

El.En. Group

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

(Board of Directors - May 14th, 2002)

Report on the quarter ended March 31st, 2002

Introduction

This report covers the El.En. Group consolidated financial information up to 31/03/2002 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, being 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.

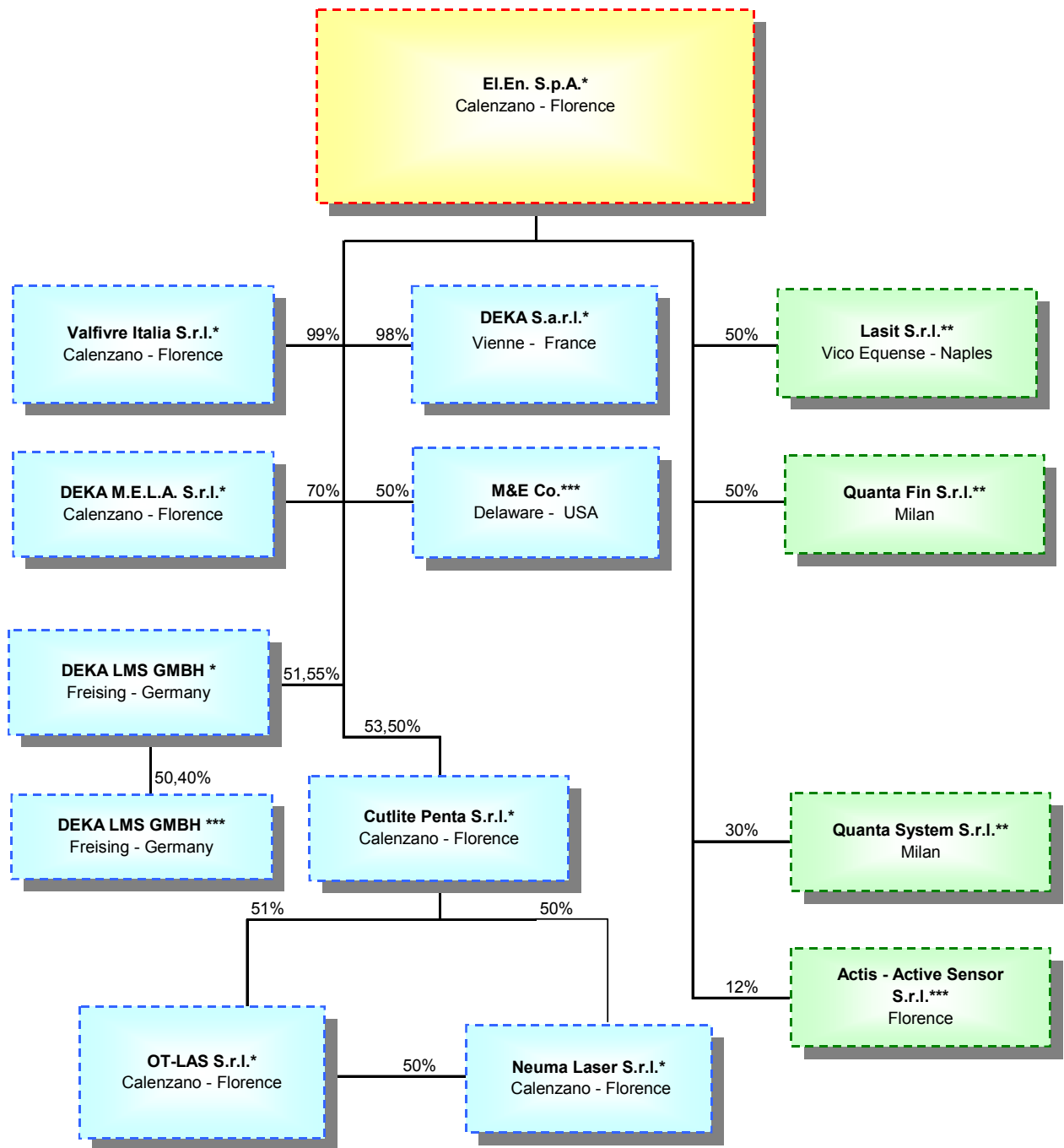
The financial results for the first quarter of year 2001 can be compared with the consolidated financial drawn for the quarter ended on March 31st, 2002.

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 on 31/03/2002 is represented in the following chart.



- * Entirely consolidated
- ** Consolidated in relation to net worth
- *** Kept at cost

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 usually consolidated in relation to net worth. These companies, Quanta System Srl, Lasit Srl and Quanta fin Srl, do not draw up quarterly financial reports, therefore in the consolidated financial report for the quarter ended September 30, 2001 it was prudentially assumed that their net worth remained unchanged from the value of the June, 30, 2001 reports.

Results of operations and financial position of the group

Consolidated income statement for the first quarter of 2002 is showed below, compared with the same period of 2001.

Profit and loss account	31/03/2002	Inc.%	31/12/2001	Inc.%	Var.%
Net turnover from sales and services	7.630	96,6%	6.014	87,8%	26,9%
Variation in stock of finished goods and WIP	234	3,0%	809	11,8%	-71,1%
Other revenues and income	34	0,4%	28	0,4%	21,7%
Value of production	7.898	100,0%	6.851	100,0%	15,3%
Costs for raw materials	4.107	52,0%	3.650	53,3%	12,5%
Variation in stock of raw material	(736)	9,3%	(438)	6,4%	68,1%
Other direct services	901	11,4%	773	11,3%	16,5%
Gross margin	3.626	45,9%	2.865	41,8%	26,6%
Other operating services and charges	1.133	14,3%	1.154	16,8%	-1,8%
Added value	2.493	31,6%	1.712	25,0%	45,7%
For staff costs	1.313	16,6%	1.035	15,1%	26,8%
Gross operating profit	1.181	14,9%	677	9,9%	74,5%
Depreciation, amortisation and other accruals	353	4,5%	220	3,2%	60,5%
Net operating profit	828	10,5%	457	6,7%	81,1%
Net financial income (charges)	175	2,2%	318	4,6%	-44,9%
Operating profit	1.003	12,7%	775	11,3%	29,4%
Extraordinary income (Charges)	(13)	0,2%	24	0,4%	-155,8%
Earning before taxes	990	12,5%	799	11,7%	23,9%

The following chart shows the net financial position of the group on March 31st , 2002 compared with December 31st, 2001.

Net financial position	31/03/2002	31/12/2001
Financial mid and long term debts	(2.146)	(2.249)
<i>Financial mid and long term debts</i>	<i>(2.146)</i>	<i>(2.249)</i>
Financial liabilities due within 12 months	(356)	(357)
Cash in banks and on hand	32.910	32.478
<i>Net financial short term position</i>	<i>32.554</i>	<i>32.121</i>
Total financial net position	30.408	29.872

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.

Following the acquisition of a control stake in Cynosure, Inc, with a transaction closet on May, 6th of which more details are reported later in this report, the structure of the income statement and the balance sheet of the group will be radically modified by the full consolidation of the activity of this american company within the financial reports of the group, with a doubling of the group's dimension in terms of turnover.

The figures that will be displayed in the following paragraphs are related to the group's structure preceding the acquisition; the details on the transaction and its impact of the forecasts previously disclosed will be supplied by the company within the terms and the form required by Consob.

The turnover for the first quarter 2002 marks a 27% increase compared to the turnover of the first quarter of year 2001. This increase, complies with the forecasts previously disclosed, even if the growth is higher than the projected yearly growth of turnover.

The growth of revenues allowed the inversion in the trend of the return margins with respect of the previous financial year, with an increase in all the return percentages. The first quarter showed more brilliance in the markets, though some uncertainty areas still remain, and did not allow a stronger increase in returns on sales. In this respect there has been a significant upturn on the Far East markets and in the industrial marking segment, where the first quarter achieved the most satisfying outcomes, in projection for the rest of the year, too.

As at March, 31, 2001 sales may be classified as follows among the market segments covered by the group; sales volume is compared with the quarter closed March 31, 2001.

	31/03/2002	Inc%	31/03/2001	Inc%	Var%
Industrial systems and lasers	3.047	39,9%	2.038	33,9%	49,5%
Medical and cosmetic lasers	4.033	52,9%	3.483	57,9%	15,8%
Altri	35	0,5%	39	0,7%	-11,8%
Service	515	6,8%	454	7,5%	13,5%
Total	7.630	100,0%	6.015	100,0%	26,9%

The general sales increase is very important in the industrial segment, where the strong growth trend of the previous year is confirmed and further accelerated almost to a 50% rate. The inversion in the sales trend marked by the medical segment, that after a year of decrease in sales shows a 16% increase, is due to a more positive market situation, and a better acceptance of our products, anyway confirming the short term forecasts of the market analysts and of our management

The sales volume reported for Service continues in its growth, natural by product of the increased installed base. We furthermore note that in the aesthetic market a growing number of systems requires the substitution of consumables, especially under the heavy duties under which the systems work, generating a flow of revenues for spare parts substitution.

The revenues from R&D projects and R&D costs reimbursement suffered a further decrease on the already low level of year 2001, as we will better explain in the R&D section of the report

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

	31/03/2002	Inc%	31/03/2001	Inc%	Var%
Italy	4.481	58,7%	4.252	70,7%	5,4%
Europe	1.161	15,2%	566	9,4%	105,2%
Rest of the world	1.988	26,1%	1.197	19,9%	66,1%
Total	7.630	100,0%	6.015	100,0%	26,9%

The good behavior of international sales has been a typical note for this quarter, as the doubling of sales in Europe and the 66% increase in rest of the world sales show, while in Italy we report a 5% sales increase. The time frame for these comparisons is short and may lead to a lower significance of the sales mix, we nevertheless believe that the basic trend in the geographical composition of sales is well represented by the first quarter's sales mix.

In detail, Europe displayed a good behavior in the medical sales for France, while Germany still reflected the negative economic situation reporting sales volume under the forecast; the Spanish market had an interesting behavior, both for medical and industrial markets. For the rest of the world the strongest positive signals came from Far East with a substantial contribution to sales and a vitality that allows good hopes for the next months.

The medical/aesthetic segment marks 16% increase and stands for 53% of consolidate revenues for the first quarter within this market segment we split the turnover among the following specific segments.

	31/03/2002	Inc%	31/03/2001	Inc%	Var%
Surgical CO2	564	14,0%	275	7,9%	105,0%
Physiotherapy	144	3,6%	289	8,3%	-50,0%
Cosmetic	2.380	59,0%	2.211	63,5%	7,6%
Dental	554	13,7%	302	8,7%	83,7%
Other medical lasers	314	7,8%	362	10,4%	-13,3%
Accessories	77	1,9%	44	1,3%	75,9%
Total	4.033	100,0%	3.482	100,0%	15,8%

The sales increase in the aesthetic is driven by the first substantial success of the IPL systems for hair removal and the non invasive laser system for cellulites: the segment marks an 8% growth, and it's accompanied by the good results in dentistry and CO₂ surgical lasers, which respectively performed an 84% and 105% increase. In dentistry, in addition to the excellent Italian performance, we note a good behavior of the international market, that, due also to the new company founded in Germany, sets the conditions for further and promising developments. For CO₂ lasers a few incremental improvements on the product range increased the appeal of our units and allowed a sales volume substantially higher than in the first quarter of 2001.

In the therapy segment the sales decrease reflects the need of a deeper work aimed to sort of reconstruct the market, that need more stimulation in order to regain its leading role within the group: for this purpose El.En. is undertaking an important R&D project, combined to a formation program, in order to add more scientific rigor to the practice and to allow an enlargement of the potential users for a laser application of undoubted efficacy. The decrease by 13% of the residual category "Other medical Lasers" is not rising any apprehension for the short timeframe and can be overcome in the next quarters.

During the first quarter 2002 no shipment for sale of our new Excilite system for psoriasis was reported, while units were shipped for demo and reference medical centers were created. The second quarter will account for the first sales of the unit, that shows an excellent effectiveness and encountered a very positive response to the specific marketing actions that were performed.

The following chart shows a classification of sales in the industrial laser systems market.

	31/03/2002	Inc%	31/03/2001	Inc%	Var%
Cutting	1.566	51,4%	1.399	68,6%	11,9%
Marking	1.443	47,4%	558	27,4%	158,5%
Welding	38	1,3%	81	4,0%	-52,9%
Total	3.047	100,0%	2.038	100,0%	49,5%

The 49% sales growth rate shows the success of our products on the market. The 158% increase of the marking systems follows the brilliant behavior of this segment in the last year: this performance has been achieved, among the others, for the success of the marking systems for large surfaces, for which the group developed specific highly innovative subsystems.

With lower growth rate, the laser cutting systems segment reports for an interesting 12% increase in sales, and retains the largest share among the group's sales of systems for manufacturing, revealing that the effort in the renewal of the product range is leading of the expected outcomes in terms of sales. The group is working for a further reinforcement of its presence in the segment, and went through massive development investments for widening the possible applications for our systems, specifically rising the mean power of the installed laser sources and releasing sophisticated beam delivery systems for the maximum efficacy of the laser cut..

The welding segment is not showing, at present, interesting development forecast, therefore the sales decrease is within the forecasted figures.

Gross margin accounted for about euro 3.626 thousands, markedly increasing with respect of the same period of 2001; the comparison with the first quarter 2001 is encouraging and indicates the forecasted trend of higher sales margin with respect to year 2001; the impact on the Value of Production which is set at 46% (42% of the first quarter of 2001). The increasing volume of sales of products recently released to market should allow a further increase of the gross margin percentage for the next months. Despite the accounting for several hundreds thousands euros for R&D expense, because of the system of granting and accounting for R&D grants, the revenues related to the costs booked for during the quarter will be booked only in next quarters. The R&D revenues, predominantly reimbursing for staff costs, have a strong impact on gross margin percentage.

The Other operating services and charges accounted for about 1.133 thousands of euro, with a 14% impact on Value of Production, decreasing both in aggregate value and impact on Value of Production with respect to the first quarter of year 2001. The tighter control on certain sales and marketing expenses, that were better focused in the quarter, together with the reaching, during the previous year, of the needed structural dimension, are driving this results.

Staff costs account for 1.313 thousands of euro, a 27% increase on 2001 with an impact rising to 17% from 15% of the first quarter of 2001. The staff consisted of 135 employees during the first quarter 2002 from 110 at March 31st, 2001. Research and development and sales were the function with the highest number of hiring, which involved accounting and production, too. The increase on staff costs is still have only a partial rebound on the sales revenue, since the new developed products will be available for sale from the quarters only.

The Gross operating Profit (EBITDA) accounts for 1.181 thousands of euro, with an impact of 15%, increasing from 10% of first quarter 2001, but still below the forecasted target for the year. The increase with respect to the previous year is due on one side to the increase in Gross margin and the control of operating expense, whose benefits overrun the increase of for staff costs. EBITDA is expected to reach further increase by the achievement of a higher volume of sales and Gross margins, in order to absorb the operating costs, which reached their actual level during year 2001.

Depreciation and amortisation accounts for considerably higher amounts than in the corresponding period of the previous year, also as an effect of the amortization accounted for the goodwill booked for the DEKA LMS GmbH acquisition.

The operating profit (EBIT) is therefore 828 thousands of euro, with an impact of 10% on Value of Production, with a 81% increase on the operating profit of the first quarter 2001; its impact on value of production increases from last year's 7%, too.

The net financial income is positive (175 thousands of euro), due to the retained cash in banks. The income is lower than the previous year, because of the lower interest rates for the short term investments in which the cash has been allocated, ready for an extraordinary investment, that took actually place on May, 6th.

The extraordinary income is negative for 13 thousands of euro, without any material effect on net income.

The profit before taxes is therefore 990 thousands of euro with an impact of 13% on the value of production, increasing by 24% with respect to first quarter 2001. Due to the lower financial income, the impact on Value of production is almost unchanged with respect to first quarter 2001 (12%).

Comments on the trend of the net financial position

The net financial position is positive for more than 30 millions of euro, increasing from 29 millions of euro on the December 31st, 2001.

During the quarter, among the others, cash has been absorbed by an instalment for the loan on the Calenzano facility and by investments for about 250 euro thousands.

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 Dekka M.E.L.A. Srl operate. As an effect of the dividend paid, the mid term loan by Quanta Fin Srl to El.En. Spa decreased for an amount of 800 millions of lira.

The cash in banks is mostly invested on short term basis, in order to allow availability for strategic investments that could be effected. The effects of such a financial position have their weight on the financial income, which contributes substantially to the net income of the group. During the quarter the lowering of interest rates led to a lower financial income with respect to the previous year, as said earlier in this report.

Gross investments effected in the quarter

The following charts shows the gross investments effected in the quarter.

<i>in thousands of Euro</i>	31/03/2002	31/03/2001
Intangible assets	4	30
Tangible assets	218	123
Equity investments	25	512
<i>Total</i>	248	665

The equity investment reports the acquisition of a 50,4% stake of Dekka DLS GmbH by Dekka LMS GmbH in January 2002. The new investments in tangible assets are, among the others, due to the set up of new laboratories and offices with their related expense for general services, tooling and IT support of which each new employee has been assigned.

Comments on Research and development activities

During the first quarter of year 2001 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 MIUR (University and Technological Research Office), and by contributions on staff costs that can be granted in the form of tax credits, too. The amount of these grant is extremely low in the quarter, therefore the group had to stand by itself to all the R&D expenditure effected.

Among the activities undertaken we note the characterisation of the beam and the optical components for laser systems, for the application of lasers in the conservation of artistic manufactures, for physiotherapy and the ones oriented to the new applications of known technologies which allow the release to the market of new innovative products.

Moreover the clinical trials and experimentation for the documentation and scientific confirmation of the efficacy of certain laser treatments has been undertaken for laser applications of extreme innovativeness, in cooperation with qualified external research laboratories.

<i>(euro/000)</i>	31/03/2002
Costs for personnel and general expenses	352
Costs for instruments and equipment	10
Costs for building of prototypes	36
Costs for technological consultants	40
Services provided	12
Total	450

As reported by the “Gazzetta Ufficiale” dated April 24th 2002 , El.En. S.p.A. has been assigned a grant of euro 322 thousands and loan of 681 thousand euro (with lower than market interest rates) for a project denominated “Development of new laser systems for orthopedic and physiotherapeutic applications”. The R&D expense already effected and to be effected all over 2003 is scheduled to sum up to 1.135 thousand of euro. The company has already booked expenses for about euro 470 thousands, but , as for the project described in the previous paragraph, no revenue has yet been accounted for.

The amount of the sustained expenses sums up to around 6% of the consolidated turnover and about 10% of the turnover of El.En. Spa which stands most of the R&D expenses.

Among the projects which involve revenues or cost reimbursement the group is working at: project CHOCLAB, recently approved by MIUR, that involves a total cost of 856 euro thousands between year 2000 and 2003 and will allow 579 thousands of euro of revenues. Even though about 270 thousand of euro have been booked as research costs on this project, the procedure of the cost approval does not allow yet to book any revenue in relation to the project.

Other significant events of the quarter

On January 30th, 2002 the controlled German company Deka-LMS GmbH founded a new company, Deka-DLS GmbH, for the distribution in Germany of our dental laser systems, retaining the control stake of 50,4% of the 50 thousands euro share capital.

Short term evolution

The plans set by the management for the current year forecast a growth of group turnover by 20%, and an increase of the operating income with respect to the previous year. The current order collection trend, even if its relevance is limited by the typical condition of maximum coverage of 60 days of sales in the medical segment and 90 for the industrial, and the actual condition of the markets, are supporting the forecast of a good behaviour of the group for the year. These forecasts were issued at the beginning of the year and are related to the group’s structure and dimensions prior to the acquisition of Cynosure described in the following paragraphs, that in effect doubled the group’s dimension. The management is in the process of reissuing the forecasts taking into account the new structure: the forecasts will be disclosed as soon as available.

On May 6th, 2002 El.En. S.p.A. acquired control of Cynosure Inc., prestigious american company active in the production and sale of laser systems for medical and aesthetic applications. As an effect of the agreement, El.En. becomes one of the largest groups on the world market of medical laser systems. The agreement has been closed with the subscription of a share capital increase by El.En., with its revenue used for a repurchase by Cynosure of its own shares, by this means buying out some of its previous shareholders. For the 60% of the shares 9,896 millions of dollars have been paid at closing, 80% of the total due for the transaction. El.En. will pay the balance within twelve months. The amount to be paid as balance will be around 2,5 millions of dollars, if Cynosure will record for year 2002 the same sales volume of year 2001; the amount will be adjusted in proportion to the actual Cynosure 2002 sales volume. Around 1,5 millions of dollars paid by El.En. will be retained by Cynosure Inc. and will be available for funding the development of the company. Cynosure’s turnover for 2001 accounted for about 23 millions of dollars; the earn out

formula agreed upon for the balance of the payment sets the total value of Cynosure as the sales volume for year 2002 diminished by the operating loss of year 2001, that has been recorded as about 2,4 millions of dollars.

Cynosure has been founded in 1991 by Horace Furumoto, pioneer in the medical laser industry that had previously founded Candela (today's number two on the medical laser world market); the company performed a significant growth reaching the current dimensions as a result of the top quality of its production, specifically for dye laser for vascular lesions and alexandrite laser for hair removal.

The product range of the two companies is highly complementary, mainly because of the different technologies on which each groups works. The integration of El.En.'s and Cynosure's industrial activities will be therefore possible without harming the operations of any of them, with a strong impulse to development due to the product range completeness and the more efficient coverage of the global markets.

The acquisition is the base for a sustained development of the group, expected to be more than a plain sum of two sales volumes, but that aims to a synergic exploitation of the technical, operating and commercial capabilities of its organizations in order to allow the group to play a relevant role on the global laser market, increasing its value and returns for the shareholders. The "Cynosure" transaction absorbs a considerable share of the cash in banks retained by the group for the goal specified during the IPO, the expansion on international markets and specifically in the USA.

Moreover the residual cash in banks could be used for other M&A operations aimed to a further growth of the group, markedly on the industrial laser market..

For the Board of Directors

The President

Dr. Ing. Gabriele Clementi