

El.En. Group

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED DECEMBER 31st, 2001

(Board of Directors - February 14th, 2002)

Report on the quarter ended December 31st, 2001

Introduction

This report covers the El.En. Group consolidated financial information up to December 31st, 2001 and is 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.

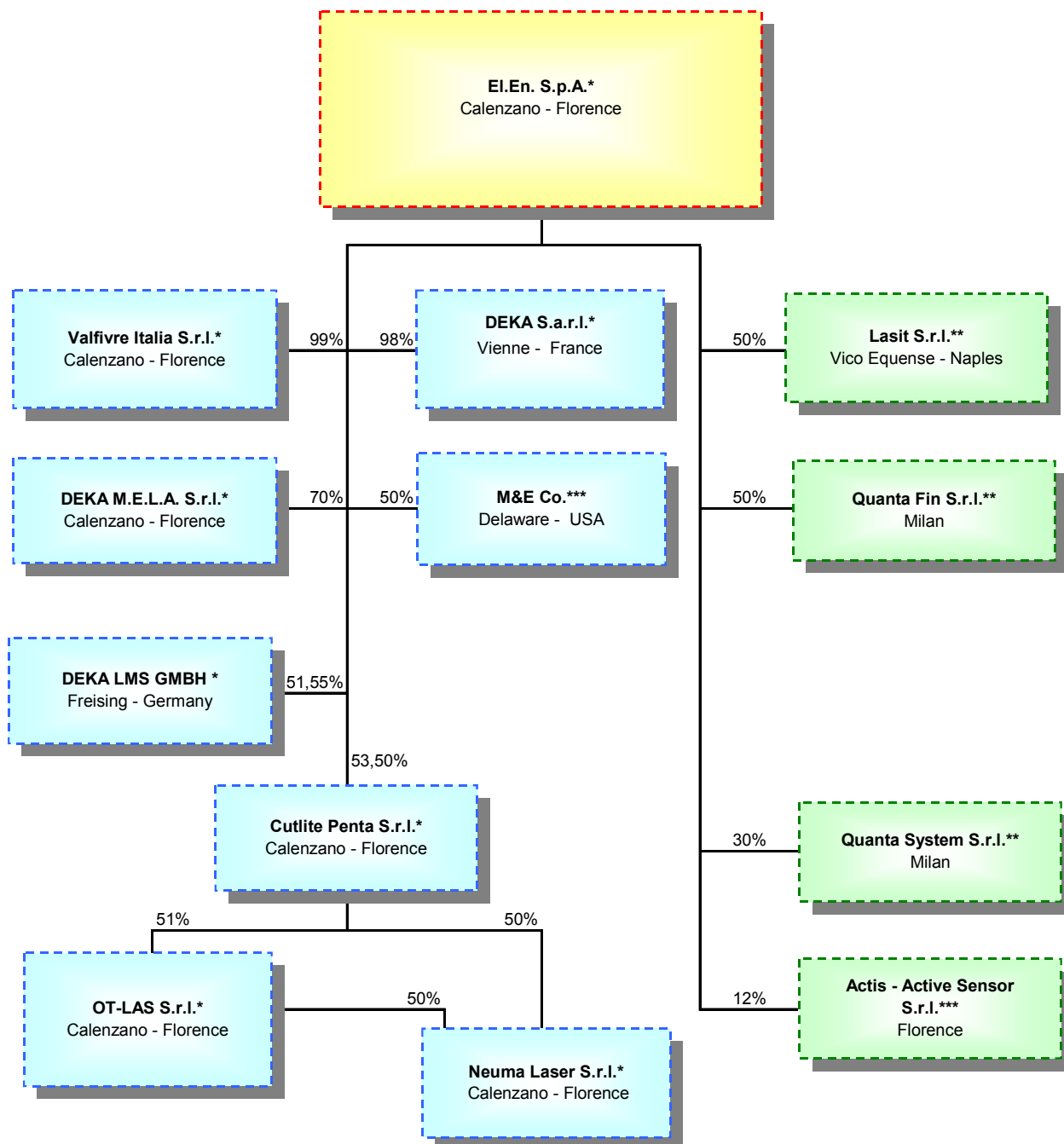
The financial results for the fourth quarter of year 2001 can be compared with the consolidated financial drawn for the quarter ended on December 31st, 2000.

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 various of applications.

The structure of the group on September 30, 2001 is represented in the following chart.



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

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

El.En. S.p.A. is shareholder in a few other companies active in its same business, without holding the control of 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 on December 31st, 2001 it was prudentially assumed that their net worth remained unchanged from the value in June, 30th, 2001 reports.

Results of operations and financial position of the group

Consolidated income statement for the fourth quarter 2001 is showed below.

Profit and loss account	31/12/2001		31/12/2000		Var. %
	(3 Months)		(3 Months)		
Net turnover from sales and services	8.297	99,0%	7.723	97,4%	7,4%
Variation in stock of finished goods and WIP	(8)	0,1%	139	1,7%	-105,6%
Other revenues and income	91	1,1%	70	0,9%	29,7%
Value of production	8.380	100,0%	7.932	100,0%	5,6%
Costs for raw materials	3.557	42,4%	3.696	46,6%	-3,8%
Variation in stock of raw material	64	0,8%	(557)	7,0%	-111,5%
Other direct services	847	10,1%	845	10,6%	0,3%
Gross margin	3.912	46,7%	3.949	49,8%	-0,9%
Other operating services and charges	1.503	17,9%	974	12,3%	54,3%
Added value	2.409	28,7%	2.975	37,5%	-19,0%
For staff costs	1.205	14,4%	958	12,1%	25,8%
Gross operating profit	1.204	14,4%	2.018	25,4%	-40,3%
Depreciation, amortisation and other accruals	246	2,9%	1.024	12,9%	-76,0%
Net operating profit	958	11,4%	994	12,5%	-3,6%
Net financial income (charges)	237	2,8%	111	1,4%	113,8%
Operating profit	1.195	14,3%	1.105	13,9%	8,2%
Value adjustments (Devaluations)	1	0,0%	80	1,0%	-99,0%
Extraordinary income (Charges)	(36)	0,4%	10	0,1%	-450,2%
Earning before taxes	1.159	13,8%	1.195	15,1%	-3,0%

Consolidated income statement for the year 2001 is shown below, compared with year 2000.

Profit and loss account	31/12/2001 (12 Months)		31/12/2000 (12 Months)		Var.%
Net turnover from sales and services	27.809	95,4%	25.955	94,3%	7,1%
Variation in stock of finished goods and WIP	1.148	3,9%	1.429	5,2%	-19,6%
Other revenues and income	184	0,6%	126	0,5%	46,0%
Value of production	29.142	100,0%	27.511	100,0%	5,9%
Costs for raw materials	14.008	48,1%	11.217	40,8%	24,9%
Variation in stock of raw material	(1.286)	4,4%	(1.221)	4,4%	5,3%
Other direct services	3.065	10,5%	3.229	11,7%	-5,1%
Gross margin	13.355	45,8%	14.285	51,9%	-6,5%
Other operating services and charges	5.276	18,1%	3.352	12,2%	57,4%
Added value	8.079	27,7%	10.933	39,7%	-26,1%
For staff costs	4.345	14,9%	3.302	12,0%	31,6%
Gross operating profit	3.734	12,8%	7.631	27,7%	-51,1%
Depreciation, amortisation and other accruals	1.110	3,8%	1.381	5,0%	-19,6%
Net operating profit	2.624	9,0%	6.251	22,7%	-58,0%
Net financial income (charges)	1.179	4,0%	151	0,5%	680,7%
Operating profit	3.803	13,0%	6.402	23,3%	-40,6%
Value adjustments (Devaluations)	46	0,2%	53	0,2%	-13,8%
Extraordinary income (Charges)	26	0,1%	20	0,1%	34,4%
Earning before taxes	3.875	13,3%	6.474	23,5%	-40,1%

The following chart shows the net financial position of the group on December 31st, 2001 compared with September 30th, 2001 and December 31st, 2000.

<i>Net financial position</i>			
Euro/000	31/12/2000	30/09/2001	31/12/2001
Financial mid and long term debts	(3.005)	(2.316)	(2.249)
<i>Financial mid and long term debts</i>	<i>(3.005)</i>	<i>(2.316)</i>	<i>(2.249)</i>
Financial liabilities due within 12 months	(402)	(355)	(357)
Cash in banks and on hand	35.856	31.510	32.279
<i>Net financial short term position</i>	<i>35.454</i>	<i>31.155</i>	<i>31.922</i>
Total financial net position	32.449	28.840	29.673

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 in which the group operates are, like in the previous years, the market of medical and aesthetic laser systems and the market of laser systems for industrial applications. Beside these two main markets, the group is reporting sales for technical services provided to its own customers and for research and development projects.

The turnover of the fourth quarter marks a 7,4% increase with respect to the fourth quarter of year 2000. The increase is lower than expected, due to the negative market behaviour, particularly of the international markets. Moreover we note that in the industrial segment, where a strong increase in turnover was expected in the fourth quarter, the “Tremonti effect”, due to the willingness of customers to take advantage of the tax exemptions on investments, did not take place and on the other hand a number of sales were postponed to the next fiscal year.

The decrease in the sales margin and the fixed operative and staff cost, set for a higher volume of operations than the ones achieved during 2001 fiscal year, impact on the gross margins which mark a decrease with respect to the first nine months of the previous year.

For year 2001 sales may be classified as follows among the market segments covered by the group; sales volume is compared with the year 2000.

(Euro/000)	31/12/2001	Inc%	31/12/2000	Inc%	Var%
Industrial systems and lasers	10.714	38,5%	8.333	32,1%	28,6%
Medical and aesthetic lasers	15.035	54,1%	15.599	60,1%	-3,6%
R & D	86	0,3%	135	0,5%	-36,2%
Service	1.974	7,1%	1.889	7,3%	4,5%
Total	27.809	100,0%	25.955	100,0%	7,1%

The most relevant segment, laser systems for medical and cosmetic applications, marks a 3,6% turnover decrease. While accounting for this decrease, which has an effect on the group’s profits, we note that such a result has been achieved during a negative year for the world market. The growth forecasts turned out to be very optimistic, and the market slowed down, as the our most important competitor’s turnover did; the medical laser worldwide market decreased by 9% during 2001 (source: Spectrum Consulting).

The group could manage to limit the turnover decrease in the segment as an effect to the efforts and investments made in marketing and distribution. Markedly the DEKA-LMS investment for the distribution in Germany, even if achieving a lower turnover than expected, allowed to increase the sales volume in Germany with respect to the previous year.

The industrial lasers segment marks a 28,6% increase, improving the performance of September, 30; an excellent result, anyhow lower than expected.

The service turnover achieved the forecasted growth thanks to by the expansion of the installed base that took place in the last years.

The sales volume deriving from research projects and research expenses reimbursement contracted with research institution and financed by the MIUR (University and Technological Research Office) suffered a further decrease on the already very low year 2000’s revenues, as we will better explain in the R&D section.

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

(Euro/000)	31/12/2001	Inc%	31/12/2000	Inc%	Var%
Italy	14.444	51,9%	13.461	51,9%	7,3%
Europe	6.861	24,7%	5.452	21,0%	25,8%
Rest of the world	6.504	23,4%	7.041	27,1%	-7,6%
Total	27.809	100,0%	25.955	100,0%	7,1%

The sales increase in Europe has been achieved mainly during the fourth quarter, from a starting point of a 12% decrease in the first three quarters. This result comes from both the success of the sales of laser cutting systems in France and Spain, and from the good behaviour in the last quarter of the French and German distribution companies in the medical segment. Growth in the Italian market reflects the average growth rate of the group, while the rest of the world sales decreased, mainly due to the situation of uncertainty of the markets, now lasting for a few months.

Even if decreasing by 3,6% the medical/aesthetical lasers market is the most significant for year 2001, too; within this market we can split the turnover among the following specific segments.

(Euro/000)	31/12/2001	Inc%	31/12/2000	Inc%	Var%
Surgical CO2	1.547	10,3%	1.651	10,6%	-6,3%
Physiotherapy	736	4,9%	769	4,9%	-4,3%
Aesthetic	9.763	64,9%	11.531	73,9%	-15,3%
Dental	1.504	10,0%	635	4,1%	136,9%
Other medical lasers	1.129	7,5%	617	4,0%	82,9%
Accessories	356	2,4%	396	2,5%	-10,1%
Total	15.035	100,0%	15.599	100,0%	-3,6%

The turnover decrease of the most important segment, aesthetic, sets the pace for the overall segment behaviour. The release to the market of two new products, the intense pulsed light for hair removal and the non invasive laser system for cellulites, did not meet our expectations in terms of generated revenue, though, and could not invert the negative trend of the first quarters.

In the dental segment turnover is more than doubled, due to the cooperation in Italy with Anthos Impianti, to the consolidation of the market share in France and to the opening of new market opportunities in Far East. The remarkable increase in the “other lasers” segment is mostly due to the success of the dye laser for vascular lesions.

The Physiotherapy and the CO₂ surgical systems show a decrease, according to the market trend.

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

(Euro/000)	31/12/2001	Inc%	31/12/2000	Inc%	Var%
Cutting	6.069	56,7%	5.202	62,4%	16,7%
Marking	3.461	32,3%	1.785	21,4%	93,9%
Laser sources	983	9,2%	1.097	13,2%	-10,3%
Welding	200	1,9%	249	3,0%	-19,9%
Total	10.714	100,0%	8.333	100,0%	28,6%

The results of the segment, in terms of turnover, are positive, due to the increase of sales of laser cutting systems by Cutlite Penta, and to the great success of the high power and large surface marking systems developed by Ot-las Srl. The laser sources segment marks a decrease; the welding segment, too, as forecasted.

The relevant increase in the laser marking systems turnover is due to the success of the proprietary technology applied to the decoration of wide surfaced with a laser, through highly innovative galvanometric systems marketed by Ot-las.

The turnover increase in the laser cutting systems segment is notable, and, in a difficult conjuncture, allowed the acquisition of market shares and the consolidation of the market position, a strong basis for a further development in the next years.

Gross margin accounted for about 13.355 thousand euro, decreasing with respect of the same period of 2000 as an effect of the lower impact on the Value of Production which dropped to 45,8% from the 51,9% of the year 2000. The gross margin was reduce, in the medical and aesthetic field, by the general market slowdown that forced a reduction in sales margins both on the consolidated product range and the new generation of products.

Anyway the gross margins stays on excellent levels, particularly if we consider the low contribution of research revenues which, predominantly reimbursing for staff cost, have a strong impact on the gross margin percentage.

The Other operating services and charges accounted for 5.276 thousand euro, with a 18,1% impact on Value of Production, growing from the 12,2% of year 2000. The causes of the trend of this percentage are to be found mainly in the lower than forecasted amount of the Value of Production, whereas the cost reflect a structure organised and prepared for higher volumes of activity. The increase by 57,4% of this cost aggregate is also due to the intensified marketing and promotion activity expenses incurred by Deka M.E.L.A. Srl for the Italian medical and aesthetic laser market and by Cutlite Penta Srl And Ot-las Srl for the laser systems for industrial market. Legal and consultancies cost occurred for the M&A activity to be effected by the group were booked within this entry, even though no transaction was closed during years 2001.

For staff cost account for 4.345 thousand euro, increased by 31,6% with respect to year 2000 and with an impact on Value of Production rising to 15% from 12% of the previous year. The staff consisted of 122 units on September 30th, 2001 and 129 at the end of the year..

Research and development and sales were the function with the highest number of hired people, which involved accounting and production, too.

The Gross operating Profit (EBITDA) accounts for 3.734 thousand euro, with an impact of 12,8%, decreasing from 27,7% of previous year. This decrease is due on one side to the reduction of the Gross margin, both as total amount and percentage on Value of Production, and on the other side to the level of the operative and for staff cost which are set for a structure designed for a volume of activity higher than the one achieved in year 2001.

Depreciation and amortisation account for a lower amount with respect of year 2000.

The operating profit (EBIT) is therefore 2.624 thousand euro, with an impact of 9,0% on Value of Production, markedly influenced by the causes explained in the previous paragraphs and reporting a decrease on the values (6.251 thousand euro and 22,7%) of the previous year. The difference reported with respect of the previous year has been reduced in the fourth quarter.

The net financial income is positive (1.179 thousand euro), due to the cash in banks retained after the share capital increases effected during the past year, as showed in the net financial position. We note that for this quarter a more suitable rearrangement of the entry has been effected with respect to the consolidation of the dividends paid in the third quarter by the company Quanta Fin Srl: this led to a decrease of 645 thousand euro of the financial income and an increase of the value adjustments of 413 thousand euro. The difference of 231 thousand euro impacts on the pre tax profit, and will be almost completely balanced by a tax credit to be accounted for on the current taxation. This rearrangement is not shown in the fourth quarter three month report because it had been directly allocated to the third quarter.

The extraordinary income is positive, including also the share of the profits of the companies consolidated at net worth, profit that has prudentially been estimated unchanged from June 20th figure.

Comments on the trend of the net financial position

The net financial position is positive for more than 30 million euro, improving September's position by almost one million euro. This result has been achieved through a control of the net working capital..

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 site in which the holding company and the controlled companies Cutlite Penta Srl, Valfivve 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 413 thousand euro.

Gross investments effected in the quarter

The following charts show the gross investments effected in the quarter and in the semester.

<i>Euro/000</i>	31/12/2001 (12 months)	31/12/2000 (12 months)
Intangible assets	429	1.858
Tangible assets	655	874
Equity investments	1	17
<i>Total</i>	1.085	2.749

<i>Euro/000</i>	31/12/2001 (3 months)
Intangible assets	85
Tangible assets	47
Equity investments	0
<i>Total</i>	132

The increase of intangible assets is mainly due to DEKA LMS GmbH, for the goodwill paid by the company when it acquired the business of the distribution of medical and aesthetic lasers in Germany.

The investments effected for the new IT system during the last weeks of year 2001 are booked within the intangible assets in progress. The new IT system has been operating from the first days of year 2002.

The investments in tangible assets involved the apparels used for commercial demos and clinical experimentation for the medical market and particularly for the new German facility, and the renewal of the lab instruments for R&D, in relation to the increase in the staff, too.

Comments on Research and development activities

During the fiscal 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 cost that can be granted in the form of tax credits, too.

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 manufacts, 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>	31/12/2001
Costs for personnel and general expenses	1.719,24
Costs for instruments and equipment	71,31
Costs for building of prototypes	166,61
Costs for technological consultants	111,45
Services provided	75,09
Intangible assets	5,16
Total	2.148,87

The amount of the sustained expenses sums up to about 8% of the consolidated turnover and about 13% of the turnover of El.En. SpA which stands most of the R&D expenses. The general expenses are accounted for within R&D expenses according to parameters set within each project, on the basis of the for staff expenses.

For the expenses listed in the chart the group obtained revenues for expenses reimbursement or for research programs for a total amount of 86 thousand euro and other revenues for 94 thousand euro. This amount is negligible with respect to the performed R&D effort and of the on going contracts with the competent bodies.

In effect, apart some projects that involves minor financing, the current project CHOCLAB, recently approved by MIUR, involves a total cost of 1.950 thousand euro between year 2000 and 2003 and will allow 578 thousand euro of revenues. Even though about 336 thousand euro have been already booked as research cost on this project, the procedure of the cost approval does not allow to book in fiscal year 2001 any revenue in relation to the project.

Moreover, we are in the way of defining closing a few important projects for new specific applications in the industrial field, and new therapies for the medical field; these projects should involve cost of around 5.939 thousand euro for the years 2002-2005, with an expected revenue in terms of cost reimbursement of 70% of the sustained cost. This means the group plans to reinforce the R&D activity, and to obtain a level of financial support and revenues consistent with the nature of the research and the returns obtained in the past years.

Other significant events of the quarter

No other notable event of particular relevance took place in the fourth quarter 2001.

Short term evolution

The plans set by the management for the year 2002 forecast a growth of the activities of the group, markedly on the industrial laser applications market on which the expected growth rate is higher than in the other market segments.

In the industrial market we are aiming to the confirmation of the brilliant behaviour in the marking segment, and to the consolidation of the growth in the cutting segment, with the help of the release of new high power laser sources. The order collection and revenues of the first weeks of the year are encouraging.

In the medical market we expect the full success of the products released during last year, particularly on the markets where more difficulties were reported during year 2001. During the first week of February the new Excylite system for psoriasis was released, at the end of years of technical research and clinical experimentation; we are expecting the first revenues for this system already during the first quarter of year 2002.

The increase of the installed base will allow the growth of the revenues for sales of technical service and spare parts.

Despite the uncertainty of the international markets, particularly for the medical segment, we retain a main strategic objective the growth on these markets, to be pursued, if needed, through extraordinary M&A operations, for which the IPO effected in December 2000 provided the necessary cash.

For the Board of Directors

The President

Dr. Ing. Gabriele Clementi