El.En. Group

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

(Board of Directors - May 14, 2001)

Report on the quarter ended March 31, 2001

Introduction

This report covers the El.En. Group consolidated financial information up to March 31, 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 Consol 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.

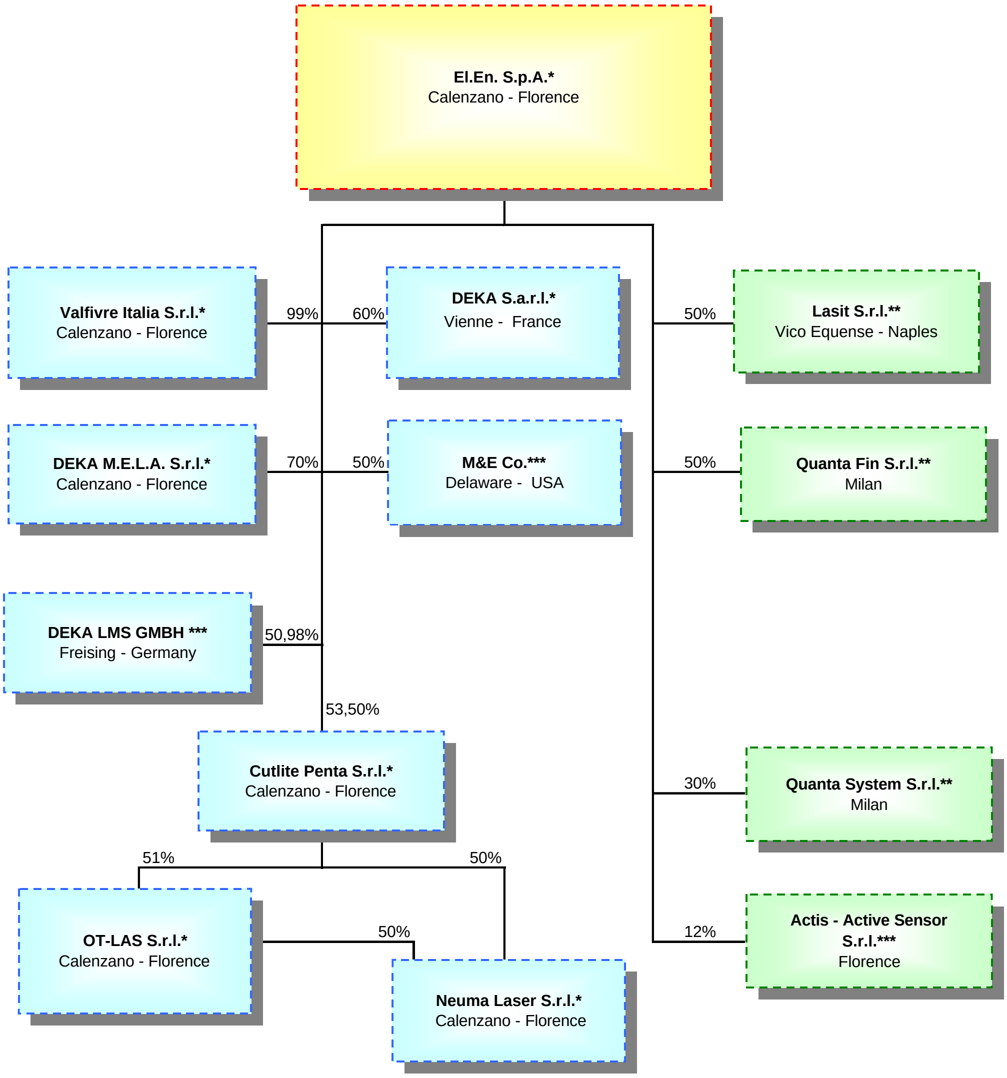
The Group had not drawn, being not compulsory, a consolidated financial report for the quarter ended March 31, 2000; therefore the financial results of the quarter ended on March 31, 2001 cannot be compared with the results of the corresponding quarter of the previous year.
Where data and references about March 31, 2000 were available we provided general comparison with the last quarter. On the charts enclosed in this report we furthermore displayed, in order to provide more useful information, the comparison of the impact of the revenue margins and of the percentages of sales distribution recorded on March 31,2001 with the corresponding impacts for the year 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 March 31, 2001 is represented in the following chart.



*   *Wholly consolidated*
**   *Consolidated in relation to net worth*
*** *Keeped at the cost*

The company DEKA- LMS Gmbh, based in Freising, Germany, is part of the consolidation area from January 23, 2001. Being the company in the first steps of its activity, and on March 31 operating from 30 days only, its result has not a significant impact on the consolidated result and the evaluation of the participation was kept at cost, (as allowed by. 29 D.Lgs. 9-4-1991, n.127).

DEKA-LMS Gmbh is encharged of distribution in Germany for the aesthetic/medical laser equipment produced by El.En. SpA.

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 do not draw up quarterly financial reports, therefore in the consolidated financial report for the quarter ended March 31, 2001 it was prudentially assumed that their net worth remained unchanged from the value of the December 31, 2000 reports.

Results of operations and financial position of the group

Consolidated income statement for the first quarter 2001 is showed below. The year 2000 column reports the impact of the margins and cost aggregates on the value of production at December 31, 2000.

Millions of lira	**31/03/01**	**Inc%**	**31/12/2000 Inc%**
Net turnover from sales and services	11.645	87,3%	93,5%
Variation in stock of finished goods and WIP	1.567	11,7%	5,8%
Other revenues and income	132	1,0%	0,7%
Value of production	13.344	100,0%	100,0%
			0,0%
Costs for raw materials	(7.068)	53,0%	40,4%
Variation in stock of raw material	848	6,4%	3,7%
Other direct services	(1.497)	11,2%	11,6%
Gross margin	5.627	42,2%	51,7%
			0,0%
Other operating services and charges	(2.270)	17,0%	12,4%
Added value	3.357	25,2%	39,3%
			0,0%
For staff costs	(2.004)	15,0%	11,9%
Gross operating profit	1.353	10,1%	27,4%
			0,0%
Depreciation, amortisation and other accruals	(425)	3,2%	5,0%
Net operating profit	927	7,0%	22,4%
Net financial income (charges)	574	4,3%	0,6%
Extraordinary income (charges)	46	0,3%	0,3%
Earning before taxes	1.548	11,6%	23,3%

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

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

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.

As at December 31, 2000 sales may be classified as follows among these four segments.

The quarterly consolidated turnover is substantially unchanged in respect of the turnover of the first quarter of year 2000, and therefore it has been lower than expected, without the strong increase previously forecasted.

The main causes of this difference from the forecasted volume of sales con be listed as follows: effect of the difficult general economic and market situation in the US and in Japan, whereas the bad economic mood of the US has a direct effect on the global market, while the Japan's difficulties directly impacted on our most important foreign market for the previous year; persistent difficulties were reported on the French market, where results, though in presence of a few positive notes, are still below expectations; same can be said for the Spanish market, the most important in Europe for the group during the last year in the aesthetical/medical segment; the turnover of the new German branch could not be consolidated in the first quarter, as an effect of one month of delay on the scheduled beginning of operations

As at March 31, 2001 sales may be classified as follows among these four segments. The percentage of turnover of each segment for year 2000 is also showed.

(in millions of lira)	31/03/01	Inc%	2000 Inc%
Industrial systems and lasers	3.947	34%	32%
Medical and aesthetic lasers	6.744	58%	60%
R & D	76	1%	1%
Service	879	8%	7%
Total	11.645	100%	100%

The industrial systems segment enlarged its share among group's sales, as forecasted on its effective growth potential. Sales on the medical market are still the most important for the group. The sales for research and development included in this report are related to revenues that are certainly attained on the information basis we have today; other R&D projects are running and there are high chances to obtain more research expenses reimbursements on research expenses that are part of the quarterly costs. The sales for services and spare parts increase their share, as they are related to the total number of systems installed by the group, which has been considerably growing in the last years, and because of the lower than expected amount of sales of laser systems.

The following chart shows the consolidated sales according to geographical distribution, compared with the percentage of sales in the various areas reported for year 2000.

(in millions of lira)	31/03/01	Inc%	2000 Inc%
Italy	8.348	71,0%	52%
Europe	1.095	9,3%	21%
Rest of the world	2.318	19,7%	27%
Total	11.761	100%	100%

A redistribution of the geographical sales mix took place in the quarter, with the strong increase of the sales in Italy; it can be stated that such an increase is the result of a marketing effort, especially in the medical market, aimed to regain the market shares that were lost in the previous year; the main causes for the reduction in export turnover were already listed.

During year 2000 the group had reached its maximum exportation share on sales; we note that the strengthening of the foreign distribution network and the increase in export volumes are one of the main objectives for the group, in order to achieve a pervasive global presence on the markets. The international markets should allow on the mid term a higher growth potential.

The medical/aesthetic market remains the most important for the group in terms of consolidated sales volume, for the first quarter 2001 also. The following chart shows a classification of sales in the specific segments on which the group is offering its products, and the comparison with the shares on the year 2000 sales.

(in millions of lira)	31/03/01	Inc%	2000 Inc%
Surgical CO2	533	8%	11%
Physiotherapy	560	8%	5%
Aesthetic	4.281	63%	74%
Dental	584	9%	4%
Other medical lasers	700	10%	4%
Accessories	85	1%	3%
Total	6.744	100%	100%

The aesthetic medicine segment remains the most significant, despite the reduction of its share: the group's product range for it includes laser systems for hair removal, vascular lesions and lipolisis. During the quarter sales involved mainly high power long pulse Nd: YAG laser systems for vascular lesions and hair removal.

The change in the distribution network for the dental market performed last year is bearing its first positives effects confirming the quality of our strategic partner Anthos Impianti, leader in the manufacturing of apparels for dentists' offices. Investments have been made in order to strengthen the group's distribution network on the foreign markets too, in order to exploit the full and high quality product range (CO_2, Nd: YAG e Er: YAG) that we provide for this market segment

The following chart shows a classification of sales in the industrial laser systems market and the comparison with the shares of the various market segments on the year 2000 sales.

(in millions of lira)	31/03/01	Inc%	2000 Inc%
Cutting	2.709	69%	76%
Marking	1.081	27%	21%
Welding	157	4%	3%
Total	3.947	100%	100%

The most important segment remains the cutting systems segment, which is represented by Cutlite Penta Srl's sales. The increase in the share of marking laser systems was expected as an effect of the success of our special marking systems for very large surfaces, a segment on which the group offers a highly innovative product range in respect to competitors.

The gross margin accounted for lira 5.627 millions, with an impact about 42% on the value of production; the impact shows a diminution in comparison with the previous year; a reduced average pricing due to both mix and price level, and the increase in the stock of finished products are the main causes of this reduction. The accounting for finished products in the stock of the end of the period is made with respect of industrial production costs, and this is, because of the high margins of our sales, bearing a negative effect on the gross margin. Notably the 5% increase of the impact of the growth in finished products stock on the value of production, as compared to year 2000, represents an absolute value of around 800 millions of lira of finished products produced in the quarter and accounted for in the final stocks, therefore around 600/700 millions of lira of gross margin potentially inscribed in the final stocks

The Other operating services and charges accounted for 2.270 millions of lira in the quarter, with an impact of17% on the Value of production, increased with respect of the 12,4% of the year 2000. The causes of such an increase can be pointed out in the lower than expected amount of the value of production, compared to operating costs and charges that reflect a structure prepared to achieve higher production volumes. Among these costs the R&D has a significant share, as its expenses have been increased in the quarter in order to create the basis for the release of new products to the market, and the commercial an marketing expenses sustained, especially by DEKA M.E.L.A. Srl in the medical aesthetical segment for the Italian market.

Staff costs account for around 2 billions of lira, their impact rising to 15% from the 12,1% of the previous year. The number of employees of the group rose from 86 on 31/12/99 to 105 on 31/12/00 and finally 110 on 31/03/2001. The new hiring involved various functions, mainly the R&D area. It must be furthermore noted that the promotional and commercial activity that Neuma Laser performs from the beginning of the year has led in the period for staff and commercial expenses only, being that the booked orders will be accounted for sales in the next quarter only.

The Gross operating Profit (EBITDA) accounts for lira 1.353 millions, with an impact of 10,1%, diminished with respect of the al 27,4% of the previous year. This reduction is on one side due to the reduction of Gross margin, both as percentage of sales and as absolute value as an effect of the lower than expected sales volume; on the other side to the higher level of operating and for staff costs, which reflect a structure prepared for higher sales volumes and with higher cost compared to the previous year, for the costs induced by the listing process, too, with a strong impact on the Gross operating profit.

The entry depreciation and amortization shows a small change in the impact on the value of production, compared to the one accounted for in the previous year.

The net operating profit is therefore 927 millions of lira, with an impact of 7% on the value of production, markedly influenced by the causes explained in the previous paragraphs, and recording a decrease on the values recorded in the previous year.

The financial income is positive (574 millions of lira), 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 not significant. We recall that the quarterly results of the companies consolidated in relation with their net worth (Quanta System Srl, Quanta Fin Srl, Lasit Srl), are not available since these company do not draw quarterly reports, and are therefore their net worth is prudentially assumed unchanged from December 31, 2000.

Comments on the trend of the net financial position

The net financial position is positive for around 57 billions of lira.

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.

The closing of the operation on DEKA- LMS, which needed a total investment of around 1,5 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.

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.

Gross investments effected in the quarter

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

Millions of lira	
Intagible assets	57.216
Tangible assets	239.049
Equity investments	990.499
Total	1.286.764

The most important investment of the quarter is the control share in the company DEKA- LMS Gmbh, and it is recorded among the equity investments.

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 that the project for the development of our own production of galvanometers, to set the group free from any dependence from other suppliers of this device, fundamental both in aesthetical and industrial marking laser applications.

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.

Other significant events of the quarter

On January 23 2001 El.En. closed the acquisition of the 51% control share of DEKA – LMS Gmbh, recently founded by our distributor in the medical/aesthetic market in Germany. The acquisition involved a total expense of around 1,5 billions of lira, 500 millions of which as a loan supplied by El.En. SpA for the financing of the start up of the company. The activity of the company has in effect started with the month of March, and, also for the difficulty in drawing up a significant quarterly report for the company, the operation did not have any effect on the consolidated quarterly report. From the next quarter on it will be possible to include in the consolidated results the turnover of DEKA-LMS, with an expected beneficial effect.

During the quarter the controlled companies Ot-Las Srl e Neuma Laser Srl moved their premises to Calenzano, nearby El.En. Spa's premises; this further concentration of the production will allow a close strategic and operating integration within the group of the activities of these companies.

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.

The result of the first quarter has been lower than expected; there are nevertheless some solid reasons that allow the management not to redefine the growth expectations previously forecasted.

The booked orders and the production plans for the industrial business lead to a forecast to achieve the total turnover of the previous year within the month of August, while the booked orders in the aesthetical/medical segment are at their historical maximum.

Both in the medical and industrial segment great expectations are given by the success of our new products that will be shortly released to the market: a new generation of laser marking system for large surface and of ultra compact laser cutting systems first the industrial business and, intense pulsed light systems for hair removal, DYE laser systems for dermatological applications and laser system for the medical/aesthetical market designed to treat cellulites.

Around 50% of the turnover of each year is for our group formed by systems and apparels which were not released to market earlier than one year before, therefore the sales volumes of each year are anyway depending upon the success of the new products released to the market.

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