

El.En. GROUP

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31st 2003

(Board of Directors - February 13th, 2004)

Report on the quarter ending on December 31st 2003

Introduction

This report covers the El.En. Group consolidated financial statement up to December 31st, 2003, prepared and divulged in accordance with article 2.6.2. of the Nuovo Mercato of the Italian Stock Exchange regulations and IA 2.4.1. instructions, and complies with article 82 of Consob rulings ex resolution 11971 and following amendments. The data and the information provided in this report have not been examined by an auditor, because no auditor has been appointed since this is not compulsory.

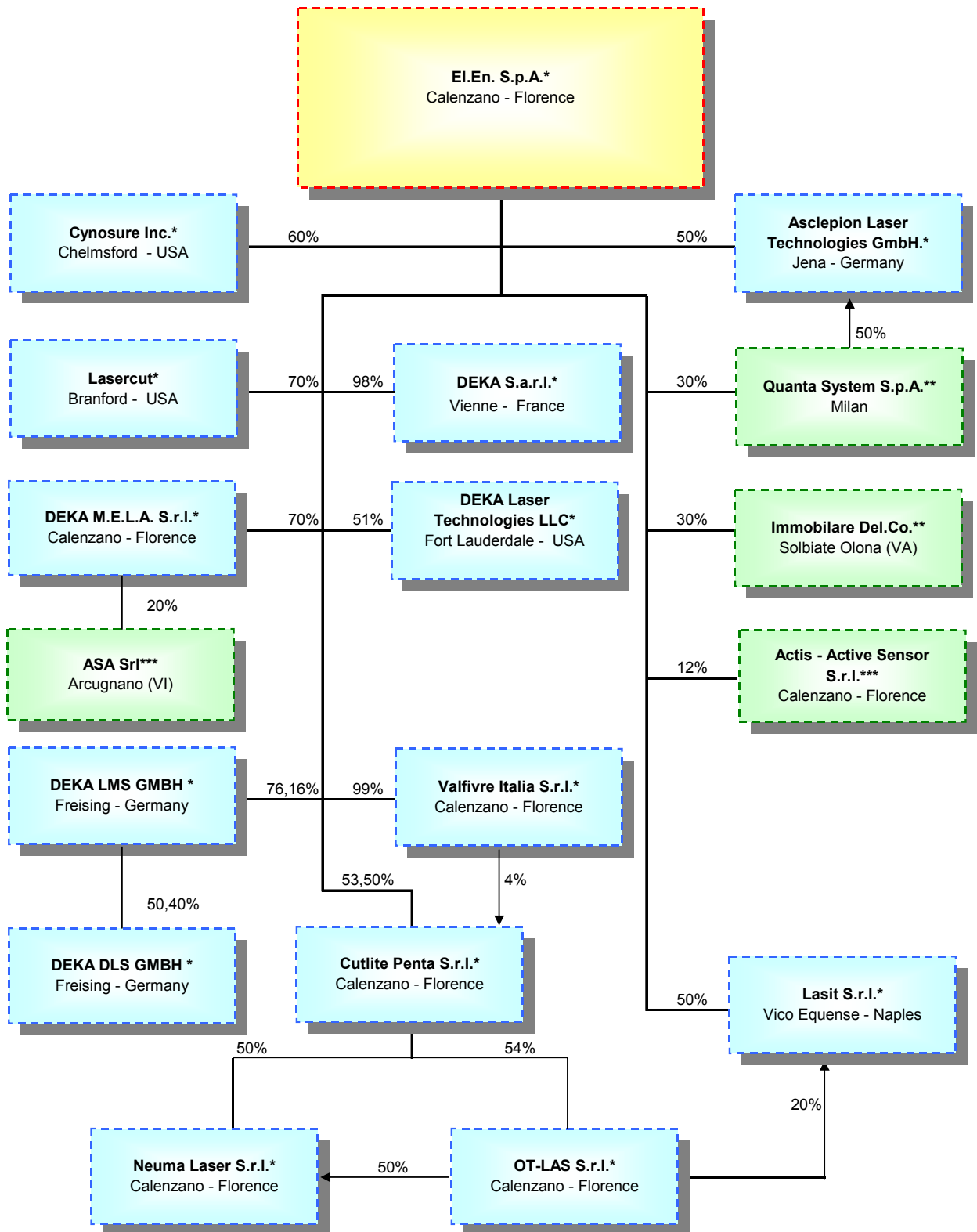
The following information has been prepared on the same principles previously adopted by the El.En. Group for the interim and annual reports.

The results for the quarter ending on December 31st, 2003 are shown in comparative form with those for the same financial period last year. All the amounts are expressed in thousands of Euros, if not otherwise stated.

Description of the Group

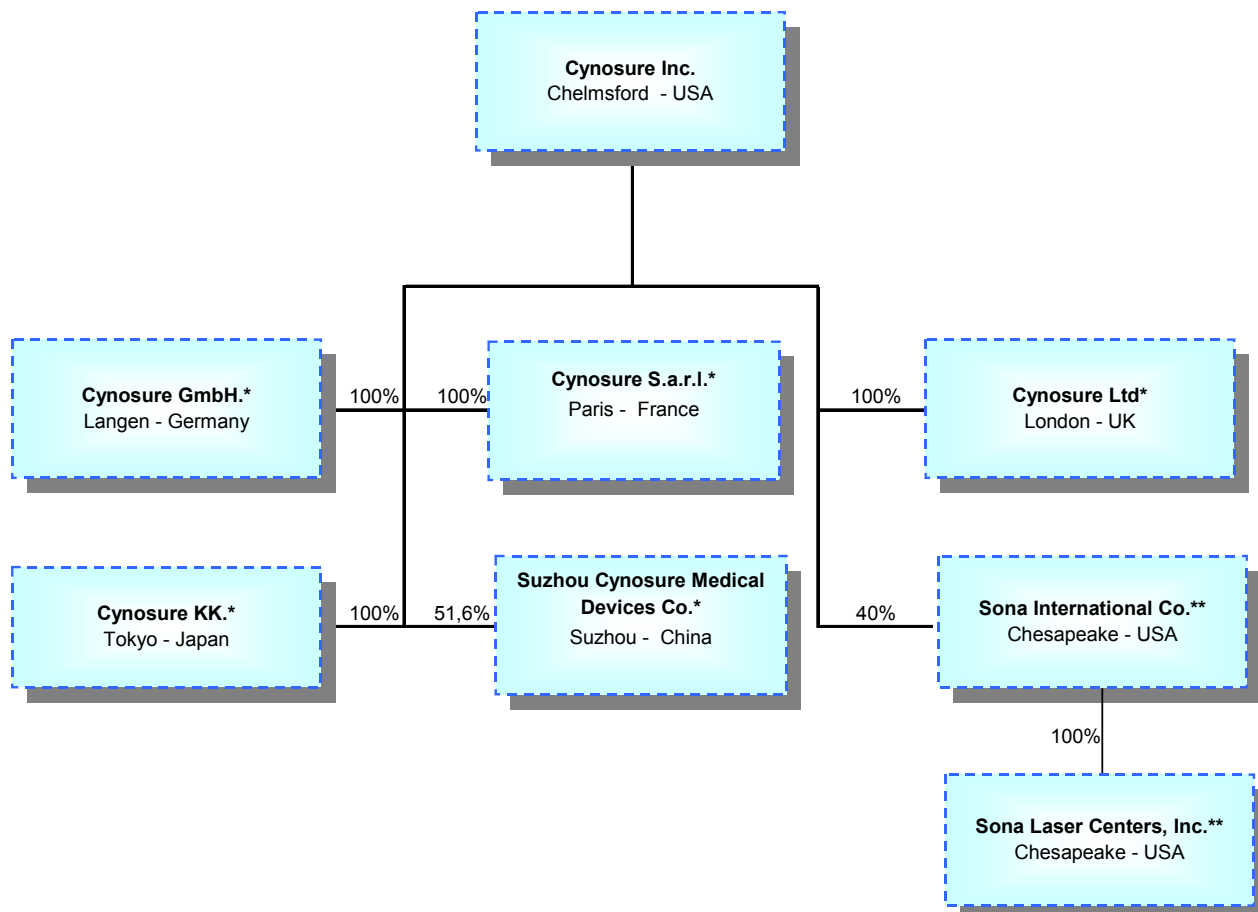
El.En. SPA is the holding company of an industrial group operating in the field of design, production and distribution of laser sources and systems for a variety of applications.

The structure of the group as of December 31st, 2003 is represented in the following chart.



* Entirely consolidated
 ** Consolidated in relation to net worth
 *** Kept at cost

Cynosure Inc. also controls a group of companies. As of December 31st, 2003 the structure of the Cynosure group is the following:



* Entirely consolidated

** Consolidated in relation to net worth

On October 13th, 2003 the subsidiary Deka M.E.L.A. Srl acquired 20% of ASA Srl, a company in the Veneto region that is among the major manufacturers of physical therapy and rehabilitation equipment. This purchase represents a merger of the extensive experience of the two companies and optimises their resources in terms of technical and commercial capacity so that they can offer effective, patented products which employ the latest laser technology for the treatment of pain, muscular and skeletal lesions, and for bio-stimulation used for curing superficial lesions.

As of December 31st, 2003 El.En. SpA held equities in other companies like Quanta System SpA and Immobiliare Del.Co. Srl without, however, having a controlling interest in them; for this reason the results of these two companies are not wholly consolidated in the financial statement of the Group, but have been consolidated using the shareholders' equity method.

Financial and economic results of the Group

The chart below shows the profit and loss account for the fourth quarter of 2003 displayed in comparative form with the results for the same period of 2002:

Profit and loss account - 3 months	31/12/2003	Inc. %	31/12/2002	Inc. %	Variazione
Net turnover from sales and services	20.140	104,20%	19.363	100,75%	4,01%
Variation in stock of finished goods and WIP	(1.445)	-7,47%	(530)	-2,76%	172,30%
Other revenues and income	632	3,27%	387	2,01%	63,45%
Value of production	19.327	100,00%	19.219	100,00%	0,56%
Costs for raw materials	7.124	36,86%	6.876	35,78%	3,61%
Variation in stock of raw material	(1.054)	-5,45%	745	3,88%	
Other direct services	1.877	9,71%	1.955	10,17%	-3,99%
Gross margin	11.379	58,88%	9.642	50,17%	18,02%
Other operating services and charges	4.309	22,29%	3.137	16,32%	37,38%
Added value	7.070	36,58%	6.506	33,85%	8,68%
For staff costs	5.254	27,19%	3.620	18,83%	45,16%
Gross operating profit	1.816	9,40%	2.886	15,02%	-37,06%
Depreciation, amortisation and other accruals	1.355	7,01%	1.333	6,93%	1,64%
Net operating profit	462	2,39%	1.553	8,08%	-70,28%
Net financial income (charges)	154	0,80%	727	3,78%	-78,84%
Operating profit	616	3,18%	2.281	11,87%	-73,01%
Value adjustments (Devaluations)	118	0,61%	(150)	-0,78%	
Extraordinary income (Charges)	43	0,22%	(26)	-0,13%	
Earning before taxes	777	4,02%	2.105	10,95%	-63,09%

The chart below shows the data of the profit and loss account for the financial year 2003, displayed in comparative form with those of the preceding financial period:

Profit and loss account	31/12/2003	Inc.%	31/12/2002	Inc.%	Var.%
Net turnover from sales and services	68.120	93,7%	54.139	98,4%	25,8%
Variation in stock of finished goods and WIP	3.500	4,8%	408	0,7%	757,1%
Other revenues and income	1.058	1,5%	461	0,8%	129,6%
Value of production	72.677	100,0%	55.008	100,0%	32,1%
Costs for raw materials	30.793	42,4%	22.808	41,5%	35,0%
Variation in stock of raw material	(2.463)	-3,4%	(1.055)	-1,9%	133,4%
Other direct services	6.748	9,3%	5.833	10,6%	15,7%
Gross margin	37.598	51,7%	27.421	49,8%	37,1%
Other operating services and charges	14.182	19,5%	9.358	17,0%	51,5%
Added value	23.416	32,2%	18.063	32,8%	29,6%
For staff costs	17.908	24,6%	11.014	20,0%	62,6%
Gross operating profit	5.508	7,6%	7.049	12,8%	-21,9%
Depreciation, amortisation and other accruals	4.068	5,6%	3.077	5,6%	32,2%
Net operating profit	1.440	2,0%	3.971	7,2%	-63,7%
Net financial income (charges)	96	0,1%	1.018	1,8%	-90,6%
Operating profit	1.536	2,1%	4.989	9,1%	-69,2%
Value adjustments (Devaluations)	623	0,9%	168	0,3%	269,9%
Extraordinary income (Charges)	106	0,1%	390	0,7%	-72,9%
Earnings before taxes	2.265	3,1%	5.547	10,1%	-59,2%

The chart below illustrates the net financial position of the Group:

Net financial position	31/12/2003	30/09/2003	31/12/2002
Financial mid and long term debts	(1.840)	(1.884)	(1.871)
<i>Financial mid and long term debts</i>	<i>(1.840)</i>	<i>(1.884)</i>	<i>(1.871)</i>
Financial liabilities due within 12 months	(2.106)	(2.231)	(888)
Cash in banks and on hand	16.756	16.302	27.129
<i>Net financial short term position</i>	<i>14.650</i>	<i>14.071</i>	<i>26.241</i>
Total financial net position	12.810	12.187	24.369

Report on operations

During this year the Group operated in the field of design, manufacture and distribution of laser sources and systems; the principal markets for these products, as in preceding years, has been laser equipment for medical and cosmetic uses and laser systems for industrial use. As an adjunct to these two main sectors, the Group has also developed an after-sales technical assistance service which it offers to its clients, and has received revenue related to research and development activities.

To summarise briefly, the sales volume for 2003 showed an increase of 26% over the preceding financial year, and this statistic confirms the constant growth rate of the Group.

The following table illustrates the sales volume divided according to sector of activity in the Group for the financial year 2003, compared with the same divisions for the same period.

	31/12/2003	Inc%	31/12/2002	Inc%	Var%
Industrial systems and lasers	15.031	22,07%	16.991	31,38%	-11,54%
Medical and cosmetic lasers	41.574	61,03%	29.598	54,67%	40,46%
Research and Development	152	0,22%	180	0,33%	-15,67%
Service	11.363	16,68%	7.370	13,61%	54,18%
Total	68.120	100,00%	54.139	100,00%	25,82%

Sales volume in the medical and cosmetic sector has shown an increase of 40% in comparison with the preceding financial year, and reached 61% of the sales volume of the Group, thanks also to the growth in the profits of the recently acquired companies like Cynosure, Asclepion Laser Technologies and Deka Laser Technologies.

The situation in the industrial sector was unfortunately totally different and very difficult, notwithstanding the efforts of the subsidiaries Lasit and Lasercut, included in the consolidation starting in 2003; the crisis in the manufacturing sector has greatly reduced the desire on the part of the clientele to make investments, particularly in Italy. The situation, which was already serious at the beginning of the financial year, was made worse by the weakness of the dollar, which reduced sales margins in the United States, and further undermined the competitiveness, and, as a result, the desire to purchase on the part of the Italian manufactures.

The sales volume for technical assistance and accessory services showed an increase of ca. 54%, which is a direct result of the increased number of pieces of equipment installed, and of the important contribution of Cynosure, which earns a large percentage of their income from after-sales service and from "revenue sharing", that is, from the rental of their own laser equipment with fees based proportionately on the income generated by the equipment. Asclepion, with its numerous installations all over Germany (more than 500 units just for the Erbium laser devices which are serviced under specific assistance contracts) also makes a considerable contribution to this type of income.

Revenues for R&D projects and the reimbursement allowed by specific contracts signed with the Italian office "MIUR" are not very significant. We must nevertheless call attention to the fact that most of the reimbursements of this kind have been entered into accounting with the heading of "other revenues", limiting the impact of this activity on sales. During this financial period, the sources of "Other income" derived from research were 754 thousand Euros, thanks to the receipt in accounting of the grants for Choclab, TRL01, NIM02, Dione and SIDART projects. During this financial year, 356 thousand Euros were also received as advance payments for NMED02, SIDART and EUV02, and these payments will be entered into the financial statement when the relative statements of cost have been approved.

The sales volume split according to geographic distribution is shown on the following chart:

	31/12/2003	Inc%	31/12/2002	Inc%	Var%
Italy	16.118	23,66%	21.977	40,59%	-26,66%
Europe	20.565	30,19%	10.368	19,15%	98,34%
Rest of the world	31.436	46,15%	21.793	40,25%	44,25%
Total	68.120	100,00%	54.139	100,00%	25,82%

The drop in sales volume in Italy reflects the negative trend of the industrial sector, which still has its main base in the Italian market. The sales volume for Europe has doubled, due mainly to the contribution of the newly acquired Asclepion and positive results obtained by the subsidiary companies assigned to the distribution of medical products for Deka and Cynosure. The increase in sales volume for the rest of the world, reflects the entry of Cynosure, Lasercut and Deka Laser Technologies into the area of consolidation.

For the medical and cosmetic sector, which represents about 61% of the sales of the Group, the following chart shows the individual areas of activity and their relative sales volumes:

	31/12/2003	Inc%	31/12/2002	Inc%	Var%
Surgical CO2	1.760	4,23%	1.819	6,15%	-3,26%
Physiotherapy	591	1,42%	599	2,02%	-1,41%
Cosmetic	26.976	64,89%	18.468	62,40%	46,06%
Dental	4.166	10,02%	1.914	6,47%	117,67%
Other medical lasers	7.745	18,63%	6.174	20,86%	25,44%
Accessories	336	0,81%	623	2,10%	-46,02%
Total	41.574	100,00%	29.598	100,00%	40,46%

During 2003 the greatest satisfactions came from the medical sector, which again showed an exceptionally strong growth rate, particularly in the most important areas of application for the laser systems manufactured by the Group. No other company in the world is able to offer such a wide range of types and high level of technology as that now available with the systems manufactured by El.En. Group companies.

In the cosmetic sector, Cynosure is competitive with its Alexandrite lasers for hair and tattoo removal, Deka with its Smartepil (long impulse Nd:YAG) for hair removal and vascular treatment, Photosilk for hair removal and photorejuvenation, and Triactive Dermodynamic system for the treatment of cellulitis, Asclepion with its diode laser Mediostar for hair removal and vascular treatment. These products represent the complete range of laser products and make the stands of our company one of the major attractions at international trade fairs like the medical fairs at Duesseldorf and the American Academy of Dermatology, which just took place in Washington, DC.

Even in the residual sector of "Other lasers", growth has been sustained by the variety of products offered, which, besides the traditional sophisticated Dye systems of Cynosure, includes the Erbium lasers for skin ablation, Asclepion's traditional standby, as well as the new 532 nanometer diode laser systems for dermatology (Smartlite Derm and BeautyStar, offered respectively by Deka and Asclepion). Also of considerable importance are the surgical applications which DEKA proposes with its Smart 1064 and Smart 2100 systems for in oncology and traumatology.

The most brilliant performance was shown however in the dental sector, where, besides the traditional activity conducted in Italy by Deka through the distribution of Anthos Impianti, we now have a new distribution network in the United States (Deka Laser Technologies) and the important distribution in OEM by KaVo, which is a German client of Asclepion and the world leader in the sector.

It should be pointed out that the strategy of the Group is aimed at exploiting to best advantage the different brand names with which the products are offered on the market, by highlighting the special qualities of the product that have made each company a success, and co-ordinating the activities so that each one can compete making use of state-of-the-art technology.

The introduction of the new Smartxide laser, although it did not make it possible in the last quarter to reverse the annual trend which saw a continuing drop in the sales of CO₂ laser systems, did prepare the ground for relaunching the sector which has traditionally been the major activity of DEKA M.E.L.A.

For the therapy sector, which is in appearance a marginal area with low and declining sales volumes, 2003 represented a watershed year: a cooperative effort started with ASA for the distribution of equipment for this sector, which included the acquisition of a 20% equity in the Vicentine company by DEKA M.E.L.A. and the contemporaneous introduction of the revolutionary new HILT system are at the basis of a major sales offensive in this sector.

For the industrial applications sector, the chart below shows the breakdown of sales according to the market sector in which the Group operates:

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

Notwithstanding the entry into the area of consolidation of Lasercut, specialised in laser systems for flat cutting for metals, and of Lasit, which operates in the marking sector, these two sectors showed a drop in sales volume. After the exceptional growth shown in 2002, the crisis in the manufacturing sector made it impossible to maintain the positions which had been achieved and the sales volume shows the obvious negative effects of this situation.

On the other hand an encouraging increase in sales volume is shown for the sector of industrial high-power laser sources for mechanical machining. The five to six Kilowatt systems and the fruitful collaboration with the export researchers at RTM are responsible for this result.

The sectors of restoration and welding show a fair increase, and although they are limited to a role which is marginal from a commercial point of view among the activities of the Group, they are important for the cultural significance of the projects which El.En. sustains with restoration equipment.

When analysing the income figures for the year 2003, one should bear in mind the main factors which have characterised the activity and the profitability of the Group during the financial year. In the first place, the crisis in the industrial sector which has caused profits far under expectations for the companies operating in this field; secondly, the positive trend in the medical sector, which has been sustained also by acquisitions; thirdly, the weakness of the dollar which has aggravated the crisis in the industrial sector and penalised the consolidated sales volume (approx. 40% of the sales volume of the Group is expressed in dollars), and finally, the acceleration of the restructuring of Cynosure which has taken place in the last quarter and which has had a serious impact on its accounts (which were not brilliant even to begin with), in view of an expansion of the sales network in the United States and in Europe.

The margin of contribution is about 37.598 thousand Euros, an increase of 37% approx. with respect to the preceding financial period, with an incidence on the value of production which rose from 49% to 51%. The increase in percentage terms is determined by the higher margin of contribution on the sales made by the subsidiary Cynosure in comparison to those made by the Group before this company was acquired, but it is, in any case, penalised by an actual reduction in the sales margins for the industrial sector which saw a drop in both sales volume and profits. The weakness of the dollar, moreover, penalised the margins, particularly for El.En. and Cutlite Penta which export to the United States.

The costs for services and operating charges was approx. 14.182 thousand Euros, an increase of 50% approx., with an incidence of 19% on the Value of Production, with respect to the 17% shown for the same period in 2002. This increase represents the key for the interpretation of the results for this financial period: the increase in the sales volume, although significant, was still less than the increase in the operating costs; as far as these costs are concerned, of particular relevance are those related to marketing and sales, which, especially in the medical and cosmetic sectors have considerable weight in those cases where the companies of the Group are managing distribution networks.

The costs for personnel also increased considerably (+62%) as does its incidence on the Value of Production, which rose to 24% from the 20% registered for the preceding financial year. This increase is due, in the first place, to the reinforcement of some positions within the original nucleus of the Group, and secondly, to the recent acquisitions: the consolidation of Cynosure, which for 2003 took place starting in the month of January, while for 2002 it began in the month of May, assume major importance in the evolution of this aggregate cost. The other companies acquired during 2003, Asclepion e Lasercut, brought into the personnel of the Group 43 e 12 units respectively, which, at the end of the financial year, therefore, had 371 employees as opposed to the 295 it had on December 31st, 2002. On December 31st, 2003, 188 employees were working in Italy, 51 in the rest of Europe, and 132 in the United States of America.

A considerable part of the expenses for personnel is directed towards research and development, for which the Group also receives grants and reimbursements on the basis of specific contracts which have been underwritten by the institutions created for this purpose. These grants make it possible to pursue a wider range of research activities by limiting their impact on the profit and loss account. The amounts received for grants during this financial period amounted to 1.110 thousand Euros approx., entered into accounts with the income of this type for 754 thousand Euros approx. These entries represent an improvement in the relation between grants and expenses with respect to that which has been registered for the preceding financial periods.

The Gross Operating Margin amounted to 5.508 thousand Euros, and showed a decrease of approx. 22% with an incidence of approx. 7% on the Value of Production.

The increase in the costs for amortisations and accruals is also considerable (+32%). Out of a total of 4.068 thousand Euros, 366 thousand Euros are due to the cost of quotation on the stock market, 853 thousand Euros for the amortisation paid for goodwill for the acquisition of Cynosure, Deka LMS and Lasercut (in 2002 the amount was equal to 507 thousand Euros) and 583 thousand Euros for accruals in the product guarantee fund.

The operating result is approx. 1.440 thousand Euros, showing a decrease of 64% approx. with respect to the same period last year, and an incidence of approx. 2% on the Value of Production.

The results of the financial management are positive for the amount of 96 thousand Euros. This result, which is decidedly lower than that shown in past years, was influenced by the low interest rates and the fact that they were applied to amounts that were much smaller on account of the acquisitions that had been made, but above all it reflects the negative difference in the exchange rates registered with the drop of the American dollar with respect to the EU currency.

Among the value adjustments, which were positive for an amount of about 623 thousand Euros, of major importance is the contribution of the associated company Sona International, the American firm which operates in the cosmetic sector for laser hair removal and for the promotion of these centers as franchises. This entry also includes the Group share of the result for the period of the associated companies, Quanta System SpA and Immobiliare Del.Co. Srl. Losses for the amount of 156 thousand Euros have been registered by the associated company R.T.M., with the consequent reduction to zero of the value of the equity. El.En. SpA will participate in covering the losses. The R.T.M. research center in fact represents an important partner for experimenting our technology in the field of mechanical machining and the investments made originally, although now extinguished, gave important results which we believe should be followed up.

The ordinary management does not have any particular points of interest for this quarter.

The result before taxes is 2.265 thousand Euros. Its incidence on the Value of Production is about 3% which is a decrease with respect to the 10% shown for 2002 with a drop in overall value of 59%.

Comments on the evolution of the net financial position

The net financial position remains in the black for an amount of over 13 million Euros, which represents a decrease of approx. 11 million Euros with respect to December 31st, 2002 mostly as a result of the different transactions of an extraordinary nature which were concluded during this period.

The main expenses of an extraordinary nature which were sustained during this period are as follows: final payment of the Cynosure shares for about 1.346 thousand Euros; the acquisition of Lasercut Inc. for about 467 thousand Euros besides the payment of a deposit for the purchase of the building where the business is conducted for the amount of 747 thousand Euros, the purchase of a 26% equity in DEKA LMS GmbH for an amount of 520 thousand Euros; the acquisition of an equity of 20% in ASA Srl for the amount of 385 thousand Euros; the acquisition of the business activities of Asclepion GmbH for an amount of 1,5 million Euros, half of which was paid by El.En. and half by Quanta

System, which later (January 2004) became part of the Group. Moreover, dividends were distributed by El.En. SpA for 1.144 thousand Euros and by Deka M.E.L.A. Srl for 123 thousand Euros.

Gross investments made during this quarter

The chart below shows the gross investments made during this financial period:

<i>Progressive</i>	31/12/2003	31/12/2002
Intangible assets	287	186
Tangible assets	3.151	2.199
Equity investments	630	15
<i>Total</i>	4.069	2.400

<i>3 Months</i>	31/12/2003	31/12/2002
Intangible assets	34	12
Tangible assets	560	962
Equity investments	630	-259
<i>Total</i>	1.224	715

During this year a sizeable increase in the overall value of the investments was registered, due for the most part to a generalised rise in investment activity in equipment for sales demonstrations and for clinical experiments for the medical and cosmetic sectors, as well as the replacement of laboratory equipment and new hardware, in particular personal computers which had to be purchased as the number of staff members rose. Cynosure had also capitalised laser equipment to be used for rentals through its associate, Sona, as explained earlier. Two real estate investments also took place, which, for type and amount were different from the investments described above: the remodelling of the farmhouse located on the property at the headquarters in Calenzano, which will be used for administrative offices, meeting and conference rooms and for which at this writing 431 thousand Euros have been paid so far, and the building in which Lasercut operates in Branford, Connecticut, consisting of approximately 2.200 square meters of industrial and office space, for which 747 thousand Euros were paid.

The investments in financial assets however, has increased for the amount of 385 thousand Euros for the purchase by the subsidiary company Deka M.E.L.A. Srl of an equity of 20% of the capital stock of ASA Srl and for the amount of 245 thousand Euros for the re-capitalisation of RTM made by El.En. SpA, after the reduction of the capital to zero as a consequence of the losses suffered.

Comments on Research and Development activities

During the fourth quarter of 2003 the company continued its intense research and development activity for the purpose of introducing innovative new products on the market and finding new applications for lasers in the medical field as well as in the industrial sector.

The world market, especially for high-tech products, requires that competition be met by an almost uninterrupted stream of new products and of new versions of old products with improved performance, and by the use of state-of-the-art technology and components. For this reason it is necessary to organise and maintain a vast research and development program working on short and mid-term projects. Research for obtaining mid-term results generally involves higher risk subjects and are classified on a scale which is determined by management intuition and by the potential which has been shown in scientific studies conducted in laboratories and experiments in advanced research centers located around the world. The research which is dedicated to short term projects involves subjects for which feasibility studies have already been conducted and for which selection on the basis of information on the market potential has already been obtained through company studies and as a result of the activity of the structures involved as consultants in the preliminary study phase.

Research is, for the most part, applied and, for some specific topics, basic. Both the applied research and the development of prototypes are sustained in part by company financing and in part by grants issued on the basis of

research contracts stipulated with the institutions appointed for this purpose by the Ministry of University Instruction and Research and with the European Union, both directly and through the Research Institutions.

A description of some of the research projects conducted in 2003 is contained in the following paragraphs:

For medical systems and applications

A research project is now in progress for the development of laser equipment and devices for mini-invasive micro-surgery including that assisted by robots; this activity has been developed in accordance with a project of the "New Medical Engineering" as part of FIRB (Investment Fund for Basic Research), financed in part by MIUR (Ministry of University Instruction and Research) after concession of a grant with selection by an international jury of experts. The first studies in this area concerned wave length and the doses for the cutting process of soft tissues and the cauterisation of small veins. Work was begun for the development of directable micro-tweezers and a multi-directional catheter for PDT endoluminal endoscopy and for diagnostics with opto-acustical micro-probes.

In the medical laser field we are conducting clinical experiments on lasers for physiotherapy and orthopaedics, and a internships for young researchers who will eventually be hired in order to further consolidate the research and development sector.

At the same time, clinical trials are being performed in Italy and in other qualified European and American centres, aimed at confirming and providing data on the efficacy of certain therapeutic laser procedures in various medical fields including gastrology, ophthalmology, hyperthermia interstitial laser, dermatology.

A patent was developed for a new type of low flow radiator with isotopic emission for interstitial laser for use in conducting mini-invasive operations of micro-surgery on the liver and thyroid. A program is now in progress related to the innovative technologies in ophthamology for the attachment of the cornea by means of a laser.

Another research program that is being conducted involves the development of a diode laser for applications in neurosurgery. With grants from the European Union, a program for research on mechatronic applications in the bio-medical industry has been initiated.

For systems and applications for industry

Another subject on which research activity was conducted involved an eximer laser system to be used for the nano-manufacture of devices for electronics and opto-electronics.

Moreover applied research is in progress for the development of large mirrors for scanning the laser beam, for the purpose of marking or treating the surfaces of various types of materials for the aesthetic enhancement of clothing and craft products; scanning systems able to work on areas up to 1.600 mm x 1.600 mm, with laser power of over 1kW have been developed. We have also initiated the development of the electronics based on a Digital Signal Processor for the translation in HW of the results of theoretic research on the numerical control of the galvanometers for scanning heads.

Algorhythms, calculus programs and HW structures have been developed for artificial vision systems to be used in decoration by means of laser marking of leather.

A project for developing 1500 W CO2 laser sources with slow axial flow was completed.

A project for the creation of a solid state high powered laser source with active material on an amorphous ceramic support was initiated.

Furthermore, a program for the development of a new laser diagnostic system for the conservation of works of art has been activated as part of the "PON" Project (National Operating Plans for the development of strategic activities in Southern Italy).

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

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

As is the case for the entries in the sales volume and revenue charts, the presence of Cynosure is highly significant also for Research and Development expenses, considering the intense activity conducted in this sector. The amount of expenses for research and development sustained by Cynosure during this quarter was about 2,525 thousand dollars.

As has always been done in the past, these expenses have been entirely entered under the heading of operating costs.

The amount of expenses sustained corresponds to about 10% of the consolidated sales volume of the Group. The amount relative to Cynosure, which was, as has been stated earlier, 2,525 thousand dollars, represents about 9% of its sales volume; the remaining part of the expenses has been paid almost entirely by El.En. SpA and is equal to 17% of its sales volume. El.En SpA for this financial period has entered into accounts under the heading of grants, 754 thousand Euros. The resources and efforts directed to these activities are considerable and represent a major moral and financial commitment, which is considered to be indispensable for the further development of the Group

Other significant events which took place during this quarter

On November 6th, 2003 the stockholders' assembly appointed the members of the new Board of Directors and confirmed the composition of the preceding board with the exception of a new Board Member, Prof. Carnevale, professor in the Engineering Department of the University of Florence, who will replace Dr. Horace Furumoto, who is retiring. The Assembly also reconfirmed the same group of Auditors as for the preceding year.

Other events which took place after the end of this quarter

On January 19th, 2004 El.En. SpA acquired an additional 30% interest in Quanta System SpA, bringing to 60% the amount of its equity. This operation represents the entry into the area controlled by the Group of one of the most important Italian companies working in the field of development and manufacture of lasers, including the space sector. The company was one of the first to operate in the field and is now enjoying a phase of rapid growth. Quanta System moreover holds the remaining 50% of Asclepion Laser Technologies GmbH, the German company of the El. En. Group that acquired the cosmetic sector of the business from Carl Zeiss Meditec AG .

This transaction involved the sale by El.En. to Laserfin (the company which held the controlling interest of Quanta System) of a 10% interest in the subsidiary company Deka M.E.L.A. Srl and of a 2,5% interest in the American subsidiary Cynosure Inc., as well as a payment of 1,5 million Euros, of which half a million was paid at the conclusion of the transaction, and the remaining million to be paid by the middle of July 2004. This operation therefore not only brings Quanta System under the control of El.En., it also creates a direct involvement of the management of Quanta System in the activities of the El.En. Group in the medical sector and integrates into the Group a highly sophisticated Research and Development team.

During the financial year 2002, Quanta System invoiced the amount of 5,3 million Euros (an increase of 61% over the preceding year) with a Gross Operating Margin of 216 thousand Euros with a net profit of 54 thousand Euros; the financial year 2003 also saw a further increase in the sales volume which came close to 7 million Euros, with an operating profit of over 10% of the sales volume.

Expected short term evolution for this financial year

The forecasts for the year 2004 were formulated on the basis of the difficult situation which has continued to exist in the manufacturing sector, which seems unable to emerge from the crisis in which it was involved for all of 2003. This situation is still penalised by the Euro/Dollar exchange rate which is slightly less than 1,30, which makes the European manufacturers less competitive than other global competitors. Also for this reason the development plan for Cynosure is particularly ambitious, and intended to lead the growth of the Group on the medical sector and increase the importance of the American company within the Group. The entry into the area of consolidation of Quanta System and the consolidation for all twelve months of Asclepion and Lasercut also contribute to the forecast, even for the year 2004, of a strong growth rate.

For these reasons, 89 million Euros has been established as the target for the consolidated sales volume for the year 2004 (+30%). For the medical sector, a growth rate of over 35% is estimated, thanks in particular to Cynosure, while, for the industrial sector, the growth rate should be about 30%. From the point of view of profits, the expected operating results should be about 4,2 million Euros (+130%).

These forecasts have been formulated on the basis of a Euro/Dollar exchange rate of 1,27 dollars per Euro.

For the Board of Directors
The President

Ing. Gabriele Clementi