EL.EN. GROUP

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDING March 31st, 2003

(Board of Directors – May 15th, 2003)

Report on the quarter ending March 31st, 2003

Introduction

This report covers the El.En. Group consolidated financial statement up to March 31st , 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 audited, 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.

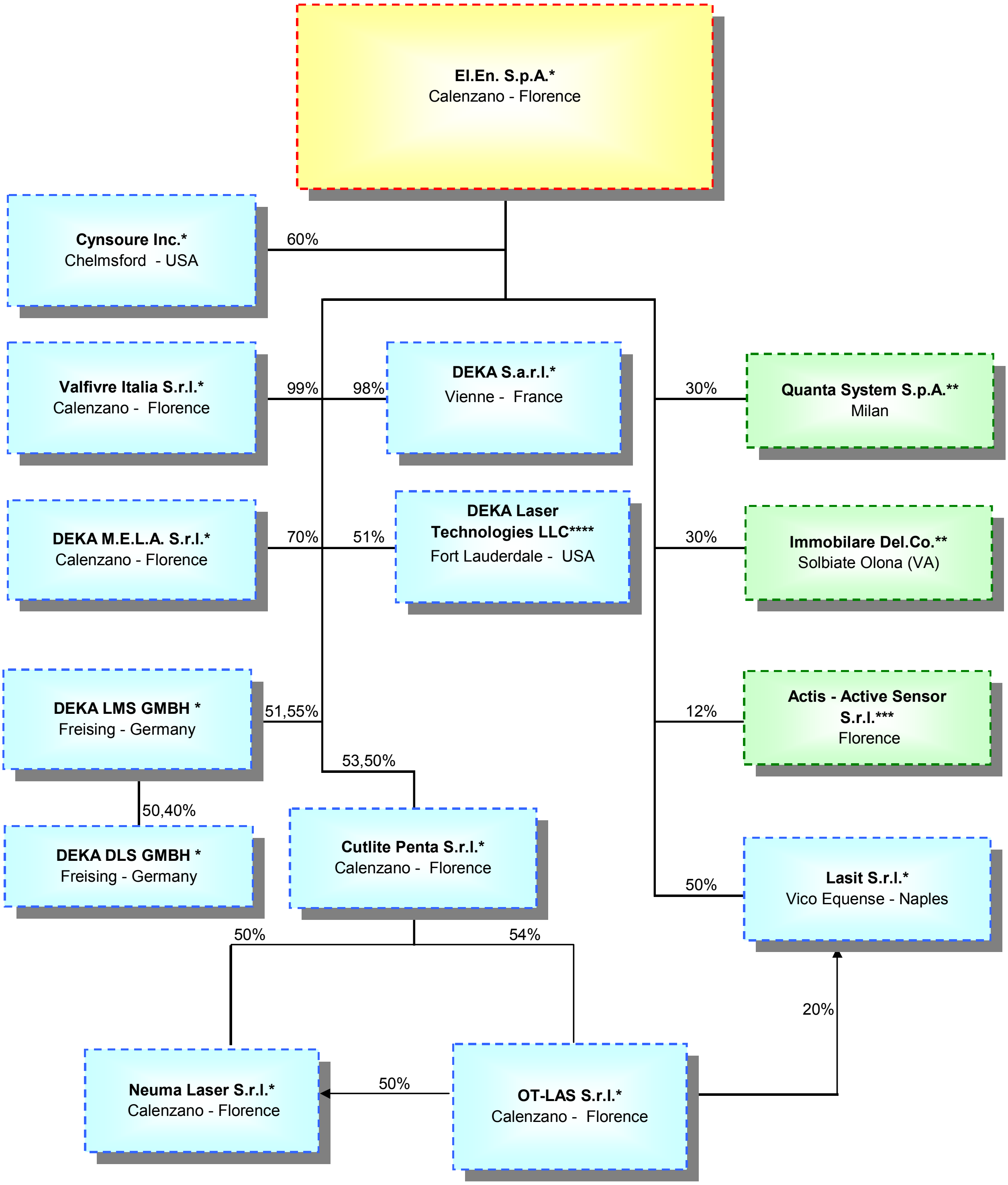
The results for the quarter ending on March 31st 2003 are shown in comparative form with those for the same financial period last year. After the purchase of Cynosure which was concluded on May 6th 2002, this company was included in the area of consolidation starting on the date of acquisition. The tables for the profit and loss account and the tables showing the analysis of the consolidated sales are also shown excluding the new company from the area of consolidation so that a consistent comparison is possible with the same period last year. All amounts are shown in thousands of euros unless otherwise indicated. The results of Lasit Srl, have been wholly consolidated starting with this quarter and are included in the area of consolidation "without Cynosure", considering that their influence on the results of the Group is insignificant.

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 March 31st , 2003 is represented in the following chart.

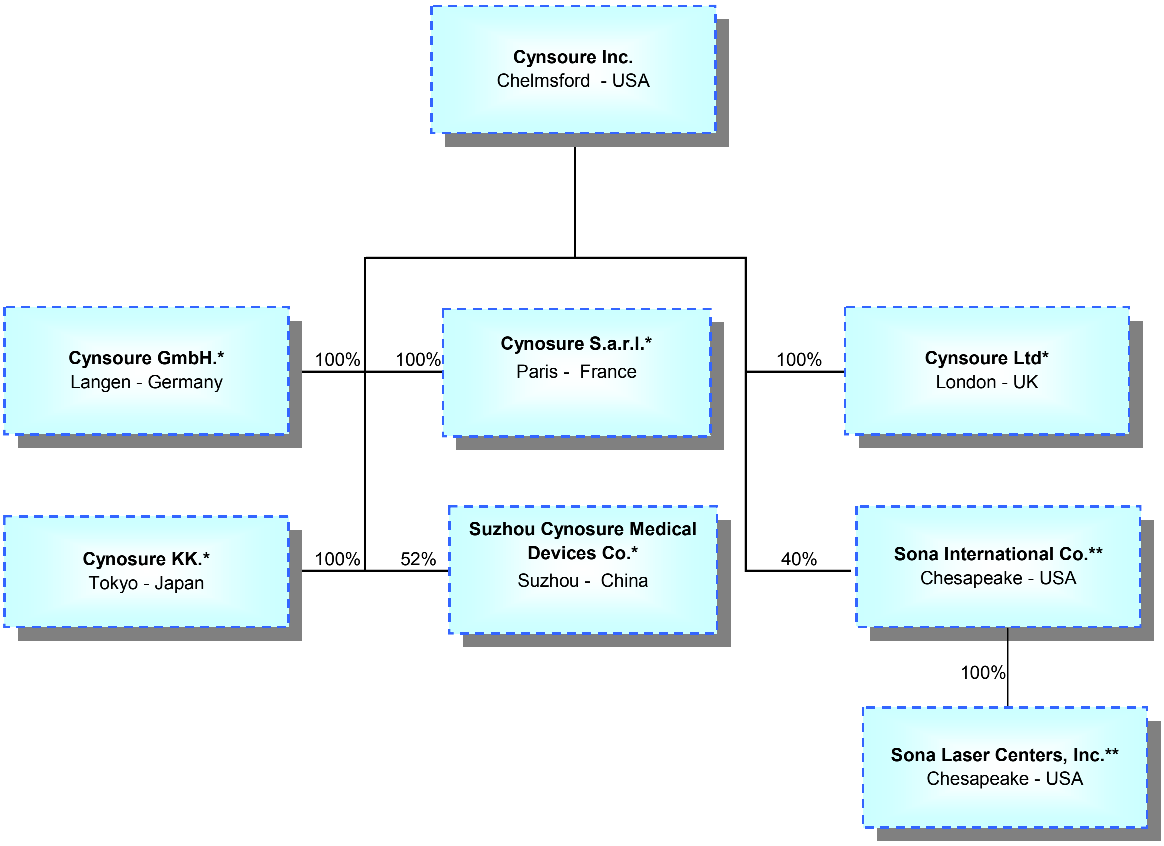


* *Entirely consolidated*

** *Consolidated in relation to net worth*

*** *Kept at cost*

Cynosure Inc. itself controls a group of companies. As of March 31st , 2003 the structure of the Cynosure group is the following:



* *Entirely consolidated*
** *Consolidated in relation to net worth*

On May 6th , 2002 Cynosure Inc, a prestigious American company active in the design, production and sale of medical laser systems, entered the El.En. Group following the acquisition of 60% by El.En. SpA. This transaction was of major importance for the group, because Cynosure's size, in terms of annual revenues and number of employees, has almost doubled the Group's size, and because of the growth opportunities on the American and international markets that Cynosure will allow us to exploit.
Cynosure Sarl in France, Cynosure Ltd in the UK, Cynosure Gmbh in Germany and Cynosure KK in Japan are wholly controlled subsidiaries; they act as local distributors and perform the technical after sale service; Cynosure Suzhou in China is a 52% controlled joint venture with a local partner that also manufactures devices for dermatological use.
Moreover, Cynosure owns 40% of Sona International Co., a company that runs laser hair removal centres, and is a customer of Cynosure for the rental of the laser devices used for its activity.

During the first month of the year Deka Laser Technologies LLC was founded in the US; the company, controlled by El.En., will act as distributor in the US for the dental market. For the purposes of the present report the company has been consolidated at cost.

El.En. SpA has equities in other companies like Quanta System SpA and Immobiliare Del.Co. Srl over which, however, it does not exert control; for this reason the results of these companies are not wholly consolidated into the financial statement of the Group, but are consolidated using the shareholders' equity method. These companies do not draw up quarterly statements, and for this reason, for purposes of creating the consolidated quarterly report up to March 31st 2003, we have entered amounts which are unvaried with respect to those entered on December 31st 2002.

Results of operations and financial position of the group

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

Profit and loss account	**31/03/2003**	**Inc.%**	**31/03/2002**	**Inc.%**	**Var.%**
Net turnover from sales and services	12.997	86,4%	7.630	96,6%	70,3%
Variation in stock of finished goods and WIP	1.897	12,6%	234	3,0%	711,8%
Other revenues and income	147	1,0%	34	0,4%	336,5%
Value of production	**15.042**	**100,0%**	**7.898**	**100,0%**	**90,5%**
Costs for raw materials	6.896	45,8%	4.107	52,0%	67,9%
Variation in stock of raw material	(706)	-4,7%	(736)	-9,3%	-4,1%
Other direct services	1.605	10,7%	901	11,4%	78,2%
Gross margin	**7.247**	**48,2%**	**3.626**	**45,9%**	**99,8%**
Other operating services and charges	2.978	19,8%	1.133	14,3%	162,9%
Added value	**4.268**	**28,4%**	**2.493**	**31,6%**	**71,2%**
For staff costs	3.705	24,6%	1.313	16,6%	182,2%
Gross operating profit	**564**	**3,7%**	**1.181**	**14,9%**	**-52,2%**
Depreciation, amortisation and other accruals	785	5,2%	353	4,5%	122,6%
Net operating profit	**(221)**	**-1,5%**	**828**	**10,5%**	
Net financial income (charges)	103	0,7%	175	2,2%	-41,5%
Operating profit	**(119)**	**-0,8%**	**1.003**	**12,7%**	
Value adjustments (Devaluations)	732	4,9%	0	0,0%	
Extraordinary income (Charges)	(1)	-0,0%	(13)	-0,2%	-89,0%
Earning before taxes	**612**	**4,1%**	**990**	**12,5%**	**-38,1%**

The chart below illustrates the data of the profit and loss account for first quarter 2003, shown in comparison with the results for the preceding period, excluding Cynosure from the area of consolidation.

Profit and loss account - without Cynosure Inc.	**31/03/2003**	**Inc.%**	**31/03/2002**	**Inc.%**	**Var.%**
Net turnover from sales and services	8.159	81,5%	7.630	96,6%	6,9%
Variation in stock of finished goods and WIP	1.694	16,9%	234	3,0%	625,1%
Other revenues and income	153	1,5%	34	0,4%	351,4%
Value of production	**10.006**	**100,0%**	**7.898**	**100,0%**	**26,7%**
Costs for raw materials	5.016	50,1%	4.107	52,0%	22,2%
Variation in stock of raw material	(348)	-3,5%	(736)	-9,3%	-52,7%
Other direct services	1.180	11,8%	901	11,4%	31,0%
Gross margin	**4.157**	**41,5%**	**3.626**	**45,9%**	**14,6%**
Other operating services and charges	1.521	15,2%	1.133	14,3%	34,2%
Added value	**2.637**	**26,4%**	**2.493**	**31,6%**	**5,7%**
For staff costs	1.756	17,5%	1.313	16,6%	33,8%
Gross operating profit	**881**	**8,8%**	**1.181**	**14,9%**	**-25,4%**
Depreciation, amortisation and other accruals	381	3,8%	353	4,5%	8,2%
Net operating profit	**499**	**5,0%**	**828**	**10,5%**	**-39,7%**
Net financial income (charges)	110	1,1%	175	2,2%	-37,2%
Operating profit	**609**	**6,1%**	**1.003**	**12,7%**	**-39,3%**
Value adjustments (Devaluations)	(2)	-0,0%	0	0,0%	
Extraordinary income (Charges)	5	0,1%	(13)	-0,2%	
Earning before taxes	**613**	**6,1%**	**990**	**12,5%**	**-38,1%**

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

Net financial position		
	31/03/2003	**31/12/2002**
Financial mid and long term debts	(1.719)	(1.871)
Financial mid and long term debts	*(1.719)*	*(1.871)*
Financial liabilities due within 12 months	(854)	(888)
Cash in banks and on hand	24.717	27.129
Net financial short term position	*23.863*	*26.241*
Total financial net position	**22.143**	**24.369**

Report on operations

During the financial period 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..

In a nutshell, the consolidation of Cynosure allowed the group to mark a 70% revenue increase; without this contribution the growth would have been almost + 7%.

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

with Cynosure	**31/03/2003**	**Inc%**	**31/03/2002**	**Inc%**	**Var%**
Industrial systems and lasers	2.609	20,1%	3.047	39,9%	-14,4%
Medical and cosmetic lasers	7.789	59,9%	4.033	52,9%	93,1%
Ricerca	50	0,4%	35	0,5%	45,7%
Service	2.549	19,6%	515	6,8%	394,6%
Total	12.997	100,0%	7.630	100,0%	70,3%

without Cynosure	**31/03/2003**	**Inc%**	**31/03/2002**	**Inc%**	**Var%**
Industrial systems and lasers	2.609	32,0%	3.047	39,9%	-14,4%
Medical and cosmetic lasers	4.719	57,8%	4.033	52,9%	17,0%
Ricerca	25	0,3%	35	0,5%	-28,4%
Service	806	9,9%	515	6,8%	56,5%
Total	8.159	100,0%	7.630	100,0%	6,9%

The medical revenues, pushed by Cynosure, marks a 93,1% increase, representing 59,9% of the group revenues. Without Cynosure, the 17% growth is on target with the forecasts..

The trend in the industrial segment has been much harder: after a year of outstanding growth and brilliant profits we report a slow down, temporary marking a 14% revenue decrease, without achieving the scheduled increase. Such a performance caused a drop in the profitability both of the Group companies involved in the segment, and of the entire Group.

Revenues for 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.

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 121 thousand euros for the first quarter of 2003.

The revenues split according to geographic distribution is showed on the following chart:

with Cynosure	31/03/2003	Inc%	31/03/2002	Inc%	Var%
Italy	3.524	27,1%	4.481	58,7%	-21,4%
Europe	3.486	26,8%	1.161	15,2%	200,3%
Rest of the world	5.988	46,1%	1.988	26,1%	201,2%
Total	12.997	100,0%	7.630	100,0%	70,3%

without Cynosure	31/03/2003	Inc%	31/03/2002	Inc%	Var%
Italy	3.480	42,7%	4.481	58,7%	-22,3%
Europe	2.533	31,0%	1.161	15,2%	118,2%
Rest of the world	2.147	26,3%	1.988	26,1%	8,0%
Total	8.159	100,0%	7.630	100,0%	6,9%

The entrance of Cynosure into the Group accentuates the international character of the company, so that Italy is now represented only for 27,1% , whereas this would be 42,7% without the acquisition of the new company Including Cynosure, it is evident how the increase in sales volume is a direct result of the activity on the markets where this company operates, i.e., Europe and the rest of the world. For the area of consolidation, Europe has turned out to be most successful market, thanks in part to the activity conducted by the branch companies in France, and Germany in the medical sector, while the drop off in Italy is chiefly due to the crisis in the industrial sector; in the rest of the world an increase is shown which is consistent with the growth of the Group (without Cynosure).

For the medical and cosmetic sector, which represents about 60% of the sales of the Group, the following chart shows the individual areas of activity and their relative sales volumes.

with Cynosure	31/03/2003	Inc%	31/03/2002	Inc%	Var%
Surgical CO2	295	3,8%	564	14,0%	-47,7%
Physiotherapy	138	1,8%	144	3,6%	-4,8%
Cosmetic	4.956	63,6%	2.380	59,0%	108,3%
Dental	487	6,3%	554	13,7%	-12,1%
Other medical lasers	1.842	23,7%	314	7,8%	487,5%
Accessories	71	0,9%	77	1,9%	-8,1%
Total	7.789	100,0%	4.033	100,0%	93,1%

without Cynosure	31/03/2003	Inc%	31/03/2002	Inc%	Var%
Surgical CO2	308	6,5%	564	14,0%	-45,4%
Physiotherapy	138	2,9%	144	3,6%	-4,8%
Cosmetic	3.178	67,3%	2.380	59,0%	33,5%
Dental	487	10,3%	554	13,7%	-12,1%
Other medical lasers	548	11,6%	314	7,8%	74,7%
Accessories	62	1,3%	77	1,9%	-20,4%
Total	4.719	100,0%	4.033	100,0%	17,0%

The cosmetic sector has led the growth in this field, thanks mainly to the depilatory systems and devices for eliminating cellulitis, which have given the company the greatest satisfaction in terms of revenue. In this sector, El. En. is present with Nd:YAG laser and Photosilk and Triactive systems, while Cynosure operates with its own Alexandrite type systems. Excellent results have also been obtained with the so-called "photorejuvenation" which are non-invasive cosmetic treatments requiring no hospitalisation. The distribution of El. En. products in the USA by Cynosure, has already taken on interest proportions with the Nd:YAG Smartepil systems and will continue with the inclusion of new products, which were introduced on the market during the (American Academy of Dermatology) meeting in San Francisco at the end of March. The category of "Other lasers" which includes the Dye lasers promoted by Cynosure for use in the vascular and dermatological fields shows an increase of 480%; the sector includes Excilite system for treating psoriasis as well as Olmio systems for traumatology applications and Nd:YAG for surgical applications of hyperthermia which show a considerable increase (74%) even without the presence of Cynosure. The dental sector shows a decrease which should be considered a natural result of the huge sales volume of the last months of 2002, which conditioned the number of orders received in January. The therapy sector now tends to assume a low profile in the sales of the Group, which, in any case, is making a considerable effort in this sector in research and development of new products and new application methods. CO_2 lasers for surgery also show a decrease in sales volume. Sales volume for accessories has dropped because of the decrease in the CO_2 sector, to which most of the accessories are related.

Sales volume in this sector is on the whole satisfactory and corresponds to expectations. The new products developed in the last few months will contribute to the continued growth of this sector also in the near future.

In the sector of industrial applications, the chart below shows the details related to revenue according to the type of product. Since Cynosure does not operate in the industrial market, we are presenting only one chart.

	31/03/2003	Inc%	31/03/2002	Inc%	Var%
Cutting	668	25,62%	1.566	51,38%	-57,31%
Marking	1.490	57,10%	1.443	47,36%	3,23%
Laser sources	370	14,17%	-		
Welding	81	3,11%	38	1,25%	112,53%
Total	2.609	100,00%	3.047	100,00%	-14,37%

The continuing crisis in the manufacturing sector has caused an overall drop in the sales volume in this area. Even though a growth trend similar to that shown during the previous financial period had not been predicted, the growth in this sector was still below expectations.

In the sector of industrial cutting devices, there has been a marked drop. Besides the difficult economic climate, this is derived from the closure of many of the negotiations which were taking place at the end of 2002. However, since April, the market would seem to be more dynamic, though in a moment of crisis for the sector. The purchase of the American company Lasercut (see detailed description below) represents an important opportunity for development in this sector because it opens the American market to the products of the Group..

The sector of industrial marking devices shows a slight increase in sales volume, most of which, however, is due to the consolidation of the results of Lasit, the majority of which are related to this area. Without the revenue from Lasit (about 690 thousand euros) the sales volume would have shown a drop.

The greatest satisfaction in the industrial sector comes from two “minor” areas. During the preceding financial period, the sales volume for laser sources was negligible to the extent that the particular category was not even mentioned; in 2003 El.En. is gaining stature as a reliable supplier of medium and high-powered laser sources with slow and fast axial flow technology. The welding and restoration systems have also been successful during this period in a sector in which we had not predicted results any better than those obtained before now.

Before examining in detail the revenue trends for the first quarter of 2003, we wish to call attention to the main factors which have determined these results. In the area of consolidation without Cynosure, profitability has been penalised by the decrease in sales in the industrial sector, while, at the same time, there was a rise in the costs for personnel and for the structures required for the expected growth. Notwithstanding the favourable trend in the medical and customer service sectors, the operating results do not come close to those of the first quarter of 2002. Cynosure shows a good before-taxes result; the operating loss is more than counteracted by the brilliant results obtained by the associated company, Sona. Although it is lower than predicted in the budget for the first quarter (which is the most difficult season for Cynosure), The operating loss of Cynosure, together with the entering into accounts of the amortisations on the difference in consolidation derived from the goodwill paid upon acquisition determine, on a consolidated level, an operating result which shows a slight loss.

The margin is about 7.247 thousand euros , which is an increase in comparison to the preceding financial period and has an incidence on the value of production which rises to 48,2% from 45,9%. This increase is justified by the greater margin of the sales made by Cynosure with respect to those of the El.En. Group before the acquisition; the same incidence in the statement of account which excludes Cynosure in fact shows a reduction, even though there is an increase of 14,6% in the overall value. Several other factors should be taken into consideration: the consolidation of Lasit, which operates on a market with tighter margins, determines a reduction in the percentage margin; the increase in the inventory of finished products, which is about 15% of the value of production, by definition contributes only a negligible amount to the margin; the pressure of the competition, in particular in the industrial sector, where the greatest number of difficulties has occurred, have in fact caused an actual reduction in the sales margins.

The costs for services and operating charges is about 2.978 thousand euros, with an incidence of 19,8% on the Value of Production, which represents an increase of 14,3% over the same period in 2002; excluding Cynosure, this incidence for the period involved, drops to 15,2%, which is only slightly higher than the first quarter of 2002. The difference in the amount of incidence between the two areas of consolidation demonstrates how the Group without Cynosure manages to keep a lighter cost structure, and how Cynosure, during this period, has not been able to develop a sales volume sufficient to reduce the incidence of fixed costs; only with higher sales volumes, which are, as a matter of fact, predicted in the near future, can Cynosure achieve a balanced income.

The increase in operating costs which was percentage-wise greater than that of the sales volume, contributed to the decrease in the profitability of the Group, and was derived in part from the failure to achieve, especially for the industrial sector, the sales volume which was predicted in the budget. Within this aggregate of costs, we have entered, among other items, marketing expenses as well as some research expenses which are described in detail in the relative paragraph.
The expenses for employees were 3.705 thousand with a percentage incidence which rose to 24,6% over the 16,6% shown for the first quarter of 2002. The number of staff members rose from 295 on December 31st 2002 to 303 on March 31st 2003. Although new staff members were hired for all types of company activities, the main interest of the company at this time is to re-enforce the research and development team in order to keep the company competitive on a mid- to long-term basis. Part of the expenses for the personnel involved in research will be reimbursed, as described in the relative paragraph. For this aggregate of expenses, the same considerations made for the cost of services and operating charges apply, especially where for Cynosure a greater incidence on the Value of Production is evident, and in those cases where the incidence has increased even without considering Cynosure.

As a consequence of the factors described above, the Gross Operating Margin is about 564 thousand euros, which shows a decrease of about 52,2% with an incidence of 3,7% on the Value of Production; the GOM without Cynosure rises to 881 thousand euros, which is 25,4% less than the same period last year.

The entry under the heading of amortisations and accruals is double (+122%) what it was last year, and the incidence on the value of production has also increased. Without Cynosure the increase is much lower (8,2%). In the consolidated statement in fact the amortisation (about 172 thousand euros for the period) of the difference in consolidation which is due to the amount paid for goodwill for the acquisition of Cynosure represents a considerable sum. Cynosure itself conducts an activity, the leasing of hair removal equipment, the structure of which requires a certain volume of investments, and therefore also of amortisations which is greater than that which was necessary for the Group before acquisition of the company, considering that, in general, their activity does not require for its normal development, large investments in technical assets. The expenses for research, in fact, are far more important, and are entered into accounting with the costs for personnel and operating costs in general.

Consequently an operating loss of -221 thousand euros has been registered at the consolidated level. Excluding Cynosure from the area of consolidation, the operating result is, however, in the black for 499 thousand euros which is equal to 5% of the sales volume, down 39,7% from the preceding year.

The result of the financial management is in the black for 103 thousand euros; the decrease in this amount, which was shown also for last year, is due to the fall in interest rates and to the use of a large portion of the cash available for the Cynosure operation.

Value rectifications are positive for an amount of 732 thousand euros and, even at the consolidated level, comport a positive pre-tax result. Almost all of this amount is due to the entry into the consolidated statement of Cynosure of the results of the associated companies Sona International e Sona Laser Centers. The two companies operate in the area of hair-removal centres, where the laser equipment developed by Cynosure is leased using the revenue-sharing formula. Sona International manages some of the centres directly and co-ordinates the activity of the branches. Sona Laser Centres is supposed to promote the diffusion of the Sona Centres through franchising contracts, and generates income from the services supplied for the start up of new centres and for the use of the brand name and business model. In the first three months of this year Sona International registered a net profit of 458 thousand dollars, and Sona Laser Centers for 330 thousand dollars. These results have been entirely entered into the account statement of Cynosure and are part of the value of the investment, originally for 1,4 million dollars, which was brought back to zero during 2002. It should be pointed out that the success of the centres also contributes to the positive operating results of Cynosure, which, in the first three months of this year, received income from Sona for revenue sharing for an amount of 313 thousand dollars.

For the other companies evaluated with the shareholders' equity method, i.e., Quanta System SpA and Immobiliare Del.Co. Srl, which do not submit quarterly statements, for cautionary reasons we have considered that they have broken even, and consequently no rectification of value has been made at the consolidated level.

Ordinary financial management shows no particular points of interest.

The result before taxes is 612 thousand euros. Its incidence on the value of production is 4,1%, which is a decrease from the 12,5% shown in 2002; even without Cynosure the incidence of the Value of Production showing a drop of 6,1% at 613 thousand euros.

Comments on the trend of the net financial position

The net financial position is in the black for an amount of over 22 million euros.

During this quarter the net financial position decreased by about 2 million euros because of the drop in operating revenues and the increase in circulating cash which ai shown in the profit and loss account by the increase in inventory for the period.
No extraordinary uses were made during the period, therefore, except for the operating variation described above, and the Group, as of March 31st maintained the cash necessary to close the purchase operations which are part of the development strategy of the company. In the weeks that followed, thanks, in fact, to the cash available, several transactions of great strategic importance were concluded; these transactions are described in the relative paragraph.

Cash at hand is used by the Group for short term no-risk investments.

Gross investments effected during this quarter

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

Progressive	**31/03/2003**	**31/03/2002**
Intangible assets	23	4
Tangible assets	384	218
Equity investments	0	25
Total	407	248

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 first 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 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 beams in optical scanners used for laser decoration of various materials.
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. 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:

thousands of euro	**31/03/2003**
Costs for personnel and general expenses	1.403
Costs for instruments and equipment	97
Costs for building of prototypes	123
Costs for technological consultants	143
Services provided	24
Intangible assets	-
Total	**1.789**

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 588 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 14% of the consolidated sales volume of the Group. The amount related to Cynosure, which is, as mentioned above, 588 thousand dollars, represents about 12% of its sales volume; the remainder has been paid almost entirely by El.En. S.p.A. and is equal to 19% 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 121 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

In the month of February, in Fort Lauderdale (Florida) we founded Deka Laser Technologies LLC, a start up company created for the distribution in the USA of laser systems manufactured by El. En, for dentistry. El.En. has a controlling interest in the company, and the rest of the shares, as has been company policy in the past, are owned by the operating managers. Deka Laser Technologies can offer all of the vast range of El.En. products for this field: CO2 lasers, using erbium, using neodimium (models Smarty A10 and Smartfile) and diode (models Smarty A-800, Smarty A-900 and Smartlite), which cover all types of laser applications in the field of dentistry.
The investment in terms of capital is negligible (500 dollars); El.En. will support the activity by financing the start up expenses; as of this date, the financing expended is not over 100 thousand dollars.
It is expected that the sales volume will develop gradually; the business plan predicts a turnover of approx.1 million dollars for the first 12 months of operations.

Other significant events after the end 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.

Asclepion Laser Technologies

During the first days of May, El.En. Spa closed a deal which brought within the group the dermatological activities of Asclepion, owned by Carl Zeiss Meditec AG of Jena, Germany.

The transaction was made in cooperation with Quanta System Spa, of which El.En. holds 30% of the shares, on a 50% / 50% basis: the two companies jointly took control of Asclepion Laser Technologies Gmbh, paying 25.000 euros for 100% of its shares. 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. El.En. and Quanta will be responsible for the payment the start up has to effect to Carl Zeiss Meditec for the inventory, the fixed assets, the trademarks and patents related to the purchased business. Moreover, Carl Zeiss transferred 44 employees to Asclepion, covering the areas of R&D, marketing, service and production.

The purchased assets and activity have a long history, w2hich is the history of the German medical laser market of the last years. Asclepion Meditec AG, relying on its very strong ophthalmologic laser business also, has been one of the most successful laser companies of the 90's, and crowned its brilliant growth with the IPO of 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 on the market of supplies to dental offices.

By managing the company in accordance to the needs of its market segment and by exploiting the synergy potential 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.

Deka LMS

In the month of April, the equity in Deka LMS, the company that distributes in Germany the medical lasers manufactured by El. En 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%.

Short term evolution

In the first quarter 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

The President
Dr. Ing. Gabriele Clementi