El.En. SpA
Report on the results for the financial year ending December 31st 2003

To our shareholders,

The financial year ending on December 31st 2003 closes with a net profit of 1.733 thousand Euros amounting to 1.036 thousand Euros net after taxes.

Before preceding with the detailed analysis of the results for the financial year 2003, it should be pointed out that El.En. operates in two separate areas. The first of which is the traditional one related to the planning, manufacture and sales of laser sources for medical and industrial applications and the various activities directly connected with them like technical assistance; the second of which is related to the management of the cash assets and equities which, particularly after the quotation of the company on the New Market of the Italian Stock Market at the end of 2000, has taken on an ever increasing importance and significance in its impact on the economic results of the company.

With reference to the above mentioned areas of activity, in 2003 the traditional area showed a growth in the sales volume notwithstanding the severe global economic crisis; the expansion policy of the Group has definitely favoured the sales volume of El.En. since the new acquisitions increased the number of companies which were also clients of El.En. This increase in sales volume however did not comport an increase in the operating revenue due to the reduction in the margins which, in a general situation of crisis had to be reduced, especially in those areas using the US dollar, on account of the weakness of the American currency. The financial management of the Group in particular felt the impact of the weakness of the dollar, especially in relation to the financing position to the American companies. Because of the difficulty in which some of the subsidiary companies found themselves, it was necessary in some cases to devaluate the equities and this obviously effected the extraordinary management figures.

1) Main financial and economic data

The activities of El.En. SpA, as for the preceding financial year, were conducted in the main offices in Calenzano (Florence) and the local branch in Castellammare di Stabia (Naples).

As in the preceding financial year, the company operated in three different areas, manufacturing: lasers for medical and aesthetic use, and power sources for industrial applications, and providing after-sales technical service and assistance. Besides the sales in this sector, intense research and development activity during this financial period also brought in a small amount of revenue which, although marginal in overall terms, still have a fundamental role in the financing of research activities. As noted previously, to the control of the Group, Your company also dedicates operating and financial resources with an aim to an integrated management policy of all the Group companies intended to create the maximum synergy.

The diagram which follows shows the sales trends for the four sectors mentioned above, with sales for this financial year compared to the preceding financial year. The figures shown on this chart and on all of those which follow are expressed in thousands of Euros, unless otherwise indicated.

	31/12/2003	Inc%	31/12/2002	Inc%	Var%
Industrial systems and lasers	5.915	23,73%	6.110	26,93%	-3,18%
Medical and cosmetic lasers	16.437	65,93%	14.043	61,89%	17,05%
Research and Development	172	0,69%	133	0,59%	29,00%
Service	2.408	9,66%	2.404	10,60%	0,15%
Total	24.932	100,00%	22.690	100,00%	9,88%

The medical/cosmetic sector showed an increase in sales volume of 17% with respect to the financial year 2002, and again this year is the most important area of activity for the company; a sizeable contribution to this increase was made by the American subsidiaries Cynosure Inc. and Deka Laser Technologies, even with the reduced margins caused by the weakness of the dollar to whom, in order not to penalise their competitiveness on the American market, El.En. did not oppose price increases.

The situation in the industrial sector on the other hand was considerably more difficult, and was feeling 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 first tangible results of the multi-year development program of the CO_2 high powered laser sources which at least made it possible to limit the reduction in the sales volume which, at least as far as the traditional products in the sector are concerned, would have been much greater.

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.

As far as the after sales service activity is concerned, the sales volume has remained about the same as the preceding financial period; this sector is considered to be of fundamental strategic importance because of the fact that punctuality, efficiency and economy of the after-sales service strongly influences the clients’ perception of the quality of the “extended product” that the company offers and characterises its position on the market.

The following chart shows the reclassified profit and loss account.

Profit and loss account	**31/12/2003**	**Inc.%**	**31/12/2002**	**Inc.%**	**Var.%**
Net turnover from sales and services	24.932	92,1%	22.690	95,6%	9,9%
Variation in stock of finished goods and WIP	1.023	3,8%	497	2,1%	105,7%
Other revenues and income	1.127	4,2%	557	2,3%	102,4%
Value of production	**27.083**	**100,0%**	**23.745**	**100,0%**	**14,1%**
Costs for raw materials	13.320	49,2%	11.725	49,4%	13,6%
Variation in stock of raw material	(931)	-3,4%	(932)	-3,9%	-0,1%
Other direct services	2.425	9,0%	1.910	8,0%	26,9%
Gross margin	**12.269**	**45,3%**	**11.042**	**46,5%**	**11,1%**
Other operating services and charges	3.621	13,4%	3.031	12,8%	19,5%
Added value	**8.648**	**31,9%**	**8.012**	**33,7%**	**7,9%**
For staff costs	4.509	16,6%	3.802	16,0%	18,6%
Gross operating profit	**4.139**	**15,3%**	**4.210**	**17,7%**	**-1,7%**
Depreciation, amortisation and other accruals	1.221	4,5%	1.124	4,7%	8,5%
Net operating profit	**2.919**	**10,8%**	**3.085**	**13,0%**	**-5,4%**
Net financial income (charges)	322	1,2%	996	4,2%	-67,7%
Operating profit	**3.241**	**12,0%**	**4.082**	**17,2%**	**-20,6%**
Value adjustments (Devaluations)	(488)	-1,8%	(202)	-0,8%	141,7%
Extraordinary income (Charges)	16	0,1%	18	0,1%	-11,7%
Earning before taxes	**2.769**	**10,2%**	**3.898**	**16,4%**	**-29,0%**
Income taxes on the income of the period	1.036	3,8%	1.290	5,4%	-19,6%
Net profit (loss)	**1.733**	**6,4%**	**2.608**	**11,0%**	**-33,6%**

The gross margin of contribution rose from 11.042 thousand Euros to 12.269 thousand Euros which represents a growth of +11% over the preceding financial period, but a slight drop in the incidence on the Value of Production, (45,3% in 2003 as opposed to 46,5% in 2002). Since the margins in the industrial sector have remained essentially unchanged, the decrease is mostly due to the medical sector, and depends above all on the weakness of the dollar, which has penalized the sales volume expressed in that currency directly, and indirectly, because of the pressure from our competitors, mostly American companies or companies with costs in American dollars, which has increased the competition in this sector.

The costs for services and operating charges rose from 3.031 thousand Euros in 2002 to 3.621 thousand Euros in 2003. The increase is due to a number of factors, including the increase in the expenses for research and development and the increase in expenses for coordinating and managing the group of subsidiary companies, the dimensions of which continue to grow and absorb a growing amount of resources.

An increase is also registered for personnel expenses (18,6%). The number of persons employed by the company rose from 103 units on December 31st 2002 to 116 units on December 31st 2003; recent hiring has been related in particular to the manufacturing sector.

The Gross Operating Margin is recorded for 4.139 thousand Euros, a slight drop with respect to the 4.210 thousand Euros of the preceding financial period and with an incidence of 15,3% approx. on the Value of Production.

The heading entitled Amortisations and Accruals shows a slight increase, rising from 1.124 thousand Euros in the preceding year to 1.221 thousand Euros in 2003 and with an incidence of 4,5% on the Value of Production. Under this heading, the amount shown for the cost of quotation on the stock market, which took place in 2000, for an amount of 366 thousand Euros, still continues to be of considerable importance; the amortisation period for this expense will terminate with this financial period.

The operating result fell from 3.085 thousand Euros in 2002 to 2.919 thousand Euros in 2003 showing a decrease of 5,4% and an incidence of 10,8% on the Value of Production.

The results of the financial management are in the black for an amount of 322 thousand Euros, which is much less than that shown for last year; this is due to the fact that the interest rates are lower and the rates were applied to much smaller amounts on account of the expenditures made for extraordinary operations which will be described further on in this report, as well as to the negative difference in the exchange rates between the US dollar and the Euro.

As already explained in the Appendix, the amount entered under value rectification is related to the accrual for the fund set aside for losses by the subsidiaries for the losses shown by the subsidiary Lasercut Inc. for approx. 331 thousand Euros. It also includes the losses incurred for the equity held in R.T.M. SpA, for approx. 156 thousand Euros; El.En. SpA has already taken care of the re-capitalisation of this company. The R.T.M. research center in fact represents an irreplaceable partner for the testing of El.En. technology in the field of mechanical machining; the investment has given interesting results in the past and for this reason it has been considered necessary to continue.

The result before taxes is 2.769 thousand Euros. Its incidence on the Value of Production is 10,2% which is a decrease with respect to the 16,4% of 2003, showing a drop of 29%.

The fiscal expenditures for the financial period, although they have been positively effected by the Dual Income Tax (DIT) which newly quoted companies can benefit from for three financial years after quotation, and for which 7% is paid on a part of the taxable income, has felt the impact of the above mentioned accrual made for Lasercut, which is not tax deductible, and comports an increase in the average tax rate of 37% as opposed to the 33% for last year.

The chart below shows the reclassified balance sheet for this year in comparison with that of last year:

	31/12/2003	31/12/2002
Balance Sheet		
Intangible assets	559	871
Tangible assets	4.491	3.428
Equity investments	16.031	14.464
Other investments	2.933	787
Total fixed assets (A)	**24.014**	**19.550**
Stocks	9.404	7.690
Trade debtors	13.174	11.432
Other debtors	1.467	860
Other equity investments	115	
Own shares	256	256
Cash in banks and on hand	8.597	16.943
Total current assets (B)	**33.013**	**37.181**
Trade creditors	6.438	5.516
Other debtors	1.730	3.258
Financial liabilities due within 12 months	343	529
Total current liabilities (C)	**8.512**	**9.303**
Net working capital (D)= B-C	**24.501**	**27.877**
Employee severance indemnity	697	573
Other provisions	1.042	937
Net medium and long term financial debts	1.728	1.720
Mid and long terms creditors (E)	**3.467**	**3.229**
Net invested capital (A + D - E)	**45.048**	**44.198**
Shareholders' equity	45.048	44.198
Shareholders' equity	**45.048**	**44.198**
Memorandum accounts		
Obligations towards third parties	298	
Total memorandum accounts	**298**	

Receivables from clients and inventory have increased thanks to the efforts of the company to acquire new shares of the market, and supporting the commercial activity with a policy that includes delayed payments granted to clients and more equipment available for demonstration purposes.

The financial position of the company as of December 31st 2003 is as follows:

Net financial position		
	31/12/2003	**31/12/2002**
Financial mid and long term debts	(1.728)	(1.720)
Financial mid and long term debts	*(1.728)*	*(1.720)*
Financial liabilities due within 12 months	(343)	(529)
Cash in banks and on hand	8.597	16.943
Net financial short term position	*8.254*	*16.413*
Total financial net position	**6.526**	**14.694**

The net financial position is in the black for an amount of over 6,5 thousand Euros.

The following operations of an extraordinary nature are responsible for the expenditure of cash shown for this financial period: the purchase of Lasercut Inc. for approx. 500 thousand dollars; the purchase of an equity of 24,61% in DEKA LMS GmbH for a total amount of 520 thousand Euros; the purchase of Asclepion Laser Technologies for approx. 526 thousand Euros, the re-capitalisation of RTM SpA for approx. 245 thousand Euros and the payment of dividends for 1.144 thousand Euros. When the majority share of Lasercut was purchased, a deposit of 800 thousand dollars was also paid towards the purchase of the building and grounds where the factory is located and this amount was entered among fixed assets. The purchase of this piece of real estate was concluded in early 2004, after completion of the complex paper work necessary for the transfer of the property.

Cash on hand was invested mainly in low-risk temporary uses with easy cash availability for any interesting investment opportunities that may arise. In any case these investments were cashed in by the end of the financial period and the cash thus derived is available in the checking accounts of the company.

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, thus acquiring a controlling interest in the company. This transaction required 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), besides the sale by El.En. SpA of an equity of 10% of the capital stock of the subsidiary Deka M.E.L.A. Srl and of shares equal to an amount of 2,5% of the capital stock of the subsidiary, Cynosure Inc.

2) Financial results of the subsidiary companies

El.En. SpA controls a Group of companies operating in the same general field of lasers. Each of these companies is assigned a specific role on the basis of the merchandise sector and geographical area in which it operates.

The table below summarises the results of the companies within the area of consolidation of the Group; for the recently acquired companies the financial data shown refers to the period between the date of acquisition and the end of the financial period. A brief explanation concerning the activities of each company and comments on the results for the year 2003 follow.

	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
(**) the data shown for 31/12/02 refers to the period from 01/05 to 31/12/02

Cynosure Inc.
This 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 operates 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 centres 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 with 1.962 thousand dollars for last year. The application of the accounting principles used for drawing up the financial statements of the parent company El.En. brings the losses of Cynosure to 459 thousand dollars. This result however, is due to heavy operating losses, for an amount of 2,1 million dollars, in part off set by the financial income which were derived mostly from the positive exchange differences of 722 thousand dollars and the receipt of the positive result of the associated company Sona, which comported a re-evaluation of the equity for an amount of 736 thousand dollars.

The operating loss, the amount of which was totally unexpected and became apparent only during the final months of the financial year, is a result of the acceleration of the re-organization process of the Cynosure activities and of some corrective measures that were taken just as the financial year was drawing to a close.

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 required 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, has 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. S.p.A; 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 and subsidiary companies

The exchange of different products and services offered by the Group frequently generates transactions between the different companies belonging to the Group itself. One of the main inter-group sources of commercial activity is represented by the production by El.En. SpA of laser sources, which constitutes a fundamental element in the manufacturing operations of Cutlite Penta Srl, Valfivre Italia Srl, Ot-Las Srl and Lasit Srl. Other inter-group commercial activity is represented by the production of medical laser equipment by El.En. SpA, some of which are sold to Cynosure, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, and Deka Dls Gmbh, which then distribute them.

The price for the transfer of this equipment is determined with reference to the normal market price. These inter-group transactions therefore, reflect the trends in market prices, though they may differ slightly depending on the marketing policy of the Group at the time.

The tables which follow analyse the transactions which have taken place during the financial year between the various companies belonging to the Group, related both to commercial exchanges and credits and liabilities at the end of the year.

	Financial credits		**Commercial credits**	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure	397	1.101	1.016	
Asclepion Laser Technologies GmbH	500		59	
Deka MELA Srl			2.764	
Cutlite Penta Srl			2.834	
Valfivre Italia Srl			78	
Deka Sarl			703	
Deka Lms GmbH		256	336	
Deka Dls GmbH			177	
Deka Laser Technologies LLC		146	362	
Lasercut Inc.		930	25	
Lasit Srl			214	
Ot-Las Srl			941	
Neuma Laser Srl		77	5	
Total	**897**	**2.511**	**9.515**	

	Financial credits		**Commercial credits**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Quanta System Spa	7		86	
ASA Srl			32	
Actis Srl	40		1	
Immobiliare Del.Co. Srl	14			
M&E			13	
Total	**61**		**132**	

	Financial payables		**Commercial payables**	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure			23	
Asclepion Laser Technologies GmbH	500			
Deka MELA Srl			56	
Cutlite Penta Srl			34	
Deka Sarl			31	
Lasit Srl			19	
Ot-Las Srl			14	
Total	**500**		**177**	

Associated companies:	Financial payables < 1 year	Financial payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
Quanta System Spa			2	
Actis Srl			16	
Total			**18**	

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Cynosure	47	90		137
Deka MELA Srl	43	120		163
Cutlite Penta Srl	29	17	1	48
Valfivre Italia Srl	1			1
Deka Sarl	30	2		32
Lasit Srl	22	1		22
Ot-Las Srl	1	8		8
Total	171	237	1	410

Associated companies:	Purchase of raw materials	Services	Other	Total
Quanta System Spa	74			74
Actis Srl		16		16
Total	**74**	**16**		**89**

Subsidiary companies:	Sales	Services	Total
Cynosure	1.429		1.429
Deka MELA Srl	11.004	103	11.107
Cutlite Penta Srl	1.353	133	1.486
Valfivre Italia Srl	312		312
Deka Sarl	772	4	776
Deka Lms GmbH	572	7	579
Deka Dls GmbH	163		163
Lasit Srl	192	1	193
Ot-Las Srl	1.971	68	2.040
Neuma Laser Srl	21	1	22
Deka Laser Technologies LLc	370		370
Lasercut Inc.	1		1
Total	**18.160**	**318**	**18.478**

Associated companies:	Sales	Service	Total
Quanta System Spa	108	1	109
Total	108	1	109

Subsidiary companies:	Other revenues
Cynosure	48
Deka MELA Srl	32
Cutlite Penta Srl	77
Deka Sarl	1
Deka Lms GmbH	7
Deka Dls GmbH	2
Deka Laser Technologies LLC	18
Lasercut Inc.	1
Total	**186**

The other income refers, among other things, to the rent paid by Deka M.E.L.A. Srl and Cutlite Penta Srl for their part of the buildings they occupy in Calenzano.

During this financial year, the company also received dividends for an amount of 287 thousand Euros from the subsidiary Deka M.E.L.A. Srl and entered the relative tax credit for an amount of 161 thousand Euros. The company also received 98 thousand Euros from the subsidiary Valfivre Italia Srl as an extraordinary division of the profits, and the relative tax credit was entered for the amount of 56 thousand Euros approx.

Approx. 96 thousand Euros were entered into accounting for income from earned interest on financing granted to subsidiary companies and these have been described in detail in the paragraph related to receivables in the Appendix to the balance sheet, also, 630 Euros for earned interest on financing granted to the associated company Actis Srl, for a total of 40 thousand Euros.
The amounts shown on the above mentioned charts refer to operations inherent to the traditional management 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:

<u>For medical systems and applications</u>
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 mecha-tronic applications.

For industrial systems and applications
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	3.401
Costs for instruments and equipment	231
Costs for building of prototypes	301
Costs for technological consultants	291
Services provided	101
Intangible assets	9
Total	**4.334**

The amount of the expenses incurred corresponds to about 17% of the sales volume, a very significant amount which weighs heavily on the short term financial result, but which guarantees the companies and the Group a continuous innovation in the range of products and experimentation in the frontiers of technology related to our products, which thus assures development potential for future years. In relation to the above mentioned expenses, 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 Mr. Gabriele Clementi as President - is 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 Self-disciplining code for companies quoted on the stock market
** Drafted by the Board of Directors during the meeting held on February 13th 2004 as per art. 2386 c.c. in place of Mr. 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 Mr. 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, Mr. Gabriele Clementi and the designated board members Mrs. Barbara Bazzocchi and Mr. 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 Mr. Paolo Blasi and Mr. 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 11^{th} 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 majority vote syndicate which conferred a total of 2.391.994 ordinary shares of El.En. SpA equivalent to 52,00% of the Share Capital;
- 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, is concerned, the Pact stipulates that the Board of Directors (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 Board of Directors 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>Associated and subsidiary 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.

<u>Members of the Board of Directors, the Board of Auditors and other strategic executives</u>
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 Srl (Group company in which El.En holds a 99% equity) - Board Member of Cynosure Inc. (company in which El.En holds a 60% equity)
Barbara Bazzocchi	- Sole Administrator of Cutlite Penta Srl (Group company in which El.En holds a 53,50% equity) - President of the Board of Directors of Actis – Active Sensor Srl (company in which El.En holds a 12,00% equity)
Francesco Muzzi	- President of the Board of Directors of Deka M.E.L.A. Srl (Group company in which El.En holds a 70% equity)
Andrea Cangioli	- Sole Administrator of Neuma Laser Srl (Group company in which Cutlite Penta Srl holds a 50% equity) - Board member of Quanta System SpA (Group company in which El.En holds a 30% equity) - Board member of Cynosure Inc. (company in which El.En holds a 60% equity) - Board member of Ot-las Srl (company controlled indirectly through Cutlite Penta Srl) - Board member of A.S.A. Srl (with a 20% equity held by the subsidiary Deka M.E.L.A. Srl) - Sole administrator of Asclepion Laser Technologies (with an equity of 50%) - Board member of Lasercut Inc. (with an equity of 70%)

The members of the “*Collegio Sindacale”* of El.En. SpA are also members of the auditing boards of the subsidiary companies as shown on the chart below:

Name	Position
Vincenzo Pilla	- Auditing officer of Lasit Srl - President of the Collegio Sindacale of Deka M.E.L.A. Srl - Auditing officer of Cutlite Penta Srl
Paolo Caselli	- President of the Collegio Sindacale of Cutlite Penta Srl - Auditing officer of Deka M.E.L.A. Srl
Giovanni Pacini	- Auditing officer of Cutlite Penta Srl - Auditing officer of Deka M.E.L.A. Srl

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. SpA	622.960	1.500		624.460
Barbara Bazzocchi	El.En. SpA	493.524	1.300		494.824
Gabriele Clementi	El.En. SpA	495.650			495.650
Francesco Muzzi	El.En. SpA	486.724			486.724
Immobiliare del Ciliegio Srl (*)	El.En. SpA	312.412			312.412
Lucia Roselli	El.En. SpA	350			350
Paolo Caselli	El.En. SpA	300			300
Vincenzo Pilla	El.En. SpA	300			300
Michele Legnaioli	El.En. SpA	160			160
Alberto Pecci	El.En. SpA	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 18^{th} to December 31^{st}, 2004; the second section, for a maximum of 30.588 shares can be opted by the assignees from August 15^{th} to September 30^{th} 2004, and from November 18^{th} until December 31^{st} 2004.

With reference to this vote, as far as the first portion of 30.600 shares is concerned in the period between November 18^{th} 2003 and December 31^{st} 2003, 21.139 rights were opted with a consequent increase in underwritten and paid share capital of 10.992,28 Euro.
In conclusion, the Board of Directors voted on November 13^{th} 2003 to partially actuate the decision of the shareholders' assembly of July 16^{th} 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 18^{th} until December 31^{st} 2004, from August 15^{th} until September 15^{th} 2005, and from November 18^{th} until December 31^{st} 2005; the second phase, for a maximum of 12.640 shares can be assigned to those having option rights from August 15^{th} to September 30^{th} 2005 and from November 18^{th} to December 31^{st} 2005.

9) Debenture Loan

On November 7^{th}, 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 31^{st} 2006. The annual rate of interest is 9,75%, payable in yearly instalments deferred until January 1^{st} 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 24^{th} , 2002, the Board of Directors proceeded to purchase their own treasury stock according to the procedure approved b the same assembly. On December 31^{st} 2002, 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 31^{st} , 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 30^{th} 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 29^{th} 2003 which ratified the international accounting principles and the relative interpretations in existence on September 14^{th} 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 ASB;
- the issuance, by the Italian legislature, of Community Law 2003 (Law of October 31^{st} 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* IAS/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 aerospace 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

For the year 2004, the management has proposed a budget which includes plans for further expansion for an amount of 14% of the traditional activity of El.En SpA, with an increase in the operating result of about 10%. This budget has been planned on the assumption that the position lost in 2003 in the industrial sector will be recovered, especially in consideration of the of the promising start shown by the manufacture of high power laser sources. The income margins should not deteriorate on account of the dollar exchange rate if the rate remains around 1,27 on the basis of which the budget has been drawn up.
Similar considerations can be made for the results of the financial management, which was particularly subject to the negative influence caused by the drop in the dollar. As far as the management of the investments and relative income is concerned, the trend of the companies in which equities are held does not allow for an increase the amount of the dividends which El. En. SpA will receive during 2004.
During the first few months of 2004, the sales trend was substantially in conformity with the predictions for the overall amount, but with a continuing weak performance in the industrial sector counter-balanced by the brilliant results of the medical sector.

15) Allocation of profits

At this time we would like to invite our shareholders to approve the Annual Report for the financial year and allocate the profits of 1.732.650,00 Euros, with 1.149.606,25 Euros for distribution as dividends (0,25 Euros per share) and the remainder of 583.043,75 Euros as extraordinary reserve.

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

El.En. SpA
Financial statement for the year ending 31/12/2003

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	370.090	740.180
4) Concessions, licenses, trade marks and similar rights	160.591	104.483
6) Intangible assets in progress and payments on account	6.992	
7) Other	21.523	25.841
Total intangible assets	**559.196**	**870.504**
II) Tangible assets		
1) Land and buildings	2.356.873	2.413.822
2) Equipment and machinery	169.319	144.100
3) Industrial and commercial equipment	377.731	418.832
4) Other	288.002	216.030
5) Tangible assets under construction and payments on account	1.299.550	235.439
Total tangible assets	**4.491.475**	**3.428.223**
III) Financial fixed assets		
1) Equity investments in :		
a) subsidiary companies	15.402.952	13.810.297
b) associated companies	405.150	405.150
d) other companies	145.781	171.941
Total equity investments	*15.953.883*	*14.387.388*
3) Other investments	76.709	76.709
Total financial fixed assets	**16.030.592**	**14.464.097**
TOTAL FIXED ASSETS	**21.081.263**	**18.762.824**
C) CURRENT ASSETS		
I) Stocks:		
1) Raw materials and consumables	5.311.869	4.380.431
2) Work in progress and components	2.977.924	2.395.862
4) Finished goods	1.113.872	913.532
Total stocks	**9.403.665**	**7.689.825**
II) Debtors		
1) Trade debtors		
- due within 12 months	2.569.714	1.757.632
Total trade debtors	*2.569.714*	*1.757.632*
2) Amounts owed by subsidiary companies		
- due within 12 months	10.412.674	9.613.301
- due after 12 months	2.511.406	333.115
Total amounts owed by subsidiary companies	*12.924.080*	*9.946.416*
3) Amounts owed by associated companies		
- due within 12 months	192.052	61.389
Total amounts owed by associated companies	*192.052*	*61.389*
5) Other debtors		
- due within 12 months	1.418.058	841.257
- due after 12 months	421.310	453.636
Total amounts owed by other debtors	*1.839.368*	*1.294.893*
Total debtors	**17.525.214**	**13.060.330**
III) Investments which are not permanent		
4) Other companies	115.000	
5) Own shares	255.937	255.937
Total investments which are not permanent	**370.937**	**255.937**
IV) Cash at bank and in hand		
1) Bank and postal current accounts	8.594.432	16.938.239
3) Cash on hand	2.931	4.717
Total cash at bank and in hand	**8.597.363**	**16.942.956**
TOTAL CURRENT ASSETS	**35.897.179**	**37.949.048**
D) PREPAYMENTS AND ACCRUED INCOMES:		
1) Prepayments and accrued income assets	48.670	18.331
Total prepayments and accrued incomes	**48.670**	**18.331**
TOTAL ASSETS	**57.027.112**	**56.730.203**

LIABILITIES	31/12/2003	31/12/2002
A) CAPITAL AND RESERVES		
I) Subscribed capital	2.402.992	2.392.000
II) Share premium reserve	34.206.116	33.954.774
III) Revaluation reserve		
IV) Legal reserve	537.302	406.893
V) Reserve for own shares	255.937	255.937
VI) Reserves provided for by the articles of association		
VII) Other reserves:		
- Extraordinary reserve	5.486.618	4.153.183
- Reserve for contribution on capital account	426.657	426.657
- Other reserves	1	5
Total other reserves	*5.913.276*	*4.579.845*
VIII) Profits (loss) brought forward		
IX) Profit (loss) for the financial period	1.732.650	2.608.165
TOTAL CAPITAL AND RESERVES	**45.048.273**	**44.197.614**
B) PROVISIONS FOR RISKS AND CHARGES		
1) Provisions for pensions and similar obligations	196.471	176.971
2) Provisions for taxation	397.836	419.675
3) Other provisions	447.775	340.574
Total provisions for risks and charges	**1.042.082**	**937.220**
C) EMPLOYEE SEVERANCE INDEMNITY	**697.028**	**572.628**
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	211.471	215.564
- due after 12 months	413.166	619.748
Total amounts owed to banks	*624.637*	*835.312*
4) Amounts owed to other financial institutions		
- due within 12 months	136.732	131.809
- due after 12 months	694.942	480.082
Total amounts owed to other financial institutions	*831.674*	*611.891*
5) Advances received		
- due within 12 months	361.815	90.970
Total advances received	*361.815*	*90.970*
6) Amounts owed to suppliers		
- due within 12 months	5.744.000	5.359.432
Total amounts owed to suppliers	*5.744.000*	*5.359.432*
8) Amounts owed to subsidiary companies		
- due within 12 months	676.615	1.587.824
Total amounts owed to subsidiary companies	*676.615*	*1.587.824*
9) Amounts owed to associated companies		
- due within 12 months	17.799	183.889
Total amounts owed to associated companies	*17.799*	*183.889*
11) Amounts owed to tax administration		
- due within 12 months	237.586	809.302
Total amounts owed to tax administration	*237.586*	*809.302*
12) Amounts owed to social security institutions		
- due within 12 months	347.761	290.287
Total amounts owed to social security institutions	*347.761*	*290.287*
13) Other creditors		
- due within 12 months	777.749	629.994
Total other creditors	*777.749*	*629.994*
TOTAL CREDITORS	**10.239.384**	**11.018.649**
E) ACCRUALS AND DEFERRED INCOME		
1) Accruals and deferred income-liabilities	345	4.092
Total accruals and deferred income	**345**	**4.092**
TOTAL LIABILITIES AND CAPITAL AND RESERVES	**57.027.112**	**56.730.203**

MEMORANDUM ACCOUNTS	31/12/2003	31/12/2002
Other memorandum accounts		
Our obligations	297.704	
TOTAL MEMORANDUM ACCOUNT	**297.704**	

PROFIT AND LOSS ACCOUNT	31/12/2003	31/12/2002
A) VALUE OF PRODUCTION		
1) Net turnover from sales and services	24.931.995	22.690.274
2) Variation in stocks of finished goods and in work in progress	782.402	266.716
4) Work performed for own purposes and capitalised	240.803	230.697
5) Other revenues and income		
a) Other revenues and income	1.109.185	538.950
b) Grants received pertaining to the current year	18.253	18.179
Total other revenues and income	*1.127.438*	*557.129*
TOTAL VALUE OF PRODUCTION	**27.082.638**	**23.744.816**
B) COSTS OF PRODUCTION		
6) For raw materials, consumables and goods for sale	-13.461.311	-11.829.394
7) For services	-5.643.739	-4.574.118
8) For use of assets owned by others	-23.097	-20.739
9) For staff costs:		
a) wages and salaries	-3.265.785	-2.764.537
b) social security costs	-1.031.097	-871.291
c) provision for severance indemnity	-211.650	-166.150
Total for staff costs	*-4.508.532*	*-3.801.978*
10) Value adjustments		
a) amortisation of intangible assets	-489.767	-444.933
b) depreciation of tangible assets	-648.368	-542.762
d) allowance for debtors in current assets and other acc.s incl. in cash	-62.431	-108.204
Total value adjustments	*-1.200.566*	*-1.095.899*
11) Variations in stock of raw materials, consumables and goods for resale	931.438	932.445
12) Amounts provided for risk provisions	-20.000	-28.587
14) Other operating charges	-237.902	-241.253
TOTAL COSTS OF PRODUCTION	**-24.163.709**	**-20.659.523**
(A-B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	**2.918.929**	**3.085.293**
C) FINANCIAL INCOME AND CHARGES		
15) Income from equity investments:		
a) in subsidiary companies	603.125	448.438
Total income from equity investments	*603.125*	*448.438*
16) Other financial income:		
b) from other permanent investments other than equity investments	708	3.063
c) from other investments which are not permanent	68.330	38.254
d) other income not included above		
- to subsidiary companies	*95.629*	*17.934*
- to associated companies	*630*	
- to third parties	*359.285*	*871.800*
Total other income not included above	*455.544*	*889.734*
Total other financial income	*524.582*	*931.051*
17) Interest payable and similar charges		
b) to associated companies	*-4.768*	*-7.594*
d) to third parties	*-800.961*	*-375.435*
Total interest payable and similar charges	*-805.729*	*-383.029*
TOTAL FINANCIAL INCOME AND CHARGES	**321.978**	**996.460**
D) VALUE ADJUSTMENTS IN RESPECT OF INVESTMENTS		
19) Devaluation		
a) of equity investments	-487.545	-201.725
Total devaluation	*-487.545*	*-201.725*
TOTAL VALUE ADJUSTMENTS	**-487.545**	**-201.725**
E) EXTRAORDINARY INCOME AND CHARGES		
20) Extraordinary income		
a) income	*49.029*	*9.511*
b) capital gains from disposal of assets		*25.572*
Total extraordinary income	*49.029*	*35.083*
21) Extraordinary charges		
a) charges	*-33.356*	*-17.440*
c) other extraordinary charges	*-97*	
Total extraordinary charges	*-33.453*	*-17.440*
TOTAL EXTRAORDINARY INCOME AND CHARGES	**15.576**	**17.643**
PROFIT OR LOSS BEFORE INCOME TAXES	**2.768.938**	**3.897.671**
22) Income taxes on the income of the period:		
a) current	-1.010.508	-1.404.516
b) deferred	-25.780	115.010
23) NET TOTAL PROFIT (LOSS)	**1.732.650**	**2.608.165**

Appendix to the report for the financial year closed on 31/12/2003

Form and content of the financial statement

16) CRITERIA USED FOR DRAWING UP THE STATEMENT

The following financial statement is in conformity with articles 2423 and following of the Civil Code; it contains the statement of financial position, profit and loss account and the appendix, which has been drawn up in accordance with article 2427 of the Civil Code, and which, in accordance with article 2423, constitutes an integral part of the annual report. All data related to the preceding financial year, when shown for a better comprehension of the statement, has been reclassified.

17) EVALUATION CRITERIA

a) General criteria

The criteria used for drawing up this financial statement 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 criteria used for the financial period just closed are not different from those used for the precedent financial period, and, particularly in regard to the evaluations and the continuity of these same principles. 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 goods whose usefulness is limited in time is adjusted by decreasing it through the instrument of amortisation. The analytic methodology of amortisation and devaluation which have been used are described further on in this Appendix.

c) Revaluations

No revaluations have been made.

d) Exceptions

During this and the past financial year no exceptions have been made to the evaluation criteria established by the legislation for annual and consolidated reports.

e) Accounting entries which appear only for purposes of conforming with tax laws

In the financial statement 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.

Main principles and criteria are as follows

f) Intangible fixed assets

Intangible assets are shown at the cost of purchase including accessory charges. The costs of formation and expansion are described under the heading of the same name among the assets and amortisations over a period of 5 years. The costs of research and development anf for publicity have been entered entirely in the profit and loss account for the financial year in which they were incurred. Licenses, trade-marks and patents have been entered in the report at cost of purchase and are systematically amortised over a 5 year period. Software is entered at the cost of purchase and is amortised in 3 years.

g) Tangible assets and amortisations

Tangible assets are entered at the cost of purchase or production, including accessory charges, net from amortisations.
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 are unvaried with respect to last year and reduced to half for the first fiscal year, as shown:

Type of income source	*Percentages of amortisation*
Real estate	
- industrial buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
industrial and commercial equipment	
- various small pieces of equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- vehicles	25.00%
- lifting machinery	20.00%
- light constructions	10.00%
- electronic office equipment	20.00%
- furniture	12.00%

We have systematically set aside the early amortisations which, considering the types of company goods and the use to which they are put, must be considered excessive with respect to what is necessary for splitting the cost in function of the possibility for continued use, for all the tangible assets except motor vehicles and electronic office equipment. With the exception of these two categories, these entries should be interpreted as entries made only in order to comply with tax laws.

h) Financial investments

- Investments in subsidiary and associated companies

The assets which consist of equity investments in associated companies have been evaluated according to the cost method, which, when necessary, is discounted in relation to losses of a certain duration by the company in which the investment has been made.
Any capital losses are entered in the profit and loss account, in the column "devaluation of equity investments".
Since the necessary conditions exist, a consolidated balance sheet has been drawn up.

- 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 entered 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 which must be given in accordance with contractual obligations.

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 sheet drawn up according to legal regulations; 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	740.180				-370.090		370.090
Concessions, licences, trade marks and similar rights	104.483	150.597			-94.489		160.591
Other	25.841	20.870			-25.188		21.523
Intangible assets in progress and payments on account		6.992					6.992
Total	**870.504**	**178.459**			**-489.767**		**559.196**

Categories	31/12/2003 Cost	31/12/2003 (Amortisations)	31/12/2003 Net value	31/12/2002 Cost	31/12/2002 (Amortisations)	31/12/2002 Net value
Formation and expansion expenses	1.866.238	1.496.148	370.090	1.866.238	1.126.058	740.180
Concessions, licences, trade marks and similar rights	313.510	152.919	160.591	162.913	58.430	104.483
Other	129.619	108.096	21.523	108.749	82.908	25.841
Intangible assets in progress and payments on account	6.992		6.992			
Total	**2.316.359**	**1.757.163**	**559.196**	**2.137.900**	**1.267.396**	**870.504**

Description	Past cost	Accumulated amortisations	Residual value
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
Total	**1.866.238**	**1.496.148**	**370.090**

The amount shown under the item “cost of formation and expansion” consists for the most part, of the capitalisation of the amounts paid duriong the financial period 2000, for quotation on the new stock market (Nuovo Mercato).

Under the heading of “concessions, licenses, trade marks and similar rights”, besides the overall costs that were sustained during the preceding financial periods for management and administrative software, we have entere the price oaid for the concession of a license for the use of a patent for a safety device applicable to lasr systems.

Included in the “investments in progress”, there are the costs sustained by the Parent Company for the purchase of new software for management and accounting, which at the end of this financials period were still being implemented.

II - Fixed assets

The changes which took place in the fixed assets during the financial period are as follows:

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	274.433	70.073					344.506
Industrial and commercial equipment	1.315.084	324.839			-40.614		1.599.309
Other goods	1.269.995	309.448			-60.538		1.518.905
Tangible assets under construction	235.439	1.064.111					1.299.550
Total	**6.034.648**	**1.800.188**			**-101.152**		**7.733.684**

Amortisation provisions	Balance 31/12/2002	Amortisations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/2003
Land and buildings	525.875	88.667		-1			614.541
Plants and machinery	130.333	44.854					175.187
Industrial and commercial equipment	896.252	342.976			-17.650		1.221.578
Other goods	1.053.965	171.871		65.079	-60.012		1.230.903
Tangible assets under construction							
Total	**2.606.425**	**648.368**		**65.078**	**-77.662**		**3.242.209**

Net value	Balance 31/12/2002	Increments	Revaluations and other operations	(Amortisations and devaluations)	(Disposals)	Translation Adjustments	Balance 31/12/2003
Land and buildings	2.413.822	31.717	1	-88.667			2.356.873
Plants and machinery	144.100	70.073		-44.854			169.319
Industrial and commercial equipment	418.832	324.839		-342.976	-22.964		377.731
Other goods	216.030	309.448	-65.079	-171.871	-526		288.002
Tangible assets under construction	235.439	1.064.111					1.299.550
Total	**3.428.223**	**1.800.188**	**-65.078**	**-648.368**	**-23.490**		**4.491.475**

Amortisations provisions calculated according to useful duration of source	Balance 31/12/2002	Amortisations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/2003
Land and buildings	481.929	88.667					570.596
Plants and machinery	79.540	30.947					110.487
Industrial and commercial equipment	713.530	240.471			-12.139		941.862
Other goods	1.005.393	164.557		65.078	-60.012		1.175.016
Tangible assets under construction							
Total	**2.280.392**	**524.642**		**65.078**	**-72.151**		**2.797.961**

Amortisations provisions exceeding if compared with the useful duration of source	Balance 31/12/2002	Amortisations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/2003
Land and buildings	43.946			-1			43.945
Plants and machinery	50.793	13.907					64.700
Industrial and commercial equipment	182.722	102.505			-5.511		279.716
Other goods	48.572	7.314		1			55.887
Tangible assets under construction							
Total	**326.033**	**123.726**			**-5.511**		**444.248**

The most valuable item is the real estate property in Via Baldanzese in Calenzano where the parent company and three of the subsidiaries, Deka M.E.L.A., Cutlite Penta and Valfivre Italia, are based.
The considerable increase in investments in tangible assets involved, in particular, equipment for sales demonstrations and clinical experimentation for the medical-cosmetic sector. Moreover, much of the laboratory equipment for research

was replaced and the hardware network of the Administrative Offices and Research and Development offices were extended, in consideration of the increased number of staff members and the additional number of motor vehicles.

Moreover, under the heading “tangible assets under construction” we have entered the expenses for the remodelling of the building complex in Via Baldanzese, which, at the end of this financial period, was still in progress. In the chart for amortisation funds, the amount entered under the heading “other movements” is related to the cost of material goods, as indicated by art. 67 TU, as part of the profit and loss account for the financial period among the business expenses, and therefore not included among the amortisations.

Effects of early amortisations

During this and preceding financial years the company has made early amortisations, according to the limits prescribed by tax regulations. These amortisations, with the exception of those set aside for electronic office equipment and motor vehicles, exceed the amount calculated on the basis of the useful economic-technical life of the item, and should be considered as value adjustments made only for the purpose of complying with tax laws. The counterpart of these early amortisations has been entered in the respective asset accounts.
Therefore, if the company had never entered on the balance sheet the early amortisations in excess of the useful life of the asset, the shareholders’ equity and the result for the financial year would be greater, net of the relative fiscal effect of 37,25 percent equal to 279 thousand Euros and 74 thousand Euros, respectively.

III – Equity investments

The following chart shows the analysis of the financial investments:

Investments in: subsidiary companies

Company name:	Headquarters	Share Capital	% owned	Value of charge	Capital and reserves on 31/12/2003	Result 31/12/2003	Fraction account C.R.	Difference
Cynosure	Chelmsford (USA)	53.114	60,00%	12.994.690	5.870.644	-406.375	3.522.386	9.472.304
Deka M.E.L.A. Srl	Calenzano	40.560	70,00%	28.199	3.944.135	619.993	2.760.895	-2.732.696
Cutlite Penta Srl	Calenzano	103.480	53,50%	118.263	237.096	-143.624	126.846	-8.583
Valfivre Italia Srl	Calenzano	47.840	99,00%	47.039	78.449	17.401	77.665	-30.626
Lasit Srl	Vico Equense (NA)	234.000	50,00%	110.814	769.335	-46.446	384.668	-273.854
Deka Sarl	Vienne (F)	76.250	98,00%	76.953	79.089	574	77.507	-554
Deka Lms GmbH	Freising (G)	51.129	76,16%	1.033.305	665.796	-40.502	507.070	526.235
Asclepion Laser Technologies GmbH	Jena (G)	1.025.000	50,00%	525.879	1.113.539	88.540	556.770	-30.891
Deka Laser Technologies LLC	Fort Lauderdale (USA)	935	51,00%	477	46.754	51.313	23.845	-23.368
Lasercut Inc.	Branford (USA)	935	70,00%	467.333	-714.992	-473.679	-500.494	967.827
Total				15.402.952	12.089.845	-332.805	7.537.156	7.865.796

The amount of the fraction of the net shareholders’ equity shown is approximately the amount obtained applying the shareholders’ equity method, except for the effects derived form the elimination of the early amortisations. For Cynosure, the difference between the amount of the financial statement and the corresponding fraction of the shareholders’ equity is due to the start up paid at the moment of purchase, and to the difference in exchange rate between the moment of purchase and December 31st 2003 which was about 1,8 million Euros.

During the month of February, the Deka Laser Technologies LLC firm was founded in the United States, and El.En. controls 51% 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 purchase transaction required an expense of 500 thousand dollars beside the down payment of 800 thousand dollars for the purchase of the building where Lasercut carries on its activities. The purchase was concluded in the first months of 2004. After the losses which became apparent on December 31st 2003 El.En. set aside a reserve of “funds for losses” entered among the liabilities in the balance sheet for an amount of 331 thousand Euros, which corresponds to the amount it was responsible for the losses incurred by Lasercut in 2003. The difference between the amount charged for the equity net from the fund mentioned above and the fraction that they are responsible for in the net capital and reserves of Lasercut represents the start up paid at the moment of acquisition.

Also in the month of April, your company increased its equity in Deka LMS GmbH, the company that distributes the medical lasers produced by El.En. SpA, in Germany, by purchasing from the owner of the company an equity equivalent to 24,61% of the capital for an amount of 520 thousand Euros. The total amount of the equity held in the company therefore reaches 76,16%. The difference between the amount charged for the equity paid at the time of purchase and the fraction that they are responsible for in the net capital and reserves of Deka Lms GmbH represents the start up paid at the moment of acquisition and increase of the amount of equity held.

In the month of May, El.En. SpA concluded negotiations for the purchase of Asclepion Laser Technologies GmbH, a company founded in the month of February 2003, which purchased by means of an “asset deal” certain portions of the dermatological and dental business of Carl Zeiss Meditec AG in Jena, Germany. This operation, which was concluded with the co-operation of the then related company, Quanta System SpA (which is now a subsidiary on account of the operations concluded in January of 2004) owner of the remaining 50% of Asclepion Laser Technologies GmbH, comported an initial expenditure of 25.800 Euros approx., besides the later expense of 500 thousand Euros required to increase the capital.

Later, in the month of October 2003, the company, as per the vote by the Shareholders’ assembly of the subsidiary Deka Sarl, covered the losses in proportion to their quota and re-established the capital in the amount of 98% of the same. This operation required an expenditure of 321 thousand Euros, 244 thousand of which was used to cover the losses and the remainder for the reconstitution of the capital stock which amounts to the overall sum of 76.250 Euros.

It should also be pointed out that on January 19^{th} 2004 the company acquired control of Quanta System SpA and brought its equity in the company to 60% after the purchase of another 30% of the shares of the company. Quanta System SpA also owns the remaining 50% of Asclepion Laser Technologies GmbH, the German company of which El.En. SpA already owns 50%, which had purchased the cosmetic laser business from Carl Zeiss Meditec AG .
During these negotiations, El.En. SpA also sold to Laserfin (the company which had the controlling interest in Quanta System) 10% of the subsidiary Deka M.E.L.A. Srl and 2,5% of the American subsidiary Cynosure Inc., besides an expenditure of 1,5 million Euros, half a million of which was paid out upon closure of the transaction, and the remaining million to be paid by mid-July 2004.

Investments in: associated companies

Company Name:	Headquarters	Share Capital	% owned	Value of Charge	Capital and reserves on 31/12/2003	Result 31/12/2003	Fraction account C.R.	Difference
Quanta System SpA	Milan	364.000	30,00%	129.710	1.700.428	207.136	510.128	-380.418
Actis Srl	Florence	10.200	12,00%	1.240	11.830	490	1.420	-180
Immobiliare Del.Co. Srl	Milan	24.000	30,00%	274.200	85.746	11.542	25.724	248.476
M&E	Delaware (USA)	9.924	50,00%		9.924		4.962	-4.962
Total				405.150	1.807.928	219.168	542.234	-137.084

The data related to “Immobiliare Del.Co. Srl”, the company which owns the building rented by the associated company Quanta System SpA, show a difference between the purchase price and the corresponding portion of the capital and reserves which is due to the greater value implicit in the land and buildings owned, as is documented by the estimate drawn up supporting the evaluation of the company itself.

The evaluation of the associated company, Actis Srl, which is still in the start up phase, has been maintained at cost. The equity in M&E was totally devaluated during the financial year 2001 in consideration of the fact that the company was inactive.

Financial investments - composition

	31/12/2003			31/12/2002		
Company name:	**Cost**	**Reval. (deval.)**	**Report value**	**Cost**	**Reval. (deval.)**	**Report value**
Subsidiary companies:						
Deka M.E.L.A. Srl	28.199		28.199	28.199		28.199
Cutlite Penta Srl	118.263		118.263	118.263		118.263
Valfivre Italia Srl	47.039		47.039	47.039		47.039
Deka Sarl	321.327	-244.374	76.953			
Deka Lms GmbH	1.033.305		1.033.305	511.292		511.292
Lasit Srl	110.814		110.814	110.814		110.814
Cynosure	12.994.690		12.994.690	12.994.690		12.994.690
Deka Laser Technologies	477		477			
Lasercut	467.333		467.333			
Asclepion Meditec	525.879		525.879			
Total	15.647.326	-244.374	15.402.952	13.810.297	0	13.810.297
Associated companies:						
Quanta System SpA	129.710		129.710	129.710		129.710
Actis Srl	1.240		1.240	1.240		1.240
Immobiliare Del.Co.	274.200		274.200	274.200		274.200
M&E Co.						
Total	405.150	0	405.150	405.150	0	405.150
Other companies:						
Cesvit;Corites;CEO						
Conai						
Confidi						
CALEF	10.955		10.955	10.955		10.955
R&S	516		516	516		516
RTM	285.780	-155.970	129.810	155.970		155.970
EJTN	4.500		4.500	4.500		4.500
Total	301.751	-155.970	145.781	171.941	0	171.941
Other investments:						
Securities	76.709		76.709	76.709		76.709
Total	76.709	0	76.709	76.709	0	76.709
Total	16.430.936	-400.344	16.030.592	14.464.097	0	14.464.097

Company name:	Balance 31/12/2002	Financial year operations				Balance 31/12/2003
		Increments	(Disp. assets)	Revaluations (Devaluations)	Other	
Subsidiary companies:						
Deka M.E.L.A. Srl	28.199					28.199
Cutlite Penta Srl	118.263					118.263
Valfivre Italia Srl	47.039					47.039
Deka Sarl		321.327		-244.374		76.953
Deka Lms GmbH	511.292	522.013				1.033.305
Lasit Srl	110.814					110.814
Cynosure	12.994.690					12.994.690
Deka Laser Technologies LLC		477				477
Lasercut		467.333				467.333
Asclepion Meditec		525.879				525.879
Total	13.810.297	1.837.029	0	-244.374	0	15.402.952
Associated companies:						
Quanta System SpA	129.710					129.710
Actis Srl	1.240					1.240
Immobiliare Del.Co.	274.200					274.200
M&E Co.						
Total	405.150	0	0	0	0	405.150
Other companies:						
Cesvit;Corites;CEO						
Conai						
Confidi						
CALEF	10.955					10.955
R&S	516					516
RTM	155.970	129.810		-155.970		129.810
EJTN	4.500					4.500
Total	171.941	129.810	0	-155.970	0	145.781
Other investments:						
Securities	76.709					76.709
Total	76.709	0	0	0	0	76.709
Total	14.464.097	1.966.839	0	-400.344	0	16.030.592

The amount entered in the column headed “Revaluations-Devaluations” shown for the subsidiary company Deka Sarl for 244 thousand Euros, is related to the use of the reserve fund for losses by companies in which equities are held, entered into the accounts of preceding years by El.En. SpA, a use which is a result of the vote to cover the losses of this subsidiary company which made in October 2003.

In the month of December 2003 the value of the equity in the RTM company was brought back to zero after the vote in which it was decided to employ the capital to pay the debts, the company capital was reconstituted for an amount of 245 thousand Euros in consideration of the company strategy which envisions RTM as an irreplaceable partner for the experimentation of new technologies developed by the company in the field of mechanical machining. 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.

The other bonds consist of CCT maturing on April 1st 2004 which are bound to fidejussion guarantees used for obtaining facilitated financing granted by MIUR and issued by IMI supporting research projects conducted in preceding years.

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	5.311.869	4.380.431	931.438	21,26%
Work in progress and semi finished products	2.977.924	2.395.862	582.062	24,29%
Finished products and goods for sale	1.113.872	913.532	200.340	21,93%
Total	9.403.665	7.689.825	1.713.840	22,29%

The inventory which is deposited with third parties for work, repair, technical assistance, demonstration and clinical experimentation, at the end of this financial period amounted to approx. 2,1 million Euros.

Break-down of the inventory of raw materials is shown in the chart below:

Raw material:	31/12/2003	31/12/2002	Variation	Var. %
Optical components	933.745	708.730	225.015	31,75%
Electrical and electronic components	1.950.538	1.823.947	126.591	6,94%
Mechanical components	1.732.864	1.254.362	478.502	38,15%
Hydraulic components	301.066	285.201	15.865	5,56%
Empty cases	95.210	120.339	-25.129	-20,88%
Various materials	88.297	82.773	5.524	6,67%
Fitting and fixtures	398.173	225.142	173.031	76,85%
minus: devaluation provision	-188.024	-120.063	-67.961	56,60%
Total	5.311.869	4.380.431	931.438	21,26%

Comparison between the final inventories for the two financial periods shows the considerable increase in their quantity, which is the natural effect of the rise in production volume. As of December 31st, 2002 the reserve for obsolescence of raw materials amounted to 188 thousand Euros.

Break-down of the inventory of semi-finished products 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	310.428	283.988	26.440	9,31%
Mechanical units	305.290	243.638	61.652	25,30%
Electrical units	184.040	175.165	8.875	5,07%
Hydraulic units	53.247	34.763	18.484	53,17%
Laser cavities and half-assembled sources	96.133	48.968	47.165	96,32%
Systems being assembled	1.605.077	1.280.851	324.226	25,31%
minus: devaluation provision	-34.881	-34.070	-811	2,38%
Total	2.977.924	2.395.862	582.062	24,29%

The rise shown in the quantity of semi-finished pieces is a result of the Group's policy of jobbing out the simplest parts of the manufacturing process and of the necessity of increasing the number of sets for assembly in circulation at the jobbers, where, as of December 31st, 2003 a large portion of the semi-finished pieces listed above were deposited.

Break-down of the inventory of finished products is as follows:

Finished products:	31/12/2003	31/12/2002	Variation	Var. %
Medical lasers	603.325	714.849	-111.524	-15,60%
Industrial laser sources	217.689	146.482	71.207	48,61%
Medical fittings and accessories	304.578	97.924	206.654	211,04%
Industrial laser systems	172.294	113.677	58.617	51,56%
minus: devaluation provision	-184.014	-159.400	-24.614	15,44%
Total	1.113.872	913.532	200.340	21,93%

The number of finished products shows a slight increase, due mainly to accessory medical systems for which there was a particularly accelerated sales volume in 2003.

The devaluation fund in any case has been integrated so as to represent the decrease in the value of slow moving systems.

The LIFO reserve at the end of this financial period was 174 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	2.569.714	1.757.632	812.082	46,20%
Amounts owed by subsidiary companies	12.924.080	9.946.416	2.977.664	29,94%
Amounts owed by associated companies	192.052	61.389	130.663	212,84%
Other debtors	1.839.368	1.294.893	544.475	42,05%
Total	17.525.214	13.060.330	4.464.884	34,19%

	31/12/2003	31/12/2002	Variation	Var. %
Clients in Italy	1.682.869	1.122.303	560.566	49,95%
EC clients	1.029.699	549.762	479.937	87,30%
Clients outside of EC	143.010	313.380	-170.370	-54,37%
minus: devaluation provision for debtors	-285.864	-227.813	-58.051	25,48%
Total	2.569.714	1.757.632	812.082	46,20%

Accounts receivable in foreign currency amount to 5.668 thousand dollars and to 459 British pounds and have been displayed by converting these amounts using the exchange rate in use on the day the report was drawn up, which was 1,2630 dollars per Euro and 0,7048 pounds per Euro.

Amounts receivable from subsidiary companies

Trade receivables from subsidiary companies are inherent to typical management operations. Financial receivables are related to financing issued in order to meet normal operating requirements. Among these we have entered receivables due next year from Asclepion Laser Technologies GmbH for financing of 500 thousand Euros, paid at the annual rate of 6% and reimbursed in the month of February 2004, and from Cynosure Inc. for financing of approx. 502 thousand dollars paid at the rate of 5% per annum.

Receivables payable by the end of next year have also been entered into accounts from Neuma Laser Srl for 77 thousand Euros paid at the rate of 5% per annum, Deka Lms GmbH for 256 thousand Euros paid at the BCE rate +2% up to a maximum of 5,5% for the first period, and at the BCE rate + 2% for the following periods, Deka Laser Technologies for 185 thousand dollars paid at the rate of 3% per annum, Lasercut for 1.175 thousand dollars, Cynosure Inc. for 1.391 thousand dollars, both paid at the rate of 5% per annum.

The break down of the inter-group sums for amounts receivable and amounts owed, and for expenses and income, is shown in the management report.

Analysis of other amounts receivable

Break down of the other accounts receivable is as follows:

	31/12/2003	31/12/2002	Variation	Var. %
becoming payable within the next fiscal year				
IRPEG and IRAP credits	159.995	5.428	154.567	2847,59%
VAT credits	903.066	693.897	209.169	30,14%
Security deposits	5.402	7.385	-1.983	-26,85%
Prepayments to suppliers	255.331	108.779	146.552	134,72%
Other credits	94.264	25.768	68.496	265,82%
total becoming payable within the next fiscal year	1.418.058	841.257	576.801	68,56%
becoming payable after the next fiscal year				
SP tax account	8.014	14.208	-6.194	-43,60%
Insurance policy TFM	191.307	171.807	19.500	11,35%
Credits for advanced taxes	221.989	267.621	-45.632	-17,05%
total becoming payable after the next fiscal year	421.310	453.636	-32.326	-7,13%
Total	1.839.368	1.294.893	544.475	42,05%

The financial year ended with a value added tax (IVA) credit of 903 thousand Euros which is a natural result of the intense export activity which is characteristic of the sales volume of the company.

The tax credits shown for 160 thousand Euros is related to the relative difference between the matured tax debt and the advance payments which have been made.

Among the receivables due with in five years, 9 thousand Euros have been entered as advance TFR (severance pay) payments, 191 thousand Euros as a receivable from Reale Mutua insurance covering the TFM of the administrators, while the remainder refers to the credit for advance taxes, the composition of which will be analysed further on in this report.

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

Other investments
The amount of 115 thousand Euros corresponding to the nominal value of the shares of RTM Sp.A, which were sold to Gengroup Srl and Quanta System SpA, during the first few months of this financial year, as already described in the paragraph referring to financial investments, has been entered into accounts.

Treasury stock
Following the vote of approval on behalf of the shareholders' assembly of April 24th 2002, the Board of Directors of the company proceeded with the purchase of treasury stock in accordance with the provisions established by the assembly. As of December 31st 2002, the company had acquired 22.714 shares for a total value of 255.937 Euros at an average price of 11,2678 Euros. The market price on March 24th 2004 was approx. 15 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	8.594.432	16.938.239	-8.343.807	-49,26%
cash in hand	2.931	4.717	-1.786	-37,86%
Total	8.597.363	16.942.956	-8.345.593	-49,26%

Most of the cash was used during this period for the operations of an extraordinary nature described in the paragraph on investments, for the final payment of the Cynosure shares for approx. 1.346 thousand Euros, and the distribution of dividends for approx. 1.144 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%
Total assets of accruals	632	935	-303	-32,41%
Assets of deferred incomes:				
Premiums	24.200	8.122	16.078	197,96%
Other assets of deferred incomes	23.838	9.274	14.564	157,04%
Total assets of deferred incomes	48.038	17.396	30.642	176,14%
Total	48.670	18.331	30.339	165,51%

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
Reserve for translation adjustments	4			1	5
Profits (loss) brought forward		920.000	-920.000		
Profits (loss) of the year	2.785.340	-2.785.340		2.608.165	2.608.165
Net total capital and reserves	42.509.447	-	-920.000	2.608.167	44.197.614

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
Reserve for translation adjustments	5			-4	1
Profits (loss) brought forward		1.144.322	-1.144.322		
Profits (loss) of the year	2.608.165	-2.608.165		1.732.650	1.732.650
Net total capital and reserves	44.197.614	-	-1.144.322	1.994.981	45.048.273

The assembly held on May 14th 2003 voted to distribute the results of the financial year 2002 as follows: 130.408 Euros as legal reserve, 1.333.435 Euros as extraordinary reserve, and 1.144.322 Euros as dividends.

After the operations for the purchase of treasury stock, a reserve was set aside for an amount equal to the purchase price of the stock. The reserve for treasury stock in portfolio is a closed reserve which will be maintained until the treasury stock is transferred or cancelled.

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 13,363 options will available each year. During the three years 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%

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	176.971	19.500				196.471
For taxation	419.675		-21.839			397.836
Others:						
Reserve for guarantee on the products	96.200	20.000				116.200
Other minor reserves	244.374	331.575	-244.374			331.575
Total other reserves	340.574	351.575	-244.374	-	-	447.775
Total	937.220	371.075	-266.213	-	-	1.042.082

The provision for severance indemnity is tied to the indemnity fund for end-of-term bonus for administrators (TFM).

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 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.

Among the other funds entered as losses by companies in which equities are held, there is the accrual for the losses by Lasercut Inc., as is described in detail in the paragraph on financial investments is response.

Analysis of deferred and advance taxes

Deferred taxes have been registered with the temporary differences between assets and liabilities recognised for fiscal purposes and those registered in the balance sheet.

The break down is as follows:

	Balance 31/12/2002	Provision	(Utilisation)	Other	Balance 31/12/2003
Deferred tax assets on loss account from subsidiary companies	-83.088		83.088		
Deferred tax assets on stock devaluations	-119.756	-34.787	3.135		-151.408
Deferred tax assets for provisions on guarantee products	-36.797	-7.450	962		-43.285
Deferred tax assets on credit devaluation	-27.200		799		-26.401
Other deferred tax assets	-781	-116			-897
Deferred tax liabilities for contributions on capital account	27.354		-19.851		7.503
Total	-240.268	-42.353	68.133	0	-214.488

During the financial period use of the funds for deferred taxes occurred on payment in capital account. Use of advanced taxes refers of funds previously accrued for the losses incurred by Deka Sarl, after the vote to settle up these losses, as well as for the adjustment of the receivables accrued during the preceding financial year on the basis of the fiscal aliquots now in use. Moreover, advance taxes were registered among the reserves set aside during the period with the warehouse obsolescence fund, the product warranty fund, and the fund for discounting of credits not fiscally deductible.

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
572.628	211.650	-87.250		697.028

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	624.637	835.312	-210.675	-25,22%
Amounts owed to other financiers	831.674	611.891	219.783	35,92%
Advances	361.815	90.970	270.845	297,73%
Amounts owed to suppliers	5.744.000	5.359.432	384.568	7,18%
Amounts owed to subsidiary companies	676.615	1.587.824	-911.209	-57,39%
Amounts owed to associated companies	17.799	183.889	-166.090	-90,32%
Amounts owed to tax administration	237.586	809.302	-571.716	-70,64%
Amounts owed to social security institutions	347.761	290.287	57.474	19,80%
Other creditors	777.749	629.994	147.755	23,45%
Total	10.239.384	11.018.649	-779.265	-7,07%

Amounts owed to suppliers have increased in proportion to the volume of production, and remain about 50% of the total debts.

Under the heading “Advances” 356 thousand Euros have been cashed in as 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.
Payables in foreign currency are due for approx. 29 thousand American dollars, for 9,7 thousand Swiss francs, for approx. 13,7 thousand Swedish crowns, and for approx. 53 thousand British pounds, and these have been displayed in the charts at the exchange rate in force on the date of this report, which is as follows: 1,2630 dollars per Euro, 1,5579 Swiss francs per Euro, 9,08 Swedish crowns per Euro, and 0,7048 British pounds per Euro.

Analysis of debts according to due date

	31/12/2003			31/12/2002		
	Within 1 year	From 1 to 5 year	Beyond 5 year	Within 1 year	From 1 to 5 year	Beyond 5 year
Debenture loans		619.748			619.748	
amounts owed to banks	211.471	413.165		215.564	619.748	
amounts owed to other financiers	136.732	497.173	197.770	131.809	447.037	33.045
Advances	361.815			90.970		
amounts owed to suppliers	5.744.000			5.359.432		
amounts owed to subsidiary companies	676.615			1.587.824		
amounts owed to associated companies	17.799			183.889		
amounts owed to tax administration	237.586			809.302		
amounts owed to social security institutions	347.761			290.287		
other creditor	777.749			629.994		
Total	8.511.528	1.530.086	197.770	9.299.071	1.686.533	33.045

The ordinary debenture loan of. 619.748 Euros is to be reimbursed in a single payment on 31/12/2006, 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) 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 351.592 Euros 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 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
Total			2.071.170	343.314	1.530.085	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
Financing Quanta System SpA	191.089		-191.089			
Total	2.249.059	351.592	-529.481	-	-	2.071.170

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		600.229	-600.229	-100,00%
Debts owed to tax administration for VAT	1.206	1.586	-380	-23,96%
Debts owed to tax administration for deductions	236.380	207.487	28.893	13,93%
Total	237.586	809.302	-571.716	-70,64%

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

	31/12/2003	31/12/2002	Variation	Var. %
Debts owed to INPS	319.829	264.576	55.253	20,88%
Debts owed to INAIL	14.353	14.589	-236	-1,62%
Debts owed to other Social Security Institutions	13.579	11.122	2.457	22,09%
Total	347.761	290.287	57.474	19,80%

The other debts are composed as follows:

	31/12/2003	31/12/2002	Variation	Var. %
Owed to staff for holidays	293.913	214.970	78.943	36,72%
Owed to staff for wages and salaries	273.685	251.003	22.682	9,04%
Other debts	210.151	164.021	46.130	28,12%
Total	777.749	629.994	147.755	23,45%

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.

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%
Total accrual liabilities		3.353	-3.353	-100,00%
Deferred income liabilities				
Other	345	739	-394	-53,32%
Total deferred income liabilities	345	739	-394	-53,32%
Total	345	4.092	-3.747	-91,57%

The amounts entered under the heading of accruals and deferred income do not represent data of particular importance as far as the company activity is concerned.

Memorandum Accounts

"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.

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	5.915.224	6.109.630	-194.406	-3,18%
Sales of medical laser systems	16.436.932	14.043.036	2.393.896	17,05%
Consulting and research	171.899	133.253	38.646	29,00%
Service and sales of spare parts	2.407.940	2.404.355	3.585	0,15%
Total	24.931.995	22.690.274	2.241.721	9,88%

The medical /cosmetic sector was again the most important area of activity in 2003, with revenues rising with respect to the preceding financial period. The industrial sector on the other hand, was feeling the impact of the crisis in the manufacturing sector which greatly reduced the inclination of the clients – and the Italian ones in particular - to invest showed strong growth even in a year of market stagnation and manufacturing crisis. Post-sales service sales volume was approximately the same as last year.

Break down of income by geographical area

	31/12/2003	31/12/2002	Variation	Var. %
Sales in Italy	17.930.140	17.819.584	110.556	0,62%
Sales other EC countries	4.719.157	3.532.087	1.187.070	33,61%
Sales outside EC	2.282.698	1.338.603	944.095	70,53%
Total	24.931.995	22.690.274	2.241.721	9,88%

The Italian market, represented chiefly by the Italian companies belonging to the Group, remains the strongest, but it should be noted that almost half of the products invoiced to the companies of the Group are later distributed abroad.
The increase in the sales volume for European countries demonstrates the vitality of the company on these markets, thanks also to the sales made by the subsidiary companies responsible for the distribution of medical products, like Deka Sarl e Deka Lms GmbH.
The increase in the amount outside of the EU depends mostly on the sales volume of the subsidiary Cynosure Inc. and the newly founded company Deka Laser Technologies.

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 240.803 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	5.607	7.668	-2.061	-26,88%
Expense recovery	21.678	12.514	9.164	73,23%
Capital gains on ordinary property conveyances	78.472	56.659	21.813	38,50%
Other income	1.003.428	462.109	541.319	117,14%
Contribution on fiscal year account and on capital account	18.253	18.179	74	0,41%
Total	1.127.438	557.129	570.309	102,37%

Under the heading of "other income" we have entered the amount paid for expenses granted as part of the CHOCLAB TRL01, MIN02, Dione and SIDART projects for an amount of approx. 754 thousand Euros. 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.

Inter-Group business relations
El.En. SpA controls a Group of companies which operate in the same sector of the laser industry, and to each of which a particular portion of the production and the market is assigned: Cynosure and Asclepion Laser Technologies design, manufacture and distribute laser systems for the medical field, Deka M.E.L.A. Srl, Deka Sarl e Deka Lms GmbH distribute medical-cosmetic laser equipment, Cutlite Penta Srl and Lasercut Inc. are involved in the manufacture of flat cutting systems, Ot-Las Srl for large surface marking systems, Lasit srl for small surface cutting systems, Neuma Laser Srl for customer service outside of Italy, while Valfivre Italia Srl manufactures special systems and designs and develops special laser systems for industrial applications.
The combination of different products and services offered by the Group often generates transactions between the various companies belonging to the Group itself. One of the main sources of inter-group transactions is represented by the production of laser power sources by El.En. SpA which constitute one of the fundamental elements in the manufacturing process of Cutlite Penta Srl, Valfivre Italia Srl, and Ot-Las Srl.
Other inter-group relations are based on the production of laser equipment for medical and cosmetic use by El.En. SpA, some of which are sold to the subsidiaries which operate in the same sector which then distribute them. The prices for the transfer of these goods are those which are normally offered on the market. These inter-group transactions therefore reflect the price trends on the market, though they may differ according to what the marketing policy of the Group is at the time.

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	12.961.038	11.420.350	1.540.688	13,49%
Purchase of packaging	92.185	66.720	25.465	38,17%
Purchase of stationery	44.542	37.824	6.718	17,76%
Purchase of fuels	42.930	39.373	3.557	9,03%
Purchase of advertising materials	38.904	18.279	20.625	112,83%
Shipment of purchases	132.408	104.394	28.014	26,83%
Other purchase expenses	62.986	46.408	16.578	35,72%
Other purchases	86.318	96.046	-9.728	-10,13%
Total	13.461.311	11.829.394	1.631.917	13,80%

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'	1.852.646	1.449.676	402.970	27,80%
User services	192.052	187.917	4.135	2,20%
Consulting and technical services	633.587	553.372	80.215	14,50%
Maintenance	88.905	77.212	11.693	15,14%
Services and commercial consulting	314.222	193.228	120.994	62,62%
Shipment	207.655	111.776	95.879	85,78%
Insurance	75.844	64.024	11.820	18,46%
Travel and overnight expenses	298.372	298.603	-231	-0,08%
Commissions	109.336	103.679	5.657	5,46%
Promotional and advertising expenses	193.759	119.410	74.349	62,26%
Royalties	43.849	36.495	7.354	20,15%
Other services	1.633.512	1.378.726	254.786	18,48%
Total	5.643.739	4.574.118	1.069.621	23,38%

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 (Nuovo Mercato).

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	23.850	22.573	1.277	5,66%
Associating contributions	20.550	17.785	2.765	15,55%
Newspaper and magazine subscriptions	9.525	7.285	2.240	30,75%
Expenses for vehicles	57.817	53.320	4.497	8,43%
Capital losses on ordinary possession conveyances	254	134	120	89,55%
Purchase of consumables art. 67 T.U.	65.079	62.844	2.235	3,56%
Fines	3.047	1.097	1.950	177,76%
Other minor charges	57.780	76.215	-18.435	-24,19%
Total	237.902	241.253	-3.351	-1,39%

Among the production costs, the expenses sustained by the Group for Research and Development are of particular importance. During the year 2003 approx. 4.334 thousand Euros were spent for personnel working full or part time on Research and Development, for the purchase of instruments, materials, equipment and consulting fees for research.

In order to pay for the above mentioned expenses, income has been cashed in and grants received, both by means of re-invoicing expenses, and by contributions given in the form of tax credits during 2003 for a total amount of approx. 1.100 thousand Euros. The remaining amount has been self-financed.

C) Financial income and charges

Analysis of the financial income

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

Income from equity investments	Dividends	Income from negotiation	Other	Total
In subsidiary companies	603.125			603.125
Total	603.125	-	-	603.125

During this financial period, dividends for an amount of 286 thousand Euros have been received from Deka M.E.L.A. Srl. Moreover, 100 thousand Euros from the subsidiary Valfivre Italia Srl as an extraordinary distribution of profits which had been earlier used for accruals. The tax credit due on these amounts is a full credit and amounts to approx. 217 thousand Euros.

Analysis of other financial income

Financial income form other sources is broken down as follows:

	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	66.951	30.513	36.438	119,42%
Total	68.330	38.254	30.076	78,62%
financial income different from the previous ones: to third party				
Interests - assets - to bank	213.273	589.167	-375.894	-63,80%
Profits on commercial exchanges	145.689	282.165	-136.476	-48,37%
Other financial incomes	323	468	-145	-30,98%
Total	359.285	871.800	-512.515	-58,79%
Total	428.323	913.117	-484.794	-53,09%

Interest assets to banks shows a decrease due to the effects of the drop in interest rates and because of the use of are large part of the cash for the extraordinary operations already described. Moreover, we have entered income from temporary investment operations of the remaining cash.

Interests 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 medium and long - term loans	50.223	66.264	-16.041	-24,21%
losses on commercial exchanges	690.231	241.404	448.827	185,92%
other financial charges	82	7.342	-7.260	-98,88%
Total	800.961	375.435	425.526	113,34%
Financial charges towards associated companies				
debts to associated companies	4.768	7.594	-2.826	-37,21%
Total	4.768	7.594	-2.826	-37,21%
Total	805.729	383.029	422.700	110,36%

Interest charges owed to banks for loans and for mid- and long-term financing refer to the loan issued by the Cassa di Risparmio of Florence and to the facilitated financing granted by MIUR (ex MURST) and paid by IMI and by the Monte Paschi Merchant.

The increase in the difference in exchange liabilities is derived from the decrease in the value of the U.S. dollar with respect to the EU currency during the period that this statement refers to, and to the relative devaluation of both the financial and commercial receivables due to the American subsidiary. The deposit paid towards the purchase of the building used by Lasercut underwent the same process because of the devaluation of the American dollar since the date of payment of the deposit.

D) Value adjustments for financial activities

The company effected a direct devaluation for an amount of 156 thousand Euros related to the value of the equity held in R.T.M. SpA, after the decision to bring back to zero the capital stock in order to cover the losses, as has already been described in this Appendix. It also made an indirect devaluation with the accrual in the “Fund for losses by companies in which equities are held” for an amount of 332 thousand Euros of the equity held in Lasercut Inc. for an amount equal to their share of the losses shown by the subsidiary as of December 31st 2003.

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	49.029	9.511	39.518	415,50%
Other extraordinary incomes		25.572	-25.572	-100,00%
Total	49.029	35.083	13.946	39,75%

The chart below shows the breakdown of extraordinary charges:

	31/12/2003	31/12/2002	Variation	Var. %
Extraordinary charges:				
Miscellaneous losses	33.352	17.438	15.914	91,26%
Other extraordinary charges	4	2	2	100,00%
Total	33.356	17.440	15.916	91,26%
Taxation related to the previous fiscal years				
Other taxes related to the previous years	97		97	0,00%
Total	97		97	0,00%
Total	**33.453**	**17.440**	**16.013**	**91,82%**

Taxes on income for the financial period

P_24-T

Description:	31/12/2003	31/12/2002	Variation	Var. %
IRPEG	689.696	1.076.880	-387.184	-35,95%
IRAP	320.812	327.636	-6.824	-2,08%
IRPEG Deferred (Advanced)	32.798	-110.957	143.755	-129,56%
IRAP Deferred (Advanced)	-7.018	-4.053	-2.965	73,16%
Total direct taxes	1.036.288	1.289.506	-253.218	-19,64%

The fiscal expenses related to the financial period are influenced positively by the Dual Income Tax (DIT) conceded newly-quoted companies on the stock market which has subjected the taxable income to a 7% aliquot. This determines a lower percentage of taxes on the profits for the financial period. The tax rate for the financial period has shown a slight increase over last year, rising from 33,08% in 2002 to 37,36%, as a result of the non-deductible costs, the largest portion of which is due to the accrual made by devaluating the equity in the subsidiary Lasercut on account of its operating losses.

The break down for the deferred and advance taxes is shown in the chart containing the analysis of the Provisions for liabilities and charges. With the taxes for the income of the financial year, the total due for this period has been entered.

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	6,0	6	5,5	6	0	0,00%
Management	1,0	1	2,0	1	0	0,00%
White collar	68,5	72	60,5	65	7	10,77%
Blue collar	34,0	37	27,5	31	6	19,35%
Total	109,5	116	95,5	103	13	12,62%

Salaries paid to Administrators and Auditors

The chart below shows the cumulative salaries paid to the administrators and auditors.

	31/12/2003	31/12/2002	Variation	Var.%
Salaries to Administrators	354.000	274.925	79.075	28,76%
Salaries to Auditors	37.769	32.554	5.215	16,02%
Total	391.769	307.479	84.290	27,41%

The chart below shows the salaries paid to the administrators and auditors of the parent company El.En. SpA in conformity with art. 78 of the Consob regulations approved by vote 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 annual report on 31.12.05	90.000			6.500
Barbara Bazzocchi	Deputy Member	Until the date of the assembly for the approval of the annual report on 31.12.05	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the annual report on 31.12.05	90.000			6.500
Francesco Muzzi	Member	Until the date of the assembly for the approval of the annual report on 31.12.05	12.000			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the annual report on 31.12.05	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the annual report on 31.12.05	12.000			
Paolo Blasi	Member	Until the date of the assembly for the approval of the annual report on 31.12.05	12.000			
Horace Furumoto	Member	Until November 6th 2003	10.159			
Paolo Ernesto Agrifoglio	Member	Until the date of the assembly for the approval of the annual report on 31.12.05	12.000			
Alberto Pecci	Member	Until the date of the assembly for the approval of the annual report on 31.12.05	12.000			
Ennio Carnevale	Member	Until the date of the assembly for the approval of the annual report on 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 in 2003, 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 company 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.

- Mr. Leonardo Masotti, president of the scientific commission was awarded the sum of 10.800 Euros;
- Mr. Carlo Raffini, as head of the Quality Control Systems was awarded the amount of Euros 59.393;
- Mr. 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		**1.732.650**		**2.608.165**
Amortizations	1.203.214		1.050.539	
Variation of employee severance indemnity	124.400		110.669	
Variation of provisions for risks and charges	104.862		170.846	
		3.165.126		**3.940.219**
Variation in the current assets and liabilities:				
Debtors	-1.349.294		-2.965.110	
Stocks	-1.713.840		-1.199.161	
Prepayments and accruals assets	-30.339		25.965	
Creditors	327.060		2.648.148	
Prepayments and accruals liabilities	-3.747		-130.838	
		-2.770.160		**-1.620.996**
Cash flow generated by manufacturing activity		**394.966**		**2.319.223**
Cash flow generated by investment activity:				
(Increase) decrease in tangible assets	-1.776.698		-937.863	
(Increase) decrease in intangible assets	-178.459		-89.481	
(Increase) decrease in equity investments	-1.566.495		-13.252.138	
		-3.521.652		**-14.279.482**
Cash flow from financial activity:				
Increase (decrease) in mid-long term financing	8.278		-529.481	
Variation in short term financing	-1.114.603		1.616.011	
Variation in financial credits	-3.115.590		-8.400	
(Increase) decrease investments which are not permanent	-115.000		-255.937	
Variation in Capital and Reserve	262.330		1	
Dividends distributed	-1.144.322		-920.000	
		-5.218.907		**-97.806**
Increase (decrease) in cash at bank and on hand		**-8.345.593**		**-12.058.066**
Cash at bank and on hand at the start of the financial period		**16.942.956**		**29.001.022**
Cash at bank and on hand at the end of the financial period		**8.597.363**		**16.942.956**

This summary illustrates how the cash flow generated the operating activities was reduced not only in relation to the fall in revenue, but also on account of the expansion of current assets and liabilities.

The investment activity was particularly intense: real estate investments made during this financial year, for which details are provided in the section concerning technical investment activity, is extraordinary in character and not related to the typical expenditures for our operations under ordinary management; the extraordinary financial operations which were used to sustain the growth of the Group, are shown both in terms of expenditures made directly through the purchase of equities, as well as by the increase in the financing necessary to sustain the activity of the subsidiary companies, and by the payment of instalments for transactions concluded during the preceding year.

The present statement, consisting of Balance Sheet, Profit and Loss Account, and Appendix, represents a truthful and correct economic and financial situation as well as the economic results of the financial period and corresponds to the entries in the accounts.

For the Board of directors
The President – Ing. Gabriele Clementi