

EL.EN. GROUP

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDING June 30th, 2003

(Board of Directors – August 7th, 2003)

Report on the quarter ending June 30th, 2003

Introduction

This report covers the El.En. Group consolidated financial statement up to June 30th, 2003, prepared and divulged in accordance with article 2.6.2. of the Nuovo Mercato of the Italian Stock Exchange regulations and IA 2.4.1. instructions, and complies with article 82 of Consob rulings ex resolution 11971 and following amendments. The data and the information provided in this report have not been examined by an auditor, and no auditor has been appointed since this is not compulsory.

The following information has been prepared on the same principles previously adopted by the El.En. Group for the interim and annual reports.

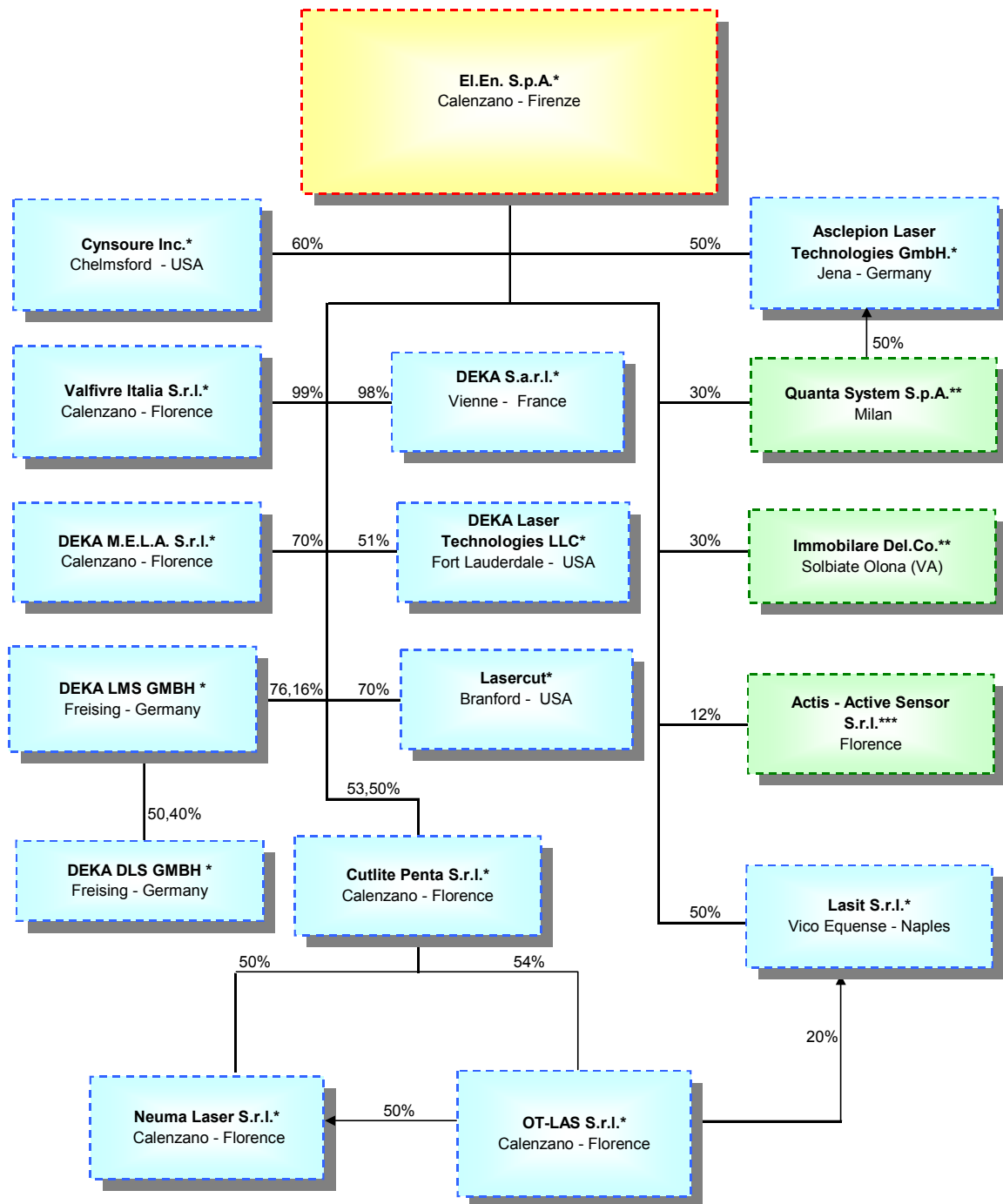
The results for the quarter ending on June 30th 2003 are shown in comparative form with those for the same financial period last year.

All the amounts are expressed in thousands of euro, if not otherwise stated.

Description of the Group

El.En. SPA is the holding company of an industrial group operating in the design, production and distribution of laser sources and systems for a variety of applications.

The structure of the group as of June 30th, 2003 is represented in the following chart.

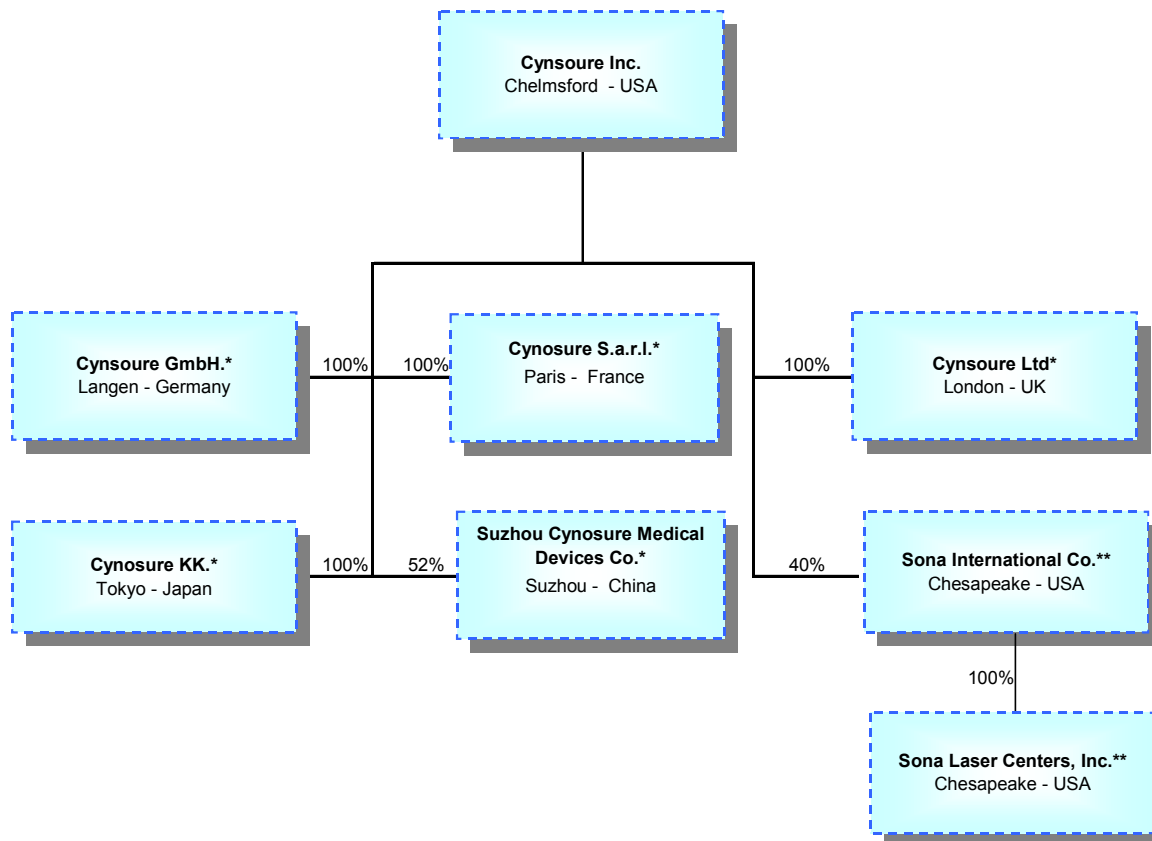


* Entirely consolidated

** Consolidated in relation to net worth

*** Kept at cost

Cynosure Inc. itself controls a group of companies. As of June 30th, 2003 the structure of the Cynosure group is the following:



* Entirely consolidated

** Consolidated in relation to net worth

The structure of the Group, as is evident from the chart shown above, is considerably more complex now than it has been the past. This fact leads us to make a series of general observations on the new opportunities and problems related to the activities of the Group at this particular time.

The intense M&A activities conducted by the Group in the last 12 months has brought about the consolidation into the Group of new companies, some of which were purchased (Cynosure Inc., Lasit srl, Lasercut Inc., Asclepion Laser Technologies GmbH), while others were newly created (Deka Dls GmbH, Deka Laser Technologies LLC). Besides the purely financial aspect of the purchase and capitalisation of these companies (which will be discussed further in this report), it should be noted that, with the exception of Lasit Srl, the Group is dealing with the problem of reorganisation, and in some cases even of start-up, of the firms acquired. All of the activities are aimed at the expansion of the Group's field of operations, even by means of the acquisition of companies working at a loss to which El.En SpA can give contributions of technology and co-operation in order to exploit to the fullest extent the characteristics of their know-how and their position on the market with a view to a mid-term increase in profitability.

The reorganisation process of Cynosure, for example, should be interpreted bearing in mind this particular set of circumstances; this process in fact, in the first few months has already brought about a considerable reduction in the losses and has turned the company around in the direction of what it is hoped will soon be a complete recovery of profitability. The same can be said for the recent acquisition of Lasercut, which has established a firm starting point for the Group's activities in the United States, but for which a complete return to profitability is not feasible within this financial year, since it will be necessary to revive a market which is still in crisis with the products of the Group. The start up of Deka Laser Technologies, which has been operating for about three months, showed its first profits in the month of July, and in the first quarter established the foundations for future expansion from both a legal (FDA approval) and distribution point of view. In the case of ASCLEPION Laser technologies, the Group is facing the problem of the reorganisation of a business which, as part of an important group like Zeiss, had lost its focus and will require extensive modifications in order to operate at a satisfactory level.

This means that, although an increase in sales volume can be mathematically predicted, the Group will actually be operating in a phase of transition in which the new activities will bring about a decrease in profitability considering the

vast amount of resources required during this period. We are determined that these activities will soon be transformed into major contributors to the development of the Group.

During this same period, the “traditional” activities have had to face the situation of a generally stagnant market, which, in the industrial sector, is absolutely negative; this has meant that the profitability of these activities has been influenced by the costs inherent in the start up of the new operating structures, while at the same time, it was not possible to maintain the same levels reached in the preceding financial year. This phenomenon had been predicted but the intensity of the crisis in the industrial sector caused results to be even worse than expected.

In any case, it should be noted that the results of the second quarter showed a slight improvement over the preceding quarter, thanks to a slight recovery in the industrial sector and the improvement in the results shown by Cynosure.

El. En SpA holds equities in other companies like Quanta System SpA and Immobiliare Del.Co. Srl which, however, it does not control; the results of these companies are therefore not totally consolidated in the statement of the Group, but have been consolidated using the shareholders' equity method.

Since more than a year has passed since the purchase of Cynosure, starting with this report we will no longer show separate charts showing the consolidated accounts of the Group without Cynosure; this is no longer necessary since the data for the period being examined can now be compared consistently with those of the same period of the preceding year. Specific information on the results of Cynosure and the other companies whose profit and loss accounts have been consolidated into that of the Group, are contained in the following pages of the report, where deemed opportune.

Results of operations and financial position of the group

The chart below illustrates the data of the profit and loss account for second quarter 2003, shown in comparison with the results for the preceding period.

Profit and loss account - 3 months	30/06/2003	Inc.%	30/06/2002	Inc.%	Var.%
Net turnover from sales and services	17.192	86,31%	13.483	94,26%	27,51%
Variation in stock of finished goods and WIP	2.502	12,56%	798	5,58%	213,63%
Other revenues and income	224	1,13%	23	0,16%	863,60%
Value of production	19.918	100,00%	14.304	100,00%	39,25%
Costs for raw materials	9.928	49,85%	6.108	42,70%	62,54%
Variation in stock of raw material	(506)	-2,54%	(49)	-0,34%	927,56%
Other direct services	1.778	8,92%	1.569	10,97%	13,32%
Gross margin	8.718	43,77%	6.676	46,67%	30,58%
Other operating services and charges	3.427	17,21%	2.354	16,46%	45,60%
Added value	5.291	26,56%	4.322	30,22%	22,40%
For staff costs	4.373	21,96%	2.919	20,40%	49,83%
Gross operating profit	918	4,61%	1.404	9,81%	-34,63%
Depreciation, amortisation and other accruals	847	4,25%	586	4,10%	44,46%
Net operating profit	70	0,35%	817	5,71%	-91,38%
Net financial income (charges)	(8)	-0,04%	(0)	-0,00%	2675,87%
Operating profit	62	0,31%	817	5,71%	-92,39%
Value adjustments (Devaluations)	(87)	-0,44%	39	0,28%	
Extraordinary income (Charges)	1	0,00%	84	0,59%	-99,03%
Earning before taxes	(24)	-0,12%	941	6,58%	

The chart below shows the profit and loss account for the first semester of 2003, compared with the same results for the first semester of last year.

Profit and loss account	30/06/2003	Inc.%	30/06/2002	Inc.%	Var.%
Net turnover from sales and services	30.189	86,4%	21.113	95,1%	43,0%
Variation in stock of finished goods and WIP	4.399	12,6%	1.031	4,6%	326,5%
Other revenues and income	372	1,1%	57	0,3%	551,5%
Value of production	34.960	100,0%	22.202	100,0%	57,5%
Costs for raw materials	16.824	48,1%	10.215	46,0%	64,7%
Variation in stock of raw material	(1.212)	-3,5%	(785)	-3,5%	54,3%
Other direct services	3.383	9,7%	2.470	11,1%	37,0%
Gross margin	15.965	45,7%	10.303	46,4%	55,0%
Other operating services and charges	6.405	18,3%	3.487	15,7%	83,7%
Added value	9.559	27,3%	6.816	30,7%	40,3%
For staff costs	8.078	23,1%	4.231	19,1%	90,9%
Gross operating profit	1.481	4,2%	2.584	11,6%	-42,7%
Depreciation, amortisation and other accruals	1.632	4,7%	939	4,2%	73,8%
Net operating profit	(151)	-0,4%	1.645	7,4%	
Net financial income (charges)	94	0,3%	175	0,8%	-46,1%
Operating profit	(56)	-0,2%	1.820	8,2%	
Value adjustments (Devaluations)	645	1,8%	39	0,2%	1536,9%
Extraordinary income (Charges)	(1)	-0,0%	71	0,3%	
Earning before taxes	588	1,7%	1.931	8,7%	-69,5%

In the chart below, the net financial position of the Group is analysed.

Net financial position	30/06/2003	31/03/2003	31/12/2002
Financial mid and long term debts	(2.013)	(1.719)	(1.871)
<i>Financial mid and long term debts</i>	<i>(2.013)</i>	<i>(1.719)</i>	<i>(1.871)</i>
Financial liabilities due within 12 months	(2.320)	(854)	(888)
Cash in banks and on hand	18.510	24.717	27.129
<i>Net financial short term position</i>	<i>16.190</i>	<i>23.863</i>	<i>26.241</i>
Total financial net position	14.177	22.143	24.369

Report on operations

During the second quarter of 2003 the Group operated in the field of design, manufacture and distribution of laser sources and systems; the principal markets for these products, as in preceding years, has been laser equipment for medical and cosmetic uses and laser systems for industrial use. As an adjunct to these two main sectors, the Group has also developed an after-sales technical assistance service which it offers to its clients, and has received revenue related to research and development activities.

The sales volume has shown an increase of 43%, benefiting the new acquisitions and confirms the constant and rapid growth of the Group. Cynosure has contributed considerably to this increase, since without this company growth would be around 14%. During the second quarter, the increase in sales volume was around 27%, which was slightly below that expected. In comparison to sales volume shown for the first quarter of 2003, forecasts made at that time can definitely be confirmed, but only thanks to the new acquisitions which off set the failure to reach our objectives, in particular, those related to the industrial sector.

The chart below shows the sales volume, divided according to the sectors in which the Group operates for the first half of 2003, compared with the same data for the same period last year.

	30/06/2003	Inc%	30/06/2002	Inc%	Var%
Industrial systems and lasers	6.338	20,99%	6.481	30,70%	-2,21%
Medical and cosmetic lasers	18.524	61,36%	11.975	56,72%	54,69%
Research and Development	76	0,25%	73	0,35%	4,71%
Service	5.251	17,39%	2.584	12,24%	103,18%
Total	30.189	100,00%	21.113	100,00%	42,99%

Internal growth and the contribution of Cynosure and of Asclepion have kept the growth rate in the medical sector well over 50%. Even in the presence of a generally negative situation, the results in terms of sales are favourable even on the American market, while they are slightly below expectations for the original nucleus of Group companies.

The trend in the industrial segment has been different and much more difficult: notwithstanding the contributions of Lasit and Lasercut, no growth was shown in the sales volume for this sector. After the brilliant results shown for 2002, the first semester of 2003 has been, to the least, uncertain, and the weak signs of vitality that were shown just before the Summer should not lead us to count on a recovery in a short enough time to reach the results obtained last year.

Revenues from technical assistance and service achieved the forecasted growth, as expected, because of the increase in the amount of equipment installed. The increase is stronger with Cynosure (394%), since the company obtains a significant share of its revenues from after-sale services, including the rental of laser systems according to the "revenue sharing" system, in which rental fees are determined as a percentage of the revenue generated by the rented laser systems. A further contribution to this result will come from Asclepion, which has numerous pieces of equipment installed in Germany (more than 500 units, just for the Erbio laser systems) which are serviced on the basis of specific assistance contracts.

Revenues for R&D projects and the reimbursement allowed by specific contracts signed with the Italian office "MIUR" are not very significant. We must nevertheless call attention to the fact that most of the reimbursements of this kind have been entered into accounting with the "other revenues", without including the amount within sales. Other revenues generated by R&D projects totalled 288 thousand euros for the first half of 2003, from payment of the grants issued for Choclab and TRL01 projects.

Sales volume split according to geographic distribution is shown on the following chart:

	30/06/2003	Inc%	30/06/2002	Inc%	Var%
Italy	7.820	25,90%	8.696	41,19%	-10,07%
Europe	9.314	30,85%	4.578	21,68%	103,46%
Rest of the world	13.056	43,25%	7.840	37,13%	66,53%
Total	30.189	100,00%	21.113	100,00%	42,99%

The drop in sales volume in Italy reflects the negative trend of the industrial sector, which still has its main base in the Italian market. The sales volume for Europe has doubled due mainly to the positive , and some cases, brilliant, results obtained by the subsidiary companies assigned to the distribution of medical products and by Asclepion. The increase in sales volume for the rest of the world, reflects the entry of Cynosure and Lasercut into the area of consolidation.

For the medical and cosmetic sector, which represents about 50% of the sales of the Group, the following chart shows the individual areas of activity and their relative sales volumes.

	30/06/2003	Inc%	30/06/2002	Inc%	Var%
Surgical CO2	662	3,58%	954	7,96%	-30,53%
Physiotherapy	283	1,53%	265	2,22%	6,65%
Cosmetic	10.918	58,94%	8.304	69,35%	31,48%
Dental	1.879	10,15%	865	7,22%	117,38%
Other medical lasers	4.601	24,84%	1.418	11,84%	224,36%
Accessories	180	0,97%	169	1,41%	6,83%
Total	18.524	100,00%	11.975	100,00%	54,69%

Growth rates remained high in more than one sector; Cynosure and its Dye Lasers have pushed up the numbers in the “Other medical lasers” category. With about 7.6 million (about evenly divided between Dye Lasers for dermatology and lasers for cosmetic use), Cynosure represents about 41% of the Group’s sales volume for the medical sector.

The entry of Asclepion into the Group has contributed to the growth of sales volume in the cosmetic and dental sectors: this latter represents one of the most important amounts in the sales volume of Asclepion (47% for this semester) which, in this area, uses an approach similar to that of El. En, which is to say, that it uses an OEM distributor which enjoys great prestige and importance on an international level (KaVo).

Besides the contributions of the new companies, the results in this area have been generally positive, especially in the cosmetic and dental sector, thanks mainly to a series of new products, and to improvements which the Group has been able to make, in an exceptionally short time, on old products, in order to satisfy the constantly changing demands of the market, particularly in the cosmetic field. The intense pulsating light used for hair removal and skin rejuvenation represent the most popular methods of the moment; the traditional Nd:YAG long impulse systems continue to achieve success, especially in the United States, where they now represent the strongest points of Cynosure. The new range of systems for dentistry is already giving excellent results and new developments can be expected thanks to Deka Laser Technologies, which will distribute the dentistry lasers in the United States. This sector has benefited from an internal reclassification of the CO2 laser for dentistry; however, this reclassification has penalised the CO2 lasers for surgery, which showed a slight drop in sales volume. As it has done in the past, the Group responded to the difficulties on the market by introducing a product that was innovative both in concept and design: starting in the third quarter a line of new models of Smartxide and Smart US 20 will be available, and their compact shape and attractive appearance promise to give excellent results in terms of sales.

The physiotherapy sector has not shown any particular changes, and requires innovative support in terms of equipment and procedures, as well as a more extensive marketing program to sustain the products. The sales volume for accessories has dropped also in relation to the decrease in the CO2 sector to which most of the accessories are related.

In the sector of industrial applications, the chart below shows the details related to revenue according to the type of product.

	30/06/2003	Inc%	30/06/2002	Inc%	Var%
Cutting	2.218	35,00%	3.499	53,98%	-36,61%
Marking	3.337	52,65%	2.697	41,61%	23,72%
Laser sources	626	9,87%	205	3,16%	205,43%
Welding	157	2,48%	80	1,24%	95,44%
Total	6.338	100,00%	6.481	100,00%	-2,21%

The continuing crisis in the manufacturing sector has caused an overall drop in the sales volume in this area, notwithstanding the contribution of Lasit and Lasercut, which had a sales volume of about two million euros, representing about 30% of the sales volume for this sector: this is the amount in fact of the drop in the sales volume for the industrial sector in comparison to the same period last year. The cutting sector, the most important area during the last financial period, was the most hard hit and was surpassed by the marking sector, to which Lasit contributed about 1.3 million.

Though the overall situation is hardly encouraging, there are a few positive aspects which should be noted for this sector. First of all, the excellent trend in sales of laser sources, in conformity with the mid-term strategy of the Group which involved vast investments in research and development, and has allowed El. En to play an important role also in the field power laser sources. The results in the field of restoration and welding are also interesting, and promise further developments, especially on account of specific projects which are underway to spread the use of restorations techniques employing laser equipment. Moreover, after the acquisition of Lasercut, there is good potential for growth in the cutting sector, which ought to become apparent in the next few months.

After this detailed examination of the profits, we can now consider the trends in revenue. As explained earlier, the results are influenced by the considerable efforts that have been made in order to revive the areas of Cynosure, Lasercut and Asclepion which were in difficulty, as well as the start up of Deka Laser Technologies.

The margin of contribution is shown at about 15.965 thousand euros approx., which is an increase over the same period of the preceding financial year, with an impact on the Value of Production which decreased from 46% to 45%. For this reason a slight drop in margins is shown, though this is, in reality, due to the original nucleus of the company more than to Cynosure, whose already high margins have actually increased slightly; with this sole exception, the pressure of the competition, in particular in the industrial sector, where the greatest difficulties were encountered, caused a reduction of sales margins for this financial period. Part of this reduction of margin is without doubt due to the weakness of the dollar, which influences the sales made by El. En to Cynosure; Cynosure has been able to off set this negative effect only in part, by finding better conditions for its sales in Europe.

The costs for services and operating charges is about 6.405 thousand euros, with an incidence of 18% on the Value of Production, which represents an increase of 16% over the same period in 2002. An important key for the interpretation of the results of the Group can be found in the evolution of this incidence: even though the increase in sales volume is considerable, it is still, percentage-wise, less than the increase in operating costs, which were upgraded in vision of a better sales volume and also grew in relation to the start up and reorganisation of some of the activities. The added value therefore shows an incidence on the sales volume which is lower than that of the preceding financial period, and is averages out to about 27%. In this cost aggregate, marketing and promotional expenses take on an increased impact, which in the medical/cosmetic sector represent an important expenditure, while in the industrial sector they are a consequence of the necessity of stimulating demand, which at this time is rather feeble.

The expenses for employees shows a dramatic increase (91%) which is a direct consequence of the purchase of the new companies, as well as re-enforcement of some areas in the original nucleus of the Group. Expenses for employees was 8.078 thousand euros, with a percentage incidence which rises from 19% for the first semester of 2002 to 23%. This incidence is reduced to 21% in the second quarter, which contributed to the improvement of the results achieved. The number of personnel employed by the Group rose from 295 units on December 31st 2002 to 366 units on June 30th 2003.

The entry of Asclepion into the Group comported an increase of 44 employees, which are active in all areas in which the company is involved: research and development, production, sales, after-sales service. The number of persons employed in administrative and secretarial capacities is minimal, considering the constant use of outsourcing.

A considerable part of the expenses for personnel is devolved into research and development, for which the Group also receives grants in the form of reimbursement of expenses for specific contracts from the institutions created for this purpose. These grants help limit the impact of research activities on the profit and loss account. The delays in payment and the rigidity of the accounting principles used make it so that there is not always a direct link between the entry into accounts of the reimbursements and the costs sustained. During the second quarter of 2003, for example, El. En received 434 thousand euros as down payments on NIM02, EUV02, NMEDO2 projects for which they had already paid more than 392 thousand euros in expenses, but these payments were entered into accounts as down payments and not revenue; they will become revenue in fact, only when the specific institution that issued them has given final approval for the expenses sustained and the results achieved.

The Gross Operating Margin, therefore, is shown at about 1.481 thousand euros, a decrease of about 43%, with an incidence of 4% on the Value of Production.

The entry under the heading of amortizations and accruals increased (+74%) with respect to the same period last year, also in the amount of incidence on the Value of Production. Of the 1.632 thousand euros, 344 thousand are due to the difference in consolidation which can be attributed to the amount paid for the start up of Cynosure, about 18 thousand euros for the amortisation of the start up paid for Lasercut. It should also be remembered that Cynosure carries on a rental activity for hair removal equipment, which requires a certain volume of investments, and therefore of amortizations, which are greater than those required for the Group before acquisition; in general, in fact, for its development, the activity does not require large investments in technical assets. On the other hand the expenses for research and development are much greater and are entered into accounting in the form of personnel expenses and general operating expenses.

For this reason, an operating loss of -151 thousand euros is shown at the consolidated level for this semester, and a profit of 70 thousand euros for the second quarter. The exclusion of Cynosure from the area of consolidation comports an improvement in the operating result (which would be 673 thousand euros) since, in the second quarter, Cynosure was unable to off set the negative result of the first quarter, even though the substantially broke even in their operating result.

Result of financial management is in the black for 94 thousand euros, a negligible sum in comparison to the preceding years; the drop in the amount of cash available, the decrease in interest rates and the losses on the exchange rate due to the weak dollar are the main reasons for this decrease.

Value rectifications are in the black for an amount of 645 thousand euros and comport the achievement of an important pre-tax result. 568 thousand euros of these rectifications are due to the receipt, for the the consolidated statement of Cynosure, of the results of the two associated companies, Sona International e Sona Laser Centers. The two companies operate in the sector of hair removal centers, where laser systems supplied to them by Cynosure are used with the revenue sharing formula. Sona International manages some of the centers directly and co-ordinates the activities of some of the affiliates; Sona Laser Centers promotes the spread of Sona centers though franchising contracts and generates revenue from the services it provides for the start up of new centers and for the concession of the brand name and the business model. During the first six months of the year Sona International showed a net profit of 763 thousand dollars, and Sona Laser Centers, 773 thousand dollars. By rectifying the preceding accounting entry, these results were partially inserted into the statement of Cynosure, and begin to reconstitute the amount of the investment, which was originally 1.4 million dollars, devaluated during 2002, and then further devaluated on account of obligations towards Sona that Cynosure had signed in 2002 (Guaranteeing the payment of the rent for space in several buildings). The positive trend of the centers also comports a contribution towards the operating result of Cynosure, which, in the first three months of the year received profits from revenue sharing from Sona for an amount of 763 thousand dollars and investments in equipment for an amount of 300 thousand dollars.

The other companies evaluated at shareholders' equity, that is to say, Quanta System SpA and Immobiliare Del.Co. Srl, have drawn up a statement for the semester that has made it possible to include their results in the area of consolidation. The success of Quanta System SpA, has been particularly brilliant and results showed a marked increase in both sales volume and profits; El.En. has further strengthened their ties with this company through the Asclepion operation, which was conducted as a Joint-Venture.

Extraordinary management showed no particular changes.

Results before taxes amount to approx 588 thousand euros. Its incidence on the Value of Production is 2%, a decrease from the 9% of 2002. This result is a drop from the 1.930 thousand euros for the same period last year, and is less than expected; this fact suggests the need to revise the forecasts for the financial year now in progress, as will be discussed in the relative paragraph.

Comments on the trend of the net financial position

The net financial position remains in the black for an amount of 14 million euros.

In the first six months of this year the net financial position fell by 10 million euros. Most of this amount was due to operations of an extraordinary nature, while the rest is derived from the normal management cash-flow.

The main expenses of an extraordinary nature during this semester were the following: final payment for the Cynosure shares for an amount of 1.346 thousand euros, purchase of Lasercut Inc. for approx. 467 thousand euros, beside the creation of a fund for the purchase of the building where it carries on its activity for an amount of 747 thousand euros, purchase of Asclepion GmbH followed by the purchase of the business activities for 1.263 thousand euros, of which

513 thousand have already been paid, and 750 thousand euros will be paid at the end of the year (details of the operation are given further on in this report).

Cash available is used by the Group for short term investments with no risks. We cannot exclude the possibility of new operations of an extraordinary nature if interesting opportunities for the strategy of the Group present themselves.
Gross investments effected during this quarter

Gross investments effected during this quarter

The chart below shows the gross investments made during this financial period.

<i>Progressive</i>	30/06/2003	30/06/2002
Intangible assets	161	136
Tangible assets	1.244	887
Equity investments	0	274
<i>Total</i>	1.405	1.298

<i>3 Months</i>	30/06/2003	30/06/2002
Intangible assets	139	132
Tangible assets	860	669
Equity investments	0	249
<i>Total</i>	998	1.050

No other investments of an extraordinary type or amount were made during this quarter: the investments in tangible assets involved equipment for sales demonstrations and clinical experimentation for the medical/ cosmetic sector and new equipment for the research laboratories, due in part to the increase in the number of employees; Cynosure capitalised laser equipment destined for rental through their associated company, Sona.

Comments on Research and Development activities

During the second quarter of 2003 the group has undertaken, as in the previous years, an intense activity of research and development, aimed at the creation of innovative products and of new application methodologies in the fields of medical and industrial application.

The Group has dealt with the competition on global markets which is typical of high tech products, by releasing a continuous series of new products on the market, new versions of old products with technological and performance upgrades and by demonstrating the success of our systems in new applications. For this reason, an intense research and development activity organised according to short and mid-term results must be set into motion. Research for mid-term results typically involves higher risk subjects and is differentiated on the basis of intuitions established by the company management and the possibilities indicated by the scientific work of the laboratories of the most advanced study centres in the world. Financing for applied R&D and prototype development is allowed by cash detained by the group and grants issued according to contracts underwritten with financial institutions on behalf of the Education, University and Research Office, and the European community, or directly with research centres.

Some of the research programs conducted by the Group are described below.

Among the activities undertaken, particularly worthy of note is the conclusion of the program for the characterisation of the beam and the optical components for industrial laser systems (EUREKA 2379 European project). Another subject of research is that for laser systems to be used for the nano-manufacture of devices for electronics and optical-electronics. For the industrial laser segment, we are developing new galvanometers for the deflection of beam, using mirrors for laser decoration of various materials for ornamentation of garments and craft products.

A project is being developed for the creation of a solid state high-powered laser source with active ceramic material.

In the medical laser field we are conducting clinical experiments on lasers for physiotherapy and orthopaedics, and a internships for young researchers who will eventually be hired in order to further consolidate the segment. Moreover, development of laser systems for invasive microsurgery, assisted by a robot has been initiated, after assignment to the Group, based upon evaluation by international experts, of a MIUR project on the "New Medical Engineering" as a

“FIRB” (Fund for Investments in Basic Research) project. At the same time, clinical trials are being performed in Italy and in other qualified European centres, aimed at confirming and providing data on the efficacy of certain therapeutic laser procedures.

A new program has just been initiated for the study of innovative technologies in ophthalmology which involves the attachment of the cornea using a laser beam. Another research program now in progress involves the development of a diode laser for use in neuro-surgery. With a grant from the European Union, a research program is now being conducted to find mecha-tronic applications for the biomedical industry.

Furthermore, a program for the development of a new laser diagnostic system for the conservation of works of art has been activated as part of the “PON” Project (National Operating Plans for the development of strategic activities in Southern Italy).

The following chart lists the R&D expenses:

<i>thousands of euro</i>	30/06/2003
Costs for personnel and general expenses	2.852
Costs for instruments and equipment	191
Costs for building of prototypes	287
Costs for technological consultants	164
Services provided	159
Intangible assets	2
Total	3.655

Just as shown on the charts related to sales volume and revenues, the presence of Cynosure is important considering the intense activity that this company conducts in the specific sector. The amount spent by Cynosure for research and development in the first quarter was 1.182 thousand dollars.

Following the usual company policy, the expenses shown in the chart have been entered entirely under the heading of operating charges.

The amount of expenses is equal to 12% of the consolidated sales volume of the Group. The amount related to Cynosure, which is, as mentioned above, 1,182 thousand dollars, represents about 10% of its sales volume; the remainder has been paid almost entirely by El.En. S.p.A. and is equal to 20% of its sales volume. El.En. S.p.A. for this period, has entered into accounts, listing the entry as grants, tax credits and deposits for an amount of about 850 thousand euros. From these figures it is evident that the efforts expended in this direction are enormous and the resources involved considerable.

Other significant events of the quarter

Lasercut

In the month of April, El. En. Spa acquired a controlling interest in Lasercut Inc., an American company with headquarters in Branford (Connecticut), specialised in the design, manufacture and sale of lasers for flat cutting..

Lasercut was one of the first companies operating in this sector on the American market. Its systems are equipped with medium powered laser sources and are used for cutting metal, wood and plastic. The company became successful thanks to the reliability and quality of its products, but has suffered from the effects of the depressed market of the last couple of years which has been generally felt in the manufacturing sector. The turnover over the company, which was 4,6 million in 1998 dropped to 1,3 million dollars in the last financial period, and notwithstanding a reduction in the operating costs has shown heavy losses (about 438 thousand dollars in the last financial period, closed on June 30th 2002). The financial support of the partners and a policy which has never sacrificed quality and attention to the clientele for financial reasons have made it so that the Lasercut brand has the best reputation on the market..

The possibilities for development which have been opened through co-operation with the El.En. Group are multiple: within a short period of time the Group will be able to make the cutting systems produced by Cutlite Penta available to

the distribution network of Lasercut, and laser sources manufactured by El. En can be installed on Lasercut systems. Later on, Lasercut can act as a bridgehead in America for all of the activities of the Group which are related to the manufacturing sector, including those produced by Ot-las for marking large surfaces, by Lasit for Nd:YAG marking systems and by Valfivre Italia for special laser systems. The competence and know-how of Lasercut, in particular in relation to some of the metal cutting technologies, can be applied to the research and development knowledge of the Group in order to create innovative designs for the development of new products.

The transaction was concluded through the sale by one of the partners of 70% of the shares of Lasercut, for an amount of 500 thousand dollars (467 thousand euros according to the exchange rate at closing time); when the contract was signed, the seller proceeded to balance out the financial situation of the company, cancelling financing which had been issued for 2 million dollars, and bringing back to 150 thousand dollars the net financial position of the company and to about 165 thousand dollars the accounting deficit. El.En. then issued financing for 500 thousand dollars in order to sustain the present operations of the company.

As part of the same transaction, El.En. acquired for 800 thousand dollars the buildings in which Lasercut conducts its activities, an industrial factory of about 1500 square metres, with an office area and all the equipment necessary for manufacturing. The building will be leased to Lasercut at market conditions.

When Lasercut changed hands, the Board of Directors of the company was renewed and Giovanni Masotti, an executive of El. En involved in the industrial activity of the Group and in particular, international sales and marketing, was appointed president. A general manager selected by the new management was appointed to Lasercut, while the seller will continue to function in the technical sector.

In the first months under the new management, Lasercut showed a sales volume of 454 thousand euros, of which 415 thousand were related to laser cutting, and the rest to technical assistance, with an operating loss of 113 thousand euros. The sales volume required to break even is about 2,5 million dollars, which should be achieved during the next financial year.

Asclepion Laser Technologies

During the first days of May, El.En. Spa closed a deal which brought into the Group the dermatological activities of Asclepion, owned by Carl Zeiss Meditec AG of Jena, Germany. The transaction was made in co-operation with Quanta System Spa, of which El.En. holds 30% of the shares, on a 50% / 50% basis. This start up company, founded in February, acquired by means of an "asset deal" selected assets related to the dermatological and dental business of Carl Zeiss Meditec.

Quanta System and El. En acquired, for a total amount of 25,000 euros, 100% of the company, thus guaranteeing the debt towards Carl Zeiss Meditec contracted for the purchase of the same company. For the warehouses and equipment belonging to the business, as well as all of the trade marks and patents, the amount owed has been set at 2.5 million euros, of which one million has already been paid, and the remaining 1.5 million is to be paid by the end of 2003. Carl Zeiss Meditec has also transferred to the company 44 employees, who are involved in research, production, and after-sales service and are able to continue all aspects of the company's activities; moreover, in the purchase price, they have included the supply of some of the administrative services, as well as the rent for the offices (about 1500 square meters), up until the end of August.

The assets and activity which have been purchase have a long history, which is essentially the history of the German medical laser market of the last years. Asclepion Meditec AG, also relying on its very strong ophthalmologic laser business, has been one of the most successful laser companies of the 90's, and crowned its brilliant growth with the IPO of the year 2000. However, bad business decisions in the following years and the failure of certain foreign ventures led to a redefinition of the business and to the merger in Carl Zeiss Meditec. Within the new structure the dermatological business played a secondary role, outside of the core operations of the company, and was unable to achieve any further growth. The revenues for the last fiscal years, closed September 30, 2002, are reportedly around 10 million euros, showing a decrease with respect to the previous years, and still decreasing in the following months. Historically, 50% of revenues have been obtained in Germany, therefore the current stagnation of the local market is one of the main causes for the drop in revenues.

Among its products, the dermatological erbium laser for skin ablation ("Dermablate" and "Dermastar" has the largest number of installations, around 700 units. With the growth of the aesthetic segment Asclepion developed laser diodes for hair removal and vascular lesions ("Mediostar"), which is the main product in terms of revenue. Moreover, Asclepion keeps its dental business, in which it performs as OEM supplier for erbium lasers distributed world-wide by KaVo, leader in the dental supply field.

By managing the company in accordance with the needs of its market segment and by exploiting the potential for co-operation within Quanta System, El.En. and Asclepion (design, development, production and distribution), the Asclepion business will be reinforced within a group that will be playing its role of European market leader. An interesting market position is held by Asclepion on the Eastern European markets, also due to its location in Jena, in former Eastern Germany. The management is defining the business plan that, by fine tuning of the product range, strict management of operating costs and an aggressive marketing policy, will refocus the activity and again position Asclepion among the main market players. The expected turnover for the first year of operation is around 5 million euros. It is worth mentioning that the Jena location represents a placement within a highly specialised area, where the research centres of Carl Zeiss and Jenoptik are co-operating with a top level University, whose long standing tradition in optics is a well known resource for the country.

Asclepion was wholly consolidated for the months of May and June and showed a sales volume of 1,164 thousand euros with an operating result of approx. 100 thousand euros. This result was, in part, negatively influenced by the excessive cost of personnel in relation to the volume of business, while it benefited, during that particular period, from not having to pay some of the general expenses, which were covered until the end of August by the purchase contract. In any case, from the very earliest days of new management, the underlying strategic program appeared to be confirmed, i.e., the possibility of exploiting to the utmost the privileged position of the company on some of the markets and a range of highly qualified products.

Deka LMS

In the month of April, the equity in Deka LMS, the company that distributes the medical lasers manufactured by El. En in Germany, was increased by purchasing a quota equal to 24,61% of the capital, for a value of 520 thousand euros from the partner and administrator of the company. The equity held therefore was increased to 76,16%. In the first six months of 2003, Deka LMS invoiced 730 thousand euros, an increase of 43% over the preceding financial period, and showed a net profit of 33 thousand euros.

Other noteworthy events which occurred after the end of the quarter

No events worthy of note occurred after the end of the quarter.

Short term evolution

In the first six months of 2003, the Group achieved the objectives of revenue and turnover that had been set. Considering the continuing crisis in the manufacturing sector, it is difficult to predict that, within the same area of consolidation, the industrial sector can meet predictions; on the other hand, the recent acquisitions may stimulate both the medical and industrial sales, so that budget objectives can be reached as far as the turnover is concerned.

Recovery of these objectives would allow a return to the profit levels which have been characteristic of the recent history of the Group.

Adequate financial assets have made it possible for the Group to plan for its further expansion by making other acquisitions. It will require a considerable effort to integrate the new companies into the Group and open new possibilities for development. Residual financial resources, although of a minor entity, still make it possible for us to conduct extraordinary financial operations without accepting onerous conditions, so that we are still able to take advantage of any opportunities that may arise.

For the Board of Directors

Deputy Member
Dr. Ing. Andrea Cangioli