

El.En. Group

Report on the results of the financial year ending December 31st 2002

To our shareholders,

The financial year ending December 31st 2002 closed with a net profit for the Group of 2.131 thousand euros, after taxes for an amount of 2.684 thousand euros.

The results for the financial period are shown so that they can be compared with those of the preceding year. After the purchase of Cynosure, which was concluded on May 6th 2002, the company was consolidated into the Group starting on the acquisition date, however the Profit and Loss Account charts and Analysis of the Consolidated Sales are presented excluding Cynosure from the area of consolidation so that a comparison can be made with the results of the preceding year. All amounts are expressed in thousands of euros unless otherwise indicated.

Description of the Group

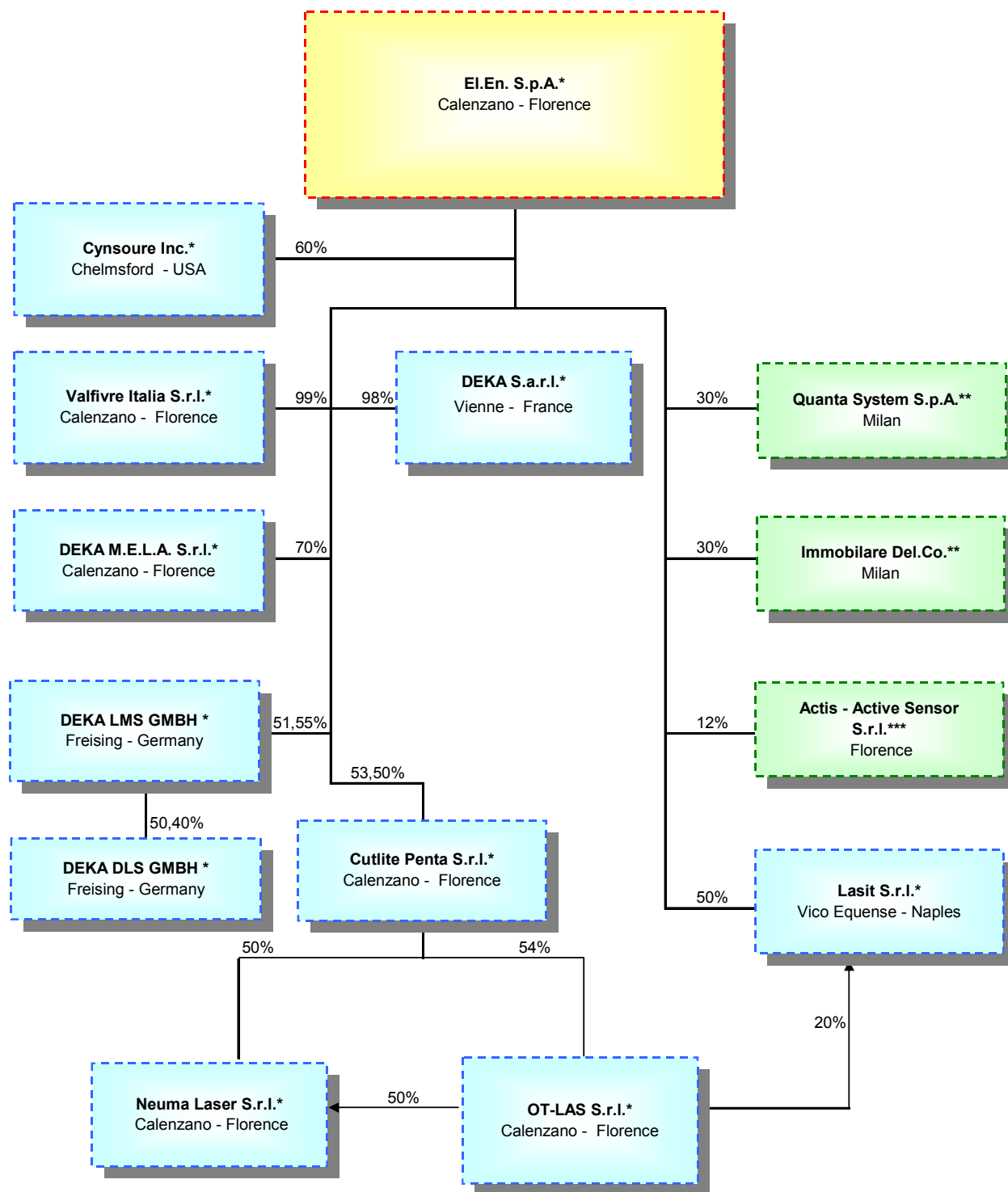
El.En. SpA controls a group of companies operating in the laser sector, each of which supplies a different service or product and has a particular function on the market. The structure of the Group is divided into companies working in the engineering and design, manufacture and distribution sectors for laser sources and systems intended for a variety of uses. Each of these companies is assigned a specific role on the basis of the merchandise sector and geographical area in which it operates: Deka M.E.L.A. Srl, Deka Srl, Deka Lms GmbH, and Deka DIs GmbH distribute laser equipment for medical purposes, Cutlite Penta Srl operates in the area of systems for flat cutting, Ot-Las Srl in the area of wide field markers, Neuma Laser Srl operates in marketing and offers assistance abroad, and Valfivre Italia Srl does special projects, and develops and engineers laser systems for industrial cutting, marking and welding uses; and Cynosure designs, manufactures and distributes lasers for the medical sector in America and the rest of the world.

El.En. SpA has equities in other companies like Quanta System SpA and Immobiliare Del.Co. Srl, which however, it does not control; for this reason the results of these companies are not wholly consolidated into the statement of the Group, but are consolidated using the shareholders' equity method. On December 12th 2002, a controlling interest in Lasit Srl, formerly an associated company, was acquired, by means of the purchase by the subsidiary Ot-las Srl of a 20% quota of the Capital Stock. In conformity with legislative decree D.lgs. 127/91 art.26 and national accounting principles, the company was totally consolidated as far as the Balance Sheet is concerned, while the Profit and Loss Account was consolidated using the Shareholders Equity method. The results of Lasit Srl will be wholly consolidated starting in January of 2003.

The equity in Actis Srl has been maintained at cost since the company is not yet operative and its inclusion in the area of consolidation would be irrelevant as far as the balance sheet for the Group is concerned.

During this financial year there were no variations in the activities of the companies belonging to the El.En. Group

As of December 31st 2002, the structure of the Group was as follows:

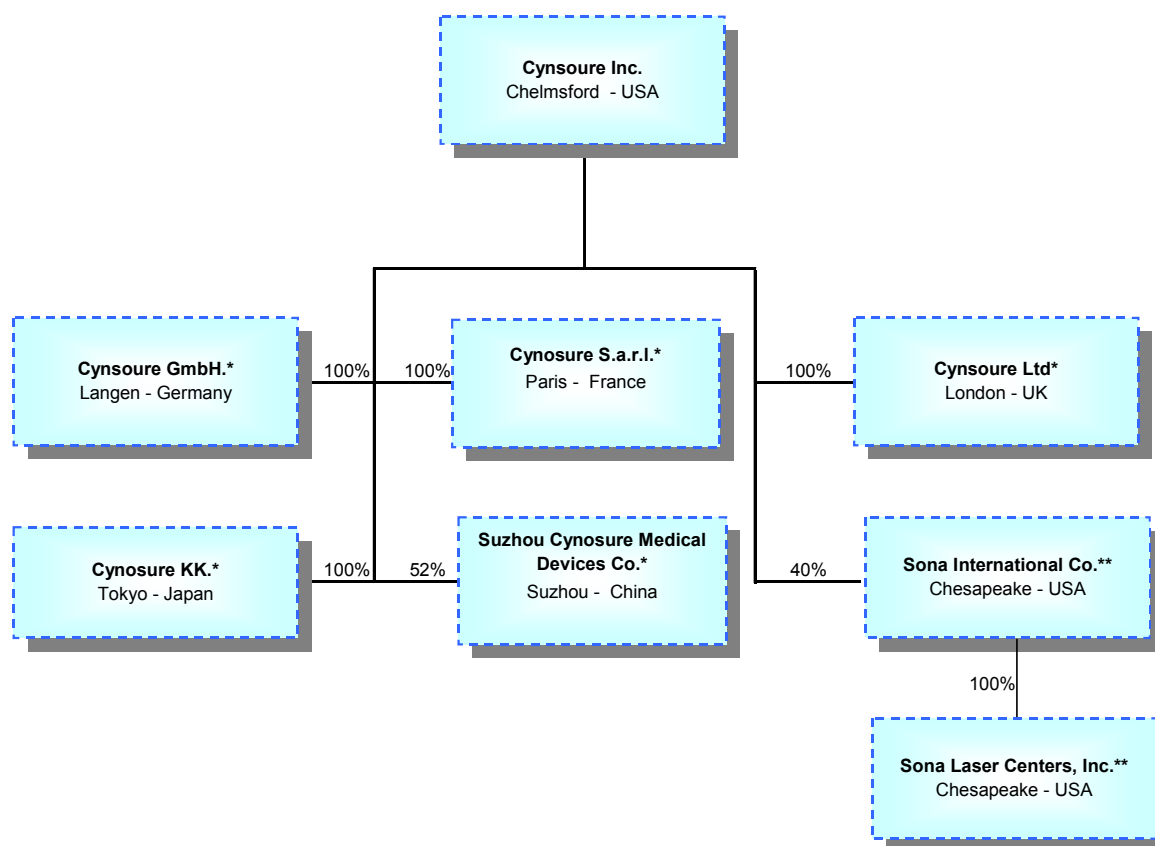


* Entirely consolidated

** Consolidated in relation to net worth

*** Kept at cost

Cynosure Inc. also controls a Group of companies. As of December 31st, 2002 the structure of the Cynosure Group was as follows:



* Entirely consolidated

** Consolidated in relation to net worth

1) Main economic and financial data

During the financial year 2002, the Group operated mainly in three fields of activity: laser equipment for medical and cosmetic use, and laser power sources for industrial applications. Besides the sales in these two sectors, the Group received income from the after-sales service and technical assistance provided to its clientele, and some income was also received from research and development activities.

The income registered for 2002 shows an overall increase of 94.4% with respect to the same period last year, in part due to the revenues earned by Cynosure. It is worthwhile, however, analysing the evolution of the sales volume for the same area of consolidation as last year, which shows an increase of 39.2% - a brilliant result which far exceeds even the optimistic forecasts made when the annual budget was drawn up.

The following table shows the invoiced amounts for these sectors of activity in 22002, as compared with the preceding financial year.

with Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Industrial systems and lasers	16.991	31,4%	10.649	38,2%	59,6%
Medical and cosmetic lasers	29.598	54,7%	15.099	54,2%	96,0%
Ricerca	180	0,3%	86	0,3%	109,1%
Service	7.370	13,6%	2.010	7,2%	266,6%
Total	54.139	100,0%	27.844	100,0%	94,4%

without Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Industrial systems and lasers	16.991	43,8%	10.649	38,2%	59,6%
Medical and cosmetic lasers	19.172	49,5%	15.099	54,2%	27,0%
Ricerca	133	0,3%	86	0,3%	54,4%
Service	2.466	6,4%	2.010	7,2%	22,7%
Total	38.762	100,0%	27.844	100,0%	39,2%

The increase in sales volume was over 50% in all the sectors in which the Group operates, thanks also in part to the consolidation of the revenues from Cynosure.

The medical sector showed an increase of 96%; without the revenues from Cynosure the increase 27%, which, on its own, is an excellent result, and well above the market average and the results of the main competitors.

In the industrial laser sector, the results were even better, and even without company acquisitions, they increased by almost +60% in a year of market stagnation and general crisis in the manufacturing field.

Notwithstanding the excellent performance in the industrial sector, sales volume for medical and cosmetic laser systems remained the strongest in the Group and represent 49,5% of the revenues not counting the income from Cynosure, while they rise to 54,7% if we include the American company. Cynosure makes a large portion of their sales in the field of after-sales services, according to the “revenue sharing” system, which is the renting out of their own equipment for a fee which is proportionate to the revenue produced by the equipment itself. For this reason, the increase in sales volume for service is over 260% and, in this sector the assistance supplied for laser systems in the medical sector represents the largest portion.

Revenue derived from research projects and from the relative reimbursements through contracts signed with the managing institutes financed by MIUR increased over that of the preceding year. It should be noted that, during this financial period, a grant which was part of the CHOCLAB project was received for an amount of 329 thousand euros: since this type of grant is considered a reimbursement for expenses, it not entered into accounting under the heading of sales, but is registered under the heading of “Other revenue”. During this financial period, therefore, an important source of financing for the research activities of the Group has been restored, and in particular for the kind of basic research which does not have an immediate return on the market and consequently represents a greater risk for the Group. In recent years, the Group has not received a sufficient number of grants in consideration of the number and type of research projects conducted, and this has in many ways had a negative influence on the financial results. Keeping a high level of expenditure and investment in research is part of the basic strategy of the Group: which has focused on the development of the basic and applied technology of new products. The projects now in progress will be described and analysed in the next paragraph.

The following table shows the geographic distribution of total sales for the financial period 2002.

with Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Italy	21.977	40,6%	14.479	52,0%	51,8%
Europe	10.368	19,2%	6.861	24,6%	51,1%
Rest of the world	21.793	40,3%	6.505	23,4%	235,0%
Total	54.139	100,0%	27.844	100,0%	94,4%

without Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Italy	21.763	56,1%	14.479	52,0%	50,3%
Europe	7.626	19,7%	6.861	24,6%	11,2%
Rest of the world	9.373	24,2%	6.505	23,4%	44,1%
Total	38.762	100,0%	27.844	100,0%	39,2%

The arrival of Cynosure in the Group accentuates its international character and reduces to 40,6% the Italian presence, as opposed to the 56,1% it would represent in the group without Cynosure. The international markets, both the European one and the Far Eastern one in particular, have, in any case contributed considerably to the increase in the sales volume, as is shown on the chart. As far as the expansion of sales in Europe is concerned, this is in large part the result of the activity of the foreign branches of the Group which have been established in France and Germany for the medical sector.

Within the medical-cosmetic sector, which represents 54,7% of Group sales, the chart below shows the various fields of activity and the relative sales volume.

with Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Surgical CO2	1.819	6,1%	1.547	10,2%	17,6%
Physiotherapy	599	2,0%	736	4,9%	-18,6%
Cosmetic	18.468	62,4%	9.763	64,7%	89,2%
Dental	1.914	6,5%	1.504	10,0%	27,3%
Other medical lasers	6.174	20,9%	1.129	7,5%	447,0%
Accessories	623	2,1%	421	2,8%	48,0%
Total	29.598	100,0%	15.099	100,0%	96,0%

without Cynosure	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Surgical CO2	1.819	9,5%	1.547	10,2%	17,6%
Physiotherapy	599	3,1%	736	4,9%	-18,6%
Cosmetic	13.061	68,1%	9.763	64,7%	33,8%
Dental	1.914	10,0%	1.504	10,0%	27,3%
Other medical lasers	1.294	6,7%	1.129	7,5%	14,6%
Accessories	485	2,5%	421	2,8%	15,3%
Total	19.172	100,0%	15.099	100,0%	27,0%

The field of aesthetic-cosmetic applications showed the greatest growth, thanks in particular to products for hair-removal and for treating cellulitis, which gave the Group the greatest satisfaction in terms of sales volume. In this sector, El.En. offers the Nd:YAG laser and Photosilk and Triactive systems, Cynosure offers its own Alexandrite systems and distributes the Nd:YAG systems produced by El.En in the United States. Along with the old Photosilk system which is a point of reference for hair removal treatments, they now offer a new system, Photosilk plus, which performs the so-called "photorejuvenation", which consists in non-invasive day-hospital aesthetic treatments and represent a sector of the market which is developing very rapidly. The sharp rise in sales volume under the heading of "Others" refers to the second segment of the market in which Cynosure excels, dermatological and vascular treatments, for which it offers its famous Dye systems, and which show an increase of + 447%. The dental sector also has improved its excellent results of last year, and the last few months of the financial period indicate the positive effect of the introduction of the new range of products which was introduced in September and October. These results are very promising for further growth of this particular sector to which the Group is now dedicating particular attention in marketing. In the therapy field, the development of new products and applications, sustained by an intense research activity, has created optimistic expectations for new growth in an area whose importance has tended to diminish with the Groups activities. The increase in sales volume for surgical CO₂ lasers demonstrates a return of interest in the most consolidated of laser technologies in medicine, and the ability of the Group to offer the products and accessories which best respond to the needs of the clientele. In this field, as in the others, the improvement in the performance of the products and the clients' perception of their quality is at the base of all plans for further development.

As usual, the Group is working on new products in all their areas of activity, in consideration of the fact that the innovative character of the product is the main instrument for competing and the key to success in the laser industry.

For industrial applications, the chart below shows the break-down of sales volume by market sector in which the Group operates. Since Cynosure does not operate in the industrial sector, we are presenting only one chart.

	31/12/2002	Inc%	31/12/2001	Inc%	Var%
Cutting	7.763	45,69%	6.069	57,00%	27,91%
Marking	7.990	47,03%	3.461	32,51%	130,85%
Laser sources	1.065	6,27%	918	8,62%	16,00%
Welding	172	1,01%	200	1,87%	-13,71%
Total	16.991	100,00%	10.649	100,00%	59,56%

The results speak for themselves, and show an excellent growth rate, in particular for industrial marking; in this field we are finally reaping the benefits of years of work in terms of the development of highly advanced optical deflection systems and the perfecting of laser sources capable of superior performance specifically for marking applications. The cutting sector shows an increase of 27,91%, which should be considered extremely satisfactory and a sign of the great vitality in an overall economic climate which was extremely negative. The drop in revenue from laser sources can be countered within the next few months by the introduction of a new high-power range. In the welding sector, which includes special systems for the preservation and restoration of works of art, no particular developments are expected.

The income results of the Group, limited to the area of consolidation prior to the acquisition of Cynosure, for which we will present a detailed analysis below, show a positive trend, and a marked improvement over last year; the excellence of these results has been only partially obscured by the consolidation of Cynosure, which showed an operating loss for the year which was partially off set by extraordinary components which limit such losses. This situation, however, corresponds to expectations, since Cynosure suffered severe operating losses in 2001 and all of the measures taken to bring the company back to a level where it was showing a profit could take effect in such a brief period of time. The consolidated result is also influenced by the amortisation related to the difference in consolidation inherent in the goodwill paid for the acquisition of Cynosure itself. Generally speaking, the income results are better than expected and are cause for satisfaction for the company management both for the results already achieved as well as for the potential of the structure which can be expressed in the years to follow.

In order to facilitate the analysis and interpretation of the data shown in this report, the chart below contains the reclassified profit and loss account for the financial period ending December 31st 2002, compared with that which ended on December 31st 2001. The profit and loss account for Cynosure was consolidated starting in May 2002 and therefore influences the account of the Group for eight months.

Profit and loss account	31/12/2002	Inc.%	31/12/2001	Inc.%	Var.%
Net turnover from sales and services	54.139	98,4%	27.844	94,3%	94,4%
Variation in stock of finished goods and WIP	408	0,7%	1.460	4,9%	-72,0%
Other revenues and income	461	0,8%	209	0,7%	119,9%
Value of production	55.008	100,0%	29.514	100,0%	86,4%
Costs for raw materials	22.808	41,5%	14.036	47,6%	62,5%
Variation in stock of raw material	(1.055)	1,9%	(1.095)	3,7%	-3,6%
Other direct services	5.833	10,6%	3.067	10,4%	90,2%
Gross margin	27.421	49,8%	13.505	45,8%	103,0%
Other operating services and charges	9.358	17,0%	5.260	17,8%	77,9%
Added value	18.063	32,8%	8.244	27,9%	119,1%
For staff costs	11.014	20,0%	4.348	14,7%	153,3%
Gross operating profit	7.049	12,8%	3.896	13,2%	80,9%
Depreciation, amortisation and other accruals	3.077	5,6%	1.303	4,4%	136,1%
Net operating profit	3.971	7,2%	2.593	8,8%	53,2%
Net financial income (charges)	1.018	1,8%	1.194	4,0%	-14,8%
Operating profit	4.989	9,1%	3.786	12,8%	31,8%
Value adjustments (Devaluations)	168	0,3%	30	0,1%	454,5%
Extraordinary income (Charges)	390	0,7%	26	0,1%	1399,6%
Earning before taxes	5.547	10,1%	3.843	13,0%	44,4%
Income taxes on the income of the period	2.684	4,9%	1.209	4,1%	122,1%
Profit before interest of third parties	2.864	5,2%	2.634	8,9%	8,7%
Minority interest in income	732	1,3%	359	1,2%	104,2%
Net profit	2.131	3,9%	2.275	7,7%	-6,3%

The chart below shows the reclassified consolidated profit and loss account for the financial period ending December 31st 2002, compared with that which ended on December 31st, 2001, excluding Cynosure from the area of consolidation.

Profit and loss account - without Cynosure Inc.	31/12/2002	Inc. %	31/12/2001	Inc. %	Var. %
Net turnover from sales and services	38.762	98,6%	27.844	94,3%	39,2%
Variation in stock of finished goods and WIP	74	0,2%	1.460	4,9%	-95,0%
Other revenues and income	484	1,2%	209	0,7%	130,9%
Value of production	39.320	100,0%	29.514	100,0%	33,2%
Costs for raw materials	16.674	42,4%	14.036	47,6%	18,8%
Variation in stock of raw material	(971)	2,5%	(1.095)	3,7%	-11,3%
Other direct services	4.797	12,2%	3.067	10,4%	56,4%
Gross margin	18.819	47,9%	13.505	45,8%	39,4%
Other operating services and charges	5.716	14,5%	5.260	17,8%	8,7%
Added value	13.103	33,3%	8.244	27,9%	58,9%
For staff costs	5.624	14,3%	4.348	14,7%	29,3%
Gross operating profit	7.478	19,0%	3.896	13,2%	91,9%
Depreciation, amortisation and other accruals	1.389	3,5%	1.303	4,4%	6,6%
Net operating profit	6.089	15,5%	2.593	8,8%	134,9%
Net financial income (charges)	697	1,8%	1.194	4,0%	-41,6%
Operating profit	6.786	17,3%	3.786	12,8%	79,2%
Value adjustments (Devaluations)	75	0,2%	30	0,1%	148,4%
Extraordinary income (Charges)	(9)	0,0%	26	0,1%	-134,3%
Earning before taxes	6.853	17,4%	3.843	13,0%	78,3%
Income taxes on the income of the period	2.624	6,7%	1.209	4,1%	117,1%
Profit before interest of third parties	4.229	10,8%	2.634	8,9%	60,5%
Minority interest in income	1.025	2,6%	359	1,2%	185,8%
Net profit	3.203	8,1%	2.275	7,7%	40,8%

The Gross Margin rose to approx. 27.421 thousand euros, an increase with respect 2001 , and with a percentage of the Value of Production which rose to 49,8% from the 45,8% registered for the same period last year. The increase in the profit margin on sales is due to two main factors: the first is “endogenous” in the sense that it reflects an actual improvement in profit margins obtained by the Group before the acquisition of Cynosure; the second is due to the acquisition of Cynosure, which shows a gross margin of sales which is much higher with respect to the El. En Group before the acquisition. The combination of the increase in sales volumes and of the percentage margins causes a sharp rise in the gross margin (+103% with Cynosure, +39,4% without), and determine the increase in profits for the financial period.

The costs for operating charges and services was approx. 9.358 thousand euros, representing 17% of the Value of Production, and down slightly from the 17,8% for the same period in 2001; excluding Cynosure, this percentage drops to 14,5%. These figures demonstrate how the rise in operating costs have been limited even in the presence of a considerable increase in the business volume which required major marketing and promotional expenses, especially for those companies operating solely as distributors of medical-cosmetic lasers. The expenses sustained for the promotion and marketing have been particularly heavy for those sectors which have been hardest hit by a negative financial situation, i.e., the Italian market in general, and that for laser cutting systems. The consolidation of Cynosure does not significantly alter the impact of the operating costs on the Value of Production.

Expenditures for staff salaries was 11.014 thousand euros representing a percentage impact which rises to 20% in comparison to the 14,7% shown during 2001. The number of regular staff members increased from 129 people on December 31st 2001 to 295 people on December 31st 2002. This increase in personnel refers to the 119 people employed by Cynosure, the 19 people employed by Lasit, and the 28 people hired by the company as new employees. Although new staff members were hired for all of the company functions, the major staff increase, and the relative costs

were related in particular to the reinforcement of the research and development team, so as to assure the middle and long term competitiveness of the company. Part of the expenses for personnel involved in research will be reimbursed, as described in the relative paragraph.

The gross operating margin is approx. 7.049 thousand euros, representing an increase of 80,9% with an incidence of 12,8% on the Value of Production. The GOM without Cynosure increases 91,9% representing an incidence of 19% on the Value of Production..

Under the heading of “amortisations and accruals”, the figures are approx. double what they were last year, with only a slight increase in the incidence on the Value of Production. Under this heading we have included the amortisation of the difference in consolidation which arose after the acquisition of Cynosure. This difference has been entered for the amount of 6.891 thousand euros, and has generated an amortisation for 460 thousand euros for the eight months consolidation of the equity. The amortisation of the difference of consolidation, which is due to the goodwill paid for the acquisition of Cynosure, will continue to represent an important entry in the consolidated financial statement for the next few years. Within the same area of consolidation, this entry shows a slight increase and a decrease in the incidence from 4,4% to 3,5%. For its activities the Group does not need large investments in technical assets, whereas expenses for research are of major importance and are mostly entered into accounting with the costs for personnel and general operating expenses..

The net operating profit shown is 3.971 thousand euros which represents an increase of 53,2% and an incidence of 7,2% on the Value of Production.

The net financial income is 1.018 thousand euros, representing a decrease in comparison to last year (1.194 thousand euros). This decrease is due mainly to the drop in interest rates and the use of a large part of the cash available for the acquisition of Cynosure, while it benefited from the difference in the exchange rate registered by the European subsidiaries of Cynosure Inc. which took advantage if the devaluation of their supply debt expressed in American dollars.

Rectifications of value are shown at approx. 168 thousand euros showing the quota for the company for the result of this period evaluated by the shareholders' equity, i.e., Quanta System SpA, Immobiliare Del.Co. Srl and Lasit Srl for a total of approx. 83 thousand euros and the associated company of Cynosure Inc., Sona International Co., for the amount of approx. 93 thousand euros.

Extraordinary income is entered for the amount of approx. 390 thousand euros, showing, among other things, a capital gains of approx. 5 thousand euros on the sale of 20% of the equity held by El.En. SpA in Quanta Fin Srl, as well as a tax reimbursement for preceding financial years entered into accounting by Cynosure Inc. for approx. 400 thousand dollars.

Profits before taxes are shown at 5.547 thousand euros. The incidence on the Value of Production is 10,1%, down from the 13,0% of 2001, but still an increase in overall value of more than 44%.

The fiscal expenditure for this financial period shows an increase with respect to last year, in part due to the loss of some tax benefits and the introduction of modifications in 2002 which penalised the company in comparison to 2001, regarding the calculation of the Dual Income Tax (DIT) in particular, the parent company, El.En. Because of these modifications and the consolidation of Cynosure which showed a loss before taxes of 673 thousand euros, the average tax rate for the financial year 31% in 2001 to 48% in 2002. It should be mentioned that prepaid taxes on the losses of Cynosure Inc. and Deka Sarl have not been entered and that the costs for the amortisations of the goodwill paid for Cynosure Inc and Deka Lms GmbH comport the registration of prepaid taxes.

The reclassified balance sheet shown below represents a comparison between this financial period and the preceding one.

	31/12/2002	31/12/2001
Balance Sheet		
Intangible assets	8.242	1.669
Tangible assets	6.196	3.693
Equity investments	966	808
Other investments	901	705
Total fixed assets (A)	16.305	6.874
Stocks	14.786	9.115
Trade debtors	15.781	8.358
Other debtors	2.299	2.837
Own shares	374	
Cash in banks and on hand	27.129	32.478
Total current assets (B)	60.369	52.788
Trade creditors	11.851	6.235
Other debtors	6.789	2.011
Financial liabilities due within 12 months	888	357
Total current liabilities (C)	19.528	8.603
Net working capital (D)= B-C	40.841	44.185
Employee severance indemnity	949	695
Other provisions	2.559	1.357
Net medium and long term financial debts	1.871	2.249
Mid and long terms creditors (E)	5.379	4.302
Net invested capital (A + D - E)	51.768	46.757
Shareholders' equity	45.554	45.049
Minority interest on equity	6.214	1.709
Shareholders' equity	51.768	46.757
Memorandum accounts		
Real guarantees	740	
Total memorandum accounts	740	

The net financial position of the company as of December 31st 2002 is as follows.

Net financial position		
	31/12/2002	31/12/2001
Financial mid and long term debts	(1.871)	(2.249)
<i>Financial mid and long term debts</i>	<i>(1.871)</i>	<i>(2.249)</i>
Financial liabilities due within 12 months	(888)	(357)
Cash in banks and on hand	27.129	32.478
<i>Net financial short term position</i>	<i>26.241</i>	<i>32.121</i>
<i>Total financial net position</i>	24.369	29.872

The net financial position remains in the black for an amount of over 24 million euros. The effects of this position of cash available reflect positively on the financial management, and contribute to the net result of the financial period. The remaining cash has been invested mostly in temporary uses, so that it will be available for strategic investments that may appear opportune..

The acquisition of Cynosure which was concluded this year has required so far an expenditure of 9.897 thousand dollars, entered into accounting at an exchange rate of 0,9002 Euros per dollar, for a total of 10.994 thousand euros. The conditions which were agreed upon include the payment of a second instalment for the amount of 1.493 thousand dollars. Accessory costs for the investment amounting to 307 thousand dollars have also been entered into accounting. It should be noted that the structure of the operation allowed the payment of an increase in the capital of Cynosure Inc. for the amount of approx. 1.7 million dollars without requiring further expenditure by El.En., but taking advantage of the option for the purchase of stock by the employees.

During this financial period, more cash was also absorbed as follows: 920 thousand euros for the distribution of dividends by the parent company, 123 thousand euros for the distribution to third party partners by the subsidiary Deka Mela Srl, and 274 thousand euros by the purchase of 30% of Immobiliare Del.Co. Srl.

2) Financial results of the subsidiary companies

El. En S.p.A. controls a group of 10 companies operating in the field of lasers. Each of these companies is assigned a specific role on the basis of the merchandise sector in which it operates.

The table below contains a brief summary of the financial results of the companies which are part of this group. For Cynosure and Lasit srl, which became subsidiary companies during the financial period, the data refers to the entire year.

	Net Turnover 31/12/2002	Net Turnover 31/12/2001	Var. %	Net income 31/12/2002	Net income 31/12/2001
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

Cynosure Inc became part of the El.En. Group on May 6th 2002 following the purchase of 60% of its stock by El.En. SpA. This prestigious American company manufactures and sells laser systems for medical and cosmetic applications and has its main headquarters in Chelmsford, Massachusetts (USA) and international branches in Europe and Asia. The company was founded in 1991 by Horace Furumoto, a pioneer in the field of medical lasers who has also founded the Candela Company which is now number two on the world market. Cynosure obtained its present stature thanks to the superior performance and the high quality of its products, in particular the coloured dye lasers for blood vessels and Alexandrite lasers for hair removal. The company is directly involved in the sales and marketing of its products on the North American and international markets by means of its subsidiaries and a distribution network. The products are manufactured almost entirely in Chelmsford, and the research and development activities which represent the key to the success of the company are also conducted here.

Cynosure Inc. is the head of a group of companies which operate throughout the world in the laser field: Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are 100% controlled and act as local distributors which also offer after-sales service; Suzhou Cynosure in the People's Republic of China is 51,6% owned and also manufactures special equipment for dermatological applications.

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

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. For the eight months in which the company was part of the consolidation, the sales volume was 15,996 thousand dollars and the losses 824 thousand dollars.

Deka M.E.L.A. Srl

This company distributes the medical laser equipment produced by El.En. S.p.A. in Italy and abroad. The company closed the financial period with a net profit of 932 thousand euros, approximately the same as for the preceding year. The sales volume grew by 27,4% with respect to 2001. This growth is due to the excellent situation on the international markets, in particular that of the Far East, which is crucial for the business of Deka M.E.L.A.

During this financial year the company distributed 410 thousand euros in dividends.

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. The company closed the financial period with a net profit of 58 thousand euros as compared with a loss of 272 thousand euros last year. The sales volume increased by 29.3% with respect to 2001 thanks to the favourable situation on the Italian market, achieved thanks to the promotional activities and an increase in expenses for personnel involved in production. The company has continued to develop the new industrial systems necessary to attract clientele.

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 net 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 year with a net profit of 983 thousand euros, which is a highly satisfactory result. The sales volume showed an increase of 141% with respect to the preceding year, which 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 the excellent profits.

Lasit Srl

This company designs and manufactures laser marking systems complete with controls and specific software for use in the marking of raw materials like metal, wood, glass, leather and textiles. The financial year 2002 was closed with a net profit of 117 thousand euros and showed an increase in sales volume of 12% with respect to the preceding period, confirming the growth trend of the last few years.

Neuma Laser Srl

This company 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 particular those sold by Cutlite Penta Srl and Ot-Las Srl. The company closed the financial year with a loss of approx. 30 thousand euros.

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, which closed the financial year with a loss of approx. 206 thousand euros, has had to face the continuing crisis of the French market, and showed a sales volume far below expectations, 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 has the responsibility of distributing in Germany the medical laser equipment manufactured by El.En. S.p.A. The sales volume for the financial year 2002, which was below expectations on account of the continued difficulties on the German market, showed a positive result for the amount of approx. 112 thousand euros. This is a very good result and can be improved upon as soon as the economic situation becomes less uncertain.

Deka Dls GmbH

Deka Dls GmbH, was founded in January 2002 by our German distributor, Deka Lms GmbH, and is responsible for the distribution in Germany of laser systems for the medical sector. It is just now becoming active on the market and is starting to increase its sales volume.

3) Relations with associated companies included among the financial assets, but not included in the area of consolidation or evaluated with the method of shareholders' equity.

The chart below contains a brief summary of the economic relations between the associated firms, as well as their assets and liabilities at the end of the year.

Associated companies:	Financial credits		Commercial credits	
	< 1 year	> 1 year	< 1 year	> 1 year
Quanta System Spa	7		29	
Immobiliare Del.Co. Srl	14		13	
M&E				
<i>Total</i>	21		42	

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

The financial debts owed to Quanta System S.p.A. refer to the 7-year financing which must be returned in a single payment of June 3rd 2003 with an option for early reimbursement even if partial, issued by Quanta Fin merged with Quanta System during this financial period.

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

Associated companies:	Sales	Service	Total
Quanta System Spa	31		31
SONA International Co.	1.314		1.314
<i>Total</i>	1.344	0	1.345

Financial debts for an amount of 8 thousand euros for interests due in relation to the seven year financing issued by the associated company Quanta System Spa .

The amounts shown above refer to operations which are inherent to the standard management practices 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 following chart shows the amounts spent for Research and Development during 2002:

	31/12/2002	31/12/2001	var. %
Costs for personnel and general expenses	4.391	1.719	155%
Costs for instruments and equipment	109	71	54%
Costs for building of prototypes	590	167	253%
Costs for technological consultants	441	111	297%
Services provided	148	75	97%
Intangible assets	2	5	-60%
Total	5.681	2.149	164%

As for the entries for sales volume and revenues, the presence of Cynosure is important also for the amounts spent for Research and Development, since this company also carries on an intense planning and design activity. The amount spent for R&D by Cynosure in the first eight months was approx. 1,5 million dollars.

As has been the usual company policy in the past, the expenses listed in the chart have been entered entirely into the operation costs.

The amount spent represents about 11% of the total consolidated sales volume of the Group. As previously stated, the part related to Cynosure is approx. 1.481 thousand euros and represents about 9% of its own volume; the rest of the expenses were paid mostly by El.En. S.p.A. and represents about 19% of its sales volume. For the expenses listed above, during the financial period 2002, El.En. S.p.A. entered into accounting revenue, in the form of reimbursements and tax credits, for the amount of approx. 351 thousand euros. From these figures it is evident that the efforts and resources expended in this direction are considerable.

The Group is now making an effort to have the amount of expenses that are reimbursed greatly increased during the next few years.

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 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 27th 2000 and integration of April 14th 2003, the partners, Immobiliare del Ciliegio Srl, Andrea Cangioli, 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.

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.

One of the board members, the majority shareholder of the Parent Company, part of the voting syndicate underwritten by the shareholders before the parent company was quoted on the New Stock Regulated Market, is outright owner of a 25% equity in Immobiliare del Ciliegio Srl., which is also a partner of the parent company. .

Through the subsidiary Monte dei Paschi Asset Management, one of the credit institutes (Monte dei Paschi di Siena) is a partner holding a relevant quota of the Parent Company and is used by this latter.

All of the transactions with co-related parties occurred under normal market conditions.

7) 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 Valfivve 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 28th, 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 31st, 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 14th 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.

8) Stock options offered to executives and employees

The special assembly called on 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 years 2001 and 2002 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 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 6th 2002, the Board of Directors voted to implement in part the proxy approved by the stock holders' assembly on July 16th 2002, voting to increase the Capital Stock to 31.817,76 euros for use in the 2003/2004 stock options plan and approving the relative regulations. The option rights are assigned exclusively to the executives,

managers and office employees who at the time of the assignment are working in a subordinate position for the Group. This plan is organised in two sections, one for each year; the first section, for a maximum of 30.600 shares, can be opted by the assignees from November 18th to December 31st, 2003, from August 15th to September 30th, 2004 and from November 18th to December 31st, 2004; the second section, for a maximum of 30.588 shares can be opted by the assignees from August 15th to September 30th 2004, and from November 18th until December 31st 2004.

9) **Debenture Loan**

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

10) **Treasury Stock**

Following the vote of approval by the Shareholders' Assembly of April 24th, 2002, the Board of Directors proceeded to purchase their own treasury stock according to the procedure approved by the same assembly. On December 31st 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 31st, 2003 was approx. 14,5 euros.

11) **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.

12) **Predictable management trends**

The management wishes to express their satisfaction with the results of the preceding financial year, and has completed the plans for the development of the financial period now in progress.

These plans are based on an evaluation of the evolution of the selling markets, as well as the capacity of the Group to increase their own share of the market through the innovation and quality of their products and the efficiency of their marketing activities.

Our expectations consequently would envision an increase in the consolidated sales volume of approx. 35% in which the industrial sector could reach a growth rate of approx. 37%, while for the medical sector the predicted growth rate is 36%. As far as profits are concerned, this figure will show only a slight increase, since we plan to use a large part of the revenues generated to pay expenses designed to keep the development trend at the highest level.

The consistency of the net financial position of the Group makes it possible to plan for its future expansion, without taking on onerous financial obligations. This can be done also by extraordinary financial operations for the acquisition of other companies or participation in joint-ventures directed to specific geographical areas of the market and/or to specific applications of laser technology.

For the Board of Directors

The President – Ing. Gabriele Clementi