

EL.EN. GROUP

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31st, 2002

(Board of Directors – February 14th, 2003)

Report on the quarter ending December 31st, 2002

Introduction

This report covers the El.En. Group consolidated financial statement up to December 31st, 2002 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.

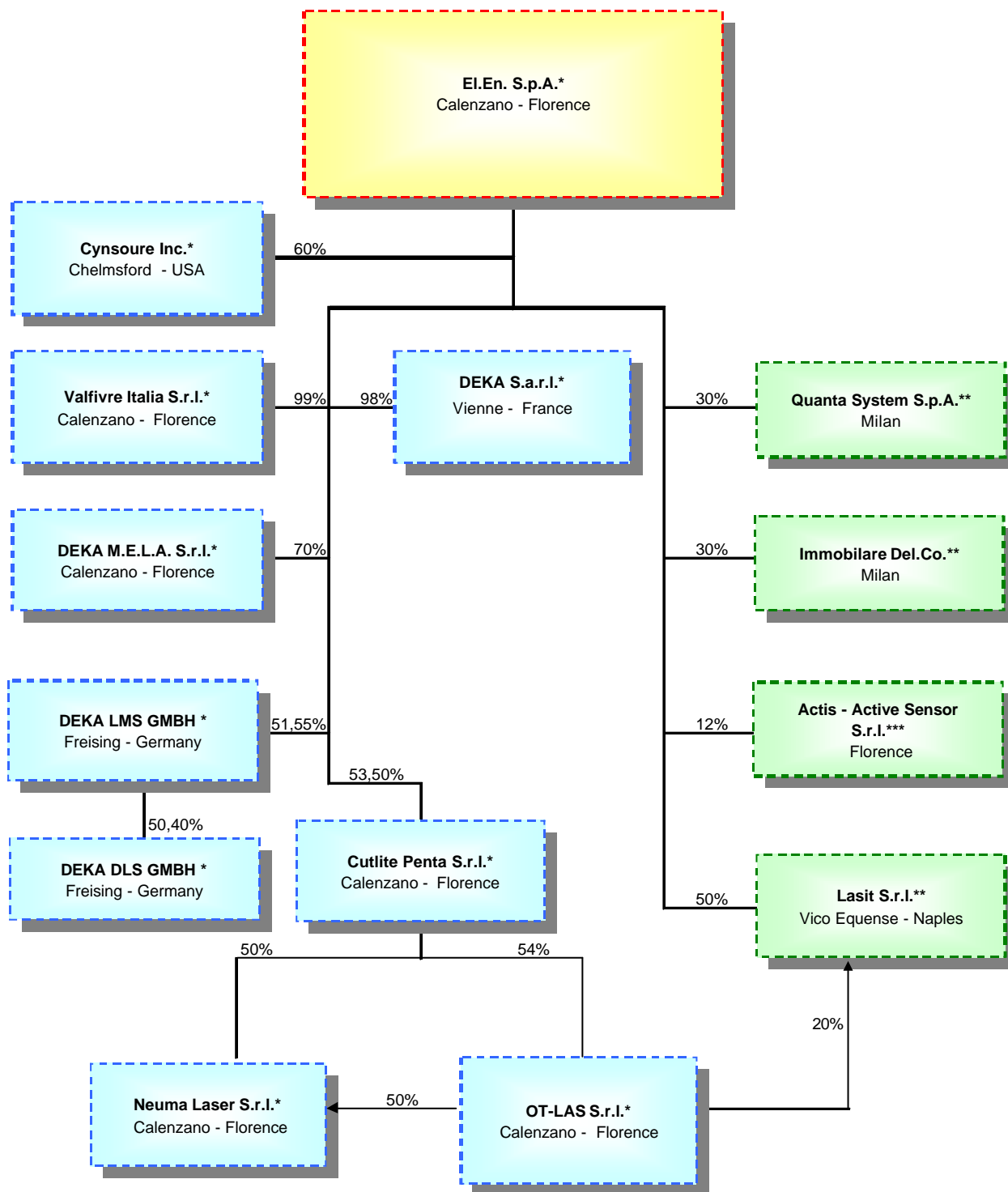
The financial results for the fourth quarter of the year 2002 can be compared with the consolidated financial drawn for the quarter ended on December 31st, 2001. Following the acquisition of Cynosure closed on May 6th, 2002, which leads to the consolidation of Cynosure financials within El.En. groups' accounts, the financial statements are displayed both with and without the consolidation of Cynosure financials, in order to make a consistent comparison possible with the corresponding period of the previous 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 December 31st, 2002 is represented in the following chart.

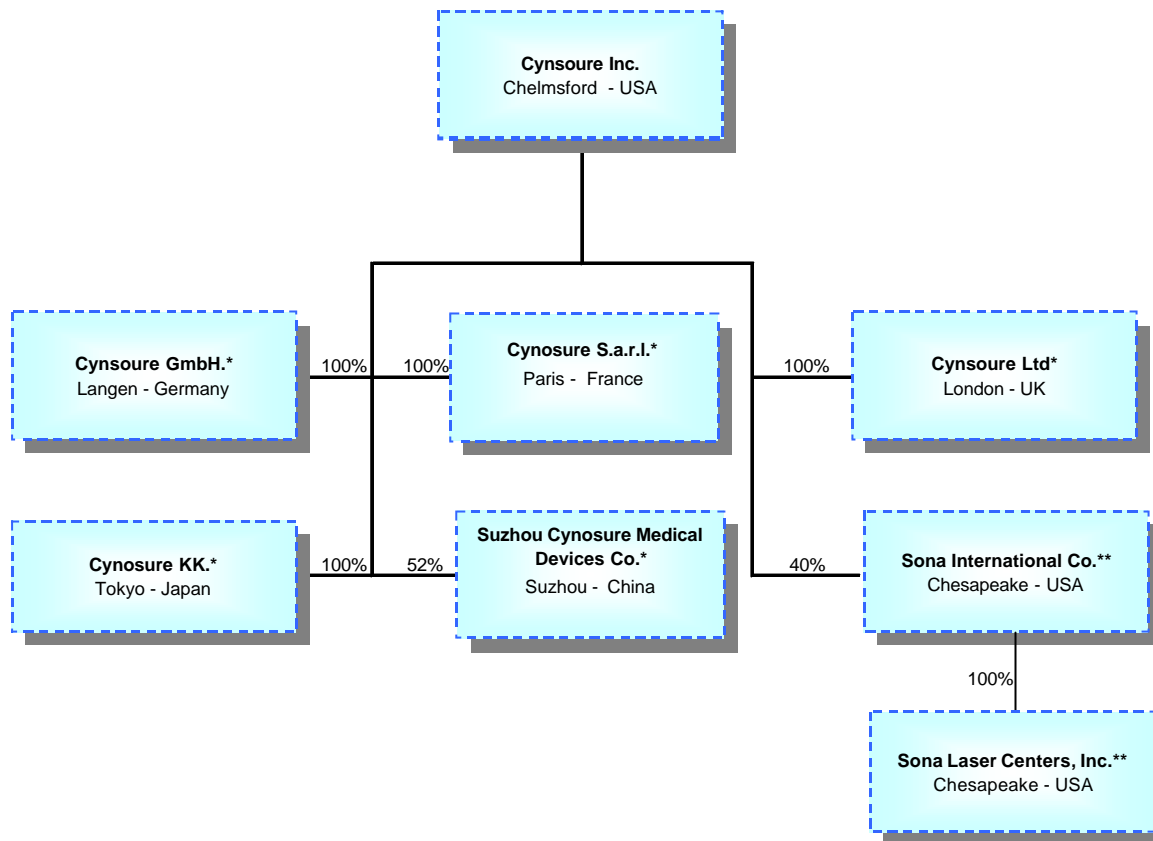


* Entirely consolidated

** Consolidated in relation to net worth

*** Kept at cost

Cynosure Inc. itself controls a group of companies. As of December 31st, 2002 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.

The financial statements of Cynosure are consolidated from the month of May on, therefore their impact on the Group's consolidated financials is only for five months.

El.En. SpA has equity in other companies like Quanta System SpA and Immobiliare Del.Co. Srl, over which, however, it does not exercise 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. It was considered opportune to apply this same method of evaluation to the subsidiary company, Lasit Srl, formerly an associated company, control of which was acquired on December 12th, 2002 through the purchase by the subsidiary Ot-las Srl of an equity of 20% of the share capital. The financial results of Lasit Srl will be fully consolidated starting in January 2003.

Results of operations and financial position of the group

The financial data of the Group for the 4th quarter of 2002 is shown below:

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Profit and loss account - 3 months	31/12/2002	Inc.%	31/12/2001	Inc.%	Variazione
Net turnover from sales and services	19.456	97,87%	8.332	95,20%	133,51%
Variation in stock of finished goods and WIP	(306)	1,54%	304	3,47%	-200,50%
Other revenues and income	729	3,67%	116	1,33%	527,27%
Value of production	19.879	100,00%	8.752	100,00%	127,13%
Costs for raw materials	7.259	36,51%	3.586	40,97%	102,44%
Variation in stock of raw material	824	4,14%	256	2,92%	222,42%
Other direct services	1.964	9,88%	850	9,71%	131,06%
Gross margin	9.833	49,46%	4.061	46,40%	142,12%
Other operating services and charges	3.232	16,26%	1.487	16,99%	117,39%
Added value	6.601	33,20%	2.574	29,41%	156,41%
For staff costs	3.536	17,79%	1.209	13,81%	192,56%
Gross operating profit	3.065	15,42%	1.366	15,60%	124,42%
Depreciation, amortisation and other accruals	1.167	5,87%	440	5,03%	165,30%
Net operating profit	1.898	9,55%	926	10,58%	104,99%
Net financial income (charges)	504	2,53%	252	2,88%	99,67%
Operating profit	2.401	12,08%	1.178	13,46%	103,85%
Value adjustments (Devaluations)	(41)	0,20%	(14)	0,17%	180,68%
Extraordinary income (Charges)	22	0,11%	(36)	0,42%	-161,46%
Earning before taxes	2.383	11,99%	1.127	12,88%	111,44%

The chart below shows the data of the profit and loss account for the 4th quarter of 2002, excluding Cynosure from the area of consolidation.

Profit and loss account - 3 Months - without Cynosure	31/12/2002	Inc.%	31/12/2001	Inc.%	Variazione
Net turnover from sales and services	12.656	99,86%	8.332	95,20%	51,90%
Variation in stock of finished goods and WIP	(518)	4,09%	304	3,47%	-270,48%
Other revenues and income	536	4,23%	116	1,33%	361,20%
Value of production	12.673	100,00%	8.752	100,00%	44,80%
Costs for raw materials	4.651	36,70%	3.586	40,97%	29,72%
Variation in stock of raw material	288	2,27%	256	2,92%	12,54%
Other direct services	1.457	11,50%	850	9,71%	71,46%
Gross margin	6.277	49,53%	4.061	46,40%	54,57%
Other operating services and charges	1.674	13,21%	1.487	16,99%	12,60%
Added value	4.603	36,32%	2.574	29,41%	78,82%
For staff costs	1.577	12,45%	1.209	13,81%	30,52%
Gross operating profit	3.026	23,88%	1.366	15,60%	121,55%
Depreciation, amortisation and other accruals	383	3,02%	440	5,03%	-12,95%
Net operating profit	2.643	20,85%	926	10,58%	185,48%
Net financial income (charges)	428	3,37%	252	2,88%	69,48%
Operating profit	3.070	24,23%	1.178	13,46%	160,63%
Value adjustments (Devaluations)	59	0,46%	(14)	0,17%	-504,90%
Extraordinary income (Charges)	6	0,05%	(36)	0,42%	-117,55%
Earning before taxes	3.135	24,74%	1.127	12,88%	178,18%

The chart below illustrates the data of the profit and loss account for the financial year 2002, shown in comparison with the results for the preceding year.

Profit and loss account	31/12/2002	Inc.%	31/12/2001	Inc.%	Var.%
Net turnover from sales and services	54.232	97,4%	27.844	94,3%	94,8%
Variation in stock of finished goods and WIP	633	1,1%	1.460	4,9%	-56,6%
Other revenues and income	803	1,4%	209	0,7%	283,2%
Value of production	55.668	100,0%	29.514	100,0%	88,6%
Costs for raw materials	23.191	41,7%	14.036	47,6%	65,2%
Variation in stock of raw material	(976)	1,8%	(1.095)	3,7%	-10,8%
Other direct services	5.842	10,5%	3.067	10,4%	90,4%
Gross margin	27.612	49,6%	13.505	45,8%	104,5%
Other operating services and charges	9.454	17,0%	5.260	17,8%	79,7%
Added value	18.158	32,6%	8.244	27,9%	120,2%
For staff costs	10.930	19,6%	4.348	14,7%	151,4%
Gross operating profit	7.227	13,0%	3.896	13,2%	85,5%
Depreciation, amortisation and other accruals	2.912	5,2%	1.303	4,4%	123,4%
Net operating profit	4.315	7,8%	2.593	8,8%	66,5%
Net financial income (charges)	794	1,4%	1.194	4,0%	-33,5%
Operating profit	5.109	9,2%	3.786	12,8%	34,9%
Value adjustments (Devaluations)	278	0,5%	30	0,1%	814,4%
Extraordinary income (Charges)	438	0,8%	26	0,1%	1584,7%
Earning before taxes	5.826	10,5%	3.843	13,0%	51,6%

The following chart shows the data of the profit and loss account for the financial year 2002, excluding Cynosure from the area of consolidation.

Profit and loss account - without Cynosure Inc.	31/12/2002	Inc.%	31/12/2001	Inc.%	Var.%
Net turnover from sales and services	38.763	97,9%	27.844	94,3%	39,2%
Variation in stock of finished goods and WIP	232	0,6%	1.460	4,9%	-84,1%
Other revenues and income	613	1,5%	209	0,7%	192,7%
Value of production	39.608	100,0%	29.514	100,0%	34,2%
Costs for raw materials	16.907	42,7%	14.036	47,6%	20,5%
Variation in stock of raw material	(892)	2,3%	(1.095)	3,7%	-18,5%
Other direct services	4.776	12,1%	3.067	10,4%	55,7%
Gross margin	18.816	47,5%	13.505	45,8%	39,3%
Other operating services and charges	5.679	14,3%	5.260	17,8%	8,0%
Added value	13.137	33,2%	8.244	27,9%	59,3%
For staff costs	5.620	14,2%	4.348	14,7%	29,2%
Gross operating profit	7.517	19,0%	3.896	13,2%	92,9%
Depreciation, amortisation and other accruals	1.374	3,5%	1.303	4,4%	5,4%
Net operating profit	6.143	15,5%	2.593	8,8%	137,0%
Net financial income (charges)	704	1,8%	1.194	4,0%	-41,0%
Operating profit	6.848	17,3%	3.786	12,8%	80,9%
Value adjustments (Devaluations)	185	0,5%	30	0,1%	508,3%
Extraordinary income (Charges)	27	0,1%	26	0,1%	5,2%
Earning before taxes	7.060	17,8%	3.843	13,0%	83,7%

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

Net financial position	31/12/2002	30/09/2002	31/12/2001
Financial mid and long term debts	(1.837)	(1.966)	(2.249)
<i>Financial mid and long term debts</i>	<i>(1.837)</i>	<i>(1.966)</i>	<i>(2.249)</i>
Financial liabilities due within 12 months	(693)	(925)	(357)
Cash in banks and on hand	26.754	24.314	32.478
<i>Net financial short term position</i>	<i>26.061</i>	<i>23.388</i>	<i>32.121</i>
Total financial net position	24.223	21.422	29.872

Report on operations

During the financial period 2002, the Group has operated in the field of design, manufacture and distribution of laser sources and systems; the principal markets for these products, as in the 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 revenue registered for the financial period 2002 shows an overall increase of 94,8% over the same period of the preceding year, which is partially due to the presence of the income from Cynosure. In any case, it is useful to analyse the evolution of the annual revenue in comparison to that of the same consolidated companies during the preceding year. This shows an increase of 39,2%, a spectacularly good result, which is even better than that forecast during the annual budget meetings.

The following chart shows the division of the revenues by sector for the activities of the Group in 2002, in comparison with the data for the same period in the preceding year.

with Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Industrial systems and lasers	16.991	31,3%	10.649	38,2%	59,6%
Medical and cosmetic lasers	29.666	54,7%	15.099	54,2%	96,5%
Others	183	0,3%	86	0,3%	111,9%
Service	7.392	13,6%	2.010	7,2%	267,7%
Total	54.232	100,0%	27.844	100,0%	94,8%

without Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Industrial systems and lasers	16.991	43,8%	10.649	38,2%	59,6%
Medical and cosmetic lasers	19.226	49,6%	15.099	54,2%	27,3%
Others	136	0,4%	86	0,3%	57,9%
Service	2.410	6,2%	2.010	7,2%	19,9%
Total	38.763	100,0%	27.844	100,0%	39,2%

The increase in revenues is over 50% in all sectors in which the Group operates, partially due to the consolidation of the revenues from Cynosure.

The medical sector shows an increase of 96,5%; without the revenues from Cynosure, the increase is 27,3%, which is an extremely good result on its own, above the market average and better than that of our main competitors. The result in the industrial laser sector is even more brilliant, and, without counting company acquisitions, is close to +60%, in a year of market stagnation and severe crisis in the manufacturing sector.

Notwithstanding the excellent performance shown in the industrial sector, the income derived from laser systems for medical and cosmetic use continues to dominate within the Group, for which it represents 49,6% of the revenues without including Cynosure, a figure which becomes 54,7% if we include the American company. Cynosure, moreover receives a considerable part of its revenues from after-sales service and through use of "revenue sharing" which means the leasing of its equipment, with the amount of rent being determined by the revenue produced by the equipment itself. For this reason, the increase in revenue for Customer Assistance is over 260%, and within this sector, the service directed towards medical laser systems prevails over all other types of service.

The revenue which was derived from research and the relative grants paid out in accordance with the contracts signed with institutions financed by MIUR has shown an increase in comparison with the amount registered last year. It should also be mentioned that a contribution for expenses sustained for the CHOCLAB Project, for an amount of 329 thousand Euros has been received and entered into accounts; since this contribution is considered a reimbursement for expenses, it is not registered among the sales, but among the "other sources of revenue". In this financial period therefore, we have recovered an important source of financing for the research activities of the Group, especially for the basic ones which generally have a less immediate return on the market and for this reason represent a greater burden and risk for the company. In recent years the Group has not received the number of grants necessary for the amount and type of research that have been conducted, and this fact has penalised the financial results. Maintaining a high level of expenditure and investment in research is at the basis of the development strategy of the Group, which has always been

focused on improving the basic technology and applied to the creation of new products. In the next paragraph, which is dedicated to the activities of research and development, we will analyse the projects now in progress and the relative expectations for grants: this amount of income, even though it is marginal in absolute terms with respect to the size of the Group, still maintains a fundamental importance.

Results for the financial period analysed according to geographic distribution of revenue, is shown on the following table:

with Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Italy	22.020	40,6%	14.479	52,0%	52,1%
Europe	10.326	19,0%	6.861	24,6%	50,5%
Rest of the world	21.886	40,4%	6.505	23,4%	236,5%
Total	54.232	100,0%	27.844	100,0%	94,8%

without Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Italy	21.813	56,3%	14.479	52,0%	50,7%
Europe	7.590	19,6%	6.861	24,6%	10,6%
Rest of the world	9.360	24,1%	6.505	23,4%	43,9%
Total	38.763	100,0%	27.844	100,0%	39,2%

The entrance of Cynosure into the Group emphasises the international character of the company, so that Italy is represented for an amount of 40,6%, whereas this percentage would be 56,3% without the acquisition of the new company. The international markets, and those of Europe and the Far East in particular, have, in any case, contributed decisively to the growth of revenue, as is evident from the chart. As far the increase in revenue in Europe is concerned, it is also the result of the activities conducted by the foreign branches created in France and Germany for the medical sector.

Within the medical /cosmetic sector, which represents 54,7% of the sales of the Group, the amount of revenue is shown on the following chart, divided according to the particular area of activity.

with Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Surgical CO2	1.836	6,2%	1.547	10,2%	18,7%
Physiotherapy	589	2,0%	736	4,9%	-19,9%
Cosmetic	18.486	62,3%	9.763	64,7%	89,3%
Dental	1.914	6,5%	1.504	10,0%	27,2%
Other medical lasers	6.208	20,9%	1.129	7,5%	450,0%
Accessories	634	2,1%	421	2,8%	50,6%
Total	29.666	100,0%	15.099	100,0%	96,5%

without Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Surgical CO2	1.845	9,6%	1.547	10,2%	19,3%
Physiotherapy	589	3,1%	736	4,9%	-19,9%
Cosmetic	13.055	67,9%	9.763	64,7%	33,7%
Dental	1.914	10,0%	1.504	10,0%	27,3%
Other medical lasers	1.328	6,9%	1.129	7,5%	17,7%
Accessories	495	2,6%	421	2,8%	17,7%
Total	19.226	100,0%	15.099	100,0%	27,3%

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 the Nd:YAG laser and the Photosilk and Triactive systems, while Cynosure operates with its own Alexandrite

type systems and distributes Nd:YAG systems produced by El.En. in the United States. Along with the original Photosilk system, which is now considered a point of reference for depilatory use, we now also have the new Photosilk Plus, used for the so-called “photo-rejuvenation”, which are non-invasive cosmetic treatments requiring no hospitalisation and which constitute a rapidly developing market. The sharp rise in revenues in the “other” category on the other hand, is derived from another sector in which Cynosue excels, which is the dermatological and vascular field, covered by their famous Dye systems, which are responsible for a growth of + 450%.

The dental sector has improved even over the excellent results of last year, and at the time of closure of the financial year was benefiting from the sale of the new line of products which had been introduced in September and October. These results make us feel optimistic about the further growth of the sector, and the Group is backing up these expectations with appropriate marketing support operations.

In the therapy field, on the other hand, the development of new products and application methods, sustained by intense research activity, is creating expectations for the relaunching of the sector, the importance of which has declined steadily within the Group.

The increase of revenue in the field of CO₂ surgery demonstrates a return of interest in the most consolidated of all laser technologies in medicine, as well as the capacity of the Group to offer the products and accessories which best respond to the needs of the clientele; in this sector also, the improvement in the performance of our products and the quality which is recognised by the clientele, forms the basis for all plans for further development.

During this financial year, the Group has seen the successful results of the launching of new products for cosmetic treatments which were launched last year and been able to exploit the most brilliant phase of their life cycle; even in the dentistry sector we found that it was necessary to renew the range of products and the sector will probably continue its growth thanks to these innovations. As usual, the Group is working on new products for every sector of their activity, since innovation is the key to being competitive and is the necessary condition for success in the laser field..

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.

	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Cutting	8.005	47,11%	6.069	57,00%	31,89%
Marking	7.795	45,87%	3.461	32,51%	125,19%
Laser sources	1.034	6,09%	918	8,62%	12,63%
Welding	158	0,93%	200	1,87%	-20,98%
Total	16.991	100,00%	10.649	100,00%	59,56%

Results for this sector require no explanation; and show an exceptional growth especially in the industrial marking sector. In this field, we are finally seeing the advantages of years of work in terms of development and the most advanced optical systems for deflection and fine tuning of high performance laser sources especially designed for marking applications. The cutting sector shows an increase of 31,89%, which should be considered an extremely satisfactory result and a sign of great vitality in an economic climate which is extremely negative. The drop in revenue for laser sources can probably be counteracted in the next few months thanks also to the new high potency range. In the welding sector, which also includes systems for the preservation and restoration of art works, no particular developments are expected

The results related to the revenues of the Group before the acquisition of Cynosure, for which a detailed analysis will be shown below, indicate a positive trend, and a marked improvement over last year; the brilliance of these results is only partially dimmed by the consolidation Cynosure, which for this period shows an operating loss which is partially annulled by the extraordinary revenue components which limit the loss before taxes. The consolidated result also is influenced by the amortisation related to the difference in consolidation inherent in the good will paid for the acquisition of Cynosure itself. This situation, however, had been foreseen, since Cynosure had suffered severe losses in 2001 and the actions which had been taken to make the company profitable again could not be expected to show results in such a brief period of time. The overall revenue results, in any case, are better than expected and are considered highly satisfactory by the management, both for the results which have been obtained and for the potential which the structure can demonstrate during the next periods of operation; the data consolidated as of December 31st show positive signs in every detail.

The gross margin registered is about 27.612 thousand Euros which is an increase over the financial year 2001 and shows an impact on the Value of Production which rises to 49,6% from 45,8% registered for the same period in the preceding year. The increase in the profit margin for sales is due to two factors: the first of which is “endogenous”, in the sense that it is due to an actual higher productivity obtained by the Group before the acquisition of Cynosure; and

the second is due to the acquisition of Cynosure, which registered a profit margin for sales which was much higher than that of the El.En. Group before the acquisition. The combination of the increase in annual revenue and the percentage margins is the reason for the sharp increase in the gross margin (+104,5% with Cynosure, +39,3% without), and determines the increase in productivity for this period.

The costs for operating services and charges is approximately 9.454 thousand Euros with an impact of 17% on the Value of Production, a decrease of 17,8% in comparison to the same period in 2001; excluding Cynosure, this percentage falls to 14,3%. This figure demonstrates our success in limiting the rise in the costs of maintaining the company structure, even with the sharp increase in the volume of business, which has required considerable support in terms of publicity and marketing expenses, particularly for the companies involved only with the distribution of medical and cosmetic laser systems. The expenses sustained for marketing have been particularly high in those sectors and the markets hardest hit by the economic crisis, the Italian market in general and the laser cutting systems sector in particular. The consolidation of Cynosure does not significantly alter the impact of operating costs on the Value of Production.

Expenses for employees were approximately 10.930 thousand Euros, with a percentage which rises to 19,6% over the 14,7% registered for 2001. The staff of the Group increased from 129 on December 31st 2001 to 275 on December 31st 2002. 119 of the new members of the staff were employees of Cynosure and the other 27 were new employees hired by the Group. As far as their role in the company is concerned, the new employees were hired mainly to reinforce the research and development staff in order to guarantee the medium and long range competitiveness of the company. Part of the expenses sustained for the research personnel will be reimbursed, as explained in the relative paragraph.

The Gross Operating Margin is approximately 7.227 thousand Euros, which shows an increase of 85,5% with an impact of 13% on the value of production; the GOM without Cynosure increased by 92,9% with an impact of 19% on the value of production.

The entry titled "Depreciation, amortisation and other accruals" shows an amount which is approximately twice that of the preceding year, which only slightly increases the Value of Production. This entry includes the amortisation of the difference in consolidation which emerged after the acquisition of Cynosure. This difference has been registered as 6.997 thousand Euros, and has generated amortisations for approximately 467 thousand Euros for the eight months of consolidation of the investment. The amortisation of the difference of consolidation, which corresponds to the goodwill paid for the acquisition of Cynosure, will constitute an important entry among the costs in the consolidated financial statement also in for the next few financial periods. For the same group of consolidated companies, this entry shows a slight increase, with a decrease in impact from 4,4% to 3,5%: the activity of the Group, for its development, does not require large investments in technical assets, but the expenses for research are considered far more important for development and are mostly entered into accounts under the headings of costs for personnel and general operating expenses.

Operating results for this period therefore are registered for an amount of 4.315 thousand Euros, with an increase of 66,5% and an impact of 7,8% on the Value of Production.

The results of the financial management are in the black for an amount of 794 thousand Euros, although they show a marked decline with respect to the preceding financial period (1.194 thousand Euros). This decrease is due to the drop in interest rates and to the use of a large portion of the cash available for the Cynosure operation.

Value adjustments were in the black for an amount of approximately 278 thousand Euros, considering the amounts due from the profits from the companies evaluated by capital and reserves, and that is, Quanta System SpA, Immobiliare Del.Co. Srl and Lasit Srl for a total of 185 thousand Euros approximately, and the associated company, Cynosure Inc. Sona International Co., for an amount of about 93 thousand Euros. In particular, attention is called to the excellent results obtained by the associated company, Quanta System SpA, which reached exceptional levels of revenue and profit.

The exceptional management is registered at about 438 thousand Euros, with capital gains of about 5 thousand Euros on the sale of 20% of the investment held by El.En. SpA in Quanta Fin Srl, as well as a tax reimbursement related to previous financial periods and entered into accounting by Cynosure, for about 400 thousand dollars.

The profit before taxes is registered at 5.826 thousand Euros. Its impact on the Value of Production is 10,5%, a decrease with respect to the 13,0% of 2001, but the increase in overall value is over 51%.

Comments on the trend of the net financial position

The net financial position of the Group remains in the black for an amount of over 24 million Euros.

During this quarter an increase of approximately 2,8 million Euros was registered, which reflects, in treasury terms, the brilliant economical trend of the Group, which in these three months has shown an operating result of almost 2 million Euros. The large amount of cash available makes it possible for us to forecast considerable financial revenues also for the future, notwithstanding the exceptionally low interest rates of the no-risk investments for which the cash is used, but above all, it gives the Group the resources necessary to achieve its development goals without financial variability being an impediment or an obstacle

Gross investments effected during this quarter

The charts below show the gross investments made during this financial period.

<i>Progressive</i>	31/12/2002	31/12/2001
Intangible assets	224	447
Tangible assets	2.214	751
Equity investments	21	129
<i>Total</i>	2.459	1.327

<i>3 Months</i>	31/12/2002	31/12/2001
Intangible assets	50	102
Tangible assets	978	143
Equity investments	-254	129
<i>Total</i>	774	374

Among the tangible assets, in particular under the heading of "land and buildings" we have entered the difference in consolidation of the Immobiliare Del.Co. Srl for approximately 253 thousand Euros which represents the difference between the price paid for the acquisition of the company, which refers mainly to the value of the real estate property and corresponds to the quota of shareholders' equity. In the preceding quarter, this amount was entered among the financial assets.

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 of the number of employees; Cynosure capitalised laser equipment destined for rental through their associated company Sona.

The head company of the Group has entered for this quarter under the heading of intangible assets, 150 thousand Euros for the installation of the new computer system.

Comments on Research and Development activities

During the first six months of 2002 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.

These efforts depend on an intense R&D activity, directed according to short and medium term strategic guidelines. 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.

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). 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:

<i>thousands of euro</i>	31/12/2002	31/12/2001	Var. %
Costs for personnel and general expenses	4.391	1.719	155%
Costs for instruments and equipment	109	71	54%
Costs for building of prototypes	838	167	402%
Costs for technological consultants	441	111	297%
Services provided	148	75	97%
Intangible assets	2	5	-
Total	5.929	2.148	176%

The amount of expenses sustained corresponds to about 11% of the consolidated revenue of the Group. The quota relative to Cynosure is approximately 1.481 thousand Euros circa and represents about 9% of its revenue; the rest of the expenses were sustained mostly by El.En. Spa and is equal to about 20% of its revenue. In order to pay these expenses El.En. S.p.A. entered into accounts, during the financial year 2002, income in the form of reimbursements and tax credits, approximately 460 thousand Euros. It is evident that the efforts made in this sector and the resources involved were considerable.

Other significant events of the quarter

On October 17th 2002, the associated companies, Quanta Fin Srl and Quanta System SpA, in accordance with a deliberation of the respective Special Assemblies of Shareholders, initiated procedures for the merger of the first company into the second. Consequently, all of the operations of the incorporating firm, Quanta Fin Srl, were included in the financial statement of the company which incorporated, Quanta System SpA, with effect retroactive to January 2002; all fiscal effects will take effect starting on this date, as per art. 123 DPR 22/12/1986 n. 917.

On December 12th 2002, Ot-las Srl acquired a 20% equity in Lasit Srl, so that the Group now detains control of the company thanks to the 50% already held directly by El.En. SpA. During this same operation, Cutlite Penta Srl increased its equity in Ot-las Srl to 54%, and the minority shareholders of Lasit Srl acquired an equity equal to 15% of Ot-las Srl. This operation lays the foundations for further development in the laser marking sector, in which both Ot-las Srl e Lasit Srl play complimentary roles.

In accordance with the Shareholders' Assembly held on April 24th 2002, the Board of Directors of El.En. SpA determined to purchase their own stock on the basis of the regulations set up by the Assembly itself.

As of December 31st 2002, the company had acquired 22.714 shares for a value of 255.937 Euros at an average price of 11,2678 Euros. These shares were maintained at the purchase price since the market price on December 31st and during the period of time between that date and the date of approval of this quarterly report, the purchase price has not changed significantly. Between December 31st 2002 and February 4th 2003, the head company of the Group, El.En. SpA has not purchased any more shares.

Other significant events after the end of the quarter

No other unusual events worthy of mention have occurred after the closure of the quarterly period described in this report..

Short term evolution

While expressing their satisfaction for the excellent results obtained during the preceding financial period, the management has proceeded with development plans for next year. These plans are made on the basis of the forecasts of the evolution which can be expected for the specific markets involved and of the capacity of the Group to increase their share of the market through innovative products and superior quality, as well as the efficiency of its marketing activity.

Consequently, an increase of about 35% in the consolidated revenue is expected, with a development in the industrial sector of about 37%, whereas for the medical/ cosmetic sector a growth of about 36% is forecast. As far as revenue is concerned, only a slight increase is to be expected; in fact, we plan to direct a large portion of the revenues towards expenditures intended to keep the rhythm of production at the highest level.

The strong financial position of the Group will allow us to plan for a further expansion of the company without having to deal with serious obstacles of a financial nature, including extraordinary operations for the purchase of other companies, or participation in joint-ventures directed towards specific geographical areas and/or specific applications of laser technology.

For the Board of Directors

The President
Dr. Ing. Gabriele Clementi