

# El.En. S.p.A.

## Report on the results for the financial year ending December 31<sup>st</sup> 2002

To our shareholders,

The financial year ending December 31<sup>st</sup> 2002 closes with a net profit of 2.608 thousand euros amounting to 1.290 thousand euros, net after taxes. This result, which represents a slight decrease with respect to last year, shows a considerable increase in the operative profits but is negatively influenced by the financial management and by the increase in fiscal pressure on the income before taxes; in the first case, the drop is due to the decreased amount of dividends cashed in by the subsidiary companies, whereas , the increased tax load is due to the change in the rules governing the so-called DIT facilitation, which severely penalised companies just starting to be quoted on the stock market like El.En, which therefore was subjected to severe limitations of one of the main incentives of being quoted on the stock market in the first place.

### 1) Main financial and economic data

The activities El.En. S.p.A., 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, research and development activity also brought in a small profit from payments made for applications to specific projects and reimbursement for research costs.

The income registered for the financial year 2002 show an increase of 38% with respect to the previous year, which represents a brilliant result which is even better than expected.

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:

	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Industrial systems and lasers	6.110	26,93%	3.905	23,77%	56,47%
Medical and cosmetic lasers	14.043	61,89%	10.194	62,05%	37,75%
Research and Development	133	0,59%	86	0,52%	54,68%
Service	2.404	10,60%	2.243	13,66%	7,18%
<b>Total</b>	<b>22.690</b>	<b>100,00%</b>	<b>16.428</b>	<b>100,00%</b>	<b>38,12%</b>

In sales, the medical-cosmetic laser sector proved again in 2002 to be the most important of the four, and profits increased over the preceding year. Of considerable importance were the products manufactured by Cynosure for the American market, which for the first time represent a considerable percentage in the overall sales volume of El. En.

The sector of industrial applications, power source lasers and beam delivery systems produced for industrial systems saw considerable growth, in proportion with the increase in the business volume of the El.En Group in the sector of laser systems for industry. This result gives particular satisfaction to the company and is promising for further development in the next few months.

As far as activity is concerned in the field of after-sales technical assistance is concerned, this sector has grown along with the number of installations which are serviced. This activity is of fundamental strategic importance to the Company because a post-sales service which is punctual, efficient and economical vastly influences the clients perception of the quality of the "extended product" which the firm offers and determines its position on the market.

The research sector showed an increase in revenue with respect to last year. It should be noted that during this financial period a grant was received for expenses incurred for work related to the CHOCLAB project for an amount of about 329 thousand euros; this sum, which is issued as a “reimbursement for expenses” has been entered into accounts under the heading of “other revenues and income”.

The following chart shows the reclassified profit and loss account:

<b>Profit and loss account</b>	<b>31/12/2002</b>	<b>Inc.%</b>	<b>31/12/2001</b>	<b>Inc.%</b>	<b>Var.%</b>
Net turnover from sales and services	22.690	95,6%	16.428	95,8%	38,1%
Variation in stock of finished goods and WIP	497	2,1%	519	3,0%	-4,1%
Other revenues and income	557	2,3%	199	1,2%	179,3%
<b>Value of production</b>	<b>23.745</b>	<b>100,0%</b>	<b>17.147</b>	<b>100,0%</b>	<b>38,5%</b>
Costs for raw materials	11.725	49,4%	9.001	52,5%	30,3%
Variation in stock of raw material	(932)	3,9%	(711)	4,1%	31,2%
Other direct services	1.910	8,0%	1.209	7,1%	58,0%
<b>Gross margin</b>	<b>11.042</b>	<b>46,5%</b>	<b>7.647</b>	<b>44,6%</b>	<b>44,4%</b>
Other operating services and charges	3.031	12,8%	2.698	15,7%	12,3%
<b>Added value</b>	<b>8.012</b>	<b>33,7%</b>	<b>4.949</b>	<b>28,9%</b>	<b>61,9%</b>
For staff costs	3.802	16,0%	2.676	15,6%	42,1%
<b>Gross operating profit</b>	<b>4.210</b>	<b>17,7%</b>	<b>2.274</b>	<b>13,3%</b>	<b>85,2%</b>
Depreciation, amortisation and other accruals	1.124	4,7%	948	5,5%	18,6%
<b>Net operating profit</b>	<b>3.085</b>	<b>13,0%</b>	<b>1.326</b>	<b>7,7%</b>	<b>132,7%</b>
Net financial income (charges)	996	4,2%	2.487	14,5%	-59,9%
<b>Operating profit</b>	<b>4.082</b>	<b>17,2%</b>	<b>3.813</b>	<b>22,2%</b>	<b>7,0%</b>
Value adjustments (Devaluations)	(202)	0,8%	(148)	0,9%	36,4%
Extraordinary income (Charges)	18	0,1%	11	0,1%	58,8%
<b>Earning before taxes</b>	<b>3.898</b>	<b>16,4%</b>	<b>3.676</b>	<b>21,4%</b>	<b>6,0%</b>
Income taxes on the income of the period	1.290	5,4%	891	5,2%	44,8%
<b>Profit before interest of third parties</b>	<b>2.608</b>	<b>11,0%</b>	<b>2.785</b>	<b>16,2%</b>	<b>-6,4%</b>

The gross margin rose from 7.647 thousand euros to 11.042 thousand euros, showing an increase both with respect to the previous year (44.4%) and in the amount of the Value of Production (46.5 % in 2002 as opposed to 44.6% in 2001) thanks to increased profits from sales as well as a considerable increase in the amount invoiced.

Operating charges rose from 2,698 thousand euros in 2001 to 3.031 thousand in 2002. This increase was due to a series of different factors, like the increase in research and development expenses, internal reorganisation which was made necessary in order to equip the company with the structures necessary for the new expansion phase planned for the next financial periods, the rise in expenses for commercial items and marketing programs which were implemented with the purpose of strengthening the presence of the products and trade-marks of the company on the domestic and international markets. The limitation of the increase of this aggregate cost in relation with the development of the activities has contributed to the improvement of the operating profits.

Expenses for personnel were 3,802 thousand euros, showing an increase of 42.1%. The staff members rose from 88 people on December 31, 2001 to 103 people on December 31, 2002; new staff was hired for all sectors of company activities.

The gross operating margin was 4.210 thousand euros, showing an increase of 85,2% over the 2.274 thousand euros for the preceding financial year, representing an impact of 17,7% approx. on the value of production.

The entry for depreciations, amortisations and other accruals shows a slight increase, rising from 948 thousand euros in the preceding year to 1.124 thousand euros in 2002 with an impact of approx. 4,7% on the value of production.

Operating profits rose from 1.326 thousand euros 2001 to 3.085 thousand euros in 2002 showing an increase of 132,7% with an impact of 13% on the value of production. It should be noted that the increase in operating profits, i.e. the profits which are directly related to design and manufacture of laser systems, is over 100%, a brilliant result for the financial year 2002 and cause for considerable satisfaction for the management.

Results of the financial management are in the black for an amount of 996 thousand euros, a considerable decrease with respect to the preceding financial period (2.487 thousand euros). This decrease is due mainly to the smaller amount of dividends cashed in during 2002 by the subsidiary companies (287 thousand euros in 2002 as opposed to 983 thousand euros in 2001, net of the relative tax credits), as well as to the use of a large part of the cash on hand for extraordinary operations, like the purchase of Cynosure Inc. and of Immobiliare Del.Co. Srl, and the reduction in the interest rates. The reduced distribution of dividends by the subsidiary companies reflects the less successful results of 2001 with respect to 2000, since in 2002 dividends were paid related to the profits of the financial year 2001.

As already described in the Appendix, the cost entered under the heading of rectification of value is related to the accrual for the Fund for losses by subsidiaries for the loss registered for the subsidiary Deka Sarl.

Profits before taxes amounted to 3.898 thousand euros. Its percentage of the value of production is 16,4%, down from the 21,4% of 2001, but the overall increase is 6%.

The tax rate for the financial year 2002 rose considerably with respect to the preceding year, as a consequence of the change in the characteristics of the so-called DIT facilitation. The new rules introduced this year severely penalised El.En. which, as a company just starting to be quoted on the stock market, had expected to receive a series of benefits from the DIT. This penalisation from the new rules caused the impact of the taxes related to income before taxes to rise to 29%, a sharp increase over the 23% for 2001.

The reclassified balance sheet which follows shows the results compared with those of last year.

	31/12/2002	31/12/2001
<b>Balance Sheet</b>		
Intangible assets	871	1.226
Tangible assets	3.428	3.096
Equity investments	14.464	1.212
Other investments	787	686
<b>Total fixed assets (A)</b>	<b>19.550</b>	<b>6.220</b>
Stocks	7.690	6.491
Trade debtors	11.432	8.256
Other debtors	860	1.188
Own shares	256	
Cash in banks and on hand	16.943	29.001
<b>Total current assets (B)</b>	<b>37.181</b>	<b>44.937</b>
Trade creditors	5.516	3.700
Other debtors	3.258	1.136
Financial liabilities due within 12 months	529	334
<b>Total current liabilities (C)</b>	<b>9.303</b>	<b>5.170</b>
<b>Net working capital (D)= B-C</b>	<b>27.877</b>	<b>39.767</b>
Employee severance indemnity	573	462
Other provisions	937	766
Net medium and long term financial debts	1.720	2.249
<b>Mid and long terms creditors (E)</b>	<b>3.229</b>	<b>3.477</b>
<b>Net invested capital (A + D - E)</b>	<b>44.198</b>	<b>42.509</b>
Shareholders' equity	44.198	42.509
<b>Shareholders' equity</b>	<b>44.198</b>	<b>42.509</b>

The net financial position of the company as of December 31<sup>st</sup>, 2002 is as follows:

<b>Net financial position</b>		
	<b>31/12/2002</b>	<b>31/12/2001</b>
Financial mid and long term debts	(1.720)	(2.249)
<i>Financial mid and long term debts</i>	<i>(1.720)</i>	<i>(2.249)</i>
Financial liabilities due within 12 months	(529)	(334)
Cash in banks and on hand	16.943	29.001
<i>Net financial short term position</i>	<i>16.413</i>	<i>28.667</i>
<b>Total financial net position</b>	<b>14.694</b>	<b>26.418</b>

The net financial position of the company is in the black for the amount of 14 thousand euros.

Cash resources were absorbed chiefly by the closure of the operations for the purchase of Cynosure Inc. for approx. 10.993 thousand euros and Immobiliare Del.Co. Srl for 274 thousand euros, besides the payment of dividends for the amount of 920 thousand euros.

Remaining cash resources are invested almost entirely in temporary uses so that they will be available for strategic investments when the opportunity arises.

Accounts receivable from clients and final stock have increased on account of the rise in the volume of production and also in support of the efforts of the company to acquire new markets, by financing the commercial activity by means of a policy of extended payments granted to clients and a greater amount of equipment available for display. The increase in final stock, moreover, assures quicker delivery of products and spare parts.

## 2) Financial results of the subsidiary companies

El. En S.p.A. controls a group of 10 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 contains a brief summary of the financial results of the companies which are part of this group, after which there are brief explanatory notes concerning the activities of the individual companies and a comment on the results for the financial period 2002; for the Cynosure and Lasit Srl companies, which became subsidiaries during the financial period, the data refers to the entire year.

	<b>Net Turnover</b>	<b>Net Turnover</b>	<b>Var.</b>	<b>Net income</b>	<b>Net income</b>
	<b>31/12/2002</b>	<b>31/12/2001</b>	<b>%</b>	<b>31/12/2002</b>	<b>31/12/2001</b>
Cynosure (*)	23.314	25.755	-9,47%	-2.006	-6.718
Deka Mela Srl	14.262	11.199	27,36%	932	940
Cutlite Penta Srl	8.316	6.433	29,26%	59	-272
Valfivire Italia Srl	399	434	-8,09%	28	-29
Deka Sarl	1.025	1.453	-29,43%	-206	-114
Deka Lms GmbH	1.542	1.201	28,43%	112	62
Deka Dls GmbH	429	0		-18	0
Ot-Las Srl	7.392	3.066	141,05%	983	303
Lasit Srl	3.511	3.130	12,18%	117	35
Neuma Laser Srl	200	196	2,26%	-30	-30

(\*) consolidated data

### 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 operate throughout the world in the laser field: Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are 100% controlled and act as local distributors which also offer after-sales service; Suzhou Cynosure in the People's Republic of China is 51,60% owned and also manufactures special equipment for dermatological applications.

Cynosure also has a 40% ownership of Sona International Inc., a company which manages both directly, and as franchises, hair removal institutes in the United States; Cynosure supplies SONA with the lasers which they use for their activity. Sona International has a 100% interest in Sona Laser Centres Inc, which runs the franchising of the Sona laser hair removal centres.

The Cynosure Group closed the financial year 2002 with a twelve month loss of approx. 1.962 thousand dollars as opposed to the 6.016 thousand dollars for the preceding financial period. As part of the operations for the purchase of Cynosure by El.En. Spa, Cynosure Inc. registered approx. 624 thousand dollars as the cost relative to the revenue cashed in by the staff as part of the "cashless exercise" of the options in conformity with the new regulations now in force in the United States.

#### **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. S.p.A. During 2002 gross income rose 27,4% with respect to the preceding year. This growth was due chiefly to the increase in foreign sales, especially to clients outside of the European Union. The net result for the financial period remains substantially unchanged with respect to last year, because of the growing pressure from competition which has reduced the profit margin and the considerable marketing expenses sustained in order to promote development.

#### **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 S.p.A. During 2002 the gross income rose 29,3% over the preceding year, thanks mainly to sales on the domestic market. The company has started to show a positive net result notwithstanding the highly unfavourable market for machine tools for manufacturing at this time. This increase has been achieved thanks to the promotional activities and an increase in expenses for personnel involved in production, while the usual activities for the development of the new laser systems which are necessary to maintain the market position and attract new clients, has continued without interruption.

#### **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 28 thousand euros.

#### **Ot-Las Srl**

The company designs and manufactures special CO2 laser marking systems for decorations on large surfaces. The company closed the financial period 2002 with an exceptional increase of 141% in the gross income with respect to the preceding year. This success is the result of years of work and investment in the development of complex marking systems for large surfaces, a field in which this company is now a leader. The company offers technologically advanced solutions for the manufacture of strategic components, thanks to the technical collaboration with the parent company, El.En. The success of the company is reflected in the increase in sales volume and profits which have almost been tripled.

#### **Lasit Srl**

Lasit Srl has been part of the group consolidation since December 2002. The company designs and manufactures laser marking systems complete with specific software which is used for marking not only metals, but raw materials like wood, glass, leather and textiles. For the financial year 2002, Lasit showed an increase in sales volume of 12% with respect to last year and this reflects the continuing growth trend which has been shown over the last few years.

#### **Neuma Laser Srl**

The company, which closed the financial period with a loss of approx. 30 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.

#### **Deka Sarl**

This company acts as a distributor in France for medical laser equipment produced by El.En. S.p.A. and supplies after-sales services for industrial, medical and cosmetic laser systems. The company had to continue to deal with the crisis of the French market, and showed a sales volume below expectations, especially in the second semester and inferior to the dimensions of the sales structure. The company also conducted promotional activities which, since they were not confined exclusively to the French area, benefited the other companies of the group, and in particular the parent company El. En. S.p.A..

#### **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. The sales volume for 2002 was below that expected, chiefly due to the continuation of the difficult circumstances of the German market. In any case, the financial year closed with a profit of approx. 112 thousand euros. We believe that this is a very good result and can be further improved on a soon as the financial situation becomes less uncertain.

#### **Deka Dls GmbH**

Deka Dls GmbH, was founded in January of 2002 by our German distributor, Deka Lms GmbH, for the purpose of distributing laser systems for dentistry in Germany. It is just now starting to move into the market, and is expected to be developing a larger sales volume and, consequently, increased profits.

### **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. S.p.A. of laser sources, which constitutes a fundamental element in the manufacturing operations of Cutlite Penta Srl, Valfivire 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. S.p.A., some of which are sold to Cynosure, Deka M.E.L.A. Srl, Deka Sarl, and 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.

Subsidiary companies:	Financial credits		Commercial Credits	
	< 1 year	> 1 year	< 1 year	> 1 year
Cynosure			937	
Deka MELA Srl			3.186	
Cutlite Penta Srl			2.616	
Valfivire Italia Srl			170	
Deka Sarl			643	
Deka Lms GmbH		256	355	
Deka Dls GmbH			124	
Lasit Srl			104	
Ot-Las Srl			1.467	
Neuma Laser Srl		77	11	
<i>Total</i>		<b>333</b>	<b>9.613</b>	

Associated companies:	Financial credits		Commercial Credits	
	< 1 year	> 1 year	< 1 year	> 1 year
Quanta System Spa	7		28	
Immobiliare Del.Co. Srl	14			
M&E			13	
<i>Total</i>	<b>21</b>		<b>41</b>	

Subsidiary companies:	Financial payables		Commercial payables	
	< 1 year	> 1 year	< 1 year	> 1 year
Cynosure	1.424		47	
Deka MELA Srl			16	
Cutlite Penta Srl			93	
Deka Lms GmbH			6	
<i>Total</i>	<b>1.424</b>		<b>163</b>	

Associated companies:	Financial payables		Commercial payables	
	< 1 year	> 1 year	< 1 year	> 1 year
Quanta System Spa	191		-7	
<i>Total</i>	<b>191</b>		<b>-7</b>	

The financial debts towards Quanta Fin Srl refer to the seven-year financing which was originally issued to Quanta Fin Srl (incorporated in the financial period 2002 by Quanta System Spa) to be reimbursed in a single payment on June 30<sup>th</sup>, 2003. This financing was already partially reimbursed in August of 2001.

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Cynosure	24	21		45
Deka MELA Srl	5	38		44
Cutlite Penta Srl	86	7		93
Valfivire Italia Srl	4	19		22
Deka Sarl	4	36		39
Deka Lms GmbH		11		11
Neuma Laser Srl		3		3
<i>Total</i>	<b>124</b>	<b>133</b>		<b>257</b>

Associated companies:	Purchase of raw materials	Services	Other	Total
Quanta System Spa	91			91
<i>Total</i>	<b>91</b>			<b>91</b>

Subsidiary companies:	Sales	Services	Total
Cynosure	937		937
Deka MELA Srl	9.973	108	10.081
Cutlite Penta Srl	1.695	205	1.900
Valfivire Italia Srl	253		253
Deka Sarl	442	4	447
Deka Lms GmbH	805	3	807
Deka Dls GmbH	188		188
Lasit Srl	85	1	86
Ot-Las Srl	3.056	60	3.116
Neuma Laser Srl	8		8
<i>Total</i>	<b>17.443</b>	<b>381</b>	<b>17.824</b>

<b>Associated companies:</b>	<b>Sales</b>	<b>Service</b>	<b>Total</b>
Quanta System Spa	31		31
<i>Total</i>	31	0	31

<b>Subsidiary companies:</b>	<b>Other revenues</b>
Cynosure	23
Deka MELA Srl	22
Cutlite Penta Srl	72
Deka Lms GmbH	1
Deka Dls GmbH	1
<i>Total</i>	<b>120</b>

The other revenues refer mainly to the rents paid by Deka and Cutlite Penta for the part of the buildings that they occupy on the grounds in Calenzano.

During this financial period the company has claimed dividends and cashed in credits for an amount of 287 thousand euros from the subsidiary Deka M.E.L.A. Srl., and registered the relative tax credit for 161 thousand euros.

7,5 thousand euros have been entered on the balance sheet for interests due on the seven-year financing issued by Quanta Fin Srl. This financing loan will be reimbursed by June 30<sup>th</sup> 2003.

The amounts shown in the above tables refer to operations which are inherent to the standard management policies of the company.

#### 4) Research and development activity

During the financial year 2002, 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.

Behind these products there is an intense activity of research and development which is organised according to brief and mid-term schedules. Financing for applied research and for the development of prototypes is derived in part from company resources and in part from research grants which are derived from contracts stipulated with institutes which manage them on behalf of the Ministry of Education, University and Research, with the European Union directly, or through research institutes. Among the research projects conducted during this financial period, we can cite that related to the methods and instruments used for characterisation and control during use of the characteristics of the laser ray for industrial cutting operations (European Project EUREKA 2379); also in the industrial sector, is the development of new galvanometers for laser ray movement using mirrors for marking functions and for surface treatments in general, often for the purpose of beautifying and enhancing a wide range of materials. In the medical sector, laser equipment is already undergoing clinical testing for applications in the field of physical therapy and orthopaedics and activity is being conducted for the training of young researchers to be hired by the company for the further development of this specific field. The company has also started to develop laser devices and equipment for mini-invasive micro-surgery assisted by a robot, after having won the grant on the basis of an evaluation conducted by international experts from the MIUR project for New Medical Engineering as part of the FIRB (Basic Research Investment Fund). At the same time, clinical experimentation is being conducted in Italy and in other qualified European centres to confirm and record the effectiveness of therapeutic laser treatments. There is also a program for the development of new laser equipment for evaluating works of art (according to the PON "National Operative Plans" for the development of strategic sectors in Southern Italy).

The chart below shows the costs sustained for research activities conducted during this period.



	31/12/2002
Costs for personnel and general expenses	3.151
Costs for instruments and equipment	67
Costs for building of prototypes	462
Costs for technological consultants	441
Services provided	68
Intangible assets	2
<b>Total</b>	<b>4.191</b>

The amount spent is equal to approx. 18% of total sales. In order to pay these expenses El.En. S.p.A. has entered into accounts, during the financial year 2002, income in the form of reimbursements and tax credits for an amount of 351 thousand euros. From these figures it is evident that the efforts and resources expended in this direction are considerable.

## 5) Operation Cynosure

On May 6th, 2002 El.En. S.p.A. concluded the purchase of a controlling interest of 60% in Cynosure Inc., an American company which is a leader in the field of design, manufacture and sales of laser systems for the medical field. This operation was concluded with an increase in capital, the income from which was used by Cynosure for a buy-back of shares. For completion of the purchase operations, a partial expenditure of 9,897 million dollars was required, and this amount was entered into accounting at an exchange rate of 0,9002 euros per dollar, for a total amount of 10.994 thousand euros; conclusion of the purchase operations will also require a final payment of 1,494 million dollars in relation to the definitive value assigned to the company (difference between the consolidated total sales for 2002 and the consolidated operating losses for 2001) subtracting the down payment already paid.

## 6) 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 is made up of ten members who will remain in office until September 5th 2003, and is composed as follows:

Name	Position	Place and date of birth
Gabriele Clementi	President of the Board	Incisa Valdarno (FI), 8 July 1951
Barbara Bazzocchi	Board director	Forlì, 17 June 1940
Andrea Cangioli	Board director	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
Horace Furumoto	Board member	Hawaii (USA), 13 December 1931
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

\*\* Appointed by the Banca Toscana in accordance with agreements which are no longer in existence.

The members of the Board of Directors, for the period in which they are in office have their legal residence at company headquarters, El.En. S.p.A. in Calenzano (FI), Via Baldanzese n. 17.

On September 5th 2000, the Board of directors appointed as administrative directors Mr. Andrea Cangioli and Mrs. Barbara Bazzocchi, to whom all powers for ordinary and extraordinary administration were conferred, with the exception of those powers which cannot be delegated in accordance with art. 2381 of the Civil Code, with the power to sign all documents.

In order to act in conformity with the Self-disciplining Code for companies quoted on the stock market:

- a) On August 31st 2000 the company appointed Prof. Paolo Blasi and Dr. Michele Legnaioli as independent administrators;
- b) On September 5th, 2000 the Board created the following committees: 1) the “Committee for appointments”, which has the task of making the procedure for the appointment of the board members more simple and flexible; 2) the “Committee for fees” which has the task of simplifying and giving information regarding the method of payment and the setting of amounts for the fees to be paid to the members of the board; 3) the “Auditors Committee” which has the task of guaranteeing the accuracy and the adequacy of the internal auditing system.
- c) On September 5th 2000 the Board of Directors appointed a lawyer, Maria Federica Masotti as supervisor of internal auditing.

The Board of Directors meets at least every trimester in order to guarantee adequate information for the *Collegio Sindacale* (Auditor’s office) concerning the activities and the most important operations conducted by the Company and by the subsidiaries.

Internal auditing of the company is conducted by the head company of the Group in collaboration with the personnel of the subsidiary companies. From an organisational point of view, the administrators of the head company of the Group attend the board meetings of the subsidiary companies as board members and have the office of single administrator, or else, the administrative organ of the subsidiary supplies the fully detailed information required for establishing the organisation of the activities of the Group.

As far as the accounting information is concerned, before the end of the month following the trimester being considered, the subsidiaries are required to supply to the Group head all the information necessary for drawing up the consolidated financial and economic reports.

On October 27<sup>th</sup> 2000 and integration of April 14<sup>th</sup> 2003, the partners, Immobiliare del Ciliegio Srl, Andrea Cangilioli, Gabriele Clementi, Barbara Bazzocchi, Francesco Muzzi, Pio Burlamacchi, Carlo Raffini and Autilio Pini stipulated a company pact ( the “Pact” ) the subject of which was:

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

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.

## 7) 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:

Associated and subsidiary companies

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 2002, are clearly shown in detail on breakdown charts in this financial statement. Transactions with subsidiary and associated companies take place at ordinary market conditions.

Members of the board of Directors, the Board of Auditors and other strategic executives

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

Legal bodies in which Members of the board of Directors, the Board of Auditors and other strategic executives participate

Members of the Board of Directors, the Board of Auditors and the President of the Scientific Commission possess the investments shown in the following paragraphs of this report.

Physical persons having investments in El. En spa

Besides the members of the Board of Directors, the board of Auditors and the President of the Technical-Scientific Commission, the partners Carlo Raffini and Pio Burlamacchi receive emoluments, as shown in the Appendix, for the following reasons:

- Carlo Raffini, has been appointed Director of the Quality System by El. En Spa.
- Pio Burlamacchi is the possessor, as stipulated in a special contract, of an industrial monopoly right consisting in a request for a patent for the invention of a “Support for the optical cavity for lasers, with adjustment of the ray of light “

## 8) Investments offered to executives, auditors and general managers

Some of the members of the Board of Directors also have company positions in the subsidiary and controlled companies: Mr. Clementi is Sole Administrator of Valfive Italia Srl, Mrs. Bazzocchi has the same position at Cutlite Penta Srl, Mr. Cangioli the same position at Neuma Laser Srl; Mr. Muzzi is president of Deka M.E.L.A. Srl, Mr. Cangioli is on the board of Quanta System Spa, and since March 28<sup>th</sup>, 2003, also of Ot-Las Srl. The president of the Auditor's Office, Dr. Pilla is auditor of Deka M.E.L.A. Srl Cutlite Penta Srl, Lasit Srl, and, until March 31<sup>st</sup>, 2003, Quanta System Spa. Mr. Clementi and Mr. Cangioli are also members of the Board of Directors of Cynosure Inc.

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

<i>Name</i>	<i>Company</i>	<i>No. of shares on 31/12/2001</i>	<i>No. of shares acquired</i>	<i>No. of shares sent</i>	<i>No. of shares on 31/12/2002</i>
Andrea Cangioli	El.En. S.p.A.	622.960			622.960
Barbara Bazzocchi	El.En. S.p.A.	490.174	3.350		493.524
Gabriele Clementi	El.En. S.p.A.	490.574	5.076		495.650
Francesco Muzzi	El.En. S.p.A.	485.974	750		486.724
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	308.571	3.841		312.412
Lucia Roselli	El.En. S.p.A.	350			350
Paolo Caselli	El.En. S.p.A.	300			300
Vincenzo Pilla	El.En. S.p.A.	300			300
Michele Legnaioli	El.En. S.p.A.	160			160
Alberto Pecci	El.En. S.p.A.	35.178	11.959		47.137

(\*)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.

## 9) Stock options offered to executives and employees

The special assembly called for July 7<sup>th</sup>, 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 3<sup>rd</sup>, 2000, voted to partially implement the decision made during the assembly of shareholders held on July 7<sup>th</sup>, 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 30<sup>th</sup> 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 years 2001 and 2002 no one exercised this right.

The next extraordinary assembly, held on July 16<sup>th</sup> 2002, voted to revoke, for the part of the proxy of the assembly vote of July 7<sup>th</sup>, 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 16<sup>th</sup> 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 two 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 6<sup>th</sup> 2002, the Board of Directors voted to implement in part the proxy approved by the stock holders' assembly on July 16<sup>th</sup> 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 18<sup>th</sup> to December 31<sup>st</sup>, 2003, from August 15<sup>th</sup> to September 30<sup>th</sup>, 2004 and from November 18<sup>th</sup> to December 31<sup>st</sup>, 2004; the second section, for a maximum of 30.588 shares can be opted by the assignees from August 15<sup>th</sup> to September 30<sup>th</sup> 2004, and from November 18<sup>th</sup> until December 31<sup>st</sup> 2004.

## 10) Debenture Loan

On November 7<sup>th</sup>, 1996 in a special assembly the company approved the emission of a debenture loan for an amount of up to 619,748 euros by the issuance of 120,000 bonds with a nominal value of 5.16 euros each. The entire debenture loan was underwritten for a portion of 412,133 euros by: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Carlo Raffini and Gabriele Clementi, for a portion of 123,950 euros by Mr. Gabriele Clementi and his wife, and for a portion of 10,329 euros by Mr. Carlo Raffini and his wife. The remaining part of the loan, for the sum of 73,336 euros was underwritten by a third party. The duration of the loan is for ten years, and it will be reimbursed by December 31st 2006. The annual rate of interest is 9.75%, payable in yearly instalments deferred until January 1st of each year. Upon expiration the bonds will be reimbursed at their nominal value.

## 11) Treasury Stock

Following the vote of approval by the Shareholders' Assembly of April 24<sup>th</sup>, 2002, the Board of Directors proceeded to purchase their own treasury stock according to the procedure approved by the same assembly. On December 31<sup>st</sup> 2002, the company acquired 22.714 shares for an amount equal to 255.937 euros, at an average price of 11,2678 euros. As a precaution, these shares have been maintained at the purchase price. The market price on March 31<sup>st</sup>, 2003 was approx. 14,5 euros.

## **12) Noteworthy events which took place during the financial year**

No changes of particular note took place in the after closure of the financial period. Activities of the company were conducted as usual.

## **13) Predictable management trends**

The budgets proposed by the management for the financial year 2003 foresee a further development in the volume of business in all manufacturing sectors, although the greatest growth is expected in the field of industrial laser sources. From an operative point of view, therefore, the company aspires to repeat the brilliant results obtained during the year 2002. The results of the financial management cannot be improved over those of the preceding year however, since the revenues earned by the subsidiary companies will not permit and increase in the dividends distributed. These ambitious objectives will be obtained only if the consequences of the war in Iraq on general economic trends do not cause the climate of uncertainty of the present market to get worse.

## **14) 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 2.608.165,00 euros as follows: 130.408,25 euros as ordinary reserve, 1.144.321,50 corresponding to 0,25 euro per share, for distribution as dividends, and the remaining 1.333.435,25 euros as extraordinary reserve.

***For the Board of Directors***

The President – Ing. Gabriele Clementi