El.En. Group

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30th, 2001

(Board of Directors - November 14th , 2001)

Report on the quarter ended September 30th, 2001

Introduction

This report covers the El.En. Group consolidated financial information up to September 30th, 2001 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.

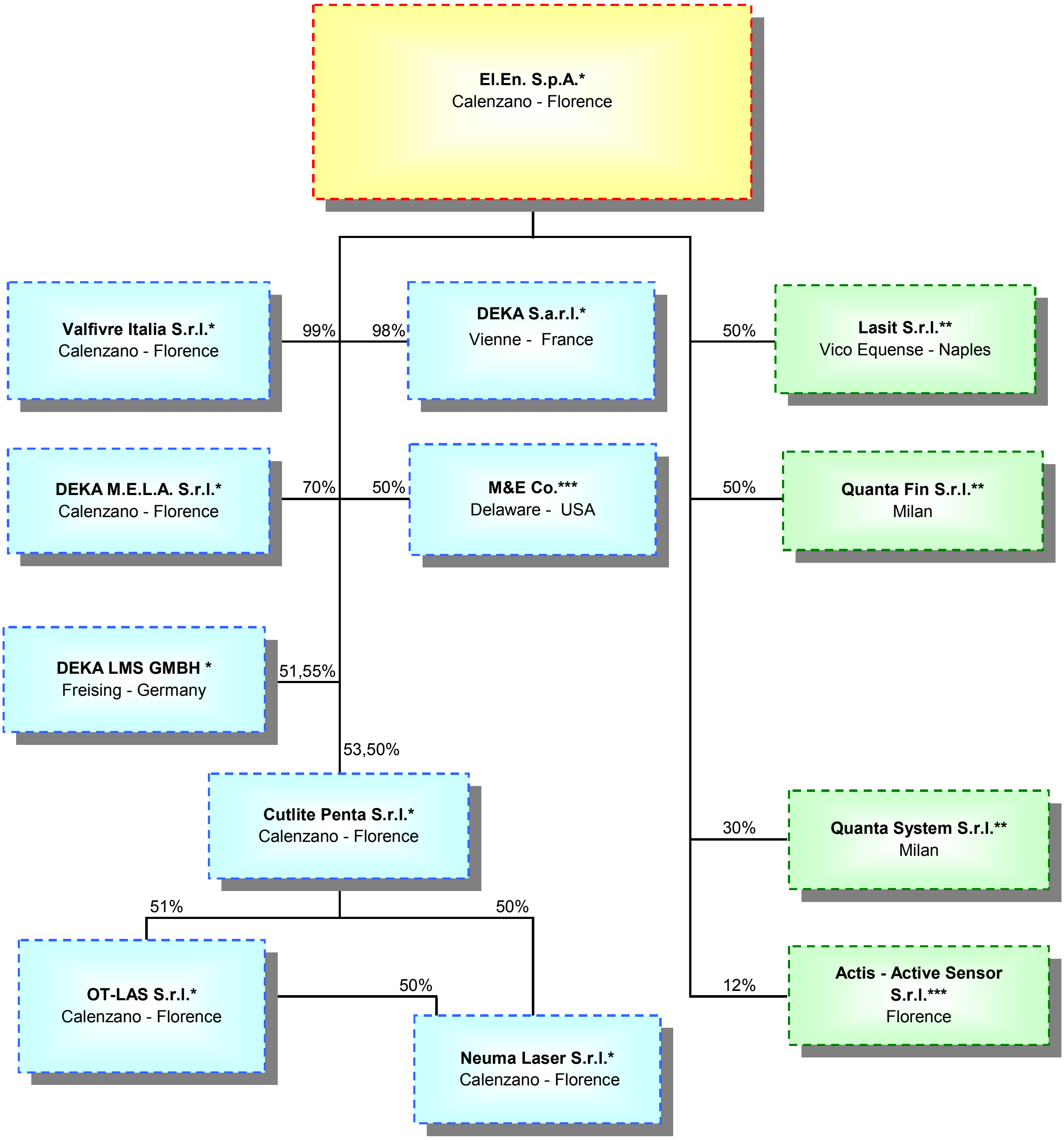
The financial results for the third quarter of year 2001 can be compared with the consolidated financial drawn for the quarter ended on September 30th, 2000.

All the amounts are expressed in millions of Italian lira if not otherwise stated.

Description of the Group

El.En. SPA is the holding company of an industrial group operating in the design, production and distribution of laser sources and systems for a variety of applications.

The structure of the group on 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 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 third quarter 2001 is showed below.

Millions of lira	30/09/00 (three months)		30/09/01 (three months)		Var. %
Net turnover from sales and services	10.360	94,7%	11.724	96,1%	13,2%
Variation in stock of finished goods and WIP	468	4,3%	509	4,2%	8,7%
Other revenues and income	114	1,0%	(33)	0,3%	-128,9%
Value of production	10.942	100,0%	12.200	100,0%	11,5%
Costs for raw materials	(3.733)	34,1%	(5.563)	45,6%	49,0%
Variation in stock of raw material	(144)	1,3%	212	1,7%	-247,5%
Other direct services	(1.567)	14,3%	(1.475)	12,1%	-5,9%
Gross margin	5.499	50,3%	5.374	44,1%	-2,3%
Other operating services and charges	(1.288)	11,8%	(2.153)	17,6%	67,2%
Added value	4.211	38,5%	3.222	26,4%	-23,5%
For staff costs	(1.421)	13,0%	(1.927)	15,8%	35,6%
Gross operating profit	2.790	25,5%	1.295	10,6%	-53,6%
Depreciation, amortisation and other accruals	(185)	1,7%	(553)	4,5%	198,9%
Net operating profit	2.605	23,8%	742	6,1%	-71,5%
Net financial income (charges)	95	0,9%	1.878	15,4%	ns
Extraordinary income (charges)	(20)	0,2%	(778)	6,4%	ns
Earning before taxes	2.680	24,5%	1.842	15,1%	-31,2%

Consolidated income statement for the first nine months of 2001 is showed below, compared with the same period of 2000.

Millions of lira	30/09/00 (nine months)		30/09/01 (nine months)		Var. %
Net turnover from sales and services	35.302	92,7%	37.782	93,8%	7,0%
Variation in stock of finished goods and WIP	2.499	6,6%	2.239	5,6%	-10,4%
Other revenues and income	278	0,7%	268	0,7%	-3,6%
Value of production	38.079	100,0%	40.288	100,0%	5,8%
Costs for raw materials	(14.564)	38,2%	(20.235)	50,2%	38,9%
Variation in stock of raw material	1.284	3,4%	2.614	6,5%	103,6%
Other direct services	(4.616)	12,1%	(4.294)	10,7%	-7,0%
Gross margin	20.183	53,0%	18.373	45,6%	-9,0%
Other operating services and charges	(4.779)	12,5%	(7.388)	18,3%	54,6%
Added value	15.404	40,5%	10.985	27,3%	-28,7%
For staff costs	(4.538)	11,9%	(6.080)	15,1%	34,0%
Gross operating profit	10.865	28,5%	4.905	12,2%	-54,9%
Depreciation, amortisation and other accruals	(691)	1,8%	(1.672)	4,1%	142,0%
Net operating profit	10.175	26,7%	3.234	8,0%	-68,2%
Net financial income (charges)	82	0,2%	3.067	7,6%	ns
Extraordinary income (charges)	(34)	0,1%	(592)	1,5%	ns
Earning before taxes	10.223	26,8%	5.708	14,2%	-44,2%

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

Net financial position			
Millions of lira	**31/12/00**	**30/06/01**	**30/09/01**
Financial mid and long term debts	(5.819)	(5.488)	(4.483)
Financial mid and long term debts	**(5.819)**	**(5.488)**	**(4.483)**
Financial liabilities due within 12 months	(778)	(688)	(687)
Cash in banks and on hand	69.427	64.711	61.012
Net financial short term position	**68.648**	**64.023**	**60.325**
Total financial net position	**62.830**	**58.535**	**55.841**

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.

The revenues for the third quarter 2001 have marked an increase of 13,2% with respect to the third quarter 2000. The increase is still below expectations, mainly due to the uncertainty of the markets at the beginning of the year and specially after the events of September 11th .

The decrease in the sales margin and the fixed operating and for staff costs, set for a higher volume of operations than achieved in the first three quarters of year 2001, impact on the gross margins which mark a decrease with respect to the fist nine months of the previous year.

As at September 30, 2001 sales may be classified as follows among the market segments covered by the group; sales volume is compared with the quarter closed September 30, 2000.

(in millions of lira)	30/09/00		30/09/01		Var %
Industrial systems and lasers	10.703	30%	13.551	36%	27%
Medical and aesthetic lasers	21.875	62%	21.438	57%	-2%
R & D	250	1%	159	0%	-36%
Service	2.474	7%	2.634	7%	6%
Total	35.302	100%	37.782	100%	7%

The sales volume decrease in the most significant segment, medical and aesthetic lasers, was 2% (a better performance than June 2001, when it marked a –10%). Even though turnover and margins were higher in the quarter, the European markets marked a sales decrease, while the quarter was positive for Japan and other non CE countries like Korea and Canada. We note that the small decrease in sales in the medical laser segment positively distinguishes our group from the behaviour of the major companies on the market (Lumenis, Candela and Laserscope) which suffered consistent drop in sales volume.

The industrial lasers segment marks a 27% increase, mainly obtained during the second part of the period.

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

The sales volume deriving form 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 previous year's revenues, as we will better explain in the R&D section.

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

(in millions of lira)	30/09/00		30/09/01		Var %
Italy	17.371	49%	20.627	55%	19%
Europe	7.894	22%	6.983	18%	-12%
Rest of the world	10.037	28%	10.197	27%	2%
Total	35.302	100%	37.782	100%	7%

As explained before the European markets registered a decrease in sales volume; Spain, France and Germany performed below expectations. Even though they're performing better than in the first semester our two medical distribution companies in Germany and France respectively marked a small operating profit and an operating loss for the nine month period. The rest of the world sales show an increase, due to the success of our industrial systems both in South America and Far East, and the sales of medical lasers in Japan, back to an acceptable level after the low level achieved in the first semester. Only the Italian sales show an increase that matches the growth rate forecasted at the beginning of the year.

Even if decreasing by 2% the medical/aesthetical lasers market is the most significant; within this market we can split the turnover among the following specific segments.

(in millions of lira)	30/09/00		30/09/01		Var %
Surgical CO2	2.276	11%	2.089	10%	-8%
Physiotherapy	1.179	6%	985	5%	-16%
Aesthetic	15.664	73%	13.414	63%	-14%
Dental	821	4%	2.082	10%	153%
Other medical lasers	698	3%	1.452	7%	108%
Accessories	1.236	6%	1.415	7%	14%
Total	21.875	100%	21.438	100%	-2%

The general revenue decrease, due to the difficult market conditions, finds two exceptions: dental market doubles sales as an effect of the successful relation with Anthos Impianti, distributor in Italy for the segment, that took advantage from the new product range released to sales at the end of year 2000; the release of the dye laser for vascular lesions moves upward the sales in the "other medical lasers".

In the aesthetical segment the decrease with respect to year 2001 does not diminish in the quarter, in spite of the release of two new products, the intense pulsed light for hair removal and the non invasive laser system for cellulites. After the release to the market of these products during the month of June, we forecasted that the month of September was going to be the key period for order collection: in fact the order collection remained unchanged with respect to last year, without the expected increase, due to the market uncertainty for the well known international crisis, too.

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

(in millions of lira)	30/09/00		30/09/01		Var %
Cutting	6.149	57%	8.483	63%	38%
Marking	2.805	26%	3.570	26%	27%
Laser sources	1.343	13%	1.309	10%	-3%
Welding	406	4%	189	1%	-53%
Total	10.703	100%	13.551	100%	27%

The results in terms of sales on the segment are very positive, due to the increase in sales of laser cutting systems produced by Cutlite Penta Srl and to the success of the high power laser marking systems for large surfaces designed by Ot-las Srl. The laser sources segment marks a small decrease, while he welding segment shows the forecasted decrease in sales. The mentioned results could have been even better if a few customers had not asked, due to the international crisis, to shift to a later date the deliveries of the systems they had previously ordered. We must note that the sales volume expansion of the period has taken place with the help of promotions that reduced the margins with respect to the previous year, as we will discuss in the following paragraphs.

Gross margin accounted for about lira 18.373 millions circa, decreasing with respect of the same period of 2000 as an effect of the lower impact on the Value of Production which drops to 45,6% from the 53,0% of the first nine months of 2000. The gross margin was hurt, in the medical and aesthetic field, by the sales mix where products with a life cycle phase that allows lower margins were predominant, while expecting that new released products will lead to an increase of the margin; in the industrial segment by the aggressive sales strategy pursued for the acquisition of market share. Anyway the gross margins stays on excellent levels, particularly if we consider the low contribution of research revenues which, predominantly reimbursing for staff costs, have a strong impact on gross margin percentage. We furthermore note that a few laser systems produced during the month of September, both for the industrial and medical market, could not be sold because of delivery shift requested by the customers, due to the international crisis, and therefore these systems are accounted for at cost within the finished goods, with an obvious negative impact on the margins.

The Other operating services and charges accounted for lira (7.388)millions, with a 18,3% impact on Value of Production, growing from the 12,5% of the first nine months of 2000. The causes of the trend of this percentage are to be mainly found in the lower than forecasted amount of the Value of Production, whereas the costs reflect a structure organised and prepared for higher volumes of activity. This cost aggregate registered the amount of lira (2.153) millions for the third quarter 2001, increasing from the (1.288) millions of the third quarter 2000, also for the intensified marketing and promotion activity expenses incurred by Deka M.E.L.A. Srl for the Italian medical and aesthetical laser market and by Cutlite Penta Srl And Ot-las Srl for the laser systems for manufacturing market. The impact of this cost increase on the operating profit is heavier in the third quarter because the month of August (mostly dedicated to summer break) did not allow to perform the sales volume needed to balance the effect of the increased fixed costs.

For staff costs account for (6.080) millions of lira, with an impact on Value of production rising to 15,1% from 11,9% of the first nine months of 2000. The average staff consisted of 118 employees during the first semester 2001 and 122 at September 30th , 2001. Research and development and sales were the function with the highest number of hiring, which involved accounting and production, too.

The Gross operating Profit (EBITDA) accounts for 4.905 millions of lira, with an impact of 12,2%, decreasing from 28,5% 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 one to the level of the operating and for staff costs which are set for a structure designed for a volume of activity higher than the one accounted for in the first semester 2000.

Depreciation and amortisation accounts for considerably higher amounts than in the corresponding period of the previous year, as an effect of the depreciation of the costs sustained for the IPO on the Nuovo Mercato, too.

The operating profit (EBIT) is therefore 3.234 millions of lira, with an impact of 8,0% on Value of Production, markedly influenced by the causes explained in the previous paragraphs and reporting a decrease on the values (lira 10.175 millions and 26,7%) of the previous year. The decrease in the EBIT is more evident in the third quarter, due to the month of August that leads to a higher impact of fixed costs on the operating profit.

The net financial income is positive (lira 3.067 millions), due to the cash in banks retained after the share capital increases effected during the past year, as showed in the net financial position. Furthermore the company Quanta fin Srl (of which El.En. Spa detains 30% of share capital), paid an extraordinary dividend by distribution of part of the Capital reserve; El.En. received a dividend of 800 millions of lira, wit a tax credit of around 449 millions of lira; on the financial side the operation was closed by partial reimbursement of the mid term loan by Quanta fin Srl to El.En. Spa expiring on June 30, 2003.

The extraordinary income is negative for lira (592) millions. The result is affected by the loss of 800 millions of lira corresponding to the Capital reserve of Quanta fin Srl paid as dividend, and the related decrease of the net worth of the participated company.

<u>Comments on the trend of the net financial position</u>

The net financial position is positive for more than 55.841 millions of lira, decreasing from 58.535 milions of lira on the June 30th, 2001.

During the quarter cash in banks has been absorbed by 1.781 millions of lira of dividends paid by El.En. Spa to its shareholders and by about 500 millions of lira of dividends paid by Deka M.E.L.A. Srl and Cutlite Penta Srl to their minority shareholders. Cash in banks was also absorbed by the increase of the net working capital both in the final stock and in the trade debtors, though for a smaller amount with respect to the previous quarters.

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

Gross investments effected in the quarter

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

Millions of lira	**30/09/01** (three months)
Intagible assets	4
Tangible assets	(117)
Equity investments	0
Total	(113)

Millions of lira	**30/09/01** (nine months)
Intagible assets	667
Tangible assets	1.178
Equity investments	1
Total	1.846

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 aesthetical lasers in Germany. 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 instrumentation for R&D, in relation to the increase in the staff, too. There is no notable single investment, neither for nature nor for amount.

During the third quarter the controlled German company DEKA LMS Gmbh effected a reallocation of the fixed assets to finished goods stock for the medical laser systems dedicated to commercial demonstrations; the reallocations leads to the negative amount in the investments of tangible assets of the third quarter.

Comments on Research and development activities

During the first month 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.

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.

(Millions of lira)	**30/09/01**
Costs for personnel and general expenses	2.659
Costs for instruments and equipment	103
Costs for building of prototypes	177
Costs for technological consultants	160
Services provided	36
Total	**3.136**

The amount of the sustained expenses sums up to 8% circa of the consolidated turnover and about 14% of the turnover of El.En. SpA which stands most of the R&D expenses.

For the expenses listed in the chart the group obtained revenues for expenses reimbursement or for research programs for a total amount of lira 159 millions.

Among the projects which involve revenues or cost reimbursement the group is working at: FOTO project, in cooperation with ENEA, that allows 300 millions of lira of reimbursement on the 500 millions of lira of costs sustained between year 2000 and 2001; project CHOCLAB, recently approved by MIUR, that involves a total cost of 1.950 millions of lira between year 2000 and 2003 and will allow 1.121 millions of lira of revenues. Even though about 650 millions of lira have been booked as research costs on this project, the procedure of the cost approval does not allow to book any revenue in relation to the project.

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 project should involve costs of around 11.500 millions of lira for the years 2002-2005, with an expected revenue in terms of cost reimbursement of 70% of the sustained costs. By 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 third quarter 2001.

Short term evolution

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

In consideration of the uncertainty dominating the markets after the 11 September events, and of its impact on the order collection, the management revised the growth forecast reducing it to 11%, as a balance of the 30% expected on the industrial segment and the 2% on the medical segment.

The forecast is based on the trust in the new products recently released both in the medical and the industrial market. As it has always been in the history of the group the new products which can represent 50% of yearly turnover are the basis of the development of the sales volume and of the performance on sales margins, because of the higher margins new products achieve with respect to products in the maturity of their life cycle.

The goal for the current year is the penetration in international markets, if needed through extraordinary M&A operations. The uncertain politic and economic international situation did not modify this strategic goal, within a more careful consideration of the risks involved in the present situation.

For the Board of Directors

The Managing Director

Dr. Ing. Andrea Cangioli