

Therefore this results in a strong increasing income from operations, up 71.8%, compared with the previous year. For the fourth quarter income from operations is 10.5% of the turnover, one of the best results achieved in the last few years by the group.

The result of financial income/loss has drastically improved the result of the year. This change was not so much due to interests on liquidity held but on the foreign exchange gains generated by the active positions in Dollars and by the strengthening of the United States currency whose rate, at the end of December, was 1.1797 Dollars to the Euro, against 1.3621 Dollars to the Euro at the beginning of 2005.

Other net income and expenses have been strongly affected by the gain on the sale of shares registered within Cynosure's IPO. In order to enable the listing on the Nasdaq of the subsidiary, the group sold one million ordinary Cynosure Inc. shares and realized a consistent gain on this sale, as previously indicated. Once again in 2004 a consistent

gain on the sale of assets was registered following Cynosure's transfer of its participation in the connected company Sona International.

In this way the IAS general principle was followed which does not allow for registration among proceeds of the return from capital increase. Due to the importance of this situation, we must remember how, according to Italian accounting principles, the operation related to capital increase underwritten by third parties would result in the registration in the consolidated balance sheet of a gain on the sale of assets equal to the increase in the net equity for each share held in virtue of the cash deposit of the capital increase made by third parties. The Italian accounting principle would therefore have requested registration of a further gain on the sale of assets of approximately 12.5 million Euro. Furthermore, we must point out that in our prudential choice we have adhered to a general IAS principle, without receiving any reply from the authorities regarding the accounting methods of the entry in connection with the new aspects of the principles and the peculiarities of the situation: therefore we cannot exclude that a subsequent instruction may lead to registration in the economic account of the gain on the sale of assets described above. Furthermore, we must point out that beyond the accounting representations, Cynosure's listing has objectively represented a patrimonial strengthening of the group and has highlighted an increase in the value and in the quota of equity related to the Cynosure shares still held by El.En., which we are exclusively representing here in its patrimonial repercussions.

The income before taxes is 18,023 thousand Euro. Management is very satisfied with this result which has been achieved thanks to an operative revenue above expected levels and the gain on the sale of assets achieved by the transfer of Cynosure shares with regards to Cynosure's rating.

Comments on the development of the net financial position

The liquidity position increases thanks to proceeds from the Cynosure IPO, that have provided Cynosure with almost 64 million Dollars, net of commissions and of all costs directly attributable to the IPO itself, and approximately 14 million Dollars, net of commissions and before taxes, to the controlled company.

Without this operation of a very special nature, the net financial position would therefore be approximately 7 million Euro.

Within the important operations that have contributed to the absorption of liquidity during the year, we must remember the distribution of dividends by El.En. SpA and, with regards to the amount destined to third parties, by Deka M.E.L.A. Srl for a total of approximately 1.8 million Euros.

In November the acquisition of another 20% of the associated company ASA led to an expenditure by DEKA M.E.L.A. Srl of about 390 thousand Euro. Furthermore, on the same date El.En. sustained an expenditure of 225 thousand Euro in order to round off its own participation in Ot-las Srl. Moreover, Lasit Srl completed an increase in capital that provided the company with 750 thousand Euro, 600 thousand of which was paid by the companies from the Group El.En. SpA and Ot-las Srl, and 150 thousand was paid by third partners.

As far as the rest is concerned, the change in the net financial position can be attributed to changes in the net working capital.

Gross investments made in the quarter

The gross investments made in the period in question are illustrated below.

<i>Twelve months</i>	31-dec-05	31-dec-04
Intangible assets	118	669
Tangible assets	4.044	3.941
Equity investments	31	68
<i>Total</i>	4.193	4.678

<i>Three months</i>	31-dec-05	31-dec-04
Intangible assets	55	390
Tangible assets	1.065	792
Equity investments	0	0
<i>Total</i>	1.121	1.182

The investments made in the period have mainly involved new laser equipment for experiments and demonstrations in the industrial as well as medical field, especially with regards to the group leader El.En. and Cynosure. The remaining investments are of an extremely ordinary nature in the field of operations of the Group and typically refer to vehicles, electronic office machines and equipment used to support research and production activities.

Comments on Research and Development activities

In 2005 intensive Research and Development activities were carried out in the Group with the objective of creating new laser applications in medical and industrial fields and to launch new innovative products on the market.

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

Research aimed at achieving medium term results is characterized by the fact that it is involved in subjects of a higher risk inspired by intuitions within our companies and perspectives indicated by the scientific work performed by laboratories and by the most advanced research centers in the world.

Research dedicated to achieving results on a short term, especially with regards to new products and applications, is carried out on subjects for which pre-feasibility control work has previously been performed. Furthermore, the choice and the elaboration of the functional characteristics and specifications have already been made on these subjects: the elements for these activities are defined on the basis of the information acquired from the work of internal specialists and as a result of the activities of the public and private structures involved who have acted as consultants during the preliminary study stages.

The majority of research carried out is applied and basic for some specific subjects. Applied research as well as the development of pre-prototypes and prototypes are sustained by personal financial resources and part of them from contributions from research contracts stipulated with management authorities on behalf of the Ministry of University Education and Research and the European Union, directly and through Research Organizations.

The main news on research carried out by the group in 2005 is provided below.

Laser systems and applications for medicine

Activities for the development of laser equipment and devices for mini-invasive micro-surgery, also robot assisted, have continued: the activities have been developed within a project on New Medical Engineering as a FIBR project (Investment Fund for Basic Research), partially funded by MIUR (Ministry of University Education and Research) following nomination through a selection based on the opinions of international experts.

Theoretical and experimental studies based on the completion of doses for cutting and ablation processes of soft tissues and cauterization of small blood vessels have continued.

Work on an adjustable micro-tweezers and a multiple catheter for endoscopy, for endoluminal photodynamic therapy and for diagnosis using new opto-acoustic microprobes is now at an advanced stage.

Initial intervention has been performed in vivo for the use of lasers in cornea gluing without suture stitches, following developments made in collaboration with IFAC of the CNR (National Research Center), by the participating company Actis Active Sensors.

Important research activities have been carried out in order to develop a technique and the relative devices to perform the anastomosis of laser assisted blood vessels.

The development of instruments and clinical experiments on innovative laser equipment for use in physiotherapy and orthopaedics has also continued and new agreements have been concluded to carry out clinical experiments in the USA in the Lahey Clinic in Boston, in collaboration with Istituti Rizzoli of Bologna, our partner for several years. Research into new devices and methods for percutaneous laser ablation on the liver and thyroid glands, as part of the IALT (Image Aided Laser Therapy) consortium recently created between El.En. and Esaote. A project funded by the European Union, based on new diagnosis methods that use micro-particles and laser systems and interacting ultrasounds, has been approved: for this project we are collaborating with European institutions including Fraunhofer IBMT.

A new laser to be used in a new technique for preservative therapy of the saphena has been developed and is also covered by an international patent that has recently been registered.

The development of new laser systems for use in ophthalmologic surgery has also been started.

The development of a new laser hair-removal system called Synchron HP has also been completed and, due to its performance, is positioned at the highest levels in the world.

The development of a new laser system for preservative therapy of the saphena has been completed.

Five new patents have been prepared for the protection of intellectual property. At the same time clinical experimentation activities are still going on in Italy and in qualified European and American centers to confirm and document the efficiency of modern therapeutic laser treatment in various fields of medicine: odontology, heart surgery, gastroenterology, ophthalmology, phlebology, echo-guided interstitial hyperthermia, dermatology and cosmetics. The development of a new type of low-flow radiator with isotropic emissions for interstitial and/or laparoscope hyperthermia laser to be used for operations involving mini-invasive micro-surgery on the thyroid guided by ultrasound images is currently underway. The activity refers specifically to the development of technologies used to create prototypes that can be used on animals. Laser development activities for ophthalmology have also been launched to perform retinal photo coagulations with the use of lamps based on an agreement with an important company specialized in the production and distribution of diagnostic and therapeutic apparatus in the field of ophthalmology.

Research and development activities have continued for the development of a diode laser for applications in neurosurgery using mini-invasive techniques. Thanks to grants provided by the European Union, a program for research on mechatronic and micro-technology applications in the bio-medical industry is currently underway.

Laser systems and applications for the industry

Research activities related to an excimer laser system, to be used for the nano-production of devices for electronics and opto-electronics, have continued.

Two projects co-financed by the Tuscany Region based on European funds have been approved: one relates to El.En.'s development of "New laser scanning systems for large corners" and the other relates to development by the controlled company Otlas of a "method for superficial treatment using railway track lasers".

Furthermore, applied research for the development of large mirrors built in new shapes and with new materials for scanning of the laser beam has continued, with the objective of marking, or treating on the surface, with a laser power exceeding 1 kW of materials of various kinds for the aesthetic improvement to clothes and artisan production.

The development of electronics based on a "Digital Signal Processor" to translate the results of the theoretical research carried out on the numerical control of galvanometers for scanning heads into "Hardware" is currently underway.

Studies into the perfection of algorithms, calculus programs and "Hardware" structures for artificial vision systems to be used for cutting automation, superficial decoration, using laser markers, of leather and other materials and for cutting and marking of common objects spread out on a work surface have continued.

The development of a new extremely compact CO₂ laser source pumped with radio-frequency has been completed.

The research activity included in a project for a high power laser source in a solid state with active materials in a ceramic amorphous support is currently underway. The development of new laser equipment used to diagnose and document art objects has continued as part of the NOP (National Operative Plans) for the development of strategic sectors in Southern Italy.

In this field the development of a new system of sensors and storage of environmental solicitations of works of art while transferred from a museum to another exhibition space, has been carried out: the creation of a "black box" to transfer works of art is also being completed; the relative patent has been registered. Furthermore, a new representation system of thermal transients for the study of the level of preservation of works of art and of industrial products during definition of the production process, is currently being developed and the patent has been registered.

A project related to the diagnosis of cultural works of art using spectrometry on induced fluorescence has been approved. Development work has continued on a new diagnostic system of ancient books using a laser, recently covered by a patent.

The following table lists the costs attributed in the period to Research and Development.

<i>thousands of euros</i>	31/12/2005	31/12/2004
Costs for staff and general expenses	6.029	6.186
Equipment	266	155
Costs for testing and prototypes	888	770
Consultancy fees	643	274
Other services	82	401
Intangible assets	5	23
<i>Total</i>	7.912	7.809

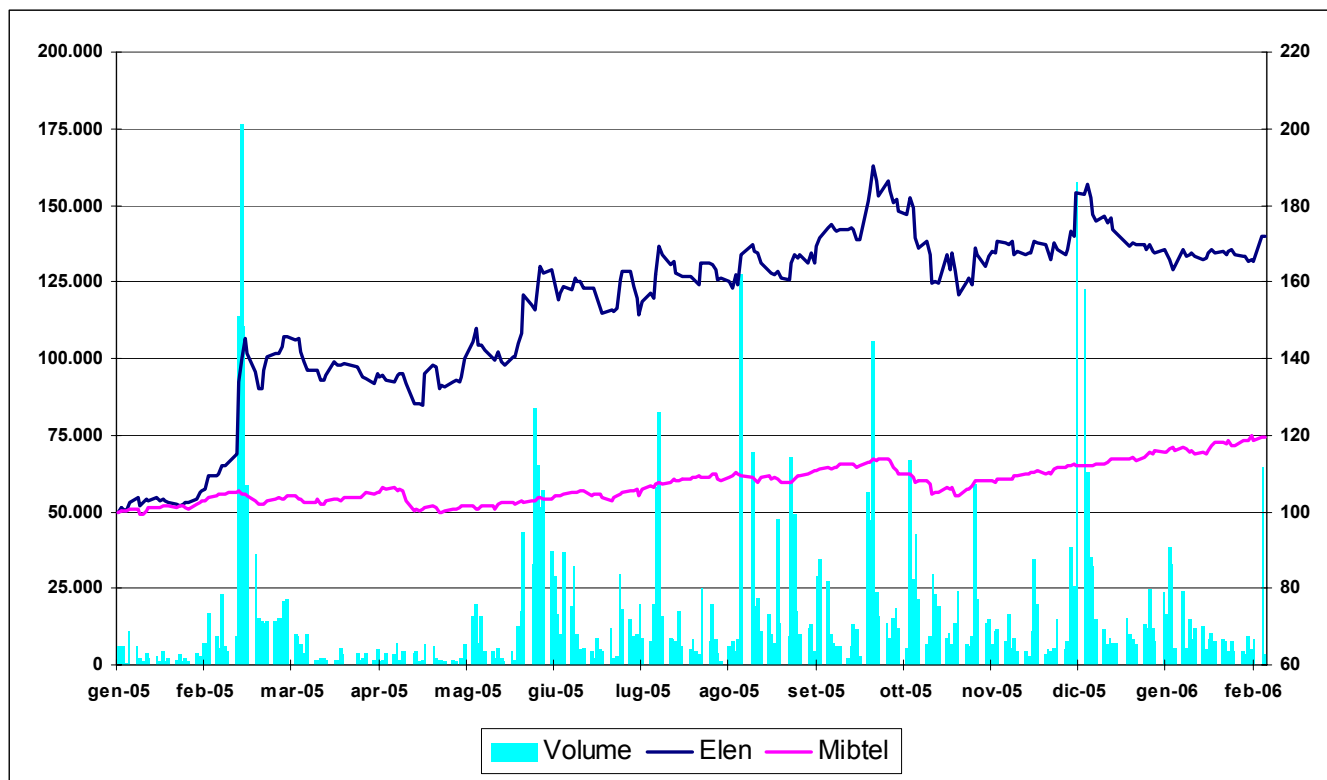
As in the case for turnover and revenue entries the contribution provided by Cynosure is also very important in terms of research and development costs, due to the intensive activities carried out in this specific sector. The amount of expenses sustained by Cynosure for research and development in the period was approximately 3 million dollars. Research and development activities have also been carried out in other Companies of the group, especially in Asclepion and Quanta System with regards to the medical field and in Lasit, Quanta System, Ot-las and still Quanta System for the industrial field.

Following usual company policies, the expenses listed in the table above have been entirely entered under the heading of operating costs.

The amount of expenses sustained corresponds to 7% of the Group's consolidated turnover. The amount related to Cynosure, which, as previously stated, is 3 million dollars, represents approx. 6% of its turnover: the remainder of costs have been almost entirely borne by El.En S.p.A. and correspond to 12% of its turnover. El.En. S.p.A. has entered into accounts for this quarter, income received in the form of grants, credit on taxes and advances from contributions for approximately 713 thousand Euro. It is clear to see the importance of the efforts made in these activities and how resources are destined to be consistent.

Trend of El.En stock

The trend of El. En. stock during the year is shown on the graph below.



Other important events that occurred during the quarter

On 2nd November the subsidiary company Deka M.E.L.A. Srl purchased another 20% share in ASA Srl, a manufacturing company from Veneto of medical devices for laser therapy and magneto-therapy, with an expenditure of 390 thousand Euro. This operation therefore led El.En.'s participation in ASA to 60%; therefore, starting from the date of acquisition, ASA's financials were wholly consolidated into the accounts of the El.En. Group. ASA had recently been awarded two important recognitions on an international level: the FDA approval for marketing in America of modern MLS laser equipment for treatment of muscular and tendon pathologies such as ischialgia and epicondylitis and the SFDA for sales in China of magneto-therapy equipment to cure osteoarticular pathologies such as osteoporosis and arthritis.

Again on 2nd November the group leader El.En. SpA purchased a 15% participation share of the Ot-Las Srl capital, a company already controlled indirectly through the subsidiary company Cutlite Penta Srl that holds 54% of the capital, from partners.

Furthermore on 2nd November the special shareholder's meeting of Lasit Srl resolved the transformation of the company into a "SpA", stock corporation, and it also deliberated an increase in share capital, originally of 234 thousand Euro to 1 million Euro through a free increase of 16 thousand Euro and payment for the remaining 750 thousand Euro. The increase in capital was underwritten pro-quota by all partners. This operation represented the natural development of the development and consolidation course followed in the last few years by the company, in the very important role in the field in question.

On 6th December 2005 a Belgian legal company called "SBI – Smartbleach International" was set up with a share capital of 300 thousand Euro, 50% of which was held by the group leader El.En. Spa. The company is in charge of distribution on a worldwide level of laser systems for teeth whitening, with regards to which it was granted FDA authorization for sales in the United States.

Other events that occurred after closing of the quarter

No events that are worth mentioning occurred during the first few weeks of the year 2006.

Predictable evolution of operations for the current financial year

The year was closed with results that exceeded expectations and management prepared the operative budget for the year 2006 including further expansion to activities. With regards to the consolidated turnover, the objective is an increase of a little less than 20% in order to exceed the 140 million turnover. The objective in terms of consolidated operative income is just above 12 million Euro. These forecasts have been prepared by considering an exchange rate of the American Dollar of 1.24 Dollars per Euro, equivalent to the average of the year 2005.

The company remembers that the fields in which it operates do not allow for activities with large order portfolios, considering that lead times that exceed 90 days are not normally accepted. Therefore the forecasts indicated above do not refer to orders already acquired but they are based on the assumption of a market trend and orders developed according to current trends that will be gradually reconfirmed by the effective market trend during the year.

On behalf of the Board of Directors

The Managing Director
Andrea Cangioli