El.En. Group

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED DECEMBER 31, 2000

(Board of Directors - February 14, 1001)

Report on the quarter ended December 31, 2000

Introduction

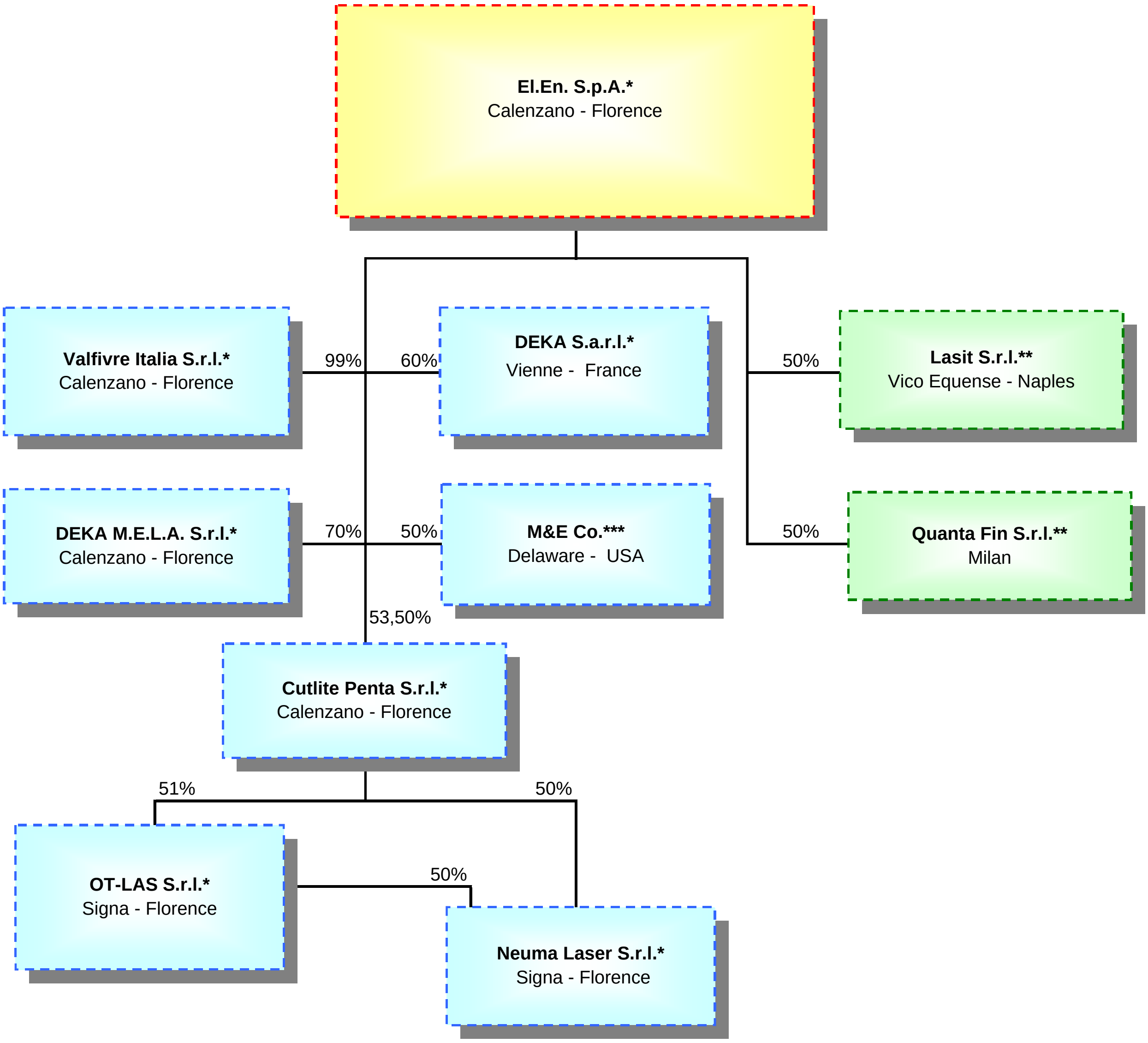
This report covers the El.En. Group consolidated financial information up to December 31, 2000 prepared and divulged in accordance with article 2.6.2. of the New Market of the Italian Stock Exchange regulations and IA 2.4.1. instructions, and complies with article 82 of Consob rulings ex resolution 11971 and following amendments. The Data and the information provided in this report have not been audited, being not compulsory.

The following information have been prepared on same principles previously adopted by the El.En. Group for the interim and annual reports. Therefore the comparison between the two periods ending on December 31, 1999 and December 31, 2000 is homogeneous.

All the amounts are expressed in millions of Italian lira 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 on December 31, 2000 is represented in the following chart.



* *Wholly consolidated*

** *Consolidated in relation to net worth*

*** *Consolidated in relation to net worth as of 2000*

During the period under examination no changes in the activities of the companies of the El.En. group has taken place.

El.En. S.p.A. is shareholder in a few other companies active in its same business, without holding a control on them; therefore the financial statements of these companies are not wholly consolidated in the group financial statement, but they are consolidated in relation to net worth.

Results of operations and financial position of the group

Consolidated income statements for the fourth quarter 2000 are showed below .

	31/12/1999 (three months)		**31/12/2000** (three months)		
Millions of lira		**Inc%**		**Inc%**	**Var%**
Net turnover from sales and services	13.325		14.947		12,2%
Variation in stock of finished goods and WIP	209		(401)		-292,2%
Other revenues and income	71		111		55,6%
Value of production	13.605	100,0%	14.657	100,0%	7,7%
Costs for raw materials	(5.263)	38,7%	(7.155)	48,8%	36,0%
Variation in stock of raw material	521	3,8%	1.696	11,6%	225,8%
Other direct services	(1.315)	9,7%	(1.591)	10,9%	21,0%
Gross margin	7.548	55,5%	7.607	51,9%	0,8%
Other operating services and charges	(2.173)	16,0%	(1.819)	12,4%	-16,3%
Added value	5.375	39,5%	5.788	39,5%	7,7%
For staff costs	(1.567)	11,5%	(1.863)	12,7%	18,8%
Gross operating profit	3.808	28,0%	3.925	26,8%	3,1%
Depreciation, amortisation and other accruals	(336)	2,5%	(1.150)	7,8%	242,0%
Net operating profit	3.471	25,5%	2.775	18,9%	-20,1%

Consolidated income statements for the year closed on December 31, 2000 are showed below.

Millions of lira	31/12/1999 (twelve months)	Inc%	31/12/2000 (twelve months)	Inc%	Var%
Net turnover from sales and services	46.225		50.248		8,7%
Variation in stock of finished goods and WIP	2.254		2.098		-6,9%
Other revenues and income	566		389		-31,2%
Value of production	49.045	100,0%	52.735	100,0%	7,5%
Costs for raw materials	(17.736)	36,2%	(21.720)	41,2%	22,5%
Variation in stock of raw material	1.220	2,5%	2.980	5,7%	144,4%
Other direct services	(6.277)	12,8%	(6.207)	11,8%	-1,1%
Gross margin	26.251	53,5%	27.789	52,7%	5,9%
Other operating services and charges	(5.984)	12,2%	(6.598)	12,5%	10,3%
Added value	20.267	41,3%	21.191	40,2%	4,6%
For staff costs	(5.979)	12,2%	(6.401)	12,1%	7,1%
Gross operating profit	14.288	29,1%	14.790	28,0%	3,5%
Depreciation, amortisation and other accruals	(1.043)	2,1%	(1.841)	3,5%	76,5%
Net operating profit	13.245	27,0%	12.949	24,6%	-2,2%

The following chart shows the net financial position of the group on December 31, 2000, September 30, 2000 and December 31, 1999.

Net financial position Millions of lira	**31/12/99**	**30/09/00**	**31/12/00**
Financial mid and long term debts	(6.553)	(5.942)	(5.819)
Financial mid and long term debts	**(6.553)**	**(5.942)**	**(5.819)**
Financial liabilities due within 12 months	(567)	(863)	(774)
Cash in banks and on hand	9.236	22.928	67.953
Net financial short term position	**8.669**	**22.065**	**67.179**
Total financial net position	**2.116**	**16.122**	**61.360**

Report on operations

During the period under examination the group operated in the design, production and distribution of laser sources and systems; the main markets on which the group operates are, like in the previous years, the market for medical and aesthetical laser systems and the market for laser systems for industrial applications. Beside these two main markets, the group is reporting sales for technical services effected to its own customers and in relation to research and development projects.

As at December 31, 2000 sales may be classified as follows among these four segments.

Distribution of consolidated earnings per business area

(in millions of lira)	**1999**	**2000**	**%**
Industrial systems and lasers	12.923	16.134	*25%*
Medical and aesthetic lasers	30.233	30.204	*0%*
R & D	235	262	*11%*
Service	2.834	3.649	*29%*
Total	46.225	50.248	*9%*

The industrial laser systems report a strong growth in sales, mainly due to our offer of a new generation of laser sources and systems. Sales on the medical market, still the most important for the group, are unchanged. The sales for research and development display a small increase. The sales for services and spare parts show a strong increase, as they are related to the total number of systems installed by the group, which has been considerably growing in the last years.

In effect the revenues for research and development, that are partially accounted for under the entry “Other revenues and income” had a real decrease of around 300 millions of lira with respect of the previous year, mainly because of the deny of approval of an important contract with the MURST (University and Scientific and Technological Research Office), for a contribution to R&D expenses that have been anyhow reported within the costs of the year.

The following chart shows the consolidated sales according to geographical distribution.

Distribution of consolidated earnings per geographical area

(in millions of lira)	**1999**	**2000**	**%**
Italy	31.941	26.057	*(18%)*
Europe	8.794	10.557	*20%*
Rest of the world	5.490	13.634	*148%*
Total	46.225	50.248	*9%*

The increase in sales volume has been achieved on the European and more significantly on the Rest of the world markets. In this concern we underline that the average sales prices granted to the group for the export are lower than the ones granted in Italy, due to the fact that sales abroad are mainly carried out through distributors, to whom we grant discount on the price list; indirect commercial expenses (trade fairs, promotions and advertising),and direct ones (commissions for agents), that in Italy are borne by the group, are borne by distributors. The decrease in the sales in Italy is also due to the major attention kept on penetration on the international markets, that should allow on the mid term a higher growth potential.

The medical/aesthetic market still remains the most important for the group in terms of consolidated sales volume, although the total sales are unchanged; within the market the following chart shows a classification of sales in the specific segments on which the group is offering its products:

Sales in the medical sector per type of application

(in millions of lira)	**1999**	**2000**	**%**
Surgical CO_2	1.943	3.198	*65%*
Physiotherapy	1.367	1.489	*9%*
Aesthetic	23.397	22.326	*(5%)*
Dental	2.451	1.229	*(50%)*
Other medical lasers	822	1.195	*45%*
Accessories	253	767	*203%*
Total	30.233	30.204	*0%*

The aesthetic medicine segment is the most significant: the group’s product range for it includes laser systems for hair removal, vascular lesions and lipolisis. During the year the product range has been improved with long pulse Nd:YAG laser systems for vascular lesions and hair removal providing higher power than the ones introduced in the previous years: the products have been developed according to the market demand for laser system with higher productivity. We believe that this product repositioning could contribute to the expected development of the business during the next years.

During year 2000 the distribution network for the dental market has been changed, by signing a strategic partnership with Anthos Impianti, leader in the manufacturing of apparels for dentists’ offices: the cooperation led to a redesign and improvement of the product range for the market segment, and, after the first sales effected in the last months of year 2000, it is expected to generate good results for the year 2001.

The growth of sales in the accessories is due to the need, for some medical procedures, to integrate the laser system with support instrumentations and tools.

The industrial applications market showed an interesting growth rate, as a result of the group's design and research team effort in redesigning the laser cutting systems product range and improving the laser sources performances. The following chart shows the detail of the sales in the four main segments of the industrial applications market, both for year 1999 and year 2000.

Sales in the industrial sector per type of application

(in millions of lira)	**1999**	**2000**	**%**
Cutting	8.622	10.072	*17%*
Marking	3.510	3.456	*(2%)*
Laser sources	499	2.124	*326%*
Welding	292	482	*65%*
Total	12.923	16.134	*25%*

The increase in the laser sources sales is the outstanding result of the repositioning of the laser sources product range on an improved cost/performance ratio, that has appealed the market.

The after sales service activity increased its sales volume, as an effect of the growing number of laser systems installed by the group. The group has its own service departments in Italy, France, Far East and South America, while for the rest of the world spare parts are supplied to service departments managed by third parties which have received specific training with frequent updates by the group's staff. This activity has a fundamental strategic relevance, playing efficiency, timing and cost effectiveness of the after sales service a major role in the customers perception of the "extended product" quality, that sets the market positioning of our products.

The gross margin increases from the 26.251 millions of lira of 1999 to the 27.789 millions of lira of 2000, with a 5,9% growth. Nevertheless its impact on the Value of production shows a small reduction, partially due to the missing research and development revenues previously described, and partially to a reduction of average sales prices.

The Other operating services and charges accounted for 6.598 millions of lira in year 2000 (5.984 millions of lira in year 1999). The increase is due to various causes, among them we note the increase of R&D expenditure, the costs for the reorganization in order to sustain the IPO process and the expansion scheduled for the next years, the commercial and marketing expenses needed to reinforce the presence of the group and its trademarks on the domestic and foreign market.

For staff costs rose by a 7,1% up to 6.401 millions of lira. The number of employees of the group increased from 86 on December, 31, 1999 to 105 on December 31, 2000. The new hiring involved various functions, markedly international sales (in France) and research and development. Moreover we note that most of the increase in for staff costs has taken place in the fourth quarter, during which the group provided itself with the organization needed for a sustained growth of its activities. With the IPO the holding company El.En. SpA approved a stock options plan.

The Gross operating Profit (EBITDA) accounts for 14.790 millions of lira, increasing from the 14.288 millions of lira of the previous year; the decreased impact on the Value of production is confirmed for this margin too, due, in addiction to what already stated for the Gross margin, to the higher costs related to the structural effort of the group described in the last two paragraphs.

The entry Depreciation and amortization shows a remarkable increase with respect of the previous year, and has a substantial impact on the results of the last quarter; during the month of December the holding company El.En. SpA booked, in addiction to the investments related with ordinary operations, among the intangible assets the costs for the IPO on the Nuovo Mercato. In the entry “Set-up and expansion costs” we booked around 2.500 millions of lira, of which 2.141 millions for commissions due to sponsor, global coordinator and underwriting syndicate, and around 1.500 millions of lira related to professional services including legal due diligence, audit of the internal control system, communication and advertising expenses. The share of these costs attributed to the fourth quarter of year 2000 has been worth around 700 millions of lira.

The Net operating profit is 12.949 millions of lira (13.245 millions of lira in 1999), suffering from the higher depreciation and amortization of the costs borne for the IPO on the Nuovo Mercato. The effect is more evident on the result of the fourth quarter, to which the costs described in the previous paragraph are wholly charged. Therefore the impact on the value of production of the net operating profit for the twelve months period drops from 27,0% of 1999 to 24,6% of 2000.

Comments on Research and development activities

During year 2000 the group has undertaken, as in the previous years, an intense activity of research and development, aimed to the creation of innovative products and of new application methodologies both in the medical and the industrial application fields. R&D plays a fundamental strategic role for the group, and the ability to introduce on the markets new innovative products for a wide range of applications has always been the strategic focus of our activity.

The R&D activities are partially financed by contracts underwritten with research centers and the MURST (University and Scientific and Technological Research Office), and by contributions on staff costs that can be granted in the form of tax credits, too.

Comments on the trend of the net financial position

The net financial position of the group at the end of year 2000 is positive for around 61 billions of lira. This amount in mostly due to the cash revenues of the two increase of share capital effected during the year: the first during the month of May allowed to list Banca Toscana Spa among the shareholders and gained to the company cash for 17,5 billions of lira; the second, aimed to the listing of El.En. Spa on the Nuovo Mercato, gained to the company, net of underwriting commissions, cash for around 48 billions of lira.

The strong position in cash, to be used for the enlargement of the group's business, if needed with extraordinary M&A operations, overwhelms the mid and long term indebtedness of the group, related to the financing of R&D expenditure and for the acquisition of the plant in which the holding company and the controlled companies Cutlite Penta Srl, Valfivre Italia Srl e Deka M.E.L.A. Srl operate.

Such a strong financial position will have its positive effect on the financial income of the group, giving its contribution to the net profit.

Other significant events of the quarter

During December 2000 El.En. SpA closed its public offer for the sale and the subscription of its ordinary shares, for the trading on the Nuovo Mercato organized and operated by Borsa Italiana SpA.

The operation involved the increase of the share capital from 3.600.000.000 lira to 4.600.000.000 lira. The revenues of the increase of share capital, before the underwriting commission, have been of 50.172.731.513 lira, of which 49.172.731.513 lira accounted for in the share premium reserve in the net worth. The underwriting commissions accounted for 2.141.129.953 lira; this amount has been booked in the intangible assets within the entry "Set-up and expansion costs", and will be amortized over a time span of 5 years.

The share capital has been then increased to 4.640.089.000 lira as en effect of the deliberation of the board of directors of November 3, 2000, actuating the appointment of the shareholder meeting held on July 7, 2000, that approved the three years stock option plan attributed to some employees of the group.

Constitution of a new company in Germany

During the month of December the appointment for a joint venture in a new controlled company for the distribution of products in the medical/aesthetic market in Germany has been signed. The operation, closed during January, 2001, involves the acquisition of a 51% control stake of DEKA-LMS Gmbh, through a share capital increase of DM 1 million (around 1 billion of lira). DEKA-LMS Gmbh inherits the business of the company managed by our former distributor in Germany, who holds the minority of the shares and the managing director position in the new company. The joint venture is aimed to intensify the activity and obtain deeper market penetration in one of the most important world markets for the medical/aesthetic business.

Short term evolution

The plans set by the management for the current year forecast a growth of the activities of the group, markedly on the industrial laser applications market on which the expected growth rate is higher than in the other market segments. The goal for the current year is the penetration in international markets, if needed through extraordinary M&A operations that could be closed with the cash available after the share capital increases effected in year 2000.

For the Board of Directors

The Managing Director

Andrea Cangioli