El.En. Group

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

(Board of Directors - August 14, 2001)

Report on the quarter ended June 30, 2001

Introduction

This report covers the El.En. Group consolidated financial information up to June 30, 2001 prepared and divulged in accordance with article 2.6.2. of the New Market 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.

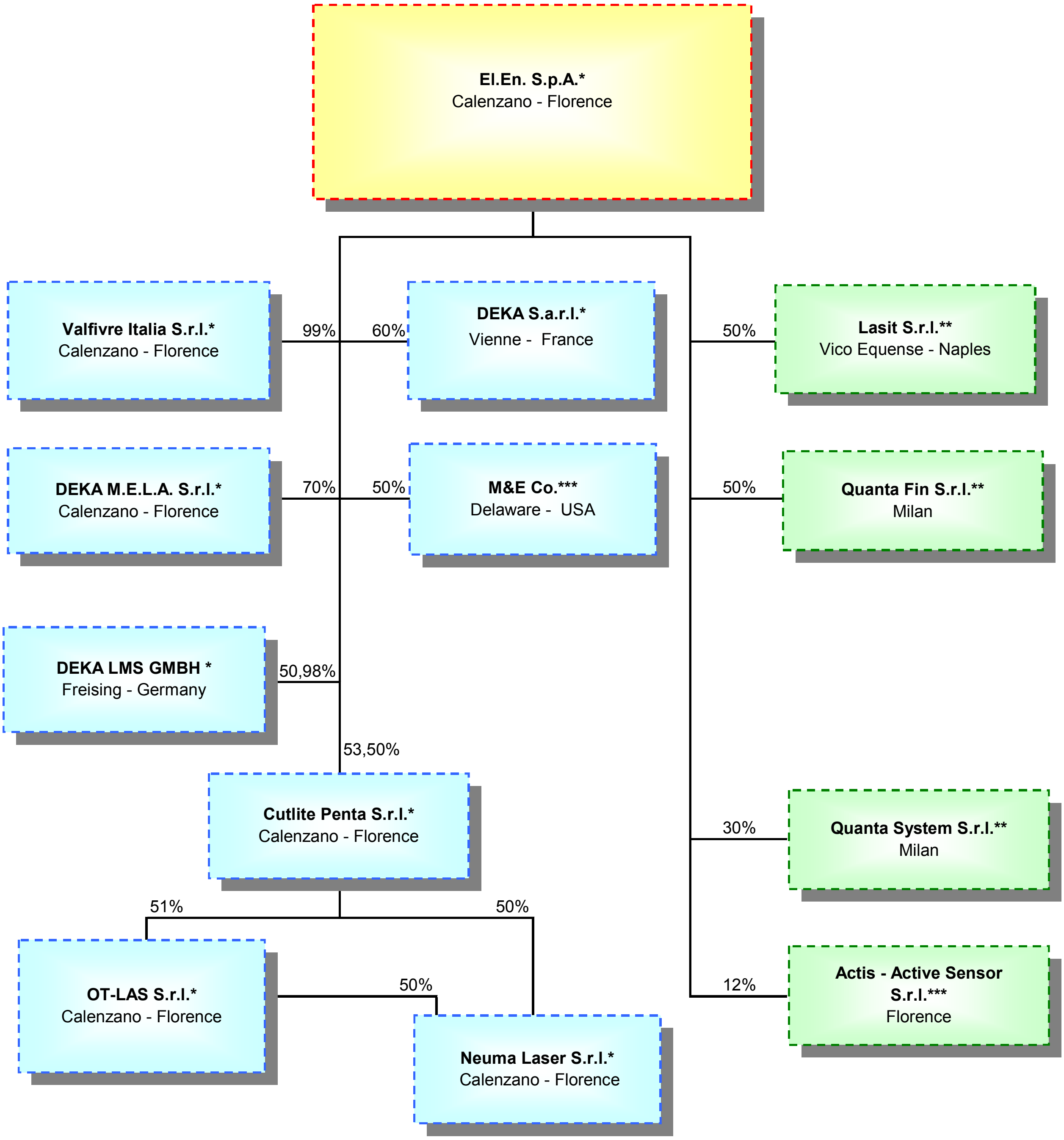
The Group had not drawn, being not compulsory, a consolidated financial report for the quarter ended June 30, 2000; therefore the financial results of the quarter ended on June 30, 2001 cannot be compared with the results of the corresponding quarter of the previous year. The financial results for the first semester of year 2001 can be compared with the consolidated financial drawn for the semester ended on June 30, 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 June 30, 2001 is represented in the following chart.



* *Wholly consolidated*

** *Consolidated in relation to net worth*

*** *Keeped at the cost*

The control stake in the company DEKA- LMS Gmbh, has been acquired on January 23, 2001. DEKA-LMS Gmbh is encharged of distribution in Germany for the aesthetic/medical laser equipment produced by El.En. SpA. In the fist quarter financial report the evaluation of the participation was kept at cost, (as allowed by. 29 D.Lgs. 9-4-1991, n.127). In the present quarterly report the results of the controlled company are for the first time wholly consolidated.

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 Quantafin Srl do not draw up quarterly financial reports, but drew up a financial report for the semester closed June, 30, in order to allow consolidation in relation to net worth.

Results of operations and financial position of the group

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

Millions of lira	**30/06/01** (three months)	
Net turnover from sales and services	14.414	97,9%
Variation in stock of finished goods and WIP	142	1,0%
Other revenues and income	169	1,1%
Value of production	14.725	100,0%
Costs for raw materials	(7.605)	51,6%
Variation in stock of raw material	1.615	11,0%
Other direct services	(1.309)	8,9%
Gross margin	7.426	50,4%
Other operating services and charges	(2.978)	20,2%
Added value	4.448	30,2%
For staff costs	(2.149)	14,6%
Gross operating profit	2.299	15,6%
Depreciation, amortisation and other accruals	(628)	4,3%
Net operating profit	1.671	11,3%
Net financial income (charges)	614	4,2%
Extraordinary income (charges)	140	0,9%
Earning before taxes	2.425	16,5%

Consolidated income statement for the first semester 2001 is showed below, compared with the first semester 2000.

Millions of lira	30/06/00 (six months)		30/06/01 (six months)		Var.
Net turnover from sales and services	24.942	91,9%	26.059	92,8%	4,5%
Variation in stock of finished goods and WIP	2.031	7,5%	1.709	6,1%	-15,8%
Other revenues and income	164	0,6%	301	1,1%	83,0%
Value of production	27.137	100,0%	28.069	100,0%	3,4%
	0	0,0%			
Costs for raw materials	(10.832)	39,9%	(14.673)	52,3%	35,5%
Variation in stock of raw material	1.428	5,3%	2.463	8,8%	72,5%
Other direct services	(3.049)	11,2%	(2.806)	10,0%	-8,0%
Gross margin	14.684	54,1%	13.053	46,5%	-11,1%
	0	0,0%			
Other operating services and charges	(3.491)	12,9%	(5.248)	18,7%	50,3%
Added value	11.193	41,2%	7.805	27,8%	-30,3%
	0	0,0%			
For staff costs	(3.117)	11,5%	(4.153)	14,8%	33,2%
Gross operating profit	8.075	29,8%	3.652	13,0%	-54,8%
	0	0,0%			
Depreciation, amortisation and other accruals	(506)	1,9%	(1.054)	3,8%	108,3%
Net operating profit	7.569	27,9%	2.598	9,3%	-65,7%
	0	0			
Net financial income (charges)	(13)	0,0%	1.188	4,2%	-
Extraordinary income (charges)	(14)	0,0%	186	0,7%	-
Earning before taxes	7.543	27,8%	3.973	14,2%	-47,3%

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

Net financial position			
Millions of lira	**31/12/00**	**31/03/01**	**30/06/01**
Financial mid and long term debts	(5.819)	(5.614)	(5.488)
Financial mid and long term debts	**(5.819)**	**(5.614)**	**(5.488)**
Financial liabilities due within 12 months	(778)	(654)	(688)
Cash in banks and on hand	69.427	63.652	64.705
Net financial short term position	**68.648**	**62.997**	**64.017**
Total financial net position	**62.830**	**57.383**	**58.529**

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 second quarter have marked an increase with respect to the first quarter which reported sales volumes below the expectations: at the end of the first semester the total turnover increased with respect of the first semester of year 2000; the increase is still below expectations, mainly due to the uncertainty of the markets at the beginning of the year.

The gross margin of the second quarter is back to the levels achieved in the last years, even if the semester result marks a reduction with respect of the previous year. The level of operating and for staff costs reflect a structure prepared for higher sales volumes than achieved in the semester, therefore reducing the operating profit with respect to the first semester of the previous year.

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

(in millions of lira)	**30/06/00**		**30/06/01**		**Var %**
Industrial systems and lasers	7.578	30%	9.876	38%	30%
Medical and aesthetic lasers	15.862	64%	14.294	55%	-10%
R & D	243	1%	172	1%	-29%
Service	1.260	5%	1.717	7%	36%
Total	24.942	100%	26.059	100%	4%

The most significant segment, medical and aesthetic lasers, marked a 10% decrease in sales. The main cause for this decrease was the weakness of the international markets, Japan and European markets at first; the semester was particularly difficult in France and in Germany, were the controlled distribution companies reported disappointing sales volume and operating losses. Nevertheless in must be noted that for both markets the second semester is traditionally more favourable, and that orders booked and the perspectives of the new products introduced in the offered range allow a forecast of better performances in the second semester.

The industrial lasers segment marks a 30% increase, mainly obtained during the second quarter.

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 MURST (University and Scientific 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)	**30/06/00**		**30/06/01**		**Var %**
Italy	13.190	53%	15.846	61%	20%
Europe	4.939	20%	3.882	15%	-21%
Rest of the world	6.813	27%	6.330	24%	-7%
Total	24.942	100%	26.059	100%	4%

As explained before the international markets did not help in the sales volume expansion, achieved only by means of the domestic sales. Anyhow encouraging results have been obtained in markets like Brazil, and Canada, historically negligible for the group, and Korea, back to sales volumes accounted for before the financial crisis that suddenly froze the market.

Even if decreasing by 10%, the medical/aesthetical lasers market is still the most significant; within this market we can split the turnover among the following specific segments.

(in millions of lira)	30/06/00		30/06/01		Var %
Surgical CO2	1.811	13%	1.503	11%	-17%
Physiotherapy	918	6%	821	6%	-11%
Aesthetic	10.583	74%	9.278	65%	-12%
Dental	751	5%	1.481	10%	97%
Other medical lasers	673	5%	904	6%	34%
Accessories	1.126	8%	306	2%	-73%
Total	15.862	100%	14.294	100%	-10%

The general revenue decrease, mainly 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".

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

(in millions of lira)	30/06/00		30/06/01		Var %
Cutting	4.879	64%	5.971	60%	22%
Marking	1.578	21%	2.769	28%	75%
Laser sources	775	10%	953	10%	23%
Welding	345	5%	184	2%	-47%
Total	7.578	100%	9.876	100%	30%

The brilliant results obtained in the industrial market are primarily due to the success of the special high power marking systems for very large surfaces, a segment on which the group offers a highly innovative product range in respect to competitors, and that is accounting for the first sales during the second quarter, confirming the growth. A positive behaviour is reported in both cutting and laser sources, with an increase over 20%, where the strong growth trend was mainly achieved during the second quarter. The welding segment shows the forecasted decrease in sales.

Gross margin accounted for about lira 13.053 millions circa, decreasing with respect of the first semester 2000 as an effect of the lower impact on the Value of Production which drops to 46,5% from the 54,1% of the first semester 2000. These results are influenced by the first quarter results, while the second quarter reported a gross margin impact of 50,4% on Value of Production, in accordance to forecasts. The reduction of gross margin percentage is influenced by the phase of the life cycle of certain products of the medical segment, which forced a price reduction, and to the aggressive sales strategy pursued in the industrial market segment 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.

The Other operating services and charges accounted for lira 5.248 millions, with a 18,7% impact on Value of Production, growing from the 12,9% of the first semester 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 2.978 millions for the second quarter, increasing from the 2.270 millions of the first quarter, also for the whole consolidation of the new German facility and the intensified marketing and promotion activity expenses incurred by Deka M.E.L.A. Srl for the Italian medical and aestherical laser market and by Cutlite Penta Srl for the industrial laser cut applications market.

For staff costs account for 4.153 millions of lira, with an impact on Value of production rising to 14,8% from 11,5% of the first semester 2000. The average staff consisted of 90 employees during the first semester 2000 and 108 during the first semester 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 3.652 millions of lira, with an impact of 13,0%, decreasing from 29,8% 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 2.598 millions of lira, with an impact of 9,3% on Value of Production, markedly influenced by the causes explained in the previous paragraphs and reporting a decrease on the values (lira 7.659 millions and 27,9%) of the previous year.

The net financial income is positive (lira 1.188 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.

The extraordinary income is positive (lira 186 millions). This result includes the relevant share of the net result for the semester of the companies which are consolidated with respect to their net worth (Lasit Srl, Quanta System Srl, Quanta fin Srl), for a total amount of around lira 70 millions.

Comments on the trend of the net financial position

The net financial position is positive for more than 58 billions of lira.

Such a strong financial position has its positive effect on the financial income of the group, giving its contribution to the net profit. The retained cash is mostly invested in short-term financial instruments, in order to have it available for the strategic M&A operations.

The closing of the operation on DEKA- LMS, which needed a consolidated total investment of around 1 billions of lira, and the increase of the net working capital both in the final stock and in the trade debtors, are the major causes of the reduction of cash in bank recorded in the quarter.

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.

Gross investments effected in the quarter

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

Millions of lira	**30/06/01** (three months)
Intagible assets	606
Tangible assets	1.097
Equity investments	0
Total	1.704

Millions of lira	**30/06/00** (six months)	**30/06/01** (six months)
Intagible assets	8	664
Tangible assets	731	1.336
Equity investments	0	1
Total	739	2.000

The gross equity investments of the second quarter show a lower value than the one reported for the firsts quarter, for the mere accounting effect of the whole consolidation of the controlled company DEKA LMS Gmbh, which involved the elimination of the equity investment as booked on March, 31 2001, for an amount slightly lower than one billion of lira.

The increase of intangible assets is mainly due to the same 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.

A remarkable increase is reported in the investments in tangible assets, which 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.

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 MURST (University and Scientific 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 led, during the month of June, to the release to the market of a new range of innovative products for the medical market.

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.

(Millions of lira)	**30/06/01**
Costs for personnel and general expenses	1.543
Costs for instruments and equipment	13
Costs for building of prototypes	105
Costs for technological consultants	121
Services provided	20
Total	**1.802**

The amount of the sustained expenses sums up to 7% circa of the consolidated turnover and about 11% 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 172 millions: this amount is to be considered extraordinarily low. The causes of this decrease in research revenues are due to the impossibility of accounting for expenses reimbursement, on expenses already sustained on June 30, 2001 within stately financed research programs, before the final approval and payment by the responsible office

Other significant events of the quarter

On May 8th 2001, a citation called *Processo Verbale di Constatazione* (PVC) was delivered to the Company after an inspection begun by the *Guardia di Finanza* (Internal Revenue Service) on January 23rd 2001. This citation was related to the presumed failure to pay the full amounts due for certain taxes (IRPEG, IRAP, IVA) for a total of 1.252.000.000 lira approximately. The company, though convinced of the correctness of its operations, decided, as a precautionary measure, to set a side a reserve fund of 800.000.000 lira in the eventuality that the issuance of judicial acts require payment in relation to the above mentioned citation. The amount has been accounted for in the year 2000 financial report.

No other notable event of particular relevance took place in the second 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.

Both in the medical and industrial segment great expectations are given by the success of our new products, some of which, markedly the laser marking system for large surface, already contributed to the first semester turnover. In the medical/aesthetic market the release of intense pulsed light hair removal systems and laser systems treating cellulite already allowed a revival of sales to Japan, and will be our leading product for the next quarters.

The goal for the current year is the penetration in international markets, if needed through extraordinary M&A operations that could be closed with the cash available after the share capital increases affected in year 2000.

For the Board of Directors

The President

Dr. Ing. Gabriele Clementi