# El.En. Group
# Report on the results of the financial year ending December 31st 2003

To our shareholders,

the financial year ending December 31st 2003 closed with a net profit for the Group of 554 thousand Euros after taxes for an amount of 1.614 thousand Euros.

Before the detailed analysis of the management results for the financial year 2003, we would like to call attention to several observations of a general nature which are necessary for an understanding of the results which were below expectations.

From a macro-economic point of view, the year 2003 was characterised on a global level by the weakness of the American dollar, which, in many sectors was the cause of a radical alteration in the balance of competition. The companies operating in the manufacturing sector, and in particular those in Italy were particular hard hit by this phenomenon and the sector indices and all of the indicators of development showed imperceptible variations which revealed a substantial state of stagnation of the industrial activities.

The Group which is led by your company is characterised by its highly innovative and technological production and bases its competitive strategy on massive investments in research and development which make it possible to continually renew the range of products they offer. After quotation on the New Market of the Italian stock market which took place at the end of 2000, the expansion policy of the Group through the acquisition of new companies has been greatly accelerated, thanks to the new funds made available through the stock market. Growth in terms of sales volume has been very rapid, moving from 26 million Euros in 2000 to 68 million Euros for this year. In the last three years 8 new companies have been either founded or purchased, three of which are in Germany, three in the United States, and two in Italy. For some of these companies enormous sums of money have had to be spent for reorganisation purposes or to cover operating losses sustained during renewal programs aimed at re-enforcing the position of El.En. as one of the main actors in the global market of medical and industrial type laser sources.

These acquisitions, and in particular that of Cynosure Inc. in the United States have accentuated the prevalence within the Group of manufacturing activities in the medical-cosmetic sector. This sector, notwithstanding the profound crisis of the market leader, Lumenis, would still seem to have interesting areas for development, in particular for the competitors of Lumenis, who have been able to take advantage of the company's difficulties. The Group is now represented in this sector by a range of different brands (Deka, Asclepion, Cynosure), each of which has its own particular characteristics and potential for individual development; we are therefore in an enviable competitive position and the Group is making every effort to co-ordinate the different activities so as to obtain the best possible results. Even though there was intense expansion in the activities in this sector during 2003, the pressure of competition from manufacturers with costs in American dollars and the major expenses incurred for the re-organisation of some of the companies (Cynosure in particular) greatly limited the overall revenue of the Group in the medical sector.

In the industrial sector the Group also made important purchases which increased its sales volume. The macro-economic factors described above penalised the activities in the two main geographical areas in which the Group now operates: Italy and the United States. The small Italian manufacturing companies usually exporting their products, which represent the traditional clientele for our type of equipment are at present in a crisis situation and are hesitant to make large investments like those required for the technology that we offer; moreover, the incentives of the so-called Tremonti law caused many investments to be moved up to 2002, and for this reason the Italian market has been very unreceptive during 2003. As far as the United States and the investment in Lasercut is concerned, it should be pointed out that the trends in the exchange rate for the dollar drastically reduced the margins and the competitiveness of the exports which Cutlite Penta, Ot-las and Lasit made to the United States through Lasercut, and this greatly penalised the results for the financial year. Good results were obtained in other areas of the world, thanks mostly to major marketing efforts, although it was not possible to off set the losses in sales volume and revenue caused by the crisis in the two areas mentioned above.

The results of the financial year are shown in comparative form along with those of last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

# Description of the Group

El.En. SpA controls a Group of companies which operate in the laser field, each of which deals in its own particular type of laser application and has its special place on the market. The structure of the Group includes companies that are operating in the fields of engineering, manufacture and distribution of laser sources and systems designed for a variety of different uses. Each of these companies is assigned a specific role depending on the product type offered and geographic area where they are operating: Cynosure Inc. and Asclepion Laser Technologies GmbH develop, manufacture and distribute medical laser systems, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, Deka Dls GmbH and Deka Laser Technologies LLC distribute medical laser equipment, Cutlite Penta Srl and Lasercut Inc. operate in the field of laser systems for flat cutting, Ot-Las Srl in the field of laser markers for large surfaces, Lasit Srl in the field of laser markers for small surfaces, Neuma Laser Srl does sales and service activity outside of Italy, and Valfivre Italia Srl develops and designs special laser systems for industrial applications involving cutting, marking and welding.

As of December 31st 2003 El.En. SpA holds equities in other companies like Quanta System SpA and Immobiliare Del.Co. Srl, which, however it does not control; for this reason the results of these companies are not wholly consolidated into the financial statement of the Group, but have been consolidated using the shareholders' equity method.

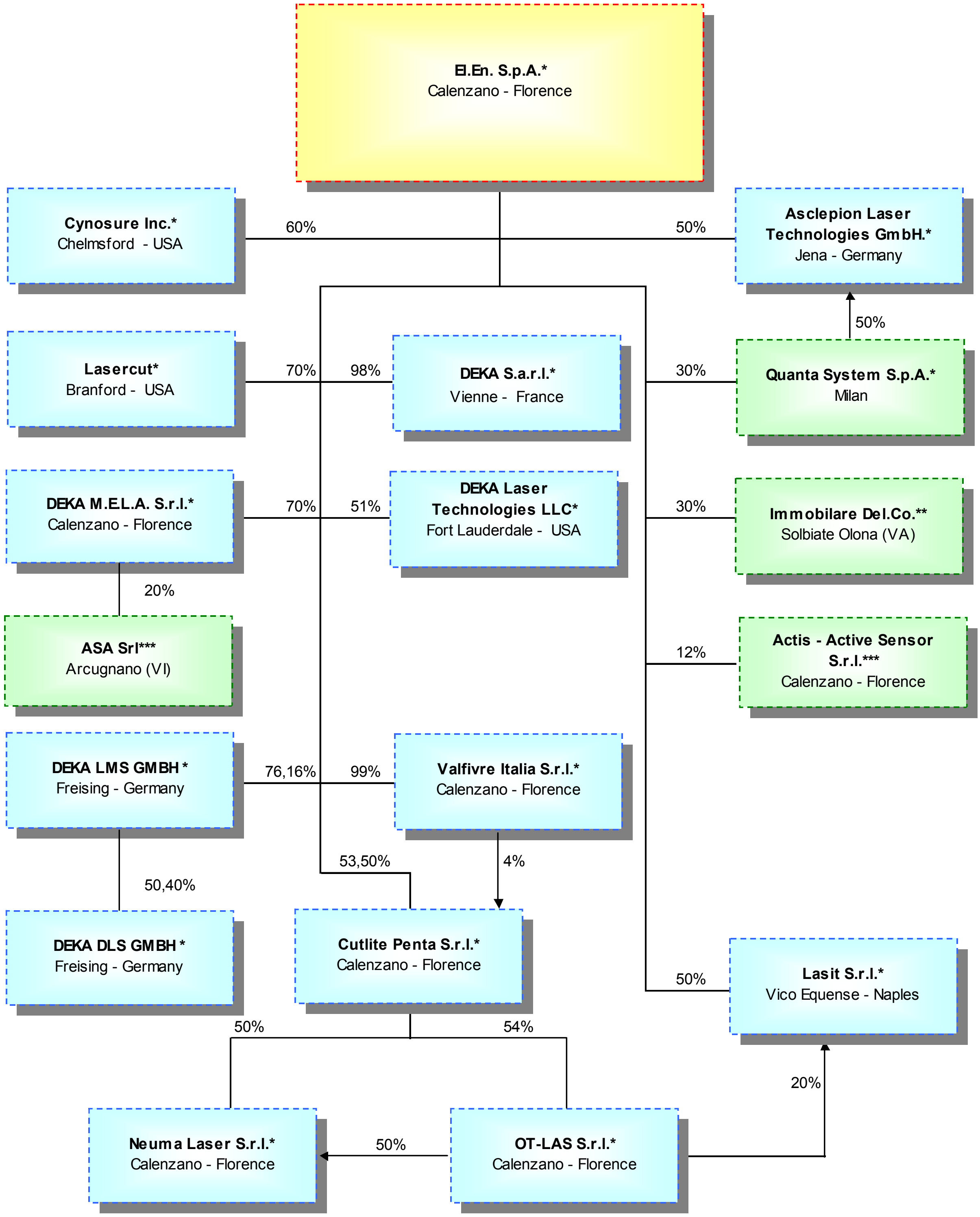
It should also be mentioned that during the month of January 2004, the company concluded the purchase of another 30% equity in Quanta System SpA, bringing its total equity in this company to 60%. This transaction brought into the Group one of the most important Italian companies operating in the field of laser development and manufacture, including the aerospace industry, and a "historic" enterprise which is now enjoying a phase of rapid growth. Quanta Systems also holds the remaining 50% of Asclepion Laser Technologies GmbH, the German company of the El.En. Group which acquired the cosmetic laser business from Carl Zeiss Meditec AG. This transaction included the sale by El.En to Laserfin (the company which controlled Quanta System) of 10% of the subsidiary Deka M.E.L.A. Srl and 2,5% of the American subsidiary Cynosure Inc. as well as an expenditure of 1,5 million Euros (half a million of which were paid out upon conclusion of the transaction and the remaining million to be paid by mid-July 2004). The transaction therefore, besides ratifying El.En.'s control of Quanta System, also creates a situation of direct involvement of the Quanta System management in the activities of the El.En. Group in the medical sector, and integrates a highly sophisticated Research and Development team into the Group.

Moreover, since October 13th 2003, the subsidiary Deka M.E.L.A. Srl holds an equity of 20% in the ASA Srl company, a leading firm in the field of the manufacture of products for physical therapy and rehabilitation, since it does not have a controlling interest in the company, the results of ASA Srl are not wholly consolidated in the financial statement of the Group, but have been consolidated using the shareholders' equity method.

The equity in Actis Srl has been maintained at cost since the company is not yet operating and its inclusion in the area of consolidation would be irrelevant in terms of representing the economic and financial situation of the Group.

During this financial period no variations incurred in the activities of the companies belonging to the El.En Group.

As of 31/12/2003 the structure of the Group was as follows:

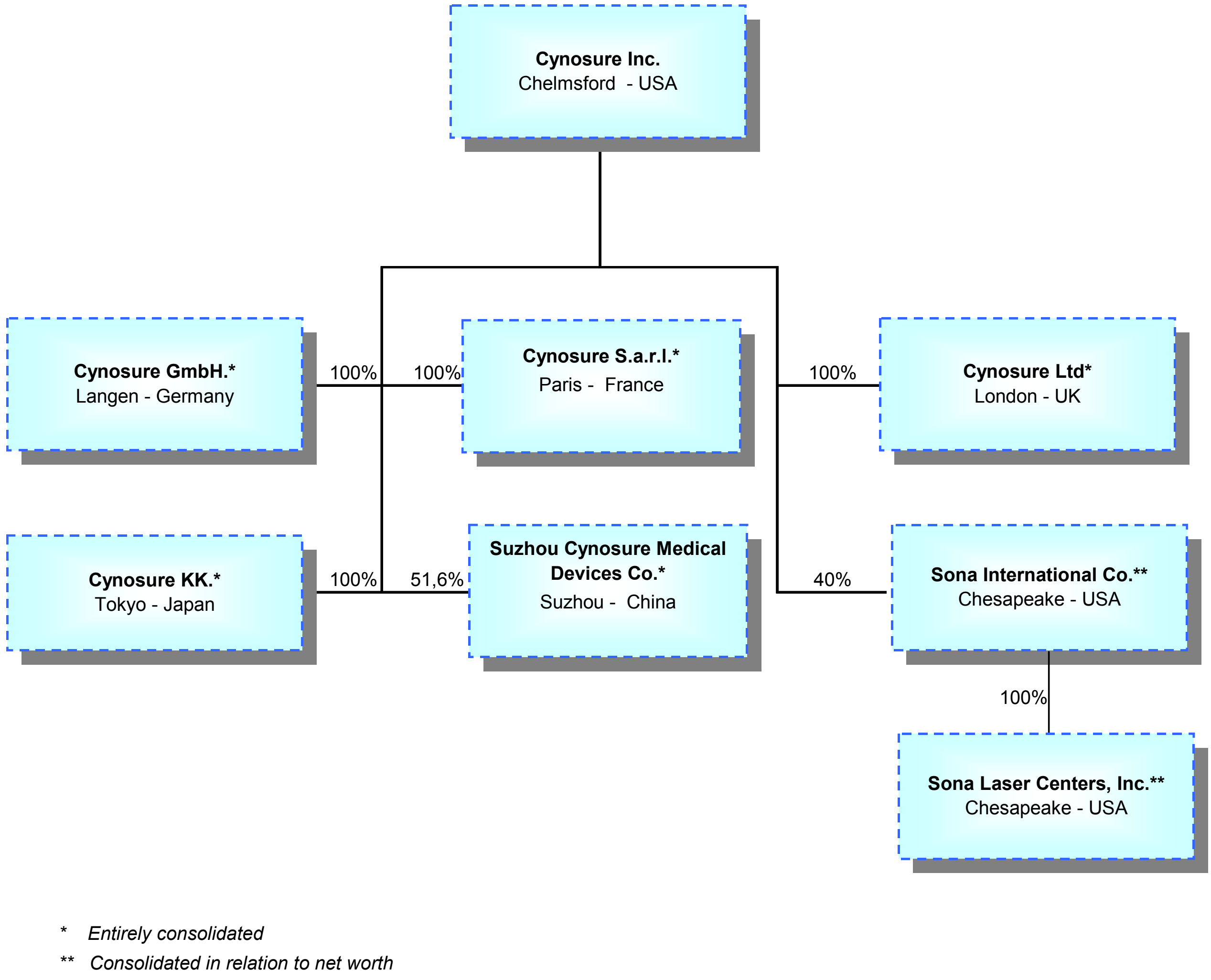



* *Entirely consolidated*

** *Consolidated in relation to net worth*

*** *Kept at cost*

Cynosure Inc. also controls a group of companies. As of December 31st 2003 the structure of the Cynosure group was as follows:




## 1) Main economic and financial data

During the financial year 2003, the Group was active in the planning, manufacture and distribution of laser sources and systems; the main markets for these products were, as in the preceding years, those of laser equipment for medical and cosmetic purposes and laser systems for industrial uses. Along with these two main sectors, the Group showed a sales volume for after-sales technical assistance to its clientele, and received revenue and grants related to its research and development activities.

The revenue registered for the financial year of 2003 showed an overall increase of approx. 26% with respect to last year, and thus confirms the consistent growth trend of the Group.

The following table shows the different categories of sales in the different fields of activity of the Group for the financial year, as compared with those of last year.

| | 31/12/2003 | Inc% | 31/12/2002 | Inc% | Var% |
|---|---|---|---|---|---|
| Industrial systems and lasers | 15.031 | 22,04% | 16.991 | 31,38% | -11,54% |
| Medical and cosmetic lasers | 41.606 | 61,01% | 29.598 | 54,67% | 40,57% |
| Research and Development | 152 | 0,22% | 180 | 0,33% | -15,67% |
| Service | 11.407 | 16,73% | 7.370 | 13,61% | 54,78% |
| **Total** | 68.195 | 100,00% | 54.139 | 100,00% | 25,96% |

Sales volume in the medical-cosmetic field showed an increase of 40% with respect to last year, reaching 61% of the overall sales volume of the Group, thanks mainly to the increase in the amounts coming in from the newly acquired companies like Cynosure, Asclepion Laser Technologies and Deka Laser Technologies.

The situation in the industrial sector on the other hand was considerably more difficult, notwithstanding the contribution of Lasit and Lasercut which were included in the area of consolidation starting in 2003 and felt the impact of the crisis in the manufacturing industry, particularly in Italy. The trend was negative starting from the early part of the financial year and grew worse due to the continuing weakness of the dollar which reduced the margins for sales in the United States and undermined the competitiveness of the Italian manufacturers, and consequently their inclination to make purchases.

The sales volume for technical assistance and accessory services showed an increase of approx. 54%, which was the direct result of the progressive increase in the number of installations and the important contribution of Cynosure, which receives a large portion of its income from after-sales service and “revenue sharing”, which is the renting of equipment according to rental fees based on the revenue produced by that piece of equipment. Asclepion also, with its considerable number of installations all over Germany (more than 500 units just for the Erbium lasers) which is supplied on the basis of specific assistance contracts, contributes considerably to the amount represented by this particular type of income.

The income from research, obtained through the contracts signed with the managing institutions financed by MIUR was insignificant, however it should be pointed out that most of the revenue derived from research has been entered into accounts under the heading of “other revenue and income” in order to limit the impact of this activity on the sales. In fact, during this financial year, the “Other income” amounted to 754 thousand Euros, thanks to payments received for the Choclab, TRL01, NIM02, Dione and SIDART projects; moreover, a further 356 thousand Euros were received as down payments for the NMED02, SIDART and EUV02 projects; these advance payments will be entered under the heading of income in the profit and loss account only after the approval of the relative expense budgets.

The following chart shows the geographical distribution of the sales volume and the results for the financial year.

| | 31/12/2003 | Inc% | 31/12/2002 | Inc% | Var% |
|---|---|---|---|---|---|
| Italy | 16.153 | 23,69% | 21.977 | 40,59% | -26,50% |
| Europe | 20.564 | 30,15% | 10.368 | 19,15% | 98,33% |
| Rest of the world | 31.478 | 46,16% | 21.793 | 40,25% | 44,44% |
| **Total** | 68.195 | 100,00% | 54.139 | 100,00% | 25,96% |

The drop in sales volume is due chiefly to the industrial sector, which still has the Italian market as its chief point of reference. The sales volume for Europe has been doubled, thanks mainly to the newly acquired company Asclepion and the contribution of the subsidiary companies involved in the distribution of medical products for Deka and for Cynosure. The increase in sales volume in the rest of the world reflects the entry of Cynosure, Lasercut and Deka Laser Technologies into the area of consolidation.

For the medical-cosmetic sector, which represents 61% of the sales of the Group, the following table shows the individual fields and the amounts of revenue received.

| | 31/12/2003 | Inc% | 31/12/2002 | Inc% | Var% |
|---|---|---|---|---|---|
| Surgical CO2 | 1.760 | 4,23% | 1.819 | 6,15% | -3,26% |
| Physiotherapy | 591 | 1,42% | 599 | 2,02% | -1,41% |
| Cosmetic | 27.007 | 64,91% | 18.468 | 62,40% | 46,23% |
| Dental | 4.166 | 10,01% | 1.914 | 6,47% | 117,67% |
| Other medical lasers | 7.745 | 18,62% | 6.174 | 20,86% | 25,44% |
| Accessories | 336 | 0,81% | 623 | 2,10% | -46,02% |
| **Total** | 41.606 | 100,00% | 29.598 | 100,00% | 40,57% |

During 2003 the major satisfactions were received from the medical sector, with a strong new growth rate in particular in the most important laser types of laser applications manufactured by the Group. The wide range of products and the technological level of the systems that the Group is able to offer under its various brand names has no equal on the world market.

In the cosmetic sector, Cynosure is able to compete with its Alexandrite lasers for hair and tattoo removal; Deka with Smartepil (long impulse Nd:YAG) for hair removal and vascular treatment, Photosilk for hair removal and photorejuvenation, the Triactive Dermodynamic system for the treatment of cellulitis, Asclepion with its Mediostar diode laser for hair removal and vascular treatments. These products represent a complete range of laser devices which is always one of the major attractions at our stands at major international trade fairs like the Medical Fair in Duesseldorf and the American Academy of Dermatology held in Washington, DC during the month of February.

Even in the residual area called "Other Lasers" the growth rate has been sustained by the variety of products being offered, which besides the traditional and sophisticated Dye systems of Cynosure also include Erbium lasers for skin ablation, traditionally Asclepion's strong product, as well as the new 532 nanometer diode laser system for dermatalogy (Smartlite Derm and BeautyStar offered respectively by Deka and Asclepion). Another important product is the series of surgical applications which Deka offers with its Smart 1064 and Smart 2100 systems for oncology and traumatology.
The most outstanding growth rate was shown, however, in the dental sector; in fact, along with the traditional activity conducted by Deka through the distribution of Anthos Impianti, the newly created distribution network in the United States is now active (Deka Laser Technologies) and the important distribution in OEM by KaVo, which is a German client of Asclepion and the world leader in the sector. The strategy of the Group aims at the optimisation of each of the different brands in such a way that the special characteristics related to the products which have made the different companies successful are recognised and their activities are co-ordinated so that each one can compete by having state-of-the-art technology made available to them.

The introduction of the new Smartxide laser unfortunately has not made it possible to reverse the trend showing an annual decrease in the sales of $CO_2$ surgical systems, but has created the foundations for the renewal of a sector which in the past has been fundamental to the activity of Deka M.E.L.A. In the therapy sector, which is in appearance marginal, with a small and decreasing sales volume, the year 2003 showed a turn-around. The co-operation initiated with ASA for distribution in this sector, which has also brought about the acquisition of a 20% equity in the company in Vicenza by Deka M.E.L.A. and the contemporary launching of the revolutionary HILT system, are at the base of a major new marketing effort for this type of product.

For the sector of industrial applications, the table shown below illustrates the sales volume divided according to the type of market in which the company is operating.

| | 31/12/2003 | Inc% | 31/12/2002 | Inc% | Var% |
|---|---|---|---|---|---|
| Cutting | 5.378 | 35,78% | 7.763 | 45,69% | -30,72% |
| Marking | 7.690 | 51,16% | 7.990 | 47,03% | -3,76% |
| Laser sources | 1.670 | 11,11% | 1.065 | 6,27% | 56,74% |
| Welding | 293 | 1,95% | 172 | 1,01% | 70,26% |
| **Total** | 15.031 | 100,00% | 16.991 | 100,00% | -11,54% |

Notwithstanding the entry into the area of consolidation of Lasercut, specialised in laser systems for flat cutting of metals, and Lasit, which operates in the laser marking sector, both areas showed a drop in sales volume. After the exceptional growth shown in 2002, the crisis in the manufacturing sector made it impossible to maintain the results which had been achieved and the sales volume showed this negative impact.

An encouraging increase in sales volume for this sector was shown by the high-powered industrial laser sources; in this field, the Parent company, El.En. is involved in the servicing of integrators for laser systems for mechanical machining. The five and six Kilowatt systems and a fruitful collaboration with the authoritative researchers of RTM are responsible for this result.
There has also been a fair increase in the field of restoration and welding; although it is limited to a marginal commercial role as far as the Group is concerned, it is important because of the cultural significance that El.En. sustains with its restoration equipment.

The chart below shows the reclassified consolidated profit and loss account closed on December 31st 2003; to make it easier to analyse and interpret the financial statement. The profit and loss account for the newly acquired and founded companies are shown from the date of acquisition or foundation up to December 31st 2003, as will be explained further on in this report.

| Profit and loss account | 31/12/2003 | Inc.% | 31/12/2002 | Inc.% | Var.% |
|---|---|---|---|---|---|
| Net turnover from sales and services | 68.195 | 93,5% | 54.139 | 98,4% | 26,0% |
| Variation in stock of finished goods and WIP | 3.673 | 5,0% | 408 | 0,7% | 799,7% |
| Other revenues and income | 1.058 | 1,5% | 461 | 0,8% | 129,8% |
| **Value of production** | **72.927** | **100,0%** | **55.008** | **100,0%** | **32,6%** |
| Costs for raw materials | 30.705 | 42,1% | 22.808 | 41,5% | 34,6% |
| Variation in stock of raw material | (2.315) | -3,2% | (1.055) | -1,9% | 119,5% |
| Other direct services | 6.857 | 9,4% | 5.833 | 10,6% | 17,5% |
| **Gross margin** | **37.680** | **51,7%** | **27.421** | **49,8%** | **37,4%** |
| Other operating services and charges | 14.189 | 19,5% | 9.358 | 17,0% | 51,6% |
| **Added value** | **23.491** | **32,2%** | **18.063** | **32,8%** | **30,1%** |
| For staff costs | 17.965 | 24,6% | 11.014 | 20,0% | 63,1% |
| **Gross operating profit** | **5.526** | **7,6%** | **7.049** | **12,8%** | **-21,6%** |
| Depreciation, amortisation and other accruals | 4.128 | 5,7% | 3.077 | 5,6% | 34,2% |
| **Net operating profit** | **1.397** | **1,9%** | **3.971** | **7,2%** | **-64,8%** |
| Net financial income (charges) | 189 | 0,3% | 1.018 | 1,8% | -81,5% |
| **Operating profit** | **1.586** | **2,2%** | **4.989** | **9,1%** | **-68,2%** |
| Value adjustments (Devaluations) | 519 | 0,7% | 168 | 0,3% | 208,1% |
| Extraordinary income (Charges) | 108 | 0,1% | 390 | 0,7% | -72,3% |
| **Earning before taxes** | **2.213** | **3,0%** | **5.547** | **10,1%** | **-60,1%** |
| Income taxes on the income of the period | 1.614 | 2,2% | 2.684 | 4,9% | -39,9% |
| **Net profit (loss)** | **599** | **0,8%** | **2.864** | **5,2%** | **-79,1%** |
| Minority interest in income | 45 | 0,1% | 732 | 1,3% | -93,8% |
| **Net income (loss)** | **554** | **0,8%** | **2.131** | **3,9%** | **-74,0%** |

In order to interpret the income data shown for the year 2003, it should be remembered that the principal factors that influenced the activity and the profitability of the Group during this financial year are the following: first of all, the crisis in the industrial sector, which was the chief cause of results which were greatly below those entered in the budget for the companies operating in the sector; the positive trend in the medical sector, which was also sustained by the recent acquisitions, the weakness of the dollar, which aggravated the crisis in the industrial sector and penalised the sales consolidated volume (approx. 40% of the sales volume of the Group is expressed in dollars); and, finally, the acceleration of the re-organisation process of Cynosure which has taken place in the last quarter and which weighed heavily on accounts which were, in any case not brilliant, with an aim to re-enforcing the commercial structure in the United States and Europe.

The margin of contribution is approx. 37.680 thousand Euros which is an increase of 37% over last year and with an incidence on the Value of Production that rose from 49,8% to 51,7%. The increase in percentage terms is determined in the highest margin of contribution on the sales made by the subsidiary Cynosure with respect to those made by the Group before the purchase, but it is in any case penalised by an actual reduction in the sales margins in the industrial sector which saw a drop in both sales volume and revenue. The weakness of the dollar has also penalised the margins, in particular those of El.En. and Cutlite Penta, which export to the United States.

The costs for services and operating charges was 14.189 thousand Euros approx., which is an increase of 51,6% and an incidence of 19,5% on the Value of Production; with respect to the 17% for the same period in 2002. This increase, in fact, indicates the key to interpreting the results for this financial year: the increase in sales volume, although important, was in any case, less than the increase in the operating costs; among these costs, of particular significance are the marketing and commercial expenses which, especially in the medical and cosmetic sectors take on a particular importance in those areas where the Group companies are managing distribution networks.

The costs for personnel also showed a significant rise (+63%) and its incidence of the Value of Production also increased, rising to 24,6% approx. from the 20% registered for last year. This increase is a result of the re-enforcement of some of the traditional company roles, of the recent acquisitions, and of the consolidation of Cynosure, which in 2003 occurred starting in the month of January, while in 2002 it started in the month of May, and hence takes on a major importance in the evolution of this aggregate of costs. The other purchases made during 2003, Asclepion and Lasercut, brought 42 and 10 units respectively into the staff of the Group, which, by the end of this financial year numbered 399 units as compared to 295 on December 31st 2002. On the 31st of December 2003, 188 employees were working in Italy, 50 in the rest of Europe and 161 in the United States.

A considerable portion of the expenses for personnel is directed to research and development, for which the Group receives contributions and reimbursements or expenses on the basis of specific contracts which have been stipulated with the institutions. These contributions help to enlarge the range of research by limiting the economic impact. The amounts received as contributions during the last financial year were 1.110 thousand Euros approx., which were entered into accounting under the heading of research grants for an amount of 754 thousand Euros; they represent an improvement in the balance between payments and expenses respect to that shown for last year.

The gross operating margin was 5.526 thousand Euros, which was a decrease of 21,6% and an incidence of approx. 7,6% on the Value of Production.

The increase in the costs for amortisations and accruals also increased (+34%). Out of the total of 4.128 thousand Euros, 366 thousand euros were due to the amortisations of the costs sustained for the quotation on the stock market, 860 thousand Euros for the amortisation of the goodwill paid for the purchase of Cynosure, Deka LMS and Lasercut (in 2002 the corresponding amount was 507 thousand Euros) and 476 thousand Euros for accruals in the fund for product guarantees.

The operating result was 1.397 thousand Euros, a drop of 64,8% with respect to last year and an incidence of approx. 2% on the Value of Production.

The result of the financial management was in the black for 189 thousand Euros. This result, which is far less than has been registered in the past, was influenced by the low interest rates and the decrease in the amount of cash held by the Group. A slight loss is shown in the result for currency exchange, where the Parent Company El.En. showed losses on the exchanges in relation to the receivables it had from American companies, while the European companies controlled by Cynosure showed gains for the exchange rate for the debts owed to the American parent company. During the preceding financial period, the difference shown between these two entries was, in any case, positive, while for 2003, the difference was negative for an amount of 37 thousand Euros.

Among the value rectifications, which were positive for an amount of approx. 519 thousand euros, an important contribution continues to be made by the positive trend of the associated company, Sona International, an American firm operating in the sector of beauty salons for laser hair removal and their promotion through franchising. This entry also includes the amount relative to the result for the period of the associated company, Quanta System SpA and Immobiliare Del.Co. Srl. The losses incurred for the equity in R.T.M., for which El. En has already provided funds for re-capitalisation, have been entered for an amount of approx. 156 thousand Euros; the R.T.M. research centre in fact represents an invaluable partner for the experimentation of our technology in the field of mechanical machining and the investment has given interesting results in the past which we think worthwhile maintaining.

No events of particular interest occurred in the extraordinary management.

The result before taxes is 2.213 thousand euros. Its incidence on the value of production is approx. 3% circa, which is a drop with respect to the approx. 10% for 2002 with an overall decrease in value of 60%.

The fiscal load for this financial year increased with respect to last year. In this regard, it should be mentioned that, except for the subsidiary, Cutlite Penta Srl, no anticipated taxes were entered on the losses registered by the subsidiaries and not even the costs of amortisation related to the various start ups paid for the newly acquired companies and above all for Cynosure Inc, comport the entering of anticipated taxes.

The chart below shows the average fiscal cost sustained by the company which shows a taxable income equivalent to 42% of the result before taxes, as well as the average cost of the companies which show a loss equivalent to 4%, while the tax credits on dividends cashed in by the controlling company and the fiscal return for advanced taxes, both of which are related to consolidation rectifications are limited to 29%. The combined effect of these factors aggravates the fiscal cost for the period in relative terms, raising the tax rate of 48% for the financial year 2002 to 73% for the financial year described in this report.

| | Companies in the black | Companies in the red | Consolidation adjustments | Consolidated |
|---|---|---|---|---|
| Result before taxes | 4.624 | (1.052) | (1.358) | 2.213 |
| Current taxes | (1.966) | (89) | 217 | (1.837) |
| Deferred Taxes | 4 | 47 | 171 | 223 |
| Net result | 2.663 | (1.094) | (970) | 599 |
| Incidence of cost/recovery on the result before taxes | 42% | -4% | 29% | 73% |

The reclassified balance sheet below is shows the results of this year in comparative form with those of last year:

| | 31/12/2003 | 31/12/2002 |
|---|---|---|
| **Balance Sheet** | | |
| Intangible assets | 7.947 | 8.242 |
| Tangible assets | 7.299 | 6.196 |
| Equity investments | 1.845 | 966 |
| Other investments | 1.231 | 901 |
| **Total fixed assets (A)** | **18.322** | **16.305** |
| Stocks | 19.995 | 14.786 |
| Trade debtors | 16.041 | 15.781 |
| Other debtors | 3.576 | 2.299 |
| Other equity investments | 115 | |
| Own shares | 354 | 374 |
| Cash in banks and on hand | 16.818 | 27.129 |
| **Total current assets (B)** | **56.899** | **60.369** |
| Trade creditors | 11.712 | 11.851 |
| Other debtors | 5.799 | 6.789 |
| Financial liabilities due within 12 months | 2.105 | 888 |
| **Total current liabilities (C)** | **19.617** | **19.528** |
| **Net working capital (D)= B-C** | **37.282** | **40.841** |
| Employee severance indemnity | 1.119 | 949 |
| Other provisions | 2.693 | 2.559 |
| Net medium and long term financial debts | 1.844 | 1.871 |
| **Mid and long terms creditors (E)** | **5.655** | **5.379** |
| **Net invested capital (A + D - E)** | **49.950** | **51.768** |
| Shareholders' equity | 44.246 | 45.554 |
| Minority interest on equity | 5.703 | 6.214 |
| **Shareholders' equity** | **49.950** | **51.768** |
| **Memorandum accounts** | | |
| Real guarantees | 288 | 740 |
| Obligations to third parties | 1.026 | |
| **Total memorandum accounts** | **1.314** | **740** |

The net financial position of the company as of December 31st 2003 is shown on the chart below:

| Net financial position | | |
|---|---|---|
| | **31/12/2003** | **31/12/2002** |
| Financial mid and long term debts | (1.844) | (1.871) |
| *Financial mid and long term debts* | *(1.844)* | *(1.871)* |
| Financial liabilities due within 12 months | (2.105) | (888) |
| Cash in banks and on hand | 16.818 | 27.129 |
| *Net financial short term position* | *14.712* | *26.241* |
| *Total financial net position* | **12.869** | **24.369** |

The net financial position remains in the black for an amount of approx. 13 million Euros, down approx. 11 million Euros with respect to December 31st 2002.

The main expenses of an extraordinary nature which were sustained by the Group during this financial period were the following: payment in full of the Cynosure shares for an amount of approx. 1.346 thousand Euros, the purchase of Lasercut Inc. for approx. 467 thousand Euros, besides payment of a deposit for the purchase of the building where it has its headquarters, for an amount of 747 thousand Euros, purchase of 26% of the shares of DEKA LMS GmbH for the amount of 520 thousand Euros; purchase of 20% of ASA Srl for an amount of 385 thousand Euros, the acquisition of the business activities of Asclepion for an amount of 1,5 million Euros, half of which was paid by El.En and half by Quanta System, which later (January 2004) became part of the Group. Moreover, dividends were distributed by El.En. for an amount of 1.144 thousand Euros and by Deka M.E.L.A. Srl for 123 thousand Euros.

For a detailed explanation of the ways in which the movement of the consolidated financial flow for this year occurred, please consult the Appendix.

# 2) Financial results of the subsidiary companies

El.En. SpA controls a group of companies operating in the field of lasers. Each of these companies is assigned a specific role on the basis of the merchandise sector in which it operates.

The table below summarises the results of the companies in the Group which are included in the area of consolidation. Following the chart there are brief explanatory notes about the activities of each company and their results for the year 2003, with the exception of the recently acquired subsidiaries for which data has been supplied from the date of acquisition until December 31st 2003.

| | **Net Turnover 31/12/2003** | **Net Turnover 31/12/2002** | **Var. %** | **Net income 31/12/2003** | **Net income 31/12/2002** |
|---|---|---|---|---|---|
| Cynosure (*) (**) | 23.832 | 16.361 | 45,67% | -406 | -843 |
| Deka Mela Srl | 15.128 | 14.262 | 6,07% | 620 | 932 |
| Cutlite Penta Srl | 4.956 | 8.316 | -40,41% | -144 | 59 |
| Valfivre Italia Srl | 432 | 399 | 8,43% | 17 | 28 |
| Deka Sarl | 1.596 | 1.025 | 55,66% | 1 | -206 |
| Deka Lms GmbH | 1.350 | 1.542 | -12,44% | -41 | 112 |
| Deka Dls GmbH | 356 | 429 | -17,06% | -69 | -18 |
| Deka Laser Technologies LLC | 722 | 0 | | 51 | 0 |
| Asclepion Laser Technologies GmbH | 5.281 | 0 | | 89 | 0 |
| Ot-Las Srl | 4.244 | 7.392 | -42,58% | 239 | 983 |
| Lasit Srl | 3.459 | 0 | | -46 | 0 |
| Lasercut Inc. | 1.329 | 0 | | -474 | 0 |
| Neuma Laser Srl | 90 | 200 | -54,82% | -58 | -30 |

(*) Consolidated data
(**) Data on December 31st , 2002 was for the period from May, 1st to December 31st, 2002

**Cynosure**
This American company manufactures and sells laser systems for medical and cosmetic applications and has its main headquarters in Chelmsford, Massachusetts (USA) and international branches in Europe and Asia. The company was founded in 1991 by Horace Furumoto, a pioneer in the field of medical lasers who has also founded the Candela

Company which is now number two on the world market. Cynosure obtained its present stature thanks to the superior performance and the high quality of its products, in particular the coloured dye lasers for blood vessels and Alexandrite lasers for hair removal. The company is directly involved in the sales and marketing of its products on the North American and international markets by means of its subsidiaries and a distribution network. The products are manufactured almost entirely in Chelmsford, and the research and development activities which represent the key to the success of the company are also conducted here.

Cynosure Inc. is the head of a group of companies which operate throughout the world in the laser field: Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure Gmbh in Germany and Cynosure KK in Japan are 100% controlled and act as local distributors which also offer after-sales service; Suzhou Cynosure in the People's Republic of China is 52% owned and also manufactures special equipment for dermatological applications. Cynosure also has a 40% ownership of Sona International Inc., a company which manages both directly, and as franchises, hair removal institutes in the United States; Cynosure supplies SONA with the lasers which they use for their activity. Sona International has a 100% interest in Sona Laser Centers Inc, which runs the franchising of the Sona laser hair removal centres.

Cynosure closed the financial year 2003 with a consolidated loss of approx. 640 thousand dollars in comparison to the 1.962 thousand dollars for last year. The application of the accounting principles used by the Parent company, El.En. bring the losses of Cynosure to 459 thousand dollars.
This result however is the effect of heavy operating losses for an amount of approx. 2,1 million dollars, in part off set by the financial income, most of which were derived from positive differences in the exchange rate, for an amount of 722 thousand dollars, and by the receipt of the positive result of the associated company Sona, which comports a re-evaluation of the equity, which had been brought back to zero, for an amount of 736 thousand dollars.
The operating loss, which was for an unexpectedly large amount, and became apparent only in the final months of the year, is also the result of the acceleration of the re-organisation of Cynosure's activities, as well as some corrective measures which were taken as the financial period drew to an end.

It should be pointed out that from the point of view of financial income, the exposition of Cynosure in comparison to the European companies, consisting in receivables for sales made in US dollars, comports the presence of positive exchange rate differences during the year for an amount substantially equivalent to the negative ones that El.En. registered for its receivables in dollars from the subsidiary companies.

On September 10th 2003 the company appointed Michael R. Davin as the new CEO. Davin, who had earlier experience with Coherent Medical and with Altus Medical, replaced Horace Furumoto, founder of the company, president and CEO, who retired.
With the appointment of Davin as chief executive officer of Cynosure the El.En. Group intends to continue the re-organization process which began with the purchase of the company in May of 2002; Davin will have to jump start the development of the sales volume of Cynosure, using his considerable ability and managerial experience, and bring a more aggressive approach to the sales activities of the company with respect to the policy being practised by the company before the retirement of Furumoto.

**Deka M.E.L.A. Srl**
The activity of this company is the distribution in Italy and abroad, of the laser equipment for medical purposes which is produced by El.En. SpA. During 2003 gross income rose 6% with respect to the preceding year and showed a small decrease in domestic sales which was compensated by an increase in sales on the European and international markets, in particular those in the Far East. Along with this increase in sales volume, a general increase in operating costs which was percentage-wise greater than the increase in sales volume was registered, and consequently a reduction in the margins and the financial results.

In the month of January 2004, during the transactions which led to the acquisition by El.En. SpA of the controlling interest in Quanta System SpA, El.En. sold 10% of the investments in Deka M.E.L.A. to Laserfin Srl; consequently at this time the equity held by the company is 60%.

**Cutlite Penta Srl**
This company produces industrial laser systems for cutting and marking, and installs CNC controlled movement on laser power sources produced by El.En SpA. The severe economic crisis which has affected the market in which this company operates, the manufacturing sector, particularly in Italy, has comported a net reduction of the sales volume which was entered for an amount of approx. 4.956 thousand Euros in comparison to 8.316 thousand Euros for 2002. The impact on the operating result of such a considerable reduction in sales volume was mitigated by the in-depth re-organisation of the manufacturing processes and the relative costs, as well as by a careful control of the operating costs. The financial year closed with a loss of 144 thousand Euros.
In any case the activity for the development of new industrial system, which is necessary for the introduction of new products capable of attracting the attention of the clientele continued without interruption and involved the creation of

new models which will be used to renew the business activity of the company at the highest levels of sales and profitability.

**Valfivre Italia Srl**
As in the preceding financial year, this company operated in the sector of production and technical assistance for special laser systems for industrial uses, besides providing service to the other companies of the group. For the financial year, the company showed a profit of 17 thousand Euros.

**Ot-Las Srl**
This company designs and manufactures special systems for $CO_2$ laser marking for decorations on large surfaces. As noted for Cutlite Penta Srl, the profound crisis in the manufacturing sector has negatively influenced the sales volume which has dropped 43% in comparison to last year. The decrease in sales volume has comported a drop in the profits for this financial period, which however, is still in positive for 239 thousand Euros as opposed to the 983 thousand Euros for last year.
This company is considered a leader in the field of laser marking on large surfaces and offers state-of-the-art solutions thanks to the close technological co-operation it maintains with the parent company, El.En. for the development of strategic components. Despite the drop in sales volume, the company has maintained a fair level of profits, even though far below that of the preceding year.

**Lasit Srl**
This company was included in the area of consolidation for the first time during the financial year 2003, Lasit designs and manufactures laser marking systems complete with controls and software which can be used not only for marking metals but also other raw materials like wood, glass, leather and fabrics.
During 2003 Lasit intensified its Research and Development and increased the resources dedicated to this activity, following the policy established by the parent company which requires the renovation of the range of products offered with improved technology in comparison to those traditionally offered by Lasit. This effort is aimed at improving the income, although results are expected to be shown only in the next few years when the development of the new line and the re-organization of the structure on the basis of these new products will begin to show tangible results.
The extremely difficult market situation in the industrial sector which has already been commented on in relation to the other companies operating in this field, and the above mentioned increase in the expenses for research and development have been the causes of a closure of the financial year slightly in the red, which however should not be considered a source of concern considering the plans now in progress for the re-enforcement and renewal of the business, which has already shown positive results in terms of the advancement of the projects now being worked on in 2003.

**Neuma Laser Srl**
The company, which closed the financial period with a loss of approx. 57 thousand Euros, operates in the after-sales assistance sector, as well as acting as a technical support for the commercial activities in the Far East and in South America for equipment and industrial laser systems sold by the other companies of the Group, and in a particular those sold by Cutlite Penta Srl and Ot-Las Srl. The results reflect the drop in sales by Ot-las and by Penta in their particular sectors, with the consequent drop in the sales volume related to the installation of new systems.

**Deka Sarl**
This company acts as a distributor in France for medical laser equipment produced by El.En. SpA and supplies after-sales services for industrial, medical and cosmetic laser systems. The company, which has had to deal with the crisis of the French market, and finally shown a sales volume which was up to expectations and this year, for the first time in its history, broke even, thanks to the excellent position it has reached in the market.

**Deka Lms GmbH**
Deka Lms GmbH, company has the responsibility of distributing in Germany the medical laser equipment manufactured by El.En. SpA; in 2003 it registered a sales volume of 1.350 thousand Euros, which was below expectations, because of the continuing difficult market situation in Germany; in particular, during the last months of the year when the usual increase in market activity did not take place. The continuing crisis of the German market, for which our main competitors have also found difficulty in the last few years has made it impossible to achieve the brilliant results which were obtained in the past, nor the growth that was envisioned. Deka LMS, however, remains the chief investment for the distribution with the Deka brand in Germany, where important developments are expected to take place in the next few years.

**Deka Dls GmbH**
Deka Dls GmbH distributes laser systems for use in dentistry in Germany. During this financial year it registered a sales volume which was not enough to cover the operating costs, and for this reason the goal of breaking-even for 2003 has been put off until the next financial year. For next year in fact, the introduction on the market of a series of new products is expected to help develop the sales volume and reach a satisfactory income level.

**Deka Laser Technologies LLC**
The company was founded in February of 2003 and was given the responsibility of distributing in the United States the laser systems manufactured by El.En. SpA for use in dentistry. During the first year of activity the foundations for future expansion were laid, including obtaining the necessary distribution and legal documents, including FDA approval, and the company has already seen its efforts repaid with a sales volume of 817 thousand dollars. Although the company operates only in a small sector of the market, thanks in part to the support given by the parent company, it was able to break even very rapidly and this should mean that within a brief period of time the financial investments supporting start up of the activity should start being returned.

**Lasercut Inc.**
This American company located in Branford (CT) was acquired in the month of April of 2003 and is involved in the design, manufacture and sales of laser systems for flat cutting; for this financial period it showed a sales volume of 1.503 thousand dollars with an operating loss of 470 thousand dollars.
In the manufacturing sector to which the Lasercut products are directed, the American market has shown no signs of the expected recovery. The sharp drop in the exchange rate for the American dollar has also altered the competitive factors for the products of Cutlite Penta and Ot-las which distribute on the American market through Lasercut; the margins for Lasercut were reduced to the minimum and did not allow even to meet the expenses even for this small organization.

**Asclepion Laser Technologies GmbH**
The company with which the Group acquired the activities in the cosmetic sector belonging to Carl Zeiss Meditec, was founded in February and acquired by El.En. SpA (for 50% with Quanta System SpA) in the month of May of 2003; it had a sales volume of approx. 5 million Euros in accordance with expectations for the sales volume for the first financial period and it obtained an operating result of approx. 88 thousand Euros. During this first year of operation, the management dedicated their efforts to the development of a strategic development plan that included the creation of a new range of products and a highly aggressive marketing policy which was aimed at redefining the Asclepion brand as a widely used quality product.

## 3) Relations with associated companies entered under the financial assets not included in the area of consolidation or evaluated with the shareholders' equity method

The following table shows the relationships between the associated companies both as related to commercial exchanges as well as the amounts payable and receivable at the end of this financial period.

| | Financial credits | | Commercial credits | |
|---|---|---|---|---|
| **Associated companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| Quanta System Spa | 7 | | 126 | |
| ASA Srl | | | 32 | |
| Actis Srl | 40 | | 1 | |
| Immobiliare Del.Co. Srl | 14 | | | |
| M&E | | | 13 | |
| Sona International Co. | | | 185 | |
| *Total* | **61** | | **357** | |

| | Financial payables | | Commercial payables | |
|---|---|---|---|---|
| **Associated companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| Quanta System Spa | | | 75 | |
| Actis Srl | | | 16 | |
| *Total* | | | **92** | |

| Associated companies: | Purchase of raw materials | Services | Other | Total |
|---|---|---|---|---|
| Quanta System Spa | 160 | | | 160 |
| Actis Srl | 3 | 16 | | 19 |
| *Total* | **164** | **16** | | **179** |

| Associated companies: | Sales | Service | Total |
|---|---|---|---|
| Quanta Fin Srl | | | |
| Quanta System Spa | 201 | 1 | 202 |
| Asa Srl | 44 | | 44 |
| SONA International Co. | 1.326 | | 1.326 |
| *Total* | 1.571 | 1 | 1.572 |

The amounts shown in the tables above refer to operations inherent to the traditional management practices of the company.

## 4) Research and Development activity

During the financial year 2003, as in preceding years, the Group carried out an intense program of research and development with an aim to creating innovative products and new uses both in the medical and industrial fields. The Group meets the challenge of world-wide competition which is typical of high-tech products, by continually introducing new products, and new versions of old products with better performance and technical up-dates.

For this reason it is necessary to sustain a broad Research and Development activity, organised according to short and mid-term schedules. The mid-term research projects are characterised by an orientation towards higher risk subjects and differentiated according to a range of criteria which is established by management intuition and by future potential as indicated by scientific work in laboratories and advanced research centers throughout the world. On the other hand, research dedicated to achieving short term results is working on subjects for which a study has already been conducted in order to ascertain the feasibility, and for which the main characteristics and specifications have already been determined on the basis of research conducted by specialists working in the company as well as the results of the various public and private organisations involved which act as consultants during the preliminary phase.

Research conducted is mostly applied, and in some specific cases, basic. Both the applied research and the development of the pre-prototypes and the prototypes are sustained by financial resources which are partly our own and partly provided as grants derived from contracts for research stipulated with the managing institutions acting on behalf of the Ministry of University Education and Research and with the European Union, both directly and through the Research Institutions.

Some of the research projects conducted in 2003 are described below:

For medical systems and applications
The activity aimed at developing laser devices and equipment for mini-invasive robot-assisted micro-surgery also continued; this activity has been initiated as part of the Nuova Ingegneria Medica project as a FIRB (Fondo per Investimento per Ricerca di Base) study, financed in part by MIUR (Ministero Istruzione Università e Ricerca) on the basis of grants which are issued upon the favorable opinion of an international board of experts.

The first experimental studies were carried out on the selection of the wave length and on the doses required for cutting soft tissues and the cauterisation of blood vessels. Work was begun on the development of a directable micro tweezer and a multiple-way catheter for endoscopes, endoluminal PDT therapy, and for diagnostics with opto-acoustical micro-probes.
The development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics was continued as was the formative activity for young researchers who are to be hired by the company in order to further strengthen the research and development sector. At the same time, clinical experimentation is continuing in Italy and qualified European and American centers in order to confirm and document the efficacy of new therapeutic treatments performed by lasers in various fields of medicine: gastroenterology, otorhinolaryngology, oculistics, interstitial laser hyperthermia, dermatology.
A patent has been developed for a new type of low flow radiator with isoptropic emissions interstitial laser hyperthermia for use in mini-invasive micro-surgery on the liver and thyroid.
A program is now in progress concerning the innovative technologies in ophthalmology related to the attachment of the cornea using laser beam.
A research project for the development of a diode laser for applications in mini-invasive micro-surgery techniques has continued.
For the bio-medical industry, a research program is now in progress with grants from the European Union for mechatronic applications.

<u>For industrial systems and applications</u>
A project involving $CO_2$ laser sources up to 6kW for industrial cutting and welding operations was successfully concluded.
A project studying methods and instruments for the characterisation and the control during use of the characteristics of the laser beam for industrial cutting application was also concluded ( European project "EUREKA 2379").
A project related to eximer laser systems for use in the nano-manufacture of electronic and optical-electronic devices continued.
Moreover, applied research continued for the development of large mirrors for scanning the laser beam for the purpose of marking or treating surfaces of different kinds of materials for the aesthetic enhancement of garments and craft products; scanning systems for working on areas up to 1.600 mm x 1.600 mm, with laser power of over 1kW were continued. A project was begun for the development of the electronics based on a Digital Signal Processor to translate into HW the results of the theoretical research on the numerical of the galvanometers for scansion heads.

Algorithms, calculus programs and HW structures were developed for artificial vision systems to be used for the decoration of leather using laser marking.
The development of $CO_2$ laser sources with 1500 Watt slow axial flow was completed.
A project for the creation of a high power solid state laser source with active material in an amorphous ceramic support is now in the initial phases.
The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.

The following table shows the expenses sustained during this period for Research and Development activities.

| *thousands of euro* | **31/12/2003** |
|---|---|
| Costs for personnel and general expenses | 5.576 |
| Costs for instruments and equipment | 307 |
| Costs for building of prototypes | 511 |
| Costs for technological consultants | 370 |
| Services provided | 103 |
| Intangible assets | 16 |
| ***Total*** | **6.884** |

As for the entries related to sales volume and revenue, the contribution of Cynosure is also very significant in the sector of research and development, considering the intense activity the company conducts in the field. The amount spent for research and development by Cynosure during this financial period was approx. 2.525 thousand dollars.

As has been the usual company policy in the past, the expenses shown on the table have been entirely entered among the operating costs.

The amount of expenses sustained corresponds to approx. 10% of the consolidated sales volume of the Group. The amount related to Cynosure, which was, as stated earlier, equivalent to 2.525 thousand dollars which represents about 9% of its sales volume; the remaining expenses have been paid almost entirely by El.En. SpA and amounts to about 17% of its sales volume. El.En. SpA has entered into accounting for this year income, received as grants for an amount of 754 thousand Euros. The resources and efforts involved in this activity obviously represent a major commitment, financial and otherwise, which, on the other hand is indispensable and necessary for the development of the company.

# 5) Structure of company management

As per article 19 of the Articles of Incorporation, the firm is administered by a Board of Directors, which is composed of a minimum of three to a maximum of fifteen members. At this time the Board of Directors – elected to a three year term by the preceding Board of Directors during the shareholders' assembly held on November 6th 2003, and confirmed for the ten members of the Board with Ing. Gabriele Clementi as President composed as follows:

| NAME | POSITION | PLACE AND DATE OF BIRTH |
|---|---|---|
| Gabriele Clementi | President with conferred powers | Incisa Valdarno, 8 July 1951 |
| Barbara Bazzocchi | Deputy Board Member | Forlì, 17 June 1940 |
| Andrea Cangioli | Deputy Board Member | Florence, 30 December 1965 |
| Francesco Muzzi | Board Member | Florence, 9 September 1955 |
| Marco Canale | Board Member | Naples, 12 November 1959 |
| Paolo Blasi* | Board Member | Florence, 11 February 1940 |
| Michele Legnaioli* | Board Member | Florence, 19 December 1964 |
| Angelo Ercole Ferrario** | Board Member | Busto Arsizio, 20 June 1941 |
| Alberto Pecci | Board Member | Pistoia, 18 September 1943 |
| Paolo Ernesto Agrifoglio | Board Member | Genoa, 1 January 1966 |

* Independent administrators, as per art. 3 of the Codice di Autodisciplina delle Società Quotate
** Drafted by the Board of Directors during the meeting held on February 13th 2004 as per art. 2386 c.c. in place of Prof. Ennio Carnevale who resigned.

Since the preceding Board of Directors was appointed on September 5th 2000, for the purpose of making the terms coincide with the approval of the budget without going beyond the expiration date for the appointments, which was set at three years according to what is now art. 19 of the internal regulations, the shareholders' assembly which elected the present Board of Directors on November 6th 2003 has set, as the expiration date for the term of office, the assembly meeting for the approval of the budget relative to the financial year ending on December 31st 2005.

An exception has been made for Dott. Ferrario who, since he was drafted, as per art. 2386 c.c, by the Board of Directors during the meeting held on February 13th 2004, will continue to serve until the assembly called to approve the budget for the financial year ending on December 31st 2003. This assembly moreover, will be called upon to express their opinion on the nomination of a new member to bring the number of Board Members back to ten.

During their term of office the members of the Board of Directors are domiciled at the headquarters of El.En. SpA in Calenzano (FI), Via Baldanzese n. 17.

On the 13th of November 2003 the Board of Directors attributed to the President of the Board of Directors, Ing. Gabriele Clementi and the designated board members Mrs. Barbara Bazzocchi and Ing. Andrea Cangioli, separately from each other and with independent signature, all the ordinary and extraordinary administrative powers so that they can carry out all the activities inherent in the company operations excluding only those activities for which delegation of power is prohibited by law, as per 2381 c.c. and the company statutes.

In conformity with the regulations established by the Self-disciplining code for companies quoted on the stock market (Codice di Autodisciplina delle Società Quotate):

a) as of August 31st 2000, the Board of Directors includes among its members two independent administrators, as per art. 3 of the a.m. Codice di Autodisciplina. At this time they are Prof. Paolo Blasi and Dott. Michele Legnaioli;

b) as of September 5th 2000 the Board has set up the following commissions composed mostly of non-executive administrators:

1. "Committee for Appointments", which has the task of proposing nominations and receiving them from shareholders as well as making sure that the procedure established by the company statutes for the selection of the candidates is respected.
2. "Committee for Fees", which has the task of providing transparency and information concerning the means and the ways used for determining the fees paid to Board Members;
3. "Auditing Committee", which has the task of acting as consultants, making proposals, and supporting the Board in carrying out and monitoring the activities and internal control systems.

c) as of September 5th 2000, the Board has appointed a lawyer, Avv. Maria Federica Masotti as provost to monitor internal control.

The Board of Directors meets at least every three months in order to guarantee that adequate information is being given to the Collegio Sindacale (Auditing Board) regarding the activities being conducted and the operations of major importance effected by the company and its subsidiaries.

The internal control of the Group is conducted by the Parent Company in collaboration with the personnel of the subsidiary companies. From an organisational point of view, the administrators of the Parent Company participate in the Board Meetings of the subsidiary companies as members of the same administrative organ and have the title of Sole Administrator. If this has not been the case, the administrative organ of the subsidiary must provide all information necessary for the organisational definition of the activities of the Group.

As far as accounting information is concerned, before the end of the month following the quarter in question, the subsidiaries must provide all the information necessary in order to enable the Parent Company to draw up the consolidated economic and financial reports.

On December 11th 2003 the partners of Immobiliare del Ciliegio Srl, Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi, Francesco Muzzi, Pio Burlamacchi, Carlo Raffini and Autilio Pini renewed for another three years the para-social agreement ( the "Pact" ) stipulated in 2000, integrated in 2003, and concerning the following::

a) A majority vote syndicate which conferred a total of 2.391.994 ordinary shares of El.En. SpA equivalent to 52% of the Share Capital;
b) A block syndicate, in which they conferred a total of 2.391.994 ordinary shares of El.En. SpA equivalent to 52,00% of the Share Capital.

The Pact also contains several clauses which prevent the transfer of shares and others which regulate the right to vote in the assemblies of the Company, and in any case, respecting the right to equal treatment of all the shareholders from the point of view of providing information.

As far as the first of these clauses is concerned, the members who adhere to the Pact are bound to not transfer or offer as warranty the shares (and relative rights) of the Company which have been conferred to them by the Pact for a period of at least three years.

As far as the second of these clauses, regarding the right to vote in the assembly, is concerned, the Pact stipulates that the Direction Commission (to which all of the Pact members belong) must meet before each assembly of the Company in order to decide how to act during the assembly and in which way they are going to vote. The decisions of the Direction Commission are made on the basis of majority vote calculated on the basis of the number of shares possessed by each member and are binding for the partners who must vote in the company assembly in accordance with the majority vote decisions of the Board.

## 6) Correlated Parties

According to I.A.S. 24, the following subjects are considered correlated parts:

- the associated and subsidiary companies as shown in the financial report;
- the members of the Board of Directors or the Auditor's Office (*Collegio Sindacale*) of the parent company and the other executive officers with strategic responsibilities.
- the physical persons who are shareholders in El.En. SpA;
- the legal bodies of which a significant investment is owned by one of the major shareholders of El.En. SpA, by one of the shareholders of El.En. SpA part of the voting assembly, by a member of the Board of Directors, by a member of the Board of Auditors, by any other of the executives with strategic responsibilities.

In this regard the following should be noted:

<u>Subsidiary and associated companies</u>
All relations of amounts receivable and amounts owed, expenditure and income, all financing and guarantees granted to the subsidiary or associated companies during the financial year of 2003, are clearly shown in detail on breakdown charts in this financial statement. Transactions with subsidiary and associated companies take place at ordinary market conditions. The above mentioned inter-Group transactions therefore reflect the price trends of the market, and with respect to these they may differ slightly depending of the marketing policy of the Group.

It should be mentioned that in October of 2002 El.En. SpA acquired, free of charge, from Deka Mela Srl, the license for use of the brand of the same name for the marketing of laser equipment manufactured by El.En. for the dental, medical and cosmetic sector in some European and non-European countries.

Members of the board of Directors, the Board of Auditors and other strategic executives
Members of the board of Directors, and the Board of Auditors receive salaries which are shown in the Appendix. The President of the Scientific Commission receives the salary indicated in the Appendix.

Legal bodies in which Members of the board of Directors, the Board of Auditors and other strategic executives participate
Members of the Board of Directors, the Board of Auditors and the President of the Scientific Commission possess the investments shown in the following paragraphs of this report.

Physical persons having investments in El. En spa
Besides the members of the Board of Directors, the board of Auditors and the President of the Technical-Scientific Commission, the partners Carlo Raffini and Pio Burlamacchi receive emoluments, as shown in the Appendix, for the following reasons:
- Carlo Raffini, has been appointed Director of the Quality System by El.En. SpA.
- Pio Burlamacchi is the possessor, as stipulated in a special contract, of an industrial monopoly right consisting in a request for a patent for the invention of a "Support for the optical cavity for lasers, with adjustment of the ray of light".

## 7) Investments held by executives, auditors and general managers

Some of the members of the Board of Directors also have company positions in the subsidiary and controlled companies as shown on the chart below:

| Name | Position |
|---|---|
| Gabriele Clementi | - Sole Administrator of Valfivre Italia S.r.l. (Group company in which El.En holds a 99% equity.)<br>- Board Member of Cynosure inc. (company in which El.En holds a 60% equity.) |
| Barbara Bazzocchi | - Sole Administrator of Cutlite Penta S.r.l. (Group company in which El.En holds a 53,50% equity.)<br>- President of the Board of Directors of Actis – Active Sensor s.r.l. (company in which El.En holds a 12,00% equity) |
| Francesco Muzzi | - President of the Board of Directors of Deka M.E.L.A. S.r.l. (Group company in which El.En holds a 70% equity) |
| Andrea Cangioli | - Sole Administrator of Neuma Laser S.r.l. (Group company in which Cutlite Penta srl holds a 50% equity)<br>- Board member of Quanta System s.p.a.. (Group company in which El.En holds a 30% equity)<br>- Board member of Cynosure inc. (company in which El.En holds a 60% equity.)<br>- Board member of Ot-las s.r.l. (company controlled indirectly through Cutlite Penta s.r.l.);<br>- Board member of A.S.A. s.r.l. (with a 20% equity held by the subsidiary Deka M.E.L.A. s.r.l.)<br>- Sole administrator of Asclepion Laser Technologies (with an equity of 50%)<br>- Board member of Lasercut Inc. (with an equity of 70%) |

The members of the *Collegio Sindacale* of El.En. S.p.a. are also members of the auditing boards of the subsidiary companies as shown on the chart below:

| Name | Position |
|---|---|
| Vincenzo Pilla | - Acting auditor of Lasit s.r.l.<br>- President of the Auditing Commission of Deka M.E.L.A. s.r.l.<br>- Acting auditor of Cutlite Penta s.r.l. |
| Paolo Caselli | - President of the Auditing Commission Cutlite Penta s.r.l.<br>- Acting auditor of Deka M.E.L.A. s.r.l. |
| Giovanni Pacini | - Acting auditor of Cutlite Penta s.r.l.<br>- Acting auditor of Deka M.E.L.A. s.r.l. |

In accordance with art. 79 of the Consob regulations, approved with vote no. 11971 on May 14th 1999, the chart below shows the investments held by the administrators and auditors of the Company and their family members.

| *Name* | *Company* | *No. of shares on 31/12/2002* | *No. of shares acquired* | *No. of shares sent* | *No. of shares on 31/12/2003* |
|---|---|---|---|---|---|
| Andrea Cangioli | El.En. S.p.A. | 622.960 | 1.500 | | 624.460 |
| Barbara Bazzocchi | El.En. S.p.A. | 493.524 | 1.300 | | 494.824 |
| Gabriele Clementi | El.En. S.p.A. | 495.650 | | | 495.650 |
| Francesco Muzzi | El.En. S.p.A. | 486.724 | | | 486.724 |
| Immobiliare del Ciliegio Srl (*) | El.En. S.p.A. | 312.412 | | | 312.412 |
| Lucia Roselli | El.En. S.p.A. | 350 | | | 350 |
| Paolo Caselli | El.En. S.p.A. | 300 | | | 300 |
| Vincenzo Pilla | El.En. S.p.A. | 300 | | | 300 |
| Michele Legnaioli | El.En. S.p.A. | 160 | | | 160 |
| Alberto Pecci | El.En. S.p.A. | 47.137 | 8.500 | | 55.637 |

(*)Immobiliare del Ciliegio Srl is a company located in Prato with a Capital Stock of 2.553.776 Euros. Andrea Cangioli is the owner of an investment in the property which is equal to 25% of the Capital stock.

# 8) Stock options offered to executives and employees

The special assembly called for July 7th, 2000 voted, in accordance with art. 2443 of the Civil Code, for a period of up to five years from the date of the vote, to allow an increase in share capital to be made in one or more payments, for a maximum amount of 124.800 Euros, by issuing up to 240.000 ordinary shares with a nominal value of 0,52 Euros each, to be acquired by payment of a price which will be determined by the Board of Directors, bearing in mind the regulations described in Clause 6 of art. 2441 of the Civil Code and considering the net assets and/or price to the public and/or the average of the official prices registered for the shares on the market for the period preceding the granting of the right for option which can be identified in the incentive plan. The Board of Directors, on November 3rd, 2000 voted to partially implement the decision made during the assembly of shareholders held on July 7th, 2000 in favour of an increase in share capital to 2.412.846 towards the stock option plan for 2001/2003 and approved the relative regulations. The above mentioned plan is divided into three phases, one for each year; the option rights for underwriting new ordinary shares can be exercised by those authorised to do so starting September 1st until September 30th of each year during the period being considered and are not negotiable. According to the plan, 13.363 options will be attributed each year. During the three years no one exercised this right.

The next extraordinary assembly, held on July 16th 2002, voted to revoke, for the part of the proxy of the assembly vote of July 7th, 2000 which had not been exercised, and which amounted to 199.911 options, the faculty granted by the Board of Directors to proceed with the increase of the Capital Stock , according to the procedure just described.

The same extraordinary assembly of July 16th 2002, also voted, in accordance with art. 2443 of the Civil Code, to allow the Board of Directors, for a period of five years maximum from the date of the vote, to increase in one or more payments, the Capital Stock of the company for the nominal sum of 124.800 Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each, with usufruct equal to that of the ordinary shares of the company on the date of underwriting, to be acquired through payment of a price which will be determined by the Board of Directors, in accordance with art. 2441, comma VI, of the Civil Code, - i.e., on the basis of the value of the shareholders' equity, bearing in mind the performance of the stock quoted in the stock market during the preceding six months - and a unit value, including additional paid-in capital in excess of par value, equal to the amount of whichever of the following is the greatest : a) the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group on December 31st of the year preceding the issuing of the options; b) the mathematical average of the official prices registered by the ordinary shares of the company on the New Stock Market organised and managed by Borsa Italiana SpA during the six months preceding the assignment of the options; c) the mathematical average of the official prices registered by the ordinary shares of the company on the New Stock Market organised and managed by Borsa Italiana SpA during the 30 days preceding the assignment of the options; d) the mathematical average of the official prices registered by the ordinary shares of the company on the New Stock Market organised and managed by Borsa Italiana SpA during the period of time preceding the assignment of the options and determined by the Board of Directors in the rules for the incentive plan.

On September 6th 2002, the Board of Directors voted to implement in part the proxy approved by the stock holders' assembly on July 16th 2002, voting to increase the Capital Stock to 31.817,76 euros for use in the 2003/2004 stock options plan and approving the relative regulations. The option rights are assigned exclusively to the executives, managers and office employees who at the time of the assignment are working in a subordinate position for the Group. This plan is organised in two sections, one for each year; the first section, for a maximum of 30.600 shares, can be opted by the assignees from November 18th to December 31st, 2003 from August 15th to September 30th, 2004 and from November 18th to December 31st, 2004; the second section , for a maximum of 30.588 shares can be opted by the assignees from August 15th to September 30th 2004, and from November 18th until December 31st 2004.

With reference to this vote, as far as the first portion of 30.600 shares is concerned in the period between November 18th 2003 and December 31st 2003, 21.139 rights were opted with a consequent increase in underwritten and paid share capital of 10.992,28 Euros.
In conclusion, the Board of Directors voted on November 13th 2003 to partially actuate the decision of the shareholders' assembly of July 16th 2002 which voted to increase the share capital by 13.145,60 Euros for use in the 2004/2005 stock option plan and approved the relative regulations. The option rights are assigned exclusively to the categories of executives, managers and office employees of the Group who at the moment of assignment are working in a subordinate position. The above plan is divided into two phases, one for each year; the first phase, for a maximum of 12.640 shares can be assigned to those holding the option rights from November 18th until December 31st 2004, from August 15th until September 15th 2005, and from November 18th until December 31st 2005; the second phase, for a maximum of 12.640 shares can be assigned to those having option rights from August 15th to September 30th 2005 and from November 18th to December 31st 2005.

## 9) Debenture Loan

On November 7th, 1996 in a special assembly the company approved the emission of a debenture loan for an amount of up to 619.748 Euros by the issuance of 120.000 bonds with a nominal value of 5,16 Euros each. The entire debenture loan was underwritten for a portion of 412.133 euros by: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Carlo Raffini and Gabriele Clementi, for a portion of 123.950 euros by Mr. Gabriele Clementi and his wife, and for a portion of 10.329 euros by Mr. Carlo Raffini and his wife. The remaining part of the loan, for the sum of 73.336 euros was underwritten by a third party. The duration of the loan is for ten years, and it will be reimbursed by December 31st 2006. The annual rate of interest is 9,75%, payable in yearly instalments deferred until January 1st of each year. Upon expiration the bonds will be reimbursed at their nominal value.

## 10) Treasury Stock

Following the vote of approval by the Shareholders' Assembly of April 24th , 2002, the Board of Directors proceeded to purchase their own treasury stock according to the procedure approved the same assembly. On December 31st 2003, the company acquired 22.714 shares for an amount equal to 255.937 Euros, at an average price of 11,2678 Euros. The market price on March 31st , 2004 was approx. 15 Euros.

## 11) Application of the IAS/IFRS principles

Following the recommendation of the CESR (Committee of European Securities Regulators) published on December 30th 2003, containing guide lines for companies quoted on the stock market in the European Union concerning the methods to be used for transition from the IAS/IFRS, the reference regulations and the method of use of the international accounting principles for the El. En Group are described below:

The main phases which have typified the process of integration of the accounting principles in the European Union are:

- The application of Regulation no. 1606 issued by the European Parliament and the European Council in July of 2002, which states that, starting in 2005, the application of the IAS/IFRS principles for consolidated accounting of the companies quoted on the stock markets regulated by the E.U. will become obligatory.

The application, by the European Commission of Regulation no. 1725 of September 29th 2003 which ratified the international accounting principles and the relative interpretations in existence on September 14th 2002.; from this process of ratification they excluded IAS 32 and 39, which regarded, respectively, the disclosure and the evaluation of financial instruments, as well as the relative interpretations (SIC 5, 16 and 17) since they are now being revised by the IASB;

- The issuance, by the Italian legislature, of Community Law 2003 (Law of October 31st 2003, n. 306) which, in article 25 requires, among other things, for the quoted companies, the use of IAS/IFRS in drawing up not only the consolidated statements (as already required by EU Regulation n. 1606/2002), abut also the statements for the financial year.
- At the same time, the IASB planned a series of projects for the implementation of the international accounting principles accepted by the EU, including the regulating of operations not presently subject to regulation. Some of these projects have already been completed, while others are still in progress or being initiated.

During 2003, El.En. SpA began a specific project which was related to the implementation of the international principles through the creation of a task force which included the involvement of the main companies of the El.En. Group.

In particular, an analysis was made in order to identify the main differences between the Italian accounting principles and the IAS/IFRS principles and, on the basis of the differences which had been found, to quantify the significant impact on the consolidated financial statements of the El.En. Group.

The objectives proposed for this project are the following:

- Identification of the main differences between the Italian accounting principles and the IAS/IFRS principles including those for the preparation of the opening budget (1/1/2004, date of transition) and quantification of the relative impact.
- Implementation of the administrative processes and of the company information systems in order to permit the drawing up of the financial statements and quarterly reports according to the IAS/IFRS principles.

In conformity with IAS 1, the statement according to IAS/IFRS must include in terms of comparative information, the results of the financial period preceding that being described. The statement issued on December 31st 2005 will be the first annual report presented by the El.En. Group drawn up according to the international principles and will include, for purposes of comparison, the statement as of December 31st 2004 according to IAS/IFRS principles.

The analysis conducted so far has revealed some differences between the Italian accounting principles and the IAS/IFRS now in use (presuming the acceptance of the Exposure Draft now available and excluding the treatment of the differences derived from the first application of the international principles ) and the main ones are described below:

- *Start up and difference from consolidation*: these entries will no longer be automatically amortised in the profit and loss account, but will be subject to an evaluation to be effected on an annual basis, in such a way that any loss in value can be readily identified (impairment test);
- *Treasury stock*: this stock, according to the IAS/IFRS, cannot be entered among the assets and will have to be cancelled along with the corresponding reserve fund; moreover, the amount of the treasury stock must be shown as a reduction of the net assets.
- *Principles of consolidation*: it will no longer be possible to exclude from the area of consolidation the companies of insignificant entity, companies being shut down, and those with different activities; the shares of consolidated subsidiary companies with circulating assets must be included in the area of consolidation.
- *Stock options*: IFRS 2 classifies the stock options within the category of "equity settled share-based-payment transactions"; in particular, according to this principle, the stock options must be evaluated when they are granted ("grant date") at the fair market value registering in the profit and loss account a cost which shows an equivalent in the increment of the reserves of the net assets;
- *TFR*: Italian accounting principles require that liabilities for severance pay be shown on the basis of the nominal debt which has matured by the date of the financial statement; according to IAS/IFRS, the institution of TFR (severance pay) is included in the category of the benefit plans defined as subject to actual evaluation in order to express the present value of the benefit, to be issued upon termination of employment, which the employee has matured by the date of the financial statement.
- *Composite financial instruments*: according to IAS 32, the value of composite financial instruments (for example, convertible obligations) must be split up among the financial liabilities and the instruments which are representative of the net assets (stocks, bonds and options for the purchase of stocks, other instruments which represent the net assets).
- *Derived instruments*: according to the IAS/IFRS principles, all the derived instruments must be reflected in the financial statement at the relative "fair value". The method used for the entering into accounting of derived instruments varies according to the characteristics of the same (covering and non-covering instruments).
- *Extraordinary components*: according to the IAS/IFRS principles, the components of an extraordinary nature are no longer in force.
- *Exemptions from the accounting principles as provided for in the special laws for* AS/IFRS purposes, the accounting method would not consider the interference caused by special and fiscal laws.

For the differences that have been identified, we are taking the necessary steps for the definition of the procedures necessary for the quantification for each company.

Moreover, other differences in the principles were identified and are now being investigated; they concern mainly the reserve funds for risks, recognition of profits, work in progress on orders, capitalisation of interests, postponed taxes and the entering into accounts of dividends in the financial statements.

## 12) Application of the privacy regulations protecting disclosure of personal data

In accordance with rule 26, All. B, D. Lgs. 30 June 2003, n. 196 the company wishes to announce that they have drawn up the program document for privacy regulations for 2004.
At this time, we are evaluating the possibility of integrating this document according to the terms granted by the privacy guarantor.

## 13) Noteworthy events which took place during the financial year

On January 19th, 2004 El.En. SpA acquired a further 30% of the shares of Quanta System SpA, bringing to 60% its equity. This operation brings under the control of the company one of the most important Italian companies in the field of development and manufacture of lasers, including the space sector and a historical presence which is now enjoying a raid growth phase. Quanta System moreover holds the remaining 50% of Asclepion Laser Technologies GmbH, the German company that the El.En. Group which purchased the activities of the cosmetic laser business from Carl Zeiss Meditec AG.
The operation involved the sale by El.En. to Laserfin (the company which held controlling interest in Quanta System) for an amount of 10% of the capital stock of the subsidiary Deka M.E.L.A. Srl and shares for 2,5% of the capital of the American subsidiary, Cynosure Inc., besides an expenditure of 1,5 million Euros, of which half a million paid on closure of the transaction, and a further million to be paid by mid-July 2004. The operation, therefore, besides giving El.En. definitive control over Quanta System, seriously involves the management of Quanta System in the activities of the El. En. Group in the medical sector, and fully integrates into the Group a highly sophisticated Research and Development team.
For the financial period 2003, Quanta System, had a sales volume of 6,8 million Euros (an increase of 29% over last year) with Gross Operating Margin of 1,1 million Euros and a net profit of 207 thousand Euros.

## 14) Predictable management trends

The consolidated budget for the financial year 2004 envisions a further growth of the sales volume with an increase of approx. 30% which should bring it close to 90 million Euros. Profits are expected to increase with respect to 2003, and the operating revenue is expected to rise to approx. 4 million Euros. These forecasts have been made on the basis of a currency exchange rate of 1,27 dollars to the Euro.

The economic forecasts also envision a recovery in the industrial sector of the sales volume losses shown for this financial year and a further increase in the medical sector. Positive dynamics are expected on the American market, with a major growth foreseen in the sales volume of Cynosure.

It is also expected that the new acquisitions, and Quanta System SpA in particular, which became part of the area of consolidation in January 2004, will contribute to the growth in sales volume next year.

The first indications received concerning economic trends in 2004 would seem to confirm these forecasts, even though the industrial sector continues to be weak and signs of recovery on the international market are slight and in some cases like the Italian market, non existent.

***For the Board of Directors***
The President – Ing. Gabriele Clementi

**El.En. Group**

# Consolidated financial statement closed on December 31st 2003

| ASSETS | 31/12/2003 | 31/12/2002 |
|---|---|---|
| **A) SUBSCRIBED UNPAID CAPITAL** | | |
| **Total subscribed unpaid capital** | | |
| **B) FIXED ASSETS** | | |
| **I) Intangible assets** | | |
| 1) Formation and expansion expenses | 370.744 | 743.914 |
| 3) Patents and rights to use patents of others | 302.632 | 425.085 |
| 4) Concessions, licenses, trade marks and similar rights | 228.290 | 213.985 |
| 5) Goodwill | 191.993 | 179.121 |
| 6) Intangible assets in progress and payments on account | 6.992 | |
| 7) Other | 64.103 | 107.018 |
| 8) Goodwill arising from consolidation | 6.782.540 | 6.573.157 |
| **Total intangible assets** | **7.947.294** | **8.242.280** |
| **II) Tangible assets** | | |
| 1) Land and buildings | 2.400.819 | 2.457.768 |
| 2) Equipment and machinery | 417.446 | 338.614 |
| 3) Industrial and commercial equipment | 2.507.818 | 2.410.081 |
| 4) Other | 673.813 | 754.410 |
| 5) Tangible assets under construction and payments on account | 1.299.550 | 235.439 |
| **Total tangible assets** | **7.299.446** | **6.196.312** |
| **III) Financial fixed assets** | | |
| 1) Equity investments in : | | |
| b) associated companies | 1.430.211 | 717.483 |
| d) other companies | 337.863 | 171.953 |
| *Total equity investments* | *1.768.074* | *889.436* |
| 3) Other investments | 76.709 | 76.709 |
| **Total financial fixed assets** | **1.844.783** | **966.145** |
| **TOTAL FIXED ASSETS** | **17.091.523** | **15.404.737** |
| **C) CURRENT ASSETS** | | |
| **I) Stocks:** | | |
| 1) Raw materials and consumables | 9.197.844 | 6.963.383 |
| 2) Work in progress and components | 4.292.001 | 3.625.574 |
| 4) Finished goods | 6.437.349 | 4.159.568 |
| 5) Payments on account | 67.936 | 37.891 |
| **Total stocks** | **19.995.130** | **14.786.416** |
| **II) Debtors** | | |
| 1) Trade debtors | | |
| - due within 12 months | 15.623.354 | 15.718.753 |
| *Total trade debtors* | *15.623.354* | *15.718.753* |
| 3) Amounts owed by non-consolidated associated companies | | |
| - due within 12 months | 417.619 | 62.157 |
| *Total amounts owed by associated companies* | *417.619* | *62.157* |
| 5) Other debtors | | |
| - due within 12 months | 3.164.665 | 2.143.326 |
| - due after 12 months | 1.230.922 | 900.658 |
| *Total amounts owed by other debtors* | *4.395.587* | *3.043.984* |
| **Total debtors** | **20.436.560** | **18.824.894** |
| **III) Investments which are not permanent** | | |
| 4) Other companies | 115.000 | |
| 5) Own shares | 354.104 | 374.163 |
| 6) Other investments | 78.004 | 78.004 |
| **Total investments which are not permanent** | **547.108** | **452.167** |
| **IV) Cash at bank and in hand** | | |
| 1) Bank and postal current accounts | 16.728.704 | 27.034.672 |
| 3) Cash on hand | 10.825 | 15.895 |
| **Total cash at bank and in hand** | **16.739.529** | **27.050.567** |
| **TOTAL CURRENT ASSETS** | **57.718.327** | **61.114.044** |
| **D) PREPAYMENTS AND ACCRUED INCOMES:** | | |
| 1) Prepayments and accrued income assets | 411.412 | 155.709 |
| **Total prepayments and accrued incomes** | **411.412** | **155.709** |
| **TOTAL ASSETS** | **75.221.262** | **76.674.490** |

| LIABILITIES | 31/12/2003 | 31/12/2002 |
|---|---|---|
| **A) CAPITAL AND RESERVES** | | |
| **Capital and reserves of the group** | | |
| I) Subscribed capital | 2.402.992 | 2.392.000 |
| II) Share premium reserve | 34.206.116 | 33.954.774 |
| IV) Legal reserve | 537.302 | 406.893 |
| V) Reserve for own shares | 255.937 | 255.937 |
| VII) Other reserves: | | |
| - Extraordinary reserve | 5.486.618 | 4.153.183 |
| - Reserve for contribution on capital account | 426.657 | 426.657 |
| - Profits from subsidiaries and associated in previous years | 856.696 | 1.335.657 |
| - Consolidation reserve | 1.270.675 | 1.404.652 |
| - Other reserves | -1.750.562 | -906.856 |
| *Total other reserves* | *6.290.084* | *6.413.293* |
| VIII) Profits (loss) brought forward | | |
| IX) Profit (loss) for the financial period | 553.954 | 2.131.050 |
| **Total capital and reserves of the group** | **44.246.385** | **45.553.947** |
| **Capital and reserves of third parties** | | |
| X) Capital and reserves of third parties | 5.658.060 | 5.481.140 |
| XI) Profit (loss) of third parties | 45.144 | 732.483 |
| **Total capital and reserves of third parties** | **5.703.204** | **6.213.623** |
| **TOTAL CAPITAL AND RESERVES** | **49.949.589** | **51.767.570** |
| **B) PROVISIONS FOR RISKS AND CHARGES** | | |
| 1) Provisions for pensions and similar obligations | 365.295 | 301.136 |
| 2) Provisions for taxation | 677.343 | 592.242 |
| 3) Other provisions | 1.649.888 | 1.665.786 |
| **Total provisions for risks and charges** | **2.692.526** | **2.559.164** |
| **C) EMPLOYEE SEVERANCE INDEMNITY** | **1.118.773** | **948.794** |
| **D) CREDITORS** | | |
| 1) Debenture loans | | |
| - due after 12 months | 619.748 | 619.748 |
| *Total debenture loans* | *619.748* | *619.748* |
| 3) Amounts owed to banks | | |
| - due within 12 months | 336.021 | 379.325 |
| - due after 12 months | 441.034 | 653.764 |
| *Total amounts owed to banks* | *777.055* | *1.033.089* |
| 4) Amounts owed to other financial institutions | | |
| - due within 12 months | 273.977 | 326.694 |
| - due after 12 months | 782.966 | 597.663 |
| *Total amounts owed to other financial institutions* | *1.056.943* | *924.357* |
| 5) Advances received | | |
| - due within 12 months | 705.383 | 351.523 |
| *Total advances received* | *705.383* | *351.523* |
| 6) Amounts owed to suppliers | | |
| - due within 12 months | 11.620.843 | 11.857.403 |
| *Total amounts owed to suppliers* | *11.620.843* | *11.857.403* |
| 9) Amounts owed to associated companies | | |
| - due within 12 months | 91.607 | 184.525 |
| *Total amounts owed to associated companies* | *91.607* | *184.525* |
| 11) Amounts owed to tax administration | | |
| - due within 12 months | 945.805 | 1.987.859 |
| *Total amounts owed to tax administration* | *945.805* | *1.987.859* |
| 12) Amounts owed to social security institutions | | |
| - due within 12 months | 605.543 | 472.494 |
| *Total amounts owed to social security institutions* | *605.543* | *472.494* |
| 13) Other creditors | | |
| - due within 12 months | 4.575.297 | 3.432.770 |
| *Total other creditors* | *4.575.297* | *3.432.770* |
| **TOTAL CREDITORS** | **20.998.224** | **20.863.768** |
| **E) ACCRUALS AND DEFERRED INCOME** | | |
| 1) Accruals and deferred income-liabilities | 462.150 | 535.194 |
| **Total accruals and deferred income** | **462.150** | **535.194** |
| **TOTAL LIABILITIES AND CAPITAL AND RESERVES** | **75.221.262** | **76.674.490** |

| MEMORANDUM ACCOUNTS | 31/12/2003 | 31/12/2002 |
|---|---|---|
| **Our Guarantees** | | |
| Our Guarantees | 288.127 | 740.478 |
| **Other memorandum accounts** | | |
| Our Obligations | 1.025.704 | |
| **TOTAL MEMORANDUM ACCOUNT** | **1.313.831** | **740.478** |

| PROFIT AND LOSS ACCOUNT | 31/12/2003 | 31/12/2002 |
|---|---|---|
| **A) VALUE OF PRODUCTION** | | |
| 1) Net turnover from sales and services | 68.195.140 | 54.138.923 |
| 2) Variation in stocks of finished goods and in work in progress | 3.411.390 | -19.867 |
| 4) Work performed for own purposes and capitalised | 262.081 | 428.186 |
| 5) Other revenues and income | | |
| a) Other revenues and income | 1.027.161 | 437.518 |
| b) Grants received pertaining to the current year | 31.268 | 23.137 |
| *Total other revenues and income* | *1.058.429* | *460.655* |
| **TOTAL VALUE OF PRODUCTION** | **72.927.040** | **55.007.896** |
| **B) COSTS OF PRODUCTION** | | |
| 6) For raw materials, consumables and goods for sale | -31.319.221 | -23.268.931 |
| 7) For services | -18.145.609 | -13.298.477 |
| 8) For use of assets owned by others | -942.377 | -589.978 |
| 9) For staff costs: | | |
| a) wages and salaries | -15.407.800 | -9.201.871 |
| b) social security costs | -2.228.485 | -1.577.200 |
| c) provision for severance indemnity | -328.718 | -234.866 |
| e) other costs relating to staff | | -165 |
| *Total for staff costs* | *-17.965.003* | *-11.014.102* |
| 10) Value adjustments | | |
| a) amortisation of intangible assets | -1.509.135 | -1.130.752 |
| b) depreciation of tangible assets | -1.893.447 | -1.594.728 |
| d) allowance for debtors in current assets and other acc.s incl. in cash | -170.024 | -159.235 |
| *Total value adjustments* | *-3.572.606* | *-2.884.715* |
| 11) Variations in stock of raw materials, consumables and goods for resale | 2.315.181 | 1.054.922 |
| 12) Amounts provided for risk provisions | -555.885 | -192.711 |
| 14) Other operating charges | -1.344.119 | -842.827 |
| **TOTAL COSTS OF PRODUCTION** | **-71.529.639** | **-51.036.819** |
| **(A-B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION** | **1.397.401** | **3.971.077** |
| **C) FINANCIAL INCOME AND CHARGES** | | |
| 16) Other financial income: | | |
| b) from other permanent investments other than equity investments | 708 | 3.063 |
| c) from other investments which are not permanent | 71.470 | 156.810 |
| d) other income not included above | | |
| - to associated companies | *630* | |
| - to third parties | *1.122.314* | *1.387.266* |
| *Total other income not included above* | *1.122.944* | *1.387.266* |
| *Total other financial income* | *1.195.122* | *1.547.139* |
| 17) Interest payable and similar charges | | |
| b) to associated companies | *-23.425* | *-7.594* |
| d) to third parties | *-982.945* | *-522.001* |
| *Total interest payable and similar charges* | *-1.006.370* | *-529.595* |
| **TOTAL FINANCIAL INCOME AND CHARGES** | **188.752** | **1.017.544** |
| **D) VALUE ADJUSTMENTS IN RESPECT OF INVESTMENTS** | | |
| 18) Revaluation: | | |
| a) of equity investments | 717.418 | 176.102 |
| *Total revaluation* | *717.418* | *176.102* |
| 19) Devaluation | | |
| a) of equity investments | -198.325 | -7.608 |
| *Total devaluation* | *-198.325* | *-7.608* |
| **TOTAL VALUE ADJUSTMENTS** | **519.093** | **168.494** |
| **E) EXTRAORDINARY INCOME AND CHARGES** | | |
| 20) Extraordinary income | | |
| a) income | *550.834* | *474.616* |
| b) capital gains from disposal of assets | | *5.195* |
| *Total extraordinary income* | *550.834* | *479.811* |
| 21) Extraordinary charges | | |
| a) charges | *-420.719* | *-77.780* |
| c) other extraordinary charges | *-21.941* | *-11.755* |
| | *-442.660* | *-89.535* |
| **TOTAL EXTRAORDINARY INCOME AND CHARGES** | **108.174** | **390.276** |
| **PROFIT OR LOSS BEFORE INCOME TAXES** | **2.213.420** | **5.547.391** |
| 22) Income taxes on the income of the period: | | |
| a) current | -1.837.246 | -2.791.968 |
| b) deferred | 222.924 | 108.110 |
| **23) NET TOTAL PROFIT (LOSS)** | **599.098** | **2.863.533** |
| **Profit (loss) of third parties** | **-45.144** | **-732.483** |
| **24) PROFIT (LOSS) FOR THE FINANCIAL PERIOD** | **553.954** | **2.131.050** |

# Appendix to the consolidated report closed on December 31st, 2003

# Form and content of the consolidated financial statement

## 15) CRITERIA USED FOR DRAWING UP THE STATEMENT

The following consolidated financial statement is in conformity with articles 25 and following of legislative decree 127/91; it contains the statement of financial position, profit and loss account and the appendix, which has been drawn up in accordance with article 38 of the above mentioned Legislative Decree, and which constitutes an integral part of the consolidated annual report.

## 16) AREA OF CONSOLIDATION

The consolidated financial statement of the El.En. Group includes the annual reports of the Parent Company of the Group and the Italian and foreign companies of which El.En. SpA controls directly or indirectly the majority of votes which can be exercised in an ordinary assembly. On account of the acquisition of equities in 2003, the area of consolidation which is the basis for this financial statement is now composed as follows.

| | | | Percentage held: | | | Consolidated |
|---|---|---|---|---|---|---|
| **Company name:** | **Headquarters** | **Subscr.capital** | **Direct** | **Indirect** | **Total** | **Percentage** |
| **Parent company:** | | | | | | |
| El.En. SpA | Calenzano (I) | 2.402.992 | | | | |
| **Subsidiary companies:** | | | | | | |
| Deka M.E.L.A. Srl | Calenzano (I) | 40.560 | 70,00% | | 70,00% | 70,00% |
| Cutlite Penta Srl (******) | Calenzano (I) | 103.480 | 53,50% | 4,00% | 57,50% | 57,46% |
| Valfivre Italia Srl | Calenzano (I) | 47.840 | 99,00% | | 99,00% | 99,00% |
| Deka Sarl | Vienne (F) | 76.250 | 98,00% | | 98,00% | 98,00% |
| Deka Lms GmbH | Freising (D) | 51.129 | 76,16% | | 76,16% | 76,16% |
| Deka Dls GmbH (*) | Freising (D) | 50.000 | | 50,40% | 50,40% | 38,38% |
| Deka Laser Technologies LLC | Fort Lauderdale (USA) | 935 | 51,00% | | 51,00% | 51,00% |
| Ot-las Srl (**) | Calenzano (I) | 57.200 | | 54,00% | 54,00% | 31,02% |
| Lasit Srl (*****) | Vico Equense (I) | 234.000 | 50,00% | 20,00% | 70,00% | 56,20% |
| Neuma Laser Srl (***) | Calenzano (I) | 46.800 | | 100,00% | 100,00% | 44,24% |
| Lasercut Inc. (2) | Branford (USA) | 935 | 70,00% | | 70,00% | 70,00% |
| Asclepion Laser Technologies GmbH (3) | Jena (D) | 1.025.000 | 50,00% | | 50,00% | 50,00% |
| Cynosure Inc. (1) | Chelmsford (USA) | 53.104 | 60,00% | | 60,00% | 60,00% |
| Cynosure GmbH (1) (****) | Langen (D) | 22.169 | | 100,00% | 100,00% | 60,00% |
| Cynosure Sarl (1) (****) | Paris (F) | 81.300 | | 100,00% | 100,00% | 60,00% |
| Cynosure KK (1) (****) | Tokyo (J) | 71.259 | | 100,00% | 100,00% | 60,00% |
| Cynosure UK (1) (****) | London (UK) | 1 | | 100,00% | 100,00% | 60,00% |
| Suzhou Cynosure Medical Devices Co. (1) (****) | Suzhou (China) | no par value | | 51,60% | 51,60% | 30,96% |

(*) owned by Deka Lms GmbH
(**) owned by Cutlite Penta Srl
(***) owned by Cutlite Penta Srl (50%) e Ot-las (50%)
(****) owned by Cynosure Inc.
(*****) owned by El.En. SpA (50%) e Ot-las (20%)
(******) owned by El.En. SpA (53,50%) and Valfivre Italia Srl (4%)
(1) C/E consolidated in May of 2002
(2) C/E consolidated in April 2003
(3) C/E consolidated in May 2003

During the month of February, the Deka Laser Technologies LLC firm was founded in the United States, and El.En. controls the majority of the shares. This company distributes laser systems for dentistry on the American market including the vast range of products that El.En. produces in the field of $CO_2$, erbium, neodimo, diode lasers which cover the entire range of laser applications in the dental sector.

In the month of April, the company acquired 70% of Lasercut Inc., an American company with headquarters in Branford (Connecticut) specialised in the manufacture and sale of laser systems for cutting metal. The transaction was concluded in April 2003 with the sale by the sole partner of 70% of the shares to El. En SpA.

The prestige and the quality of the products along with a company policy which has never sacrificed attention to the clientele to budget requirements, has given the Lasercut brand the best reputation on the American market. There is considerable potential for development which opened by the cooperation with the El.En. Group. Within a short period of time, the Group can place the cutting systems produced by Cutlite Penta in the Lasercut distribution network, and can integrate the laser sources produced by El.En. on to the Lasercut systems. Later on, Lasercut can act as a bridge head in America for the activities of the Group in the manufacturing sector, acting as representative for Ot-las for the marking of large surfaces, for Lasit for Nd:YAG marking systems, and for Valfivre Italia for special laser systems. The competence and the know-how that Lasercut has, in particular in relation to metal cutting technology, can be integrated with that in the R&D sector of the Group with an aim to creating innovative projects for the development of new products.
The profit and loss account of Lasercut Inc. has been consolidated starting in the month of April 2003, and it therefore influences the consolidated profit and loss account for only nine months.

Also in the month of April, the equity owned in Deka LMS GmbH, the company that distributes the medical products of El.En. SpA in Germany, was increased by purchasing from the company’s partner and administrator an equity equivalent to 24,61% of the capital for an amount of 520 thousand Euros. The equity held in the company increases therefore to 76,16%.

In the month of May, the parent company, El.En. SpA concluded negotiations which brought into the Group the cosmetic and dental business activities of Carl Zeiss Meditec AG of Jena, Germany, sold to the new company Asclepion Laser Technologies GmbH.

The operation was concluded with the Quanta System SpA company (in which a 30% equity was held at the time, which became a 60% equity in January 2004), which is owner of the remaining 50% of Asclepion Laser Technologies GmbH. This latter was founded in the month of February and became the means for the transaction, acquired through an “asset deal” the selected dermatological and dental businesses of Carl Zeiss Meditec.

The history of this business starts long ago with Asclepion Meditec which was already a powerful presence in the field of opthamalogical lasers, as well as dental and dermatological ones, was one of the most successful companies in the field in the 1990. The negative trend of the business in the years that followed, combined with the failure of some of the initiatives in other countries brought about a re-structuring of the company and its merger with Carl Zeiss Meditec, a branch of the Carl Zeiss opthalmological group, in 2002. In this new structure, the role of the business unit was secondary, outside of the core business, and the activities of the company were unable to assert themselves in this situation.
By means of a management policy which is more in keeping with the requirements of the sector and the exploitation of the obvious operating analogies which Quanta System SpA and El.En. SpA have with Asclepion (distribution, development and manufacture), we intend to reliance the activity by re-enforcing the role of the Group as market leader in Europe, with particular interest directed to the position of Asclepion on the Eastern European markets, particularly in consideration of its geographical location in ex East Germany.
The profit and loss account of Asclepion Laser Technologies GmbH has been consolidated starting in May 2003, and therefore affects the profit and loss account for only eight months.

On September 25th 2003 the subsidiary company Valfivre Italia Srl bought from third party an equity of 4% in Cutlite Penta Srl, formerly held by the parent company El.En. SpA for 53,50%. On account of this transaction, the percentage of the equity in Cutlite Penta Srl within the Group rises to 57,46%.

It should also be mentioned that on March 29th 2004 Valfivre Italia Srl acquired from a third party a further equity of 6% of the capital of Cutlite Penta bringing its investment in the company to 10%.

Moreover, in the month of October 2003 El.En. SpA, in accordance with the vote of the shareholders’ assembly of the subsidiary Deka Sarl, decided to cover the losses incurred by the company for the amount of their share and to reconstitute the capital stock of the company for 98% of the same.

It should also be mentioned that on January 19th 2004, El.En. SpA acquired control of Quanta System SpA (formerly an associated company) bringing to 60% its investment after the purchase of a further 30% of the shares of the company. Quanta System SpA moreover holds the remaining 50% of Asclepion Laser Technologies GmbH, the Germany company of which El.En. SpA already owned 50%, which had bought the cosmetic laser business from Carl Zeiss Meditec AG.
For the purchase of the majority share of Quanta System, El.En. SpA sold to Laserfin (the company which held the control of Quanta System) 10% of the subsidiary Deka M.E.L.A. Srl and 2,5% of the American subsidiary Cynosure Inc., besides paying Laserfin the amount of 1,5 million Euros, half a million of which was paid upon conclusion of the transaction, and the other million to be paid by mid-July 2004.

During this financial period, no variations took place in the activities of the companies belonging to the El.En.Group.

El.En. SpA possesses equities in other companies like Quanta System SpA e Immobiliare Del.Co. Srl, over which, however, it does not have control. The results of these latter have not been consolidated with the integral method into the statement for the Group, but have been evaluated with the shareholders' equity method. The equities which represent investments in associated companies are as follows:

| | | | Percentage held: | | | Consolidated |
|---|---|---|---|---|---|---|
| **Company name:** | **Headquarters** | **Subscr.capital** | **Direct** | **Indirect** | **Total** | **percentage** |
| Quanta System SpA | Milan | 364.000 | 30,00% | | 30,00% | 30,00% |
| Immobiliare Del.Co. Srl | Solbiate Olona (I) | 24.000 | 30,00% | | 30,00% | 30,00% |
| Asa Srl (1) | Arcugnano (I) | 46.800 | | 20,00% | 20,00% | 14,00% |
| Sona International Co. (*) | Chesapeake (USA) | no par value | | 40,00% | 40,00% | 24,00% |
| Sona Laser Centers Inc. (**) | Chesapeake (USA) | no par value | | 100,00% | 100,00% | 24,00% |
| | Florence | | | | | |
| Actis Active Sensors Srl | Firenze (I) | 10.200 | 12,00% | | 12,00% | 12,00% |
| M&E | Delaware (USA) | 9.924 | 50,00% | | 50,00% | 50,00% |

(1) held by Deka M.E.L.A. Srl
(*) held by Cynosure Inc.
(**) held by Sona International Co.

Moreover, since October 13th 2003, the subsidiary Deka M.E.L.A. Srl holds an equity of 20% in the ASA Srl company, a leading firm in the field of the manufacture of products for physical therapy and rehabilitation. Following this agreement, the long experience and traditions of two companies are joined with an aim to optimising the resources in terms of technical and commercial capacity in order to offer valid patented products to the market which make available new laser techniques for pain therapy, muscular and bone lesions and for the bio-stimulation used in the treatment of superficial lesions.

The equity in Actis Srl has been maintained at cost since the company is not yet operating and its inclusion in the area of consolidation would be irrelevant in terms of representing the economic and financial situation of the Group. The equity in M&E has been devaluated during 2001 for an amount of 4.962 Euros, which is equal to the original cost, in consideration of the fact that the company is inactive.

During this financial period no variations incurred in the activities of the companies belonging to the El.En Group.

## 17) REFERENCE DATA

The consolidated financial statement is prepared on the basis of the statements approved by the shareholder's assemblies, and when these are not available, on the basis of the planned statements closed on December 31st and approved by the Board of Directors. The statement for the Cynosure Group was consolidated starting on the date of acquisition.

## 18) PRINCIPLES OF CONSOLIDATION

The financial statements used for consolidation are the annual reports on the single companies. These statements are appropriately reclassified and rectified so that they will be consistent with the accounting principles and the evaluation

criteria used for the parent company, which are in conformity with those described in articles 2423 and following of the Civil Code.
In drawing up the consolidated statement, elements of assets and liabilities, as well as the income and expenses of the companies included in the consolidation, have been included in their entirety. On the other hand, amounts receivable and amounts owed, income and expenses, profit and loss which have originated from operations made between firms included in the consolidation, have been eliminated. The financial amount of equity investments in firms included in the consolidation is shown in relation to the corresponding fraction of heir shareholder's equity.

The difference between the financial value of the equity investments, which have been suppressed, and the corresponding amount of shareholder's equity which is taken up, is due to the fact that the consolidated shareholders' equity has been rectified under the heading "Consolidated reserves" or "Undivided profits". The amount of capital and reserves of the subsidiary companies which corresponds to equity investments by third parties has been entered under the heading of shareholder's equity in the column called "Capital and reserves of third parties"; the portion of the consolidated economic result which corresponds to equity investments by third parties has been entered under the heading of "Profit (loss) of third parties during the financial year".

# 19) CONVERSION OF THE ENTRIES EXPRESSED IN FOREIGN CURRENCY

The entries in the financial statement which are expressed in foreign currency have been converted using the "current rate" method. Consequently, the rate at the end of the period has been used for the entries in the Balance Sheet and the average exchange rate has been used for those in the Profit and Loss Account. The differences in rates which were generated by the conversion of the entries in the initial shareholders' equity at the current rate at the end of the period are entered in the shareholders' equity under the heading of "Conversion reserves". The exchange rate used for converting dollars to Euros for the Cynosure, Lasercut and Deka Laser Technologies statements are: final exchange rate:1,2630; average exchange rate 1,132.

# 20) EVALUATION CRITERIA

**a) General criteria**
The accounting principles and the evaluation criteria used have been applied uniformly to all the consolidated firms. The evaluation criteria used for the consolidated report are those used by the head company of the Group, El.En. SpA and they are in conformity with the laws now in force which have been cited above, integrated and interpreted by the Accounting Principals issued by the National Council of Certified Accountants (*Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri*). The evaluation of the entries in the financial statement is based chiefly of general criteria of competence and prudence with a view to the continuing activity of the company. For accounting purposes, prevalence has been given to the economic substance of the operations as opposed to their juridical form; as far as the financial activities are concerned, they are registered in the statement at the moment they are settled. The profits are included only if they have made by the time the financial year has closed, while risks and losses are taken into account, even if they became known at a later date. The heterogeneous elements included in the single entries of the report have been evaluated separately. Capital and reserve elements which are going to be used over a long period of time have been classified as assets.

**b) Value adjustments**
The value of material and immaterial and the consolidated statement for the financial year for some of the consolidated firms, there are entries which appear only for the purposes of conforming with tax laws, in particular early amortisations in excess of those necessary for splitting up the cost of the asset on the basis of what the estimated useful life of the asset itself is.

**c) Re-evaluations**
No re-evaluations have been made.

**d) Exceptions**
In this and in the past financial years no exceptions have been made as far as the criteria of evaluation is concerned for the legislation related to financial statements.

**e) Elimination of fiscal interference**
In the financial statements of some of the consolidated companies there are entries which have been formulated exclusively to satisfy tax legislation, in particular advance amortizations which exceed those necessary for the division

of the costs of the investments on the estimated lifetime for the use of the same. These entries have been eliminated at the consolidated level.

***Main principles and criteria are as follows:***

**f) Intangible fixed assets**

The intangible assets have been registered at the purchase price including accessory charges. The costs for set-up and enlargement have been entered under the specific heading for assets and amortizations covering a five year period. The industrial patent and utilisation rights for inventions have been entered at cost and have been amortised according to their legal restrictions and to their estimated future use. Costs for research and development and publicity have been entirely entered in the profit and loss account for the financial period in which they were sustained. Licences for brand names and patents have been entered into accounts at the purchase price and have been amortised at amounts which take into consideration the potential for their future use. Software has been entered at the purchase price and amortised in three years.
The difference from consolidation can be seen from the consolidated statement when the financial amounts of the equity investments are eliminated from the corresponding fractions of the shareholders' equity of the companies in which the investment is held.

**g) Tangible assets and amortisations**

Investments have been entered at the cost of purchase or manufacture, including accessory charges, net of amortizations.
Expenses for ordinary maintenance have been entirely entered in the profit and loss account. Maintenance expenses of an increasing nature have been attributed to the item to which they refer and amortised on the basis of the remaining possibility for use of the item itself.
The aliquots used for amortisation reduced to half for the first fiscal year, are shown in the chart which follows:

| *Description* | *Amortisation percentage* |
|---|---|
| *Land and buildings* | |
| - industrial structures | 3,00% |
| *Plants and machinery* | |
| - generic plants and machinery | 10,00% |
| - specific plants and machinery | 10,00% |
| - other plants and machinery | 15,50% |
| *Industrial and commercial equipment* | |
| - miscellaneous ad minute equipment | 25,00% |
| - kitchen equipment | 25,00% |
| *Other goods* | |
| - motor vehicles | 25,00% |
| - forklift | 20,00% |
| - electronic office equipment | 20,00% |
| - furniture and décor | 12,00% |

The early amortisations which are in excess of the useful life of the item entered on the financial statements of the individual consolidated companies have been eliminated from the consolidated financial statement.

**h) Financial investments**

*- Investments in subsidiary companies which are not consolidated or associated*

The assets which consist of equity investments in associated companies have been evaluated according to the shareholders' equity method, that is to say, for an amount which corresponds to the fraction of shareholders' equity shown on the last financial statement of the company itself, after subtraction of the dividends and the adjustments required by the principles applied for drawing up the consolidated statement.
Capital gains and capital losses from disposal of assets which are derived from the application of the shareholders' equity method are entered in the profit and loss account, respectively in the column "revaluation of equity investments" and "devaluation of equity investments", for the amount referring to the financial period; the difference related to the first application of the method is registered under the heading of shareholders' equity in the column Consolidation Reserves.

*- Other financial assets and investments*

All other financial assets and investments are evaluated at cost. In the case of long lasting losses, deriving also from the quotations on the stock market of the shares quoted, a suitable value adjustment is made and during the financial period in which the conditions for value adjustments are no longer viable, the value before devaluation will be put back again.

**i) Inventory**

*- Raw materials, work in progress and finished products*

Inventory is evaluated at the coat of purchase or of manufacture, whichever is less, including accessory charges, and the amount for which it can be sold in consideration of the present market trend. Stocks of obsolete items or those with a slow turn-over are devaluated bearing in mind the possibilities of reuse and sale. The cost system used is that which is called LIFO (last in, first out), calculated annually. Inventory of work in progress is evaluated on the basis of the cost of production.

**j) Accounts receivable**

Accounts receivable are shown at their presumed cashing-in value. This amount is obtained by direct value adjustment of the amounts, effected analytically for the larger sums and on a lump sum basis for the smaller amounts.

**k) Financial activity not constituting assets**

Stock is evaluated at the purchase price, or, in the case of stocks quoted on the stock market, at the selling price on the basis of the market trend, if it is less.

**l) Prepayments and accrued income**

The principle of temporal competence is implemented by aligning assets and liabilities of the prepayments and accrued income.

**m) Provisions for contingencies and liabilities**

Provisions for contingencies are entered among the liabilities on the Balance Sheet for the purpose of covering any potential liabilities charged to the company, the eventuality of which are felt to be probable on the basis of a realistic estimate. The product guarantee fund covers charges derived from a realistic estimate of the quantity of service given to products under warranty.

**n) Severance pay for dependent workers**

The accrual corresponds to the entire amount of severance pay which must be paid to dependent workers in accordance with laws now in force.

**o) Amounts owed**

Amounts owed are shown at nominal value.

**p) Contingencies, obligations and guarantees**

Obligations and guarantees are shown in the memorandum at their contract value. Risks for which a liability is probable are described in the explanatory notes and accrued according to consistent characteristics in the amounts provided for contingencies.

Contingencies for which a liability is only possible are described in the explanatory notes, without accruing funds in the provisions for contingencies, in accordance with the accounting principles being used. Risks which are only remotely possible are not considered.

**q) Recognition of income**

Income from the sales of products is recognised at the time that ownership is transferred, and this is normally considered to be the moment of delivery or shipment of the goods. Financial income is recognised on the basis of temporal competence.

**r) Accounts in foreign currency**

Accounts receivable and payable in foreign currency are evaluated at the rate of exchange at the end of the financial year. Profits and losses from conversion of currency are added or subtracted from the profit and loss account.

**s) Capital account**

In order to pay the expenses of research and development which is charged each year to the profit and loss account, the Company receives, mostly from the Ministry for Scientific Research, a free grant which is registered for the financial year in which it is issued. In the past, as was permitted by regulations at the time, the Company took advantage of the possibility of suspending these grants, either entirely or for 50%, in a Reserve of the Shareholders' equity. Since 1998 these funds have been entirely entered into the profit and loss account.

**t) Taxes**

Current tax reserves have been set aside according to present aliquots and laws in force, on the basis of a realistic estimate of taxable income and bearing in mind possible exemptions. Liability toward the internal revenue service for these taxes is entered in the balance sheet among the amounts owed to tax authorities net from advance payments.

Deferred tax funds have been set aside according to the differences of a temporary nature between assets and liabilities recognised for tax purposes and those on the balance sheets of the individual consolidated companies drawn up according to legal regulations and bearing in mind also the elimination of inter-Group losses or gains of the elimination of fiscal interference effected in consolidation; liabilities have been set aside in the provisions for taxes and the assets have been entered under the heading of "Accounts receivable from others" payable after the next financial year.

# Analysis of the different entries in the financial statement:

# Assets

## B) Fixed assets

### I – Intangible assets

The balance of intangible assets at the beginning and at the end of the financial year was composed as follows:

| Categories | Balance 31/12/2002 | Increments | Revaluation (Devaluation) | Other Operations | (Amortisations) | Translation Adjustments | Balance 31/12/2003 |
|---|---|---|---|---|---|---|---|
| Formation and expansion expenses | 743.914 | | | -2.754 | -370.416 | | 370.744 |
| Patents and rights to use patents of others | 425.085 | 5.939 | -16.815 | | -44.044 | -67.533 | 302.632 |
| Concessions, licences, trade marks and similar rights | 213.985 | 164.729 | | -27.384 | -105.235 | -17.805 | 228.290 |
| Goodwill | 179.121 | 80.101 | | | -67.229 | | 191.993 |
| Other | 107.018 | 21.281 | | | -61.999 | -2.197 | 64.103 |
| Intangible assets in progress and payments on account | | 6.992 | | | | | 6.992 |
| Difference from consolidation | 6.573.157 | 1.069.595 | | | -860.212 | | 6.782.540 |
| *Total* | **8.242.280** | **1.348.637** | **-16.815** | **-30.138** | **-1.509.135** | **-87.535** | **7.947.294** |

| | 31/12/2003 | | | 31/12/2002 | | |
|---|---|---|---|---|---|---|
| *Categories* | **Cost** | **(Amortizations)** | **Net value** | **Cost** | **(Amortisations)** | **Net value** |
| Formation and expansion expenses | 1.869.525 | 1.498.781 | 370.744 | 1.873.285 | 1.129.371 | 743.914 |
| Patents and rights to use patents of others | 402.685 | 100.053 | 302.632 | 481.094 | 56.009 | 425.085 |
| Concessions, licences, trade marks and similar rights | 412.146 | 183.856 | 228.290 | 292.606 | 78.621 | 213.985 |
| Goodwill | 379.803 | 187.810 | 191.993 | 299.702 | 120.581 | 179.121 |
| Other | 267.574 | 203.471 | 64.103 | 247.484 | 140.466 | 107.018 |
| Intangible assets in progress and payments on account | 6.992 | | 6.992 | | | |
| Difference from consolidation | 8.196.595 | 1.414.055 | 6.782.540 | 7.127.000 | 553.843 | 6.573.157 |
| *Total* | **11.535.320** | **3.588.026** | **7.947.294** | **10.321.171** | **2.078.891** | **8.242.280** |

| *Description* | Past cost | Accumulated amortisations | Residual value |
|---|---|---|---|
| Year 1995 - Formation and expansion expenses | 1.653 | 1.653 | |
| Year 1996 - Formation and expansion expenses | 14.459 | 14.459 | |
| Year 1997 - Formation and expansion expenses | 1.329 | 1.329 | |
| Year 2000 - Formation and expansion expenses | 1.850.450 | 1.480.360 | 370.090 |
| Year 2001 - Formation and expansion expenses | 1.634 | 980 | 654 |
| *Total* | **1.869.525** | **1.498.781** | **370.744** |

The amount shown under the item "costs of formation and expansion" consists for the most part, of the capitalisation of the amounts paid by the Parent Company, El.En. SpA, during the financial period 2000, for quotation on the new stock market (*Nuovo Mercato*). These costs will be amortised in five years. The period of amortisation therefore will end during the financial year now in progress.

The entry under the heading of “Patents and rights to patents of others” are related to the capitalisation of the costs paid by our subsidiary Cynosure Inc. for some patents and license agreements, and are amortised on the basis of their legal bonds and the evaluation of their future usefulness.

Under the heading of “Concessions, licenses, trade marks and similar rights” we have entered the total costs sustained by El.En. SpA for the purchase of new management and administrative software the implementation of which was concluded by the end of 2002. Under the same heading we have entered the relative costs incurred by the same company for a license related to a patent for a safety device to be applied to laser systems.

The amount shown under the entry “start-up” for 119 thousand Euros refers to the price paid by the subsidiary company Deka Lms GmbH in 2001 for the distribution activity of medical equipment in Germany, net of the amortisation fund. The entry for 73 thousand Euros for the price paid in 2003 for the start up of the subsidiary Asclepion Laser Technologies GmbH for the purchase of the dermatological and dental business activities which belonged to Carl Zeiss Meditec.
The amount indicated for December 31st 2003, under the heading “difference at consolidation”, on the other hand, is the consequence of the purchase made by the Parent Company of 51,55% of the German company during 2001 and the later acquisition of a quota equal to 24,61% which occurred in April of 2003, this amount represents the difference between the purchasing price and the value of the shareholder’s equity quoted at the time of purchase. The period of amortisation used for both entries is based on the period of time of 5 years.

The “difference in consolidation” also includes the amount used for the purchase during 2002 of 60% of Cynosure by the Parent company, and represents the difference between the purchase price and the value of consolidated the shareholders’ equity of Cynosure in force on the date of the transaction. The amortisation period is estimated for a ten year period in which the company can benefit from the market position and the know-how acquired from the above mentioned transaction.
Moreover, it includes as an operative increment, among other things, the amount which was a result of the cost of acquisition by the Parent Company of 70% of Lasercut Inc. and represents the difference between the cost of purchase and the shareholders’ equity in effect on the date of the transaction. The period of amortisation applied is estimated for a ten year period in which the company can benefit from the market position and the know-how acquired from the above mentioned transaction.

Under the heading of “intangible assets now in progress” we have entered the costs sustained by the Parent company for the purchase of a special additional managerial and administrative software which, at the end of this year was still being installed.

## *II – Fixed assets*

Changes which took place in the fixed assets during the financial year are shown below:

| *Cost* | Balance 31/12/2002 | Increments | Revaluations and devaluations | Other operations | (Disposals) | Translation Adjustments | Balance 31/12/2003 |
|---|---|---|---|---|---|---|---|
| Land and buildings | 2.939.697 | 31.717 | | | | | 2.971.414 |
| Plants and machinery | 688.964 | 141.584 | | 12.805 | | -23.679 | 819.674 |
| Industrial and commercial equipment | 7.363.958 | 1.602.033 | | 348.495 | -444.270 | -904.501 | 7.965.715 |
| Other goods | 3.431.499 | 600.923 | | -134.770 | -215.358 | -182.835 | 3.499.459 |
| Tangible assets under construction | 235.439 | 1.064.111 | | | | | 1.299.550 |
| *Total* | **14.659.557** | **3.440.368** | | **226.530** | **-659.628** | **-1.111.015** | **16.555.812** |

| *Amortisation provisions* | Balance 31/12/2002 | Amortizations amount | Devaluations | Other operations | (Disposals) | Translation Adjustments | Balance 31/12/2003 |
|---|---|---|---|---|---|---|---|
| Land and buildings | 481.929 | 88.667 | | -1 | | | 570.595 |
| Plants and machinery | 350.350 | 73.738 | | 1.353 | 1 | -23.214 | 402.228 |
| Industrial and commercial equipment | 4.953.877 | 1.358.972 | 1 | 125.826 | -232.778 | -748.001 | 5.457.897 |
| Other goods | 2.677.089 | 372.070 | 1 | 137.223 | -214.603 | -146.134 | 2.825.646 |
| Tangible assets under construction | | | | | | | |
| *Total* | **8.463.245** | **1.893.447** | **2** | **264.401** | **-447.380** | **-917.349** | **9.256.366** |

| Net value | Balance 31/12/2002 | Increments | Revaluations and other operations | (Amortisations and devaluations) | (Disposals) | Translation Adjustments | Balance 31/12/2003 |
|---|---|---|---|---|---|---|---|
| Land and buildings | 2.457.768 | 31.717 | 1 | -88.667 | | | 2.400.819 |
| Plants and machinery | 338.614 | 141.584 | 11.452 | -73.738 | -1 | -465 | 417.446 |
| Industrial and commercial equipment | 2.410.081 | 1.602.033 | 222.669 | -1.358.973 | -211.492 | -156.500 | 2.507.818 |
| Other goods | 754.410 | 600.923 | -271.993 | -372.071 | -755 | -36.701 | 673.813 |
| Tangible assets under construction | 235.439 | 1.064.111 | | | | | 1.299.550 |
| *Total* | **6.196.312** | **3.440.368** | **-37.871** | **-1.893.447** | **-212.248** | **-193.666** | **7.299.446** |

The heading "Other goods" refers to those assets which were varied by the changes in the area of consolidation and to the reclassification made by the subsidiary Cynosure of some of the asset positions in their balance sheet.

The most valuable single item is the real estate property in Via Baldanzese in Calenzano where the parent company and three of the subsidiaries are based. The equipment owned by our subsidiary Cynosure also becomes an important entry under this heading, and includes laser systems used for sales demonstrations and for rentals, and for revenue sharing.

Investments in tangible assets include, for the most part, equipment for sales demonstrations and clinical experimentation for the medical-cosmetic sector, the replacement of laboratory equipment and new hardware required for additional personnel. Under the heading of "tangible assets under construction" we have entered the costs sustained by the parent company for the remodelling of the buildings which are part of the property located in Via Baldanzese which was still in progress at the end of this year. Under this heading we have also entered as an operating increment, the sum paid by the Parent company for the purchase of the building where Lasercut operates for approx. 800 thousand dollars which is equivalent to approx. 633 thousand Euros. The purchase transaction for the building was concluded in March of 2004.

In the chart for amortisation funds, the amount entered under the heading "other movements" is related to the cost of material goods for a value of under one million, as indicated by art. 67, as part of the profit and loss account for the financial period among the business expenses, and therefore not included among the amortisations.

As in the chart of the original costs, that for the amortisation funds in the column headed "Other goods" shows the increases which took place after the variation in the area of consolidation.

The aliquots used for the amortisation, which correspond to the ordinary and fiscal ones, are commensurate with the period referred to.

## *III - Equity investments*

The following chart shows the analysis of the financial investments:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| ***Equity investments in:*** | | | | |
| associated companies | 1.430.211 | 717.483 | 712.728 | 99,34% |
| other companies | 337.863 | 171.953 | 165.910 | 96,49% |
| ***other equity investments*** | 76.709 | 76.709 | 0 | 0,00% |
| *Total* | 1.844.783 | 966.145 | 878.638 | 90,94% |

The increase shown for the heading "associated companies" is related for the amount of approx. 304 thousand Euros to the partial reconstitution of the equity in Sona International Co. (which had been cancelled during 2002) made by Cynosure after the positive results obtained during this financial period, and for the amount of 385 thousand Euros at the price paid by the subsidiary Deka M.E.L.A. Srl for the purchase of 20% of ASA Srl as illustrated in the introductory portion of this Appendix.

The increase registered under the heading of "other companies" is derived, among other things, from the transaction made by the Parent company, El.En. SpA on the Piedmontese company, R.T.M. SpA: after the cancellation of 156 thousand Euros which was made necessary after the vote of R.T.M. SpA to use the capital to pay off the debts incurred, El.En. participated in the re-capitalisation of the company by depositing 245 thousand Euros which now represents the cost of the equity entered among the assets. In order to facilitate the investment and lighten the financial obligation of a company entirely dedicated to research like RTM, during the first months of 2004, 115.000 shares were sold at the same conditions for the same amount at which they had been purchased, to Gengroup Srl and to the subsidiary Quanta System SpA, in this way involving from a financial point of view two partners operating in the activities of RTM itself. For this reason it was deemed necessary, for the creation of this document, to reclassify among the "Financial activities which do not constitute investments". The amount corresponding to the sale of the shares mentioned above for the sum of 115 thousand Euros. Therefore, the amount entered under the heading of "Financial investments" is for approx. 130 thousand Euros, which is equal to 16,78% of the capital of R.T.M. SpA.

For the associated companies consolidated with the capital and reserves method, the break-down is shown on the following chart:

| | Past Cost | Amount C.R. on 31/12/2002 | Variation during the year | Amount C.R. on 31/12/2003 |
|---|---|---|---|---|
| Quanta System SpA | 129.710 | 447.988 | 62.140 | 510.128 |
| Immobiliare Del.Co. Srl | 274.200 | 268.255 | -4.145 | 264.110 |
| Asa Srl | 385.000 | 0 | 350.614 | 350.614 |
| Sona International Co. | | | 304.119 | 304.119 |
| | 788.910 | 716.243 | 712.728 | 1.428.971 |

Moreover, SONA International Co. has been consolidated using the capital and reserves method by Cynosure Inc. which owns 40% of it.

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Securities | 76.709 | 76.709 | 0 | 0,00% |
| Italian bonded securities | | | 0 | 0,00% |
| *Total* | 76.709 | 76.709 | 0 | 0,00% |

The other CCT stocks which fall due on April 1st, 2004 and are bound as a personal guarantee used for obtaining facilitated financing granted by MURST and paid by IMI; comparison with market value made on the date of this report shows a capital gains with respect to the charge values.

***Financial charges for amounts entered among the assets for this financial period***
No financial charges were entered under the assets for this financial period.

# *C) Current assets*

## *I -Inventory*

Break-down of inventory is a follows:

| *Stocks:* | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Raw materials and consumables | 9.197.844 | 6.963.383 | 2.234.461 | 32,09% |
| Work in progress and semi finished products | 4.292.001 | 3.625.574 | 666.427 | 18,38% |
| Finished products and goods for sale | 6.437.349 | 4.159.568 | 2.277.781 | 54,76% |
| Payments on account | 67.936 | 37.891 | 30.045 | 79,29% |
| *Total* | 19.995.130 | 14.786.416 | 5.208.714 | 35,23% |

The chart below shows a summary of the inventory of raw materials:

| Raw material: | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Optical components | 1.572.325 | 1.204.241 | 368.084 | 30,57% |
| Electrical and electronic components | 3.889.305 | 3.139.501 | 749.804 | 23,88% |
| Mechanical components | 3.011.005 | 2.367.507 | 643.498 | 27,18% |
| Hydraulic components | 414.167 | 344.601 | 69.566 | 20,19% |
| Empty cases | 125.407 | 122.558 | 2.849 | 2,32% |
| Various materials | 448.707 | 493.710 | -45.003 | -9,12% |
| Fitting and fixtures | 518.461 | 408.824 | 109.637 | 26,82% |
| Laser sources | 2.552 | 34.606 | -32.054 | -92,63% |
| minus: devaluation provision | -784.085 | -1.152.164 | 368.079 | -31,95% |
| *Total* | 9.197.844 | 6.963.383 | 2.234.461 | 32,09% |

The comparison between the final inventory of raw materials for the first two financial periods shows their considerable increase, which is mainly due to the acquisition of Lasercut Inc. and Asclepion Laser Technologies GmbH in the area of consolidation, as well as to the increase in the volume of production as far as the parent company El.En. is concerned.

On 31/12/2003 the fund for obsolescence of raw materials amounted to approx. 784 thousand Euros.

Analysis of the inventory of semi-finished pieces is as follows:
P_08b-T

| Semi finished products | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| High voltage power supplies | 458.590 | 362.559 | 96.031 | 26,49% |
| Assembled electronics boards | 321.592 | 302.535 | 19.057 | 6,30% |
| Mechanical units | 308.409 | 261.635 | 46.774 | 17,88% |
| Electrical units | 214.071 | 189.142 | 24.929 | 13,18% |
| Hydraulic units | 53.317 | 35.539 | 17.778 | 50,02% |
| Laser cavities and half-assembled sources | 96.133 | 48.968 | 47.165 | 96,32% |
| Systems being assembled | 2.876.330 | 2.459.266 | 417.064 | 16,96% |
| minus: devaluation provision | -36.441 | -34.070 | -2.371 | 6,96% |
| *Total* | 4.292.001 | 3.625.574 | 666.427 | 18,38% |

The sharp increase in the quantity of semi-finished products is due to the presence of Cynosure in the area of consolidation, and to the company of policy of jobbing out the simplest parts of the manufacturing process, which includes consigning to jobbers the work of assembling products from kits.

As of 31/12/2003 the fund for obsolescence of products under construction in progress was approx. 36 thousand Euros.

The charter below is a summary of the inventory of finished products:

| Finished products: | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Medical lasers | 3.133.054 | 2.417.226 | 715.828 | 29,61% |
| Industrial laser sources | 145.158 | 138.405 | 6.753 | 4,88% |
| Medical fittings and accessories | 573.091 | 224.166 | 348.925 | 155,65% |
| Other medical accessories | 1.187.259 | 1.148.612 | 38.647 | 3,36% |
| Industrial laser systems | 1.771.419 | 573.329 | 1.198.090 | 208,97% |
| minus: devaluation provision | -372.632 | -342.170 | -30.462 | 8,90% |
| *Total* | 6.437.349 | 4.159.568 | 2.277.781 | 54,76% |

The increase in the inventory of finished products is in part due to the entry of Lasercut Inc., Deka Laser Technologies LLC and Asclepion Laser Technologies GmbH into the area of consolidation.

As of 31/12/2003 the fund for obsolescence of finished products was approx. 372 thousand Euros.

The LIFO reserve at the end of this year was equivalent to approx.193 thousand Euros.

## *II – Accounts receivable*

***Break-down of accounts receivable***

Debtors can be analysed as follows:

| Debtors: | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Trade debtors | 15.623.354 | 15.718.753 | -95.399 | -0,61% |
| Amounts owed by non-consolidated associated companies | 417.619 | 62.157 | 355.462 | 571,88% |
| Other debtors | 4.395.587 | 3.043.984 | 1.351.603 | 44,40% |
| *Total* | 20.436.560 | 18.824.894 | 1.611.666 | 8,56% |

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Clients in Italy | 6.180.553 | 9.611.513 | -3.430.960 | -35,70% |
| EC clients | 5.087.519 | 2.012.610 | 3.074.909 | 152,78% |
| Clients outside of EC | 5.213.097 | 5.384.755 | -171.658 | -3,19% |
| minus: devaluation provision for debtors | -857.815 | -1.290.125 | 432.310 | -33,51% |
| *Total* | 15.623.354 | 15.718.753 | -95.399 | -0,61% |

Accounts receivable from associated companies which are not consolidated are related to a no-interest financing loan granted to Quanta System SpA for 6.973 Euros, a short-term no-interest loan granted to Immobiliare Del.Co. Srl for 13.565 Euros, a short term financing granted to Actis Srl for the amount of 40.000 Euros at the rate of 5% per annum, commercial receivables from Quanta System SpA for 125.912 Euros, from ASA for 32.443 Euros, from Actis Srl for 630 Euros and from Sona International for 182.200 Euros.

Accounts receivable from clients in EU countries have increased considerably in part due to the effects of the rise in the sales volume for these countries.

***Break-down of the other receivables***

Other receivables can be divided as follows:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| becoming payable within the next fiscal year | | | | |
| Short-term and low financial operations | | | | |
| IRPEG and IRAP credits | 571.962 | 369.233 | 202.729 | 54,91% |
| VAT credits | 1.878.591 | 1.164.072 | 714.519 | 61,38% |
| Security deposits | 78.822 | 50.851 | 27.971 | 55,01% |
| Prepayments to suppliers | 330.942 | 144.520 | 186.422 | 128,99% |
| Other credits | 304.348 | 414.650 | -110.302 | -26,60% |
| *total becoming payable within the next fiscal year* | 3.164.665 | 2.143.326 | 1.021.339 | 47,65% |
| becoming payable after the next fiscal year | | | | |
| SP tax account | 8.660 | 14.575 | -5.915 | -40,58% |
| Insurance policy TFM | 208.136 | 182.136 | 26.000 | 14,28% |
| Credits for advanced taxes | 962.559 | 643.642 | 318.917 | 49,55% |
| Other credits | 51.567 | 60.305 | -8.738 | -14,49% |
| *total becoming payable after the next fiscal year* | 1.230.922 | 900.658 | 330.264 | 36,67% |
| *Total* | 4.395.587 | 3.043.984 | 1.351.603 | 44,40% |

The financial year ended with a Value Added Tax (IVA) credit for 1.873.084 Euros due to the intense export activity. The tax credit was due mainly to the difference between the deposits paid and the tax debt which had matured.

Among the receivables which become due within 5 years, we have entered 8.660 Euros as a deposit on the TFR taxes, 208.136 Euros as a receivable from Reale Mutua insurance company to cover the TFM (end-of-term bonus) of executives and 962.560 Euros as receivables for prepaid taxes.

***Amounts receivable after more than five years***

No amounts receivable after more than five years are entered on the balance sheet.

## *III – Financial activities other than investments*

Financial activities other than investments are shown on the chart below:

| *Investments which are not permanent:* | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| treasury stock | 354.104 | 374.163 | -20.059 | -5,36% |
| other equity investments | 115.000 | | 115.000 | 0,00% |
| other investments | 78.004 | 78.004 | 0 | 0,00% |
| *Total* | 547.108 | 452.167 | 94.941 | 21,00% |

The heading "Treasury stock" includes treasury stock possessed by the parent company, El.En. SpA for 255.937 Euros and treasury stock owned by our subsidiary Cynosure Inc. for an amount equal to 98.167 Euros. In particular, the Board of Directors of the parent company, El.En. SpA, following the vote of approval of the Assembly held on April 14th 2002, up until December 31st 2002, proceeded with the purchase of 22.714 shares at the average price of 11,2678 Euros. The shares, consequently, have been entered into accounting at this price, which represents a cautious evaluation since on March 31st 2003, their market price was approx. 15 Euros.

The amount shown under the heading of "Other investments" refers to the amount of the nominal value of the shares of RTM SpA which were sold to Gengroup and Quanta System SpA during the first months of this year, as already explained in the paragraphs related to financial investments.

The amount shown under the heading of "Other investments" refers to a temporary use of cash by our subsidiary, Lasit Srl, for approx. 78 thousand Euros.

## *IV Cash at bank and on hand*

Cash at bank and on hand is composed as follows:

| *Cash at Bank and in hand:* | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| bank and postal current accounts | 16.728.704 | 27.034.672 | -10.305.968 | -38,12% |
| cash in hand | 10.825 | 15.895 | -5.070 | -31,90% |
| *Total* | 16.739.529 | 27.050.567 | -10.311.038 | -38,12% |

The decrease in the amount of cash is due mainly to operations of an extraordinary nature, like the final payment for the Cynosure shares for approx. 1.346 thousand Euros, the purchase of Lasercut Inc. for approx. 467 thousand Euros, the payment of a deposit on the building where it operates for 747 thousand Euros, the purchase of 26% of the shares of Deka LMS GmbH for the amount of 520 thousand Euros, the purchase of 20% of ASA Srl for the amount of 385 thousand Euros, the purchase of the Asclepion activities for the amount of 1,5 million Euros, half of which was paid by El.En. SpA and half by Quanta System SpA which came into the Group in January of 2004. Moreover, dividends were distributed by El.En. SpA for 1.144 thousand Euros and by Deka M.E.L.A. Srl for 124 thousand Euros.

# D) Prepayments and accrued income assets

Composition of prepayments and accrued assets is as follows

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| *Assets of accruals:* | | | | |
| Interests | 632 | 935 | -303 | -32,41% |
| Other assets of accruals | 13.410 | 3.356 | 10.054 | 299,58% |
| *Total assets of accruals* | 14.042 | 4.291 | 9.751 | 227,24% |
| *Assets of deferred incomes:* | | | | |
| Premiums | 98.169 | 8.626 | 89.543 | 1038,06% |
| Prepaid expenses | 8.409 | 26.881 | -18.472 | -68,72% |
| Other assets of deferred incomes | 290.792 | 115.911 | 174.881 | 150,88% |
| *Total assets of deferred incomes* | 397.370 | 151.418 | 245.952 | 162,43% |
| *Total* | 411.412 | 155.709 | 255.703 | 164,22% |

The amounts entered among  the prepayments and accrued income assets according to the accounting principles being used, do not represent phenomenon of particular interest or importance for the activity of the company.

# LIABILITES

## A) Shareholders' equity

***Break-down of shareholders' equity***

The chart below shows the main changes which have occurred in the shareholders' equity accounts during the past two financial period:

| NET CAPITAL AND RESERVES: | Balance 31/12/2001 | Net income allocation | Dividends distributed | Other operations | Balance 31/12/2002 |
|---|---|---|---|---|---|
| Subscribed capital | 2.392.000 | | | | 2.392.000 |
| Share premium account | 34.210.711 | | | -255.937 | 33.954.774 |
| Legal reserve | 267.626 | 139.267 | | | 406.893 |
| Reserve for own shares | | | | 255.937 | 255.937 |
| Others reserves: | | | | | |
| Extraordinary reserves | 2.427.109 | 1.726.073 | | 1 | 4.153.183 |
| Reserve for contribution on capital account | 426.657 | | | | 426.657 |
| Profits of subsidiaries and associated in previous years | 1.592.654 | -509.971 | | 252.974 | 1.335.657 |
| Reserve of consolidation | 1.456.630 | | | -51.978 | 1.404.652 |
| Reserve for translation adjustments | 4 | | | -906.860 | -906.856 |
| Profits (loss) brought forward | | 920.000 | -920.000 | | |
| Profits (loss) of the year | 2.275.369 | -2.275.369 | | 2.131.050 | 2.131.050 |
| *Net total Capital and reserves of the group* | 45.048.760 | - | -920.000 | 1.425.187 | 45.553.947 |
| Capital and reserves of third parties | 1.349.987 | 358.721 | -123.000 | 3.895.432 | 5.481.140 |
| Profit (loss) of third parties | 358.721 | -358.721 | | 732.483 | 732.483 |
| *Net total capital and reserves of third parties* | 1.708.708 | - | -123.000 | 4.627.915 | 6.213.623 |
| *Net total capital and reserves* | 46.757.468 | - | -1.043.000 | 6.053.102 | 51.767.570 |

| NET CAPITAL AND RESERVES: | Balance 31/12/2002 | Net income allocation | Dividends distributed | Other operations | Balance 31/12/2003 |
|---|---|---|---|---|---|
| Subscribed capital | 2.392.000 | - | - | 10.992 | 2.402.992 |
| Share premium account | 33.954.774 | - | - | 251.342 | 34.206.116 |
| Legal reserve | 406.893 | 130.408 | - | 1 | 537.302 |
| Reserve for own shares | 255.937 | - | - | - | 255.937 |
| Others reserves: | | | | | |
| Extraordinary reserves | 4.153.183 | 1.333.435 | - | - | 5.486.618 |
| Reserve for contribution on capital account | 426.657 | - | - | - | 426.657 |
| Profits of subsidiaries and associated in previous years | 1.335.657 | -477.115 | - | -1.846 | 856.696 |
| Reserve of consolidation | 1.404.652 | - | - | -133.977 | 1.270.675 |
| Reserve for translation adjustments | -906.856 | - | - | -843.706 | -1.750.562 |
| Profits (loss) brought forward | - | 1.144.322 | -1.144.322 | - | - |
| Profits (loss) of the year | 2.131.050 | -2.131.050 | - | 553.954 | 553.954 |
| *Net total Capital and reserves of the group* | 45.553.947 | - | -1.144.322 | -163.240 | 44.246.385 |
| Capital and reserves of third parties | 5.481.140 | 732.483 | -124.000 | -431.563 | 5.658.060 |
| Profit (loss) of third parties | 732.483 | -732.483 | - | 45.144 | 45.144 |
| *Net total capital and reserves of third parties* | 6.213.623 | - | -124.000 | -386.419 | 5.703.204 |
| *Net total capital and reserves* | 51.767.570 | - | -1.268.322 | -549.659 | 49.949.589 |

The shareholders' Assembly of the parent company El.En. held on May 15$^{th}$ 2003 voted to distribute the profits from the financial year 2002 as follows: 130.408,25 Euros as legal reserve, 1.333.435,25 Euros as extraordinary reserve, and the remaining 1.144.321,50 Euros as dividends.

After the operations with which El.En acquired treasury stock, a reserve was set aside for an amount equal to that of the shares which had been purchased. The reserve for treasury stock in the portfolio is an inaccessible reserve which will be maintained until the treasury stock is sold or cancelled.

The difference in the exchange rate which is derived from the entries for the net assets on the date of acquisition (Lasercut Inc.), on the date of founding (Deka Laser Technologies LLC) and on December 31st 2002 (Cynosure Inc.) with respect to the rate in force at the end of this financial year has been entered directly into the consolidated shareholders' equity under the heading of "Conversion Reserves"; this entry also includes the conversion of the result of the financial year entered into the profit and loss account of the same company (evaluated at the average conversion rate) at the rate at the end of the year.

***Composition of Capital***

The special assembly of July 7th 2000 voted to authorise, in accordance with art. 2443 of the Civil Code, to the Board of Directors, for a period of up to five years from the date of the deliberation, to increase one or more times with payment, the Capital Stock of he company for a maximum nominal sum 124.800 Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each, to be made available at a price which will be determined by the Board of Directors, and bearing in mind the rules described in comma 6 of art. 2441 of the Civil Code, and considering the shareholders' equity and/or price of sale to the public and/or the average of the official prices which are registered by the shares on the market in the period of time before the assignment of rights of option which will be described in the regulations governing the incentive plans.

On November 3rd 2000 the Board of Directors voted to partially implement the motion approved by the Assembly of Shareholders on July 7th 2000 to increase Capital Stock to 2.412.846 Euros for use in the stock option plan for 2001/2003 and approving the regulations proposed in this regard. The option rights are granted exclusively to the executives, employees and workers within the Group who, at the moment of the grant are working for the company in a subordinate position. The above mentioned plan is divided into three sections, one for each year, and the option rights for underwriting new ordinary shares can be exercised by the grantees from September 1st to September 30th of each year for the period under consideration, and they are not negotiable. According to the plan 1.,363 options will available each year. During the years 2001, 2002 and 2003 no option rights were exercised.

The next extraordinary assembly, held on July 16th 2002, voted to revoke, for the part of the proxy of the assembly vote of July 7th, 2000 which had not been exercised, and which amounted to 199.911 options, the faculty granted by the Board of Directors to proceed with the increase of the Capital Stock , according to the procedure just described.

The same extraordinary assembly of July 16th 2002, also voted, in accordance with Art. 2443 of the Civil Code, to allow the Board of Directors, for a period of five years maximum from the date of the vote, to increase in one or more payments, the Capital Stock of the company for the nominal sum of 124.800 Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each, with usufruct equal to that of the ordinary shares of the company on the date of underwriting, to be acquired through payment of a price which will be determined by the Board of Directors, in accordance with art. 2441, comma VI, of the Civil Code, - i.e., on the basis of the value of the shareholders' equity, bearing in mind the performance of the stock quoted in the stock market during the preceding six months - and a unit value, including additional paid-in capital in excess of par value, equal to the amount of whichever of the following is the greatest: a) the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group on December 31st of the year preceding the issuing of the options; b) the mathematical average of the official prices registered by the ordinary shares of the company on the New Stock Market organised and managed by Borsa Italiana SpA during the six months preceding the assignment of the options; c) the mathematical average of the official prices registered by the ordinary shares of the company on the New Stock Market organised and managed by Borsa Italiana SpA during the 30 days preceding the assignment of the options; d) the mathematical average of the official prices registered by the ordinary shares of the company on the New Stock Market organised and managed by Borsa Italiana SpA during the period of time preceding the assignment of the options and determined by the Board of Directors in the rules for the incentive plan.

On September 6th 2002, the Board of Directors voted to implement in part the proxy approved by the stock holders' assembly on July 16th 2002, voting to increase the Capital Stock to 31.817,76 Euros for use in the 2003/2004 stock options plan and approving the relative regulations. The option rights are assigned exclusively to the executives, managers and office employees who at the time of the assignment are working in a subordinate position for the Group. This plan is organised in two sections, one for each year; the first section, for a maximum of 30.600 shares, can be opted by the assignees from Novembre 18th to December 31st, 2003, from August 15th to September 30th, 2004 and from November 18th to December 31st , 2004; the second section , for a maximum of 30.588 shares can be opted by the assignees from August 15th to September 30th 2004, and from November 18th until December 31st 2004.

With reference to this vote, related to the first portion of 30.600 shares for the period from November 18th 2003 to December 31st 2003, 21.139 option rights were exercised with a consequent increase in the underwritten and fully paid in capital stock of 10.992,28 Euros.

Lastly, on November 13th 2003, the Board of Directors voted to partially activate the decision of the shareholders' assembly to increase the Capital Stock by 13.145,60 Euros for use in the stock option plan for a 2004/2005 and approved the relative regulations. The option rights were assigned exclusively to Directors, Managers and employees of the Group who at the moment of the assignment were working in a subordinate position. This plan is divided into two phases, one for each year. The first phase, for a maximum of 12.640 shares, can be implemented by those having the rights from November 18th to December 31st 2004, from August 15th to September 30th 2005, and from November 18th to December 31st 2005.; the second phase, for a maximum of 12.640 shares can be implemented by those having the rights from August 15th to September 30th 2005, and from November 18th to December 31st 2005.

Following this vote, the capital stock of El.En. SpA as of December 31st 2003 is as follows:

| | | |
|---|---|---|
| Authorised | euro | 2.436.963 |
| Underwritten and deposited | euro | 2.402.992 |

| | |
|---|---|
| ***Nominal value of each share*** | ***0,52*** |

| *Categories* | **31/12/2002** | **Increase.** | **(Decrease.)** | **31/12/2003** |
|---|---|---|---|---|
| No. of Ordinary Shares | 4.600.000 | 21.139 | | 4.621.139 |
| *Total* | **4.600.000** | **21.139** | | **4.621.139** |

The shares are nominal and indivisible, and each of them gives the holder the right to one vote in the ordinary and extraordinary assemblies, as well as the financial and administrative rights granted in accordance to the law and company statutes. At least 5% of the net operating profits must be set aside for the legal reserve in accordance with art. 2430 of the Civil Code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The company statutes do not permit advance payments on the dividends. Dividends which have not been cashed in within fifteen years of the date of emission will be returned to the company. There are no special clauses in the statutes related to the participation of the shareholders in the remaining assets in case the company is dissolved. No clauses in the statutes grant particular privileges.

All reserves which are part of the shareholders' equity are freely available for assembly votes for distribution except for those with specific limitations in accordance with the civil code.

***Other reserves***

Reserves for payments on capital account are broken down as follows:

| | **31/12/2003** | **31/12/2002** | **Variation** | **Var. %** |
|---|---|---|---|---|
| DIFF3 contribution on capital account | 150.659 | 150.659 | | 0,00% |
| CESVIT contribution on capital account | 3.099 | 3.099 | | 0,00% |
| CCIAA contribution on capital account | 3.892 | 3.892 | | 0,00% |
| EU contribution on capital account | 269.007 | 269.007 | | 0,00% |
| *Total* | 426.657 | 426.657 | | 0,00% |

***Chart comparing the financial statement of the Parent Company with the consolidated statement***

| | **Profit and loss account 31/12/2003** | **Capital and reserves 31/12/2003** | **Profit and loss account 31/12/2002** | **Capital and reserves 31/12/2002** |
|---|---|---|---|---|
| **Balance as per statement of the parent company El.En.** | **1.732.650** | **45.048.273** | **2.608.165** | **44.197.614** |
| Elimination of investments in: | | | | |
| Companies totally consolidated | -134.819 | -7.599.868 | 328.168 | -5.294.082 |
| Companies consolidated with the shareholders' equity method | 33.926 | 346.258 | 55.104 | 312.333 |
| Goodwill arising from consolidation | -860.212 | 6.782.540 | -506.755 | 6.573.157 |
| Elimination of dividends for the financial period | -386.000 | | -287.000 | |
| Elimination of internal profits on warehouse stock | -330.989 | -841.371 | -182.818 | -510.382 |
| Elimination of internal profits from sales of material assets | 20.476 | -62.415 | -72.130 | -82.891 |
| Value adjustments on equity investments | 408.100 | 325.012 | 133.991 | 161.286 |
| Effect of early amortisations | 101.221 | 339.563 | 74.901 | 238.342 |
| Other | -30.399 | -91.607 | -20.576 | -41.430 |
| **Balance as per consolidated statement – Group quota** | **553.954** | **44.246.385** | **2.131.050** | **45.553.947** |
| **Balance as per consolidated statement – Third party quota** | **45.144** | **5.703.204** | **732.483** | **6.213.623** |
| **Balance as per consolidated statement** | **599.098** | **49.949.589** | **2.863.533** | **51.767.570** |

(*) net of relative fiscal effects

The chart above shows the positions which permit a comparison between the Parent company, El.En. SpA and the consolidated statement of the Group. Among these, the "difference in consolidation" which shows the entries for the amortizations made on the differences in consolidation related to Cynosure, Lasercut, Deka Lms GmbH and Asclepion should be noted; the entry called "elimination of the year's dividends" is related to the dividends distributed by Deka M.E.L.A. Srl e for the extraordinary distribution made by Valfivre Italia Srl; the entry "rectification of value on equities" concerns the elimination of the value rectifications made in compliance with civil law by the companies of the Group. Moreover, the leasing effect was not determined as it was considered immaterial.

# *B) Provisions for contingencies and other liabilities*

The following chart shows the changes that occurred in these funds during the last financial period:

| | **Balance 31/12/2002** | **Provision** | **(Utilisation)** | **Other** | **Translation Adjustments** | **Balance 31/12/2003** |
|---|---|---|---|---|---|---|
| Pension costs and similar | 301.136 | 65.698 | -1.539 | | | 365.295 |
| For taxation | 592.242 | 108.364 | -23.263 | | | 677.343 |
| *Others:* | | | | | | |
| Reserve for guarantee on the products | 918.921 | 476.044 | -9.502 | 19.003 | -180.545 | 1.223.921 |
| Reserve for risks and charges | 380.361 | 59.463 | -323.269 | | -57.092 | 59.463 |
| Other minor reserves | 366.504 | - | - | | | 366.504 |
| *Total other reserves* | 1.665.786 | 535.507 | -288.893 | 19.003 | -237.637 | 1.649.888 |
| *Total* | 2.559.164 | 709.569 | -357.573 | 19.003 | -237.637 | 2.692.526 |

In the column headed "Others" we have included the increments in the funds caused by the variations in the area of consolidation.

The severance pay fund is related to the end-of-term-bonus (TFM) of the administrators and is entered for the amount of 218.500 and the clients'-agents' indemnity fund for 146.795 Euros.

Provisions for taxes include the deferred taxes (described in the next paragraph) and the residual of the funds set aside during the financial year 2000, and to which additions were made in 2001 for payment of charges which might arise from the issuance of inspection documents after the PVC notification given on May 8th 2001. For this purpose during the financial period 2002, a part of this fund was used to effect payments made after revision of the tax declarations for the years 1997, 1998, 1999. The provisions for taxes also includes the deferred taxes analysed below.

The reserves for product guarantees is calculated on the basis of costs for spare parts and assistance under warranty which were sustained in the preceding financial period, adapted to the sales volume for this financial period.

The fund for other risks and charges is related, among other things, to the entering into accounts on December 31st 2002 of 100% of the losses of SONA International Co. By the subsidiary Cynosure on the basis of the agreements made, decreases thanks to the cancellation of the accrual on account of the excellent results obtained by the associated company in 2003 which have also made it possible for Cynosure to reconstitute, at least in part, the amount of equity entered in the assets, which was originally for 1,4 million dollars.

***Analysis of deferred and anticipated taxes***

The deferred taxes are accrued on the temporary differences between the assets and the liabilities which have been recognized for fiscal purposes and those which have been entered into accounts.
The analysis is shown ion the chart below:

| | **Balance 31/12/2003** | **Balance 31/12/2002** | **Variation** |
|---|---|---|---|
| Deferred tax assets on stock devaluations | 222.846 | 189.724 | 33.122 |
| Deferred tax assets for provisions on guarantee products | 43.285 | 36.797 | 6.488 |
| Deferred tax assets on credit devaluation | 43.977 | 37.816 | 6.161 |
| Deferred tax assets on loss brought forward from the previous years | 57.812 | | 57.812 |
| Other deferred tax assets | 58.128 | 11.811 | 46.317 |
| Deferred tax assets on internal profits | 536.511 | 367.494 | 169.017 |
| *Total deferred tax assets* | 962.559 | 643.642 | 318.917 |
| | | | |
| Deferred tax liabilities on advanced amortisations | 235.889 | 169.791 | 66.098 |
| Deferred tax liabilities for contributions on capital account | 7.503 | 27.354 | -19.851 |
| Other deferred tax liabilities | 4.616 | 2.775 | 1.841 |
| *Total deferred tax liabilities* | 248.008 | 199.920 | 48.088 |

Credits for anticipated taxes amount to approx. 962 thousand Euros and refer to the anticipated taxes calculated during the preceding years and the present one on the inventory obsolescence fund, on the product guarantee fund, and on the fund for non-deductible credit devaluations. Anticipated taxes have also been registered on the elimination of the inter-Group profits effected upon consolidation.

The fund for deferred taxes, which on December 31st amounted to 248 thousand Euros, was used for the capital account contributions, while deferred taxes have been entered on the anticipated amortisations which were elided upon the act of consolidation.

# *C) Severance pay for employees*

The following chart shows the changes that have occurred during this financial period .

| **Balance 31/12/2002** | **Provision** | **Utilization** | **Other** | **Balance 31/12/2003** |
|---|---|---|---|---|
| 948.794 | 328.718 | -158.280 | -459 | 1.118.773 |

The reserve fund represents the actual debt of the company to the employees at the date indicated, net of all advance payments.

# D) Amounts owed

***Analysis of amounts owed***

Break down of debts is shown in the chart that follows:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| debenture loans | 619.748 | 619.748 | | 0,00% |
| amounts owed to banks | 777.055 | 1.033.089 | -256.034 | -24,78% |
| amounts owed to other financiers | 1.056.943 | 924.357 | 132.586 | 14,34% |
| Advances | 705.383 | 351.523 | 353.860 | 100,66% |
| amounts owed to suppliers | 11.620.843 | 11.857.403 | -236.560 | -2,00% |
| amounts owed to associated companies | 91.607 | 184.525 | -92.918 | -50,36% |
| amounts owed to tax administration | 945.805 | 1.987.859 | -1.042.054 | -52,42% |
| amounts owed to social security institutions | 605.543 | 472.494 | 133.049 | 28,16% |
| other creditors | 4.575.297 | 3.432.770 | 1.142.527 | 33,28% |
| *Total* | 20.998.224 | 20.863.768 | 134.456 | 0,64% |

Amounts owed in foreign currency, and in particular in American dollars and British pounds, have been displayed converting the amounts according to the exchange rate in force on the date of this report.

The increase in “Advances” have been caused by the advance payments on NMED02, SIDART and EUV02 research projects; these sums will be entered among the revenues in the profit and loss account only after the approval of the relative expense budgets.

***Analysis of debts according to due date***

The ordinary debenture loan of. 619.748 Euros is to be reimbursed in a single payment on December 31st 2006, and pays a fixed interest rate of 9,75% which is adjusted annually on December 31st .

Mid-term debts to banks are made up of a ten-year mortgage loan issued by the Cassa di Risparmio of Florence, contracted for 1.652.662 Euros, to be reimbursed in fixed six-month instalments of 103.291 Euros starting on 31/3/1999, with an interest rate equivalent to the quarterly EURIBOR plus a spread of 0,95%, with interest paid quarterly.

Mid-term debts to other financiers can be broken down as follows:
a) IMI facilitated financing for applied research as follows:
Reference DIFF 3
-Multi-year financing granted for 487.095 Euros at the fixed annual rate of 3,70%, last instalment July 1st, 2008
Reference TMR 4
-Multi-year financing granted for 492.431 Euros at the fixed annual rate of 3,70%, last instalment July 1st , 2008.

b) MPS facilitated financing for applied research reference TRL01, granted for 681.103 Euros, of which di 351.592 have already been paid at a rate of 2% per annum, to be reimbursed in 16 half-yearly instalments delayed until the start of the second half-yearly due date after the actual conclusion of the research, which is expected to be in the month of February 2005.

The “Other financings” consist of financial debts incurred by the subsidiary Cynosure for an amount of approx. 124 thousand Euros and a financial debt contracted with Lasit Srl for approx. 34 thousand Euros.

The chart below shows the debts described above and the date when the debts for the capital stock are due:

| | Expiration | Rate | Remain | Amount within 1 year | Amount within 5 years | Amount beyond 5 years |
|---|---|---|---|---|---|---|
| Ten-year debenture loans | 31/12/2006 | 9,75% | 619.748 | | 619.748 | |
| CRF ten-year loan | 07/03/2006 | Euribor+,95% | 619.748 | 206.583 | 413.165 | |
| Financing IMI DIFF3 | 01/07/2008 | 3,70% | 276.687 | 57.603 | 219.084 | |
| Financing IMI TMR 4 | 01/07/2008 | 3,70% | 203.395 | 79.128 | 124.267 | |
| Financing MPS TRL 01 | 01/07/2013 | 2,00% | 351.592 | | 153.821 | 197.771 |
| Other financing | | | 161.651 | 133.783 | 27.868 | |
| Leasing | | | 216.036 | 128.012 | 88.024 | |
| *Total* | | | 2.448.857 | 605.109 | 1.645.977 | 197.771 |

***Changes in long term financing***

During the financial period the following changes have taken place in relation to mid and long-term financing. The amounts shown include the quota of short term capital and do not include amounts owed for interest.

| | Balance 31/12/2002 | Increase | Reimbursement | Other | Translation Adjustments | Balance 31/12/2003 |
|---|---|---|---|---|---|---|
| Debenture loans | 619.748 | | | | | 619.748 |
| CRF loan | 826.331 | | -206.583 | | | 619.748 |
| Financing IMI DIFF3 | 332.216 | | -55.529 | | | 276.687 |
| Financing IMI TMR 4 | 279.675 | | -76.280 | | | 203.395 |
| Financing MPS TRL 01 | | 351.592 | | | | 351.592 |
| Seven- year Quanta Fin financing | 191.089 | | -191.089 | | | |
| Other financings | 197.693 | 3.085 | -11.355 | | -27.772 | 161.651 |
| Leasing | 312.466 | 31.539 | -74.952 | | -53.017 | 216.036 |
| *Total* | 2.759.218 | 386.216 | -615.788 | - | -80.789 | 2.448.857 |

During this financial year the amount of 76.280 Euros has been reimbursed relative to the IMI TMR 4 financing, 55.529 Euros for the IMI DIFF3 financing and 206.583 Euros for the CRF loan. Moreover, seven-year financing for the associated companies, issued by the associated company Quanta Fin Srl, later incorporated by Quanta System SpA for an amount of 191.089 Euros was reimbursed.

***Debts guaranteed by real estate property***

The factory in Via Baldanzese, 17 has a ten year mortgage on it, which was issued by the Cassa di Risparmio of Florence and is described in the preceding paragraphs.

***Analysis of tax debts***

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Taxes on profit | 226.530 | 1.279.993 | -1.053.463 | -82,30% |
| Debts owed to tax administration for VAT | 228.062 | 326.811 | -98.749 | -30,22% |
| Debts owed to tax administration for deductions | 491.213 | 381.055 | 110.158 | 28,91% |
| *Total* | 945.805 | 1.987.859 | -1.042.054 | -52,42% |

The debts for income tax have been entered into accounts net of the relative down payments, of the withholdings paid, and of the tax credits on dividends cashed in by the Parent company but not the IVA tax which has matured.
The decrease in these amounts reflects the drop in profits shown in the financial year 2003.

***Analysis of amounts owed to social security institutions and other debts***

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Debts owed to INPS | 543.057 | 418.563 | 124.494 | 29,74% |
| Debts owed to INAIL | 26.069 | 19.679 | 6.390 | 32,47% |
| Debts owed to other Social Security Institutions | 36.417 | 34.252 | 2.165 | 6,32% |
| *Total* | 605.543 | 472.494 | 133.049 | 28,16% |

The other debts are composed as follows:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Owed to staff for holidays | 1.334.532 | 905.237 | 429.295 | 47,42% |
| Owed to staff for wages and salaries | 449.681 | 385.921 | 63.760 | 16,52% |
| Other debts | 2.791.084 | 2.141.612 | 649.472 | 30,33% |
| *Total* | 4.575.297 | 3.432.770 | 1.142.527 | 33,28% |

The rise in amounts owed to employees for salaries and to social security and pension institutions is a result of the increase in the number of staff members.

The entry "Other debts" is influenced by the debt contracted by the subsidiary Asclepion Laser Technologies GmbH for the purchase of the dental and dermatological business from Carl Zeiss Meditec, including a warehouse, patents, brands and other goods, as has already been described in this report. In any case the debt was paid off in the first months of 2004.

# *E) Accruals and deferred income*

Composition of accruals and deferred income is as follows:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Accrual liabilities: | | | | |
| Interests | | 3.353 | -3.353 | -100,00% |
| Other | 26.251 | | 26.251 | 0,00% |
| *Total accrual liabilities* | 26.251 | 3.353 | 22.898 | 682,91% |
| *Deferred income liabilities* | | | | |
| Contributions on staff expense account | | | 0 | 0,00% |
| Taxation credits | | 6.466 | -6.466 | -100,00% |
| Other | 435.899 | 525.375 | -89.476 | -17,03% |
| *Total deferred income liabilities* | 435.899 | 531.841 | -95.942 | -18,04% |
| *Total* | 462.150 | 535.194 | -73.044 | -13,65% |

The accrual liabilities refer in particular to the revenue from Cynosure related to the leasing of equipment through the associated company SONA which has been entered in proportion to the duration of the contracts.

# Memorandum Accounts

***Leasing contracts guaranteed by Cynosure***
Some leasing contracts stipulated by the subsidiary Sona International Co. were guaranteed by Cynosure Inc., which committed itself to pay the rental fees if SONA was not able to honour their debts. In particular, the overall amount guaranteed for the next four years amounts to 288 thousand Euros.

***"Put options" granted to some of the Cynosure managers for the purchase of Cynosure shares.***
As part of the incentive program for the managers which are part of the executive staff of Cynosure Inc., Cynosure has guaranteed nine of the employees rights for the purchase of 550.000 ordinary shares in the company. These rights have been assigned in proportion to the length of employment time in the company, and can be implemented starting on December 31st 2004 at the price of 2,00 American dollars per share, which must be paid directly to Cynosure as an increase in the capital stock. Cynosure has entered into their profit and loss account the stock quota which is the result of the difference between the price of repurchase of the shares and the technical value of the (minority) stocks on the date of assignment.

Cynosure and El.En. maintain the right to repurchase before May 2005 the above mentioned rights ("Call option"), at the price which is established on the basis of a formula which refers to the profit trend and the sales volume of Cynosure during the three year period 2002-2004.

Two of the above mentioned managers have obtained a "Put" option on their rights at the same conditions as the call option from El.En. and Cynosure, for a total number of approx. 120.000 rights. About half of the rights with Put options have already been reacquired by El.En. during the month of January 2004 after the employment of one of the participants in the plan was terminated, for a value of approx. 58 Thousand American dollars. There is still the possibility that the second participant in the plan will use his Put option rights, requiring El.En. and Cynosure to purchase the rights for an amount which at today's rates would be about 130 thousand dollars for the rights plus about 120 thousand dollars for the implementation of the same rights from Cynosure.

The amount entered into the Annual Report for approx. 298 thousand Euros (which corresponds to about 376 thousand dollars) is equal to approx. 149 thousand Euros (which corresponds to about 188 thousand dollars) at the value which can be attributed to the rights, and for the amount of approx. 149 thousand Euros at the value which can be attributed to the rights for the same as far as Cynosure is concerned.

**Operation Asa**
Upon the stipulation of the contract for the purchase of a 20% equity in Asa Srl, Deka M.E.L.A. Srl underwrote with the sellers a private document which provided for a combination of "call" and "put" options which would mature in September of 2004 and 2005, each one on a further 20% equity in di Asa Srl. On account of this transaction, which envisions a price set by an adjustment formula which is based on the revenue and the sales volume, Deka M.E.L.A. has the right to buy control of ASA by September 2005. The financial commitment which is derived from this agreement if the option is picked up, on the basis of the results for 2003, is estimated to be about 364 thousand Euros for the September 2004 option and the same amount for the following one.

# Profit and loss account

## A) Value of the production

***Analysis of sales and services***

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Sales of industrial laser systems | 15.031.138 | 16.991.338 | -1.960.200 | -11,54% |
| Sales of medical laser systems | 41.605.518 | 29.597.914 | 12.007.604 | 40,57% |
| Consulting and research | 151.899 | 180.133 | -28.234 | -15,67% |
| Service and sales of spare parts | 11.406.585 | 7.369.538 | 4.037.048 | 54,78% |
| *Total* | 68.195.140 | 54.138.923 | 14.056.218 | 25,96% |

The increase in sales volume is approx. 26% which confirms the constant growth rate of the Group, notwithstanding the unfavourable economic climate.
The medical sector was gain the most important area of activity for the Group and showed an increase of 40% over last year, in particular thanks to the contribution of the recently acquired companies, Cynosure, Deka Laser Technologies and Asclepion Laser Technologies.
Despite the contribution of Lasit Srl and Lasercut Inc. which were included in the area of consolidation in 2003, the climate in the industrial sector continued to be extremely negative; the difficult situation which was already apparent at the beginning of the year was further aggravated by the weakness of the dollar which reduced the sales margins in the United States and also undermined the competitiveness and as a result, the inclination to purchase on behalf of the Italian manufacturers.
The after-sales services registered the expected growth, which is derived from the increase in the amount of equipment installed, and has become increasingly important due to the large number of installations owned brought into the Group by Cynosure Inc. and the consequent sales volume which has been developed for “Customer Service”.

The sales volume which is derived from research projects and the relative reimbursements made according to contracts signed with the managing institutions by MIUR (ex MURST), is very small even though for this financial year the Group has entered into accounts a further 754 thousand Euros under the heading of “Other income”, which is a satisfactory result, thanks to the receipt of the 356 thousand Euros still entered among the down payments, which will be added to the revenue column when final approval has been received of the relative expense budgets for the projects.

***Break down of income by geographical area***

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Sales in Italy | 16.153.192 | 21.977.421 | -5.824.229 | -26,50% |
| Sales other EC countries | 20.563.753 | 10.368.492 | 10.195.261 | 98,33% |
| Sales outside EC | 31.478.195 | 21.793.010 | 9.685.186 | 44,44% |
| *Total* | 68.195.140 | 54.138.923 | 14.056.218 | 25,96% |

The increase in sales volume shown for the non-European countries demonstrates the process of internationalisation of the Group, thanks to the contribution of Cynosure, Deka Laser Technologies and Lasercut; as far as the growth of sales volume in Europe is concerned, this is due mainly to the intense activity conducted by the European subsidiaries working in the medical sector and the entry of Asclepion Laser Technologies GmbH into the area of consolidation.

***Increase in investments for company improvements***
During this financial year, under the heading of technical investments, we have entered laser systems for an amount of 262.081 Euros, in consideration of their long term use for sales demonstrations and for clinical experiments. The amount capitalised is equal to the industrial cost sustained.

***Other income and revenues***

The analysis of the other income and revenues is shown below :

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Recovery for accidents and insurance reimbursements | 26.437 | 10.816 | 15.621 | 144,42% |
| Expense recovery | 39.735 | 28.448 | 11.287 | 39,68% |
| Capital gains on ordinary property conveyances | 37.973 | 19.610 | 18.364 | 93,65% |
| Other income | 923.016 | 378.644 | 544.372 | 143,77% |
| Contribution on fiscal year account and on capital account | 31.268 | 23.137 | 8.131 | 35,14% |
| *Total* | 1.058.429 | 460.655 | 597.775 | 129,77% |

Under the heading of "Other income" we have entered, among other things, the contributions received by the Parent Company El.En SpA, for the amount of 754 thousand Euros related to the following research projects: Choclab, TRL01, MIN02, Dione and SIDART.
During this financial period 356 thousand Euros were also received as advance payments on the NMED02, SIDART e EUV02 projects, and these payments will be entered under the heading of revenue only upon approval of the relative costs budgets.

# B) Production costs

***Purchase of raw and subsidiary materials, consumables and goods***

The analysis of these costs is as follows:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Purchase of raw materials and finished products | 30.075.591 | 22.394.668 | 7.680.923 | 34,30% |
| Purchase of packaging | 171.971 | 108.333 | 63.638 | 58,74% |
| Purchase of stationery | 144.808 | 102.273 | 42.535 | 41,59% |
| Purchase of fuels | 120.178 | 78.500 | 41.678 | 53,09% |
| Purchase of advertising materials | 101.688 | 133.564 | -31.876 | -23,87% |
| Shipment of purchases | 271.098 | 152.060 | 119.038 | 78,28% |
| Other purchase expenses | 87.292 | 55.911 | 31.381 | 56,13% |
| Other purchases | 346.595 | 243.622 | 102.973 | 42,27% |
| *Total* | 31.319.221 | 23.268.931 | 8.050.290 | 34,60% |

The increase in purchases of raw materials is reflected, among other things, in the increase in final inventory which was registered at the end of the financial year.

***Break down of expenses for services***

The following chart shows the break down for the various services:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Expenses for work in progress at third parties' | 1.922.184 | 1.537.498 | 384.686 | 25,02% |
| User services | 735.051 | 502.055 | 232.996 | 46,41% |
| Consulting and technical services | 1.488.017 | 1.252.598 | 235.419 | 18,79% |
| Maintenance | 129.329 | 90.847 | 38.482 | 42,36% |
| Services and commercial consulting | 850.871 | 742.522 | 108.349 | 14,59% |
| Shipment | 1.140.058 | 754.034 | 386.024 | 51,19% |
| Insurance | 517.795 | 395.211 | 122.584 | 31,02% |
| Travel and overnight expenses | 2.093.076 | 1.470.512 | 622.564 | 42,34% |
| Commissions | 2.823.302 | 2.547.781 | 275.521 | 10,81% |
| Promotional and advertising expenses | 2.163.906 | 1.257.684 | 906.222 | 72,05% |
| Royalties | 132.942 | 133.352 | -410 | -0,31% |
| Other services | 4.149.078 | 2.614.383 | 1.534.695 | 58,70% |
| *Total* | 18.145.609 | 13.298.477 | 4.847.132 | 36,45% |

Under the heading of "Other services" the amounts due to administrators and auditors are included as well as the cost of legal services and charges related to quotation of the company on the stock market.

***Break down of operating expenses***

The following chart shows the break down for the various operating expenses:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Other taxes | 193.296 | 78.302 | 114.994 | 146,86% |
| Associating contributions | 39.045 | 33.353 | 5.692 | 17,07% |
| Newspaper and magazine subscriptions | 13.041 | 12.668 | 373 | 2,94% |
| Expenses for vehicles | 282.183 | 158.168 | 124.015 | 78,41% |
| Capital losses on ordinary possession conveyances | 7.277 | 50.620 | -43.343 | -85,62% |
| Purchase of consumables art. 67 T.U. | 101.390 | 87.797 | 13.593 | 15,48% |
| Fines | 4.047 | 2.286 | 1.761 | 77,03% |
| Other minor charges | 703.840 | 419.633 | 284.207 | 67,73% |
| *Total* | 1.344.119 | 842.827 | 501.292 | 59,48% |

# *C) Financial income and charges*

***Analysis of the financial income***

Break down of financial income is shown in the following chart:

| | 31/12/2003 | 31/12/2002 | Variation | Var.% |
|---|---|---|---|---|
| ***from investments which are not equity investments*** | | | | |
| Interests | 708 | 3.063 | -2.355 | -76,89% |
| *Total* | 708 | 3.063 | -2.355 | -76,89% |
| ***from non-permanent investments which are not equity investments*** | | | | |
| Interests | 1.379 | 7.741 | -6.362 | -82,19% |
| Income from negotiations | 70.091 | 149.069 | -78.978 | -52,98% |
| *Total* | 71.470 | 156.810 | -85.340 | -54,42% |
| ***financial income different from the previous ones: to third party*** | | | | |
| Interests - assets - to bank | 303.974 | 696.745 | -392.771 | -56,37% |
| Profits on commercial exchanges | 812.687 | 612.693 | 199.994 | 32,64% |
| Other financial incomes | 5.653 | 77.828 | -72.175 | -92,74% |
| *Total* | 1.122.314 | 1.387.266 | -264.952 | -19,10% |
| *Total* | 1.194.492 | 1.547.139 | -352.647 | -22,79% |

Interest assets towards banks have decreased as a result of the drop in interest rates and the fact that they have been applied to smaller amounts of money as cash was used for the extraordinary financial operations already described above. Among the other entries are the profits from the negotiations related to temporary investments of the cash at hand.

The difference in the exchange assets is derived from the decrease in the value of the United Sates dollar and the British pound with respect to the Euro on the date of reference for this report. In particular, the differences in exchange assets for the European subsidiaries of Cynosure have been entered, devaluating the debts for goods supplied in dollars to the controlling company. On the other hand, this revenue entry has a corresponding entry which is practically the same and contrary among the exchange liabilities, most of which were registered by El. En. SpA on the sales and financial receivables in dollars for the American companies of the Group.

***Interest and other financial charges***

| *Financial charges towards third parties* | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Debenture loans | 60.425 | 60.425 | | 0,00% |
| bank debts for account overdraft | 2.365 | 12.107 | -9.742 | -80,47% |
| bank debts for medium and long - term loans | 50.223 | 66.577 | -16.354 | -24,56% |
| losses on commercial exchanges | 849.715 | 307.073 | 542.642 | 176,71% |
| other financial charges | 20.217 | 75.819 | -55.602 | -73,34% |
| *Total* | 982.945 | 522.001 | 460.944 | 88,30% |
| ***Financial charges towards associated companies*** | | | | |
| debts to associated companies | 23.425 | 7.594 | 15.831 | 208,47% |
| *Total* | 23.425 | 7.594 | 15.831 | 208,47% |
| *Total* | 1.006.370 | 529.595 | 476.775 | 90,03% |

During this year the following amounts were entered into accounting as financial charges: 4.768 Euros for interest paid on the seven-year financing issued by Quanta System SpA to the Parent company, besides 18.657 Euros for interest on the financing granted by Quanta System SpA to Asclepion Laser Technologies.
The interest charges paid to banks for loans and mid- and long-term financing refer respectively to the loan issued to the Parent company El.En. SpA by the Cassa di Risparmio of Florence and to the facilitated financing granted by MIUR (ex MURST) and issued by IMI.

The difference in the exchange liabilities derives from the decrease in the value of the American currency and the British pound with respect to the Euro on the reference date for this report. In particular, we have entered the differences in exchange liabilities on credits expressed in currency, as described in the preceding paragraph.

# *D) Value rectifications for financial activities*

The rectification of value shown at entry D18 a) of the profit and loss account for 717.418 Euros is related to the application of the shareholders' equity method to the evaluation of the equities in the associated companies which are not fully consolidated. This category also is influenced by the cancellation of the funds for risks and charges related to the entering into accounts made on December 31st 2002 by the subsidiary Cynosure of 100% of the losses of SONA International Co., a fund which is now in excess considering the positive results obtained by this latter company.

The rectification of value shown at entry D19 a) of the profit and loss account reflects the amount of amortisation calculated on the differences between the consolidation which amount to 7.608 Euros for Immobiliare Del.Co. Srl and 34.745 Euros for ASA Srl. It also reflects for an amount of approx. 156 thousand Euros, the devaluation effected by the Parent Company El. En SpA on its equity in R.T.M. SpA, after the vote to cancel the capital stock in order to cover the debts which had been incurred, as has already been described in this Appendix.

# E) Exceptional income and charges

***Break down of exceptional income***

The chart below shows a break-down of the sources of exceptional income:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Extraordinary incomes: | | | | |
| Miscellaneous income | 550.776 | 474.616 | 76.160 | 16,05% |
| Other extraordinary incomes | 58 | 5.195 | -5.137 | -98,88% |
| *Total* | 550.834 | 479.811 | 71.023 | 14,80% |

The composition of the exceptional income is shown below:

| | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| Extraordinary charges: | | | | |
| Miscellaneous losses | 420.719 | 77.771 | 342.948 | 440,97% |
| Other extraordinary charges | | 9 | -9 | -100,00% |
| *Total* | 420.719 | 77.780 | 342.939 | 440,91% |
| Taxation related to the previous fiscal years | | | | |
| Other taxes related to the previous years | 21.941 | 11.755 | -10.186 | -86,65% |
| *Total* | 21.941 | 11.755 | -10.186 | -86,65% |
| *Total* | **442.660** | **89.535** | **353.125** | **394,40%** |

# Taxes on the revenues for the financial year

P_24-T

| ***Description:*** | 31/12/2003 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|
| IRPEG | 1.308.995 | 2.251.489 | -942.494 | -41,86% |
| IRAP | 528.251 | 540.479 | -12.228 | -2,26% |
| IRPEG Deferred (Advanced) | -215.908 | -97.619 | -118.289 | 121,17% |
| IRAP Deferred (Advanced) | -7.016 | -10.491 | 3.475 | -33,12% |
| *Total direct taxes* | 1.614.322 | 2.683.858 | -1.069.536 | -39,85% |

Taxes on the revenues for this year have increased with respect to last year. In this regard it should be noted that, with the exception of the subsidiary, Cutlite Penta Srl, no anticipated taxes have been entered on the losses registered by the subsidiary companies and the relative amortisation costs for the start up paid for the newly acquired companies do not comport the entry of anticipated taxes. Consequently, the tax rate rose from 48% for the past financial year to 73% for this year.

# Other information

In accordance with the law, the following chart contains a breakdown of the dependent workers by category and the salaries paid to Administrators and Auditors.

***Average number of employees divided by category***

| | Average 2003 | 31/12/2003 | Average 2002 | 31/12/2002 | Variation | Var. % |
|---|---|---|---|---|---|---|
| Executives | 19,0 | 23 | 10,0 | 15 | 8 | 53,33% |
| Management | 2,5 | 3 | 2,5 | 2 | 1 | 50,00% |
| White collar | 246,0 | 284 | 148,0 | 208 | 76 | 36,54% |
| Blue collar | 79,5 | 89 | 51,5 | 70 | 19 | 27,14% |
| *Total* | 347,0 | 399 | 212,0 | 295 | 104 | 35,25% |

***Salaries paid to Administrators and Auditors***

The chart below shows the cumulative salaries paid to the administrators and auditors of the parent company El.En. SpA in conformity with art. 78 of the Consob regulations which became effective after vote of approval n. 11971 on May 14th 1999.

| ***Person*** | ***Appointment description*** | | ***Salary*** | | | |
|---|---|---|---|---|---|---|
| *Name* | *Position* | *Term duration* | *Perquisites* | *Non monetary benefits* | *Bonus and other incentives* | *Other rewards* |
| Gabriele Clementi | President of the Board of Directors | Until the date of the assembly for the approval of the budget for 31.12.05 | 90.000 | | | 6.500 |
| Barbara Bazzocchi | Deputy member | Until the date of the assembly for the approval of the budget for 31.12.05 | 90.000 | | | 6.500 |
| Andrea Cangioli | Deputy member | Until the date of the assembly for the approval of the budget for 31.12.05 | 90.000 | | | 6.500 |
| Francesco Muzzi | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 12.000 | | | |
| Michele Legnaioli | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 12.000 | | | |
| Marco Canale | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 12.000 | | | |
| Paolo Blasi | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 12.000 | | | |
| Horace Furumoto | Member | Until Novembre 6th 2003 | 10.159 | | | |
| Paolo Ernesto Agrifoglio | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 12.000 | | | |
| Alberto Pecci | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 12.000 | | | |
| Ennio Carnevale | Member | Until the date of the assembly for the approval of the budget for 31.12.05 | 1.841 | | | |
| Vincenzo Pilla | President of the Board of Statutory Auditors | for three years from Nov. 6th, 2003 | 15.645 | | | |
| Giovanni Pacini | Statutory Auditor | for three years from Nov. 6th, 2003 | 11.063 | | | |
| Paolo Caselli | Statutory Auditor | for three years from Nov. 6th, 2003 | 11.061 | | | |

The other salaries refer to end-of-term premiums (TFM) for the administrators which have been set aside in reserves during the financial period.

Salaries of the administrators of the controlling company for carrying out their functions in other companies included in the consolidation are as follows: Francesco Muzzi, as President of Deka M.E.L.A. Srl received a salary from that company of 90.000 Euros and for the same period is shown as the beneficiary of a TFM (end-of-term bonus) of 6.500

Euros; Barbara Bazzocchi as sole Administrator of Cutlite Penta Srl received a salary of 12.000 Euros from that company; Gabriele Clementi as sole Administrator of Valfivre Italia Srl, received  12.000 Euros.

The Parent company, El.En. SpA does not have a general director.

***Amounts paid to correlated parties***

In accordance with I.A.S. 24, payments were made to people who were defined as correlated parties, not included among the administrators and auditors.

- Prof. Leonardo Masotti, president of the scientific commission was awarded the sum of Euros 10.800;
- Sig. Carlo Raffini, as head of the Quality Control Systems was awarded the amount of Euros 59.393;
- Prof. Pio Burlamacchi, proprietor of an industrial monopoly consisting of a patent pending for the invention of a “Support for optical cavity for lasers with regulation of the alignment of the ray”, was awarded royalties for Euros 36.152.

For a better comprehension of the overall consolidated financial statement, the chart below shows the general financial report for the purposes of illustrating, in a structured and synthetic form, the most significant variations which have occurred under the different headings for the financial period. This statement has been drawn up using the system of “cash flow” which is advised in the accounting principles of the National Council of Certified Public Accountants (*Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).*

| **Financial statement (cash flow)** | | **31/12/2003** | | **31/12/2002** |
|---|---|---|---|---|
| **Cash flow generated by manufacturing activity:** | | | | |
| Profit (loss) for the financial period | | **553.954** | | **2.131.050** |
| Amortizations | 3.503.972 | | 2.813.277 | |
| Variation of employee severance indemnity | 169.979 | | 139.939 | |
| Variation of provisions for risks and charges | 114.359 | | 108.878 | |
| | | **4.342.264** | | **5.193.144** |
| **Variation in the current assets and liabilities:** | | | | |
| Debtors | -1.448.096 | | 1.863.102 | |
| Stocks | -4.808.713 | | -969.638 | |
| Prepayments and accruals assets | -240.718 | | 96.630 | |
| Creditors | -530.774 | | 1.477.191 | |
| Prepayments and accruals liabilities | -78.678 | | -191.263 | |
| | | **-7.106.979** | | **2.276.025** |
| **Cash flow generated by manufacturing activity** | | **-2.764.715** | | **7.469.169** |
| **Cash flow generated by investment activity:** | | | | |
| (Increase) decrease in tangible assets | -3.041.028 | | -1.975.145 | |
| (Increase) decrease in intangible assets | -1.233.718 | | -6.997.643 | |
| (Increase) decrease in equity investments | -878.638 | | -158.605 | |
| | | **-5.153.384** | | **-9.131.393** |
| **Cash flow from financial activity:** | | | | |
| Increase (decrease) in mid-long term financing | -27.427 | | -659.170 | |
| Variation in short term financing | -183.098 | | 1.523.861 | |
| Variation in financial credits | -40.000 | | -8.400 | |
| (Increase) decrease investments which are not permanent | -94.941 | | -53.110 | |
| Variation in Capital and Reserve | -717.192 | | -705.864 | |
| Variation in Capital and Reserve of third parties | -510.419 | | 4.204.241 | |
| Dividends distributed | -1.144.322 | | -920.000 | |
| | | **-2.717.399** | | **3.381.558** |
| **Increase (decrease) in cash at bank and on hand** | | **-10.635.498** | | **1.719.331** |
| **Cash at bank and on hand at the start of the financial period** | | **27.050.567** | | **32.275.332** |
| **Changes in consolidation area** | | **324.460** | | **-6.944.096** |
| **Cash at bank and on hand at the end of the financial period** | | **16.739.529** | | **27.050.567** |

The financial year 2003 comported a considerable utilisation, for the amount of 10 million Euros, of the cash on hand belonging to the Group; it should also be noted that the drop in revenue which coincided with the expansion of the operating activities, made it so that the current management absorbed resources where, during the preceding year, the flow of operating activity was over 7 million. In this regard it should be noted that the technical form used for the acquisition of Asclepion Laser Technologies makes it so that the financial investment from an accounting point of view appears as a short-term activity purchase, for an amount of over 2 million Euros, and therefore attributing cash flow which substantially have the nature of an investment in the operative area.

In the same way, the activity of financial investments (new acquisitions) e that related to the purchase of technical assets (the Lasercut building, the farm house on the property in Calenzano) or their realisation for operating purposes (laser systems leased with the revenue sharing formula for Sona, equipment for demonstration and for experimentation) has comported an considerable use of cash. At the end of this financial year, however, the Group’s cash on handsaw still over 16 million Euros.

***For the Board of Directors***
The President – Ing. Gabriele Clementi