RAS BANK

Finance Division

ITALIAN EQUITY RESEARCH

May 17, 2004

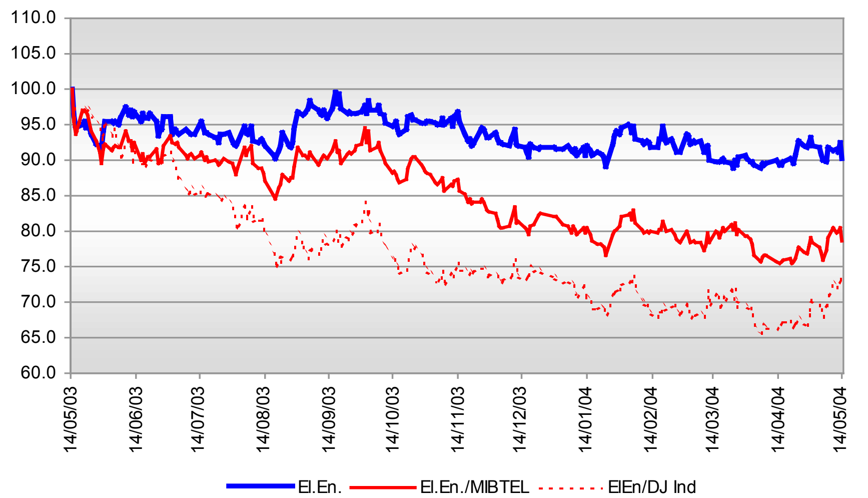
EL.EN.

OUTPERFORM *UNCHANGED*

Year to DEC.	Sales EUR m	EBITDA EUR m	Adj.EBIT EUR m	ROS %	ROI %	Net profit € m	Adj.Net Profit EUR m	ROE %	D/E at Mkt x	Adj. EPS €	DPS €	EV/EBITDA x	EV/EBIT x	P/E x	Yield %	Price EUR
2001	27.8	3.9	2.7	9.7%	19.9%	2.3	2.1	5.3%	-0.39	0.46	0.20	12.8	18.4	36.9	1.2%	16.9
2002	54.1	7.0	4.5	8.4%	26.0%	2.1	0.7	4.8%	-0.46	0.15	0.25	5.1	7.9	76.0	2.1%	11.7
2003	68.2	5.5	2.3	3.4%	9.9%	0.6	-1.0	1.2%	-0.19	-0.21	0.06	11.4	27.0	(70.6)	0.4%	15.0
2004E	88.2	7.8	4.8	5.4%	15.4%	1.9	0.5	4.3%	-0.13	0.11	0.22	8.5	13.8	131.2	1.5%	15.0
2005E	99.4	11.1	8.1	8.1%	22.5%	3.5	2.3	7.7%	-0.14	0.50	0.41	5.9	8.1	30.0	2.7%	15.0

- El.En is an integrated producer of laser sources, equipment and systems for the industrial and medical industries. The Group is a leader in Italy and one of the main operators at European level. Significant and continual investments in R&D and a careful purchasing policy are at the basis of its growth, having permitted heavy diversification both at a product level and with regards to geographic outlet markets.
- Thanks in part to important acquisitions both in the industrial and medical sector, the last few accounting periods have disclosed average growth in sales revenues of 38.5% (CAGR'98-03), involving a drop in the most recent years in the profit margins (EBITDA margin '03 of 8.1% and ROS adj of 3.4%) due to the reduced profitability of the new acquisitions and the related reorganization costs.
- With regards to the current accounting period, following the reorganization of the distribution network of the subsidiary Cynosure and thanks to the extension of the scope of consolidation, we expect growth near to 30%, with an improvement in the profitability (EBITDA margin of 9.8% and ROS standing at 5.1%).
- On the basis of our evaluation, carried out using the DCF method based on a CAP of 15 years, we have assigned the El.En. stock a target of EUR 17.6, confirming the OUTPERFORM rating.

El.En. absolute and relative performance in the last 12 month



Price on May 14, 2004	**EUR15.0**
52-week range	**EUR13.75 - 15.94**
MIBTEL index	**20,513**
Abs. Perf. (1,3,12 months)	**1,(2),(10)%**
Rel. to MIBTEL (1,3,12 months)	**4,(2),(21)%**
Share capital (total)	**EUR2.6m**
Shares outstanding (total)	**4.62m**
Market capitalisation (total)	**69.1**
Free float	**20.9%**
Avg. daily traded volume	**2,759**
Reuters code	**ELN.MI**
Bloomberg code	**SAB IM**
Major shareholders	
Mr. A.Cangioli	**13.5%**
Mrs. B.Bazzocchi	**10.5%**
Mr. G.Clementi	**10.5%**
Mr. F.Muzzi	**10.5%**
MPS	**10.1%**

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INVESTMENT SUMMARY

Recovery via America

- On the basis of our evaluation, carried out using the DCF method based on a CAP of 15 years, we have indicated the target for El.En as EUR 17.6.; with an upside of 16% with respect to current market prices, we have kept our rating unchanged at OUTPERFORM. An analysis of the market multiples reveals how at present the El.En. stock is listed in line with the multiples of the comparables, without having taken off the improvement in profit margin expected for the next few years.

A target of EUR 17.6 from DCF; with an upside of 16%, we confirm the rating as OUTPERFORM

- The El.En Group, formed in 1981 and listed on the new market since 2000, is an integrated manufacturer of laser sources, laser equipment for the cosmetic/medical sector and laser systems for the industrial sector. The Group is a leader in Italy and one of the main operators at European level. Significant and continual investments in R&D and a careful purchasing policy are at the basis of its growth, having permitted heavy diversification both at a product level and with regards to geographic outlet markets.

Investments in R&D at the basis of El.En. growth, leader in Italy and among the main European operators

- Thanks in part to important acquisitions both in the medical sector (Cynosure, Asclepion), and the industrial sector (Lasercut), the last five accounting periods have disclosed average growth in sales revenues of 38.5% (CAGR'98-03). The growth in the last few accounting periods has especially concerned the segment of the in-house marking in the industrial division, and equipment for the cosmetic industry for the medical division.

During the last 5 accounting periods sales revenue CAGR of 38.5%

- The most recent accounting periods were characterized by a drop in profitability (EBITDA margin '03 of 8.1% vs 18.6% in '98; ROS adj' 03 of 3.4% vs 15.9% in '98) linked to both the devaluation of the US dollar, and the consolidation of the newly acquired companies with low margins and the related reorganization costs.

The drop in profitability is essentially linked mainly to recent acquisitions

- For the current accounting period, we expect a sharp recovery in turnover, which we anticipate will rise by nearly 30% to EUR 88.2m, involving an improvement in the profit margins (EBITDA margin at 9.7% and ROS adj at 5.9%). The rise is mainly attributable to a pick up on the American market, as well as the reorganization of the distribution network of the subsidiary Cynosure and the consolidation of the latest companies acquired.

Growth of 30% in sales revenues is anticipated for the year 2004, encouraged by the new distribution network and the extension of the scope of consolidation

- For the subsequent accounting periods, thanks to continual investment in research and development, the launch of new products, the completion of the activities for the reorganization of the latest companies acquired and a pick up on the industrial market, we anticipate a CAGR of sale revenues standing at 11.1%, of EBITDA at 26.3% and of EBIT at 58.8%. As of 2008, the EBITDA margin should return to 15.3% and the ROS to 11.7%.

Reorganization will continue until 2008, when the EBITDA margin should return to 15.3%

VALUATION

A target of EUR 17.6 from the DCF: rating of OUTPERFORM confirmed

A four-stage DCF for the valuation

In order to evaluate the El.En. stock, we used the unlevered DCF as the standard method based on the hypothesis of a competitive advantage period of 15 years.
The financial flows discounted back using the DCF method relate to the period 2004-2018: at the basis of our estimates is the hypothesis that El.En, during this period of time, will be able to maintain its competitive advantage, or rather grow thus generating value. The time frame in question was divided up into four different periods.

First period: until 2008

- During the **first 5 years (first period)** the financial flows are calculated on the basis of **exact estimates** of the growth rates of the various profit & loss account and balance sheet items: in this period, we estimate **growth in the total ROCE** associated with a **marginal return** - relating in other words to the incremental CAPEXs – **on the up**. The improvement in the ROCE, from 2.7% in 2003, to 18.6% at the end of 2008 is determined by various factors: the costs for the reorganization of the companies recently acquired will no longer exist and they will consequently show an improvement in terms of profitability, the distribution network of Cynosure will be more efficient, the economic cycle in America will improve and new products will be launched.

Second period: 2008-2013

- During the following 5 accounting periods **(second period)** at the basis of our estimates is a growth rate of the **NOPAT** of **3%** with a **profit margin** essentially at the same levels as the ROCE of the last year of exact estimates; on the basis of these parameters, we have obtained the incremental investments of these years.

Third period: 2013-2018

- During the last 5 years of estimates of the financial flows **(third period),** maintaining a **NOPAT** growth rate of **3%,** we assume that the **ROCE of the marginal investments decreases** gradually until **it corresponds to** the weighted average cost of the sources of finance represented by the **WACC**. This hypothesis is based on the idea that even El.En, after a specific number of years, will write-off its competitive advantage thereby ceasing to generate value via additional investments: from this assumption derives the hypothesis of writing off the NOPAT growth as from 2019.

Fourth period: calculation of the terminal value

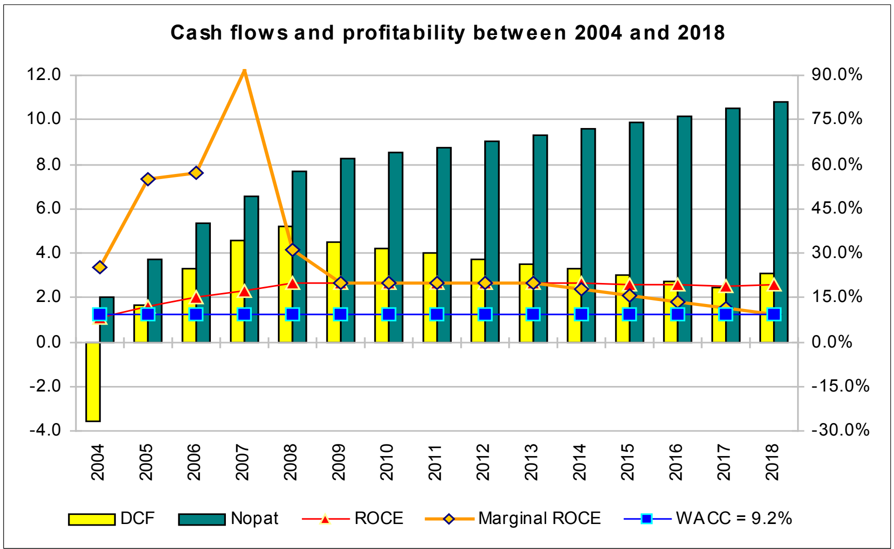
One of the main consequences of the assumptions illustrated up to this point is represented by a calculation of the **terminal value (fourth period)** as of the year 2018 with a **G growth rate** of the NOPAT for the subsequent years which emerges as irrelevant for the purposes of the evaluation, precisely due to the fact that the marginal return is presumed as equal to the WACC.

WACC at 9.2%

The table below illustrates the calculation of the average cost of the capital, estimated by us as equal to 9.2%.

10y BTP interest rate	4.4%
Market risk premium	4.2%
Beta	0.9
Small Caps Adj.	1.1%
Cost of equity	9.2%
WACC	**9.2%**

The following graph illustrates the estimates relating to NOPAT, DCF and the return for the period 2004-2018.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EBIT	**1.4**	**4.7**	**7.5**	**10.1**	**12.1**	**14.0**										
Tax	-1.3	-2.7	-3.8	-4.8	-5.6	-6.3										
NOPAT	**0.1**	**2.0**	**3.7**	**5.3**	**6.6**	**7.7**	**8.3**	**8.5**	**8.8**	**9.0**	**9.3**	**9.6**	**9.9**	**10.2**	**10.5**	**10.8**
Delta NWC	-7.9	-6.4	-2.5	-1.8	-0.9	-0.5										
Capex	-4.4	-2.8	-2.8	-2.8	-2.9	-2.9										
Depr/Amort	3.4	3.5	3.4	3.3	3.2	3.2										
Delta NIC	-8.9	-5.6	-1.9	-1.4	-0.5	-0.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.6	-1.9	-2.3	-2.8	0.0
FCFO	**-8.8**	**-3.6**	**1.8**	**3.9**	**6.0**	**7.5**	**7.0**	**7.2**	**7.4**	**7.7**	**7.9**	**8.0**	**8.0**	**7.9**	**7.7**	**10.8**
Average NIC adj	23.5	31.1	35.7	38.1	39.8	40.7	41.8	43.0	44.4	45.7	47.1	48.6	50.4	52.5	55.0	56.4
Marginal ROCE	22.7%	25.1%	55.1%	56.9%	91.5%	31.0%	19.7%	19.7%	19.7%	19.7%	19.7%	17.6%	15.5%	13.4%	11.3%	9.2%
ROCE	2.7%	8.4%	11.9%	15.1%	17.5%	19.7%	19.8%	19.8%	19.8%	19.8%	19.8%	19.7%	19.6%	19.4%	19.0%	19.1%
WACC	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Periods		0.1	1.1	2.1	3.1	4.1	5.1	6.1	7.1	8.1	9.1	10.1	11.1	12.1	13.1	14.1
Disc factor		1.0	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
DCF		-3.5	1.6	3.3	4.6	5.2	4.5	4.2	4.0	3.7	3.5	3.3	3.0	2.7	2.4	3.1
Cumulated DCF		-3.5	-1.9	1.4	5.9	11.1	15.6	19.8	23.8	27.5	31.0	34.3	37.3	40.0	42.4	45.5

The target which we obtain from our evaluation of El.En. comes to EUR 17.6, with an upside compared with the current stockmarket prices of 18.6%; therefore we keep our rating of OUTPERFORM unchanged.

Target at EUR 17.6, with an upside of 18.6%

Valuation		per share	% of EV
Disc.FCFO '04-'18	45.7	9.9	57.1%
Terminal value	34.3	7.4	42.9%
EV	80.0	17.3	100%

NFP	-13.3	-2.9	
Discount of NFP	-2.7	-0.6	
Financial assets	1.8	0.4	
Equity value	92.5	20.0	
Minorities	10.6	2.3	
Net equity value	**81.9**	**17.7**	
Ordinary shares	**17.7**		
Upside %	18.6%		

The multiples, in line with the comparables, do not yet incorporate the recovery of the margins

For the analysis of the multiples of El.En., we have chosen a basket of 5 companies, with low and medium capitalization, listed both in Europe and in America, for which we have considered both the historic multiples and those for the two accounting periods 2004-2005.

		Mkt cap EUR'02	Mkt cap EUR'03	Current Price	Exchange rate	Price EUR	Shares	Mkt cap EUR'04	minorities' 04	Net debt'04	Financial asset	Ev'02	Ev'03	Ev'04	Ev'05
Carl Zeiss	eur	260.6	273.9	11.5	1.0	11.5	28.4	326.8	8.3	-38.7	31.0	261.9	237.3	265.4	259.9
Wavelight Laser	eur	27.5	35.4	13.5	1.0	13.5	4.2	56.7	0.0	12.2	11.5	24.4	36.0	57.4	62.2
Coherent Inc	usd	804.4	606.9	25.5	1.2	21.2	30.1	637.5	8.8	-122.8	164.0	692.3	334.4	359.5	385.7
Prima Industrie	eur	36.3	33.0	6.1	1.0	6.1	4.6	28.1	0.0	21.0	5.6	74.1	54.4	43.6	49.0
Rofin Sinar	usd	106.1	182.7	24.4	1.2	20.2	12.0	243.4	0.0	5.5	0.0	150.2	203.7	249.0	250.2
Elen	eur	54.0	70.1	15.0	1.0	15.0	4.6	69.1	8.3	-9.2	1.8	35.7	62.8	66.4	65.2

The analysis of the multiples of the EV disclose how El.En., during 2002 was listed decidedly at a discount with respect to its comparables. During 2003, the year in which a considerable drop in the profit margins was witnessed both in absolute terms and percentage terms on the sales revenues, following the acquisitions carried out over the last two accounting periods, El.En. achieved listing perfectly in line with the basket average. For the accounting periods 2004-2005 as well, El.En. emerges as in line (at sales and EBITDA level) with the multiples of its comparables, however paying for (only partially) the restructuring activities and the growth in profitable anticipated for the subsequent accounting periods, when the EBITDA margin should rise from 11.4% in 2005 to 15.2% at the end of 2008. As far as the multiples of the EBIT'04-'05 are concerned, El.En. emerges at a premium in 2004, the year in which the elevated overheads associated with the recent acquisitions still make their effect felt; the multiple aligns with the average of the basket from as early as 2005.

The analysis of the EV discloses, at present, multiples in line with those of the comparables; the market still does not take into account the restructuring activities for the years subsequent to 2005.

	EV/Sales'02	EV/Sales'03	EV/Sales'04	EV/Sales'05	EV/Ebitda'02	EV/Ebitda'03	EV/Ebitda'04	EV/Ebitda'05	EV/Ebit'02	EV/Ebit'03	EV/Ebit'04	EV/Ebit'05
Carl Zeiss	1.28	1.01	1.09	0.95	n.m.	10.4	8.2	6.8	n.m.	13.7	9.9	8.1
Wavelight Laser	0.65	0.75	0.92	0.80	7.3	5.6	6.8	6.0	10.3	8.6	9.4	7.8
Coherent Inc	1.83	1.03	0.87	0.82	19.0	16.3	7.4	5.1	n.m.	n.m.	19.7	9.1
Prima Industrie	0.74	0.56	0.43	0.44	n.m.	18.0	7.2	5.4	n.m.	n.m.	11.0	7.9
Rofin Sinar	0.71	0.99	1.06	0.99	6.9	8.2	7.6	6.9	10.2	10.1	8.8	8.0
Average	1.04	0.87	0.87	0.80	11.0	11.7	7.4	6.0	10.2	10.8	11.8	8.2
El.En.	0.66	0.92	0.75	0.66	5.1	11.4	8.5	5.9	7.9	27.0	13.8	8.1

INVESTMENT STORY

Technological research and progress at the basis of the El.En. Group lasers

The El.En. Group, established in Florence at the start of the 1980s, is involved in the design, manufacture and marketing of laser sources, industrial laser systems and laser equipment for medical-cosmetic use, and covers the entire gauntlet of the production chain, including service activities

El.En. was established in Florence at the start of the 1980s

Investments in research and development have essentially been at the basis of the Group's growth and the development of new projects (in 2003, 10.1% of total sales revenues invested), involving close links with academic circles and elevated investment in highly qualified human capital (payroll and related costs come to 26.3% of sales revenues for '03): all of which has permitted El.En. to make technological innovation its secret weapon.

The investments in R&D and human capital at the basis of El.En's growth.

The Group's activities develop by means of vast geographic coverage at worldwide level (at the end of 2003, 46.1% of the sales revenues originated from the rest of the world and 30.2% from Europe) with manufacturing activities present in Italy, the USA, Germany and, marginally and via the subsidiary Cynosure, also in China.

Activities developed with geographic coverage at a worldwide level

Listing on the new market, which took place during 2000, permitted the Group to track down the resources necessary for the acquisitions which have characterized the rapid internationalization process over the last few years.

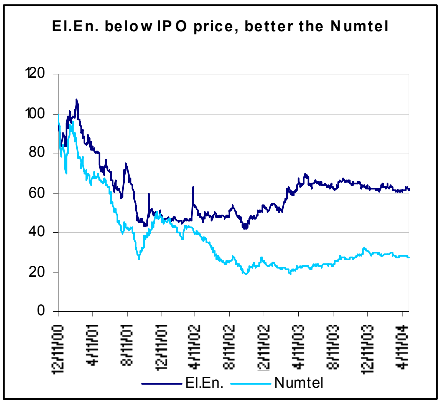
During 2000, listing on the new market

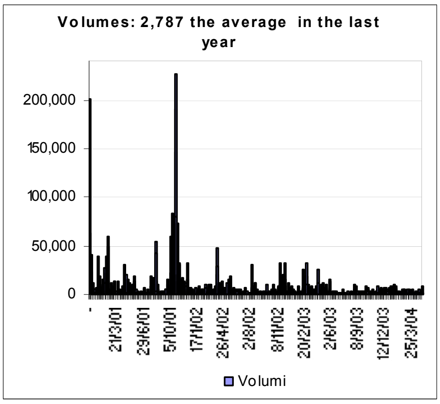
After three years of considerable growth of an exogenous nature, El.En. will focus its attention over the next few accounting periods on the recovery of the profit level in line with the historic ones, currently diluted by the low profitability of the newly acquired companies.

Over the last few accounting periods, growth occurred exogenously: the current objective is recovery at profit level

Listed as of 11 December 2000 on the new market, the El.En stock, which is currently still under its IPO price, has outperformed the performance of the Numtel over the last three years; in the last year, average trading involved 2,787 shares a day.

From the listed prices to-date, El.En. has out performed the new market





Historical outlines: in 2002 sharp growth encouraged by the acquisition of the American company Cynosure

El.En. (acronym for Electronic Engineering) was established in 1981 by Gabriele Clementi, the current Chairman of the Group: the corporate object was initially established as the manufacturing and marketing of electronic and mechanical equipment for industry and research.

Establishment in 1981

During the early 1980s, partly further to collaboration agreements entered into with the Research Institutes of the CNR and ENEA, the company started to develop the first CO_2 laser sources and manufacture the first treatment lasers.

Development of CO2 laser sources in the early 1980s

During 1986-87, marketing was started up of the first laser systems with application in the dentistry and gynaecological field. Again in 1987 the first cutting system was created for use in the industrial sector.

Marketing in the medical sector during 1986

As from 1989, the Group started to expand, in part via acquisitions, both in new geographic markets and different market sectors. Between 1990 and 1992 the following companies were formed together with other minority shareholders: **DEKA M.E.L.A.**, a company which distributes medical equipment produced by El.En., first in Italy and subsequently also abroad, **Lasit** (initially 50% invested in and then 70% owned as from 2002), which focuses on the production of complete systems for laser marking and, in general, for industrial applications, and **Cutlite Penta**, involved in the production of laser systems for the industrial sector and, in particular, lasers for cutting and marking.

At the start of 1990, DEKA, Lasit and Cutlite Penta were formed

In 1993 a 50% holding in **Quanta System** was acquired, a company involved in research and the manufacture and development of lasers for the industrial, scientific and medical sectors.

In 1993, a 50% holding in Quanta was acquired

In 1996, DEKA s.a.r.l. was formed, a company involved in the distribution of medical lasers systems on the French market. In the same year, control was acquired over the companies **OT-LAS** and **Neuma Laser**, companies which El.En. already supplied with laser sources and which operate in the industrial marking sector.

In 1996, OT-LAS and Neuma joined the DEKA sarl Group

In 1999, **M&E** was formed (in which El.En. owns a 50% holding), a company distributing medical-cosmetic equipment on the North American market.

In 1999, an American distribution company was formed

In 2000, El.En. was launched on the Numtel, raising the resources necessary for carrying out new and important acquisitions (around EUR 24m, net of commission).

Listing took place during 2000

In 2002, the acquisition of 60% of **Cynosure** was announced, an American company involved in the production and sale of laser systems for medical and cosmetic applications.

In 2002, the largest acquisition: Cynosure

During 2003, El.En. was once again active on the American market with the formation of a distribution company for the dental sector (complementary to the segments covered by the subsidiary Cynosure), **Deka Laser Technologies,** and by means of the acquisition of 70% of **Lasercut**, a

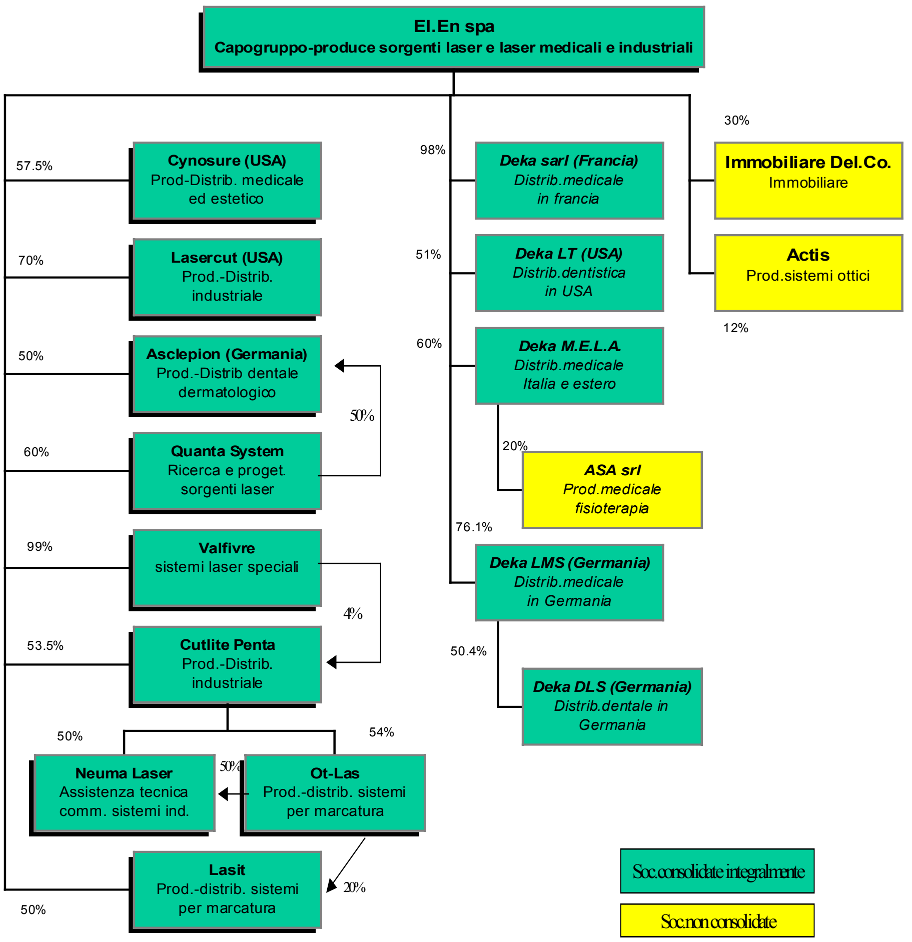
Acquisitions continued during 2003

company specialized in the production and sale of laser systems for the cutting of metal and socket punches. Again during 2003, in addition to increasing its equity investment in **DEKA LMS**, distributor of medical lasers on the German market, the company acquired **Asclepion Laser Technologies**, the business segment of the German company Carl Zeiss Meditec AG, operative in the dermatological and dentistry segment. At the beginning of 2004, El.En. acquired another interest in **Quanta**, taking its equity investment to 60% from the original holding of 30%: the company relating to this latter acquisition will be consolidated on a line-by-line basis as from the current accounting period. At the end of 2003, the Group workforce numbered 399 employees.

The entire production industry covered via a tight network of subsidiaries; 52% in the hands of the shareholders' syndicate

At the start of 2004, the acquisition of a further 30% in Quanta led to its inclusion within the scope of consolidation

The expansion of the El.En. Group over the years, as already seen, took place by means of the formation together with third party shareholders - or the acquisition of shareholdings in (nearly always controlling interests) – manufacturing and distribution companies, both in Italy and abroad, the majority of which consolidated on a line-by-line basis. In 2004, following the acquisition of a further 30% in Quanta, in addition to the 30% already held, the structure of the El.En. Group changed; however, the transaction took place after the close of the accounting period and as a consequence the consolidation of Quanta System will take place only as from 2004. In the flowchart below, the companies indicated in italics are those which exclusively carry out distribution functions. With regards to the three companies not included within the scope of consolidation, ASA and Immobiliare Del. Co. are carried at equity.



The subsidiaries, divided up between distributors and manufacturers

Each one of the Group companies deals with a specific function or a specific market segment. The American subsidiary Cynosure is an industrial sub-holding company, active in the medical field, which in turn controls another seven companies, five of which are distributors respectively in Germany, Japan, France and Great Britain. The five subsidiaries with the name Deka are companies tasked with the distribution of medical laser systems, divided up by geographic area and, in some cases, by segment (in the case of dental lasers); Cutlite Penta manufactures and distributes surface level cutting laser systems, Ot-las is specialized in marking systems for large surface areas, Neuma carries out commercial activities and service abroad, while Valfivre develops specific laser systems for the industrial segment (cutting, marking and welding). Lasit, the majority interest in which has been held since 2002, is also involved in the production of marking systems on small surface areas. The most recent acquisitions concerned Lasercut, involved in the manufacture and distribution of industrial systems (cutting) on the American market, Asclepion, a German manufacturer specialized in laser systems for dermatological and dental use, and the already mentioned 30% interest in Quanta, specialized in research and design.

Shareholding structure: the majority holding held by shareholding syndicate

El.En is controlled by a shareholding syndicate which holds 52% of the capital

Control over El.En. is held by the group of shareholders included in the shareholding syndicate which comprises 52% of the share capital. The main shareholders of the Group are A. Cangioli (13.5% of the share capital of which 11.9% controlled via syndicate), B .Bazzocchi (10.5% of the share capital of which 9.3% controlled via syndicate), G. Clementi (10.5% of the share capital of which 9.3% controlled via syndicate), F. Muzzi (10.5% of the share capital of which 9.3% controlled via syndicate), E. Pecci (6.7% of the share capital of which 5.8% controlled via syndicate) and Banca Monte Paschi di Siena (10.1%). In addition to those already mentioned, the following also form part of the shareholding syndicate with the following holdings P. Burlamacchi (3.45%), C. Raffini (1.86%) and P. Autilio (1.06%).

Investments in R&D at the basis of the El.En. business

The integrated activities of El.En.: from the "source" to the distribution of the complete laser system

The activities of El.En are characterized by vertical integration

The El.En. Group is involved in the design, production and distribution of laser sources and complete laser systems used in medical and industrial spheres; the Group's activities are characterized by elevated vertical integration, which starts off from the production of the laser source, the heart of the product and the core business of the Parent Company, up until the after-sales customer service. The main geographic outlet markets are Italy, North America, Germany, France, Spain, Belgium and Japan.

The "source", heart of every laser, is produced by the Parent Company

The "source" can be defined as the heart of the product, or rather, whether dealing with equipment for the medical-cosmetic division, or dealing with more complex systems for industrial processing, it is the source of the energy at the basis of all the applications. According to the underlying technology, the sources produced by El.En. are divided up into:

- gases sources;
- solid-state sources;
- liquid-state sources
- semi-conductor based sources.

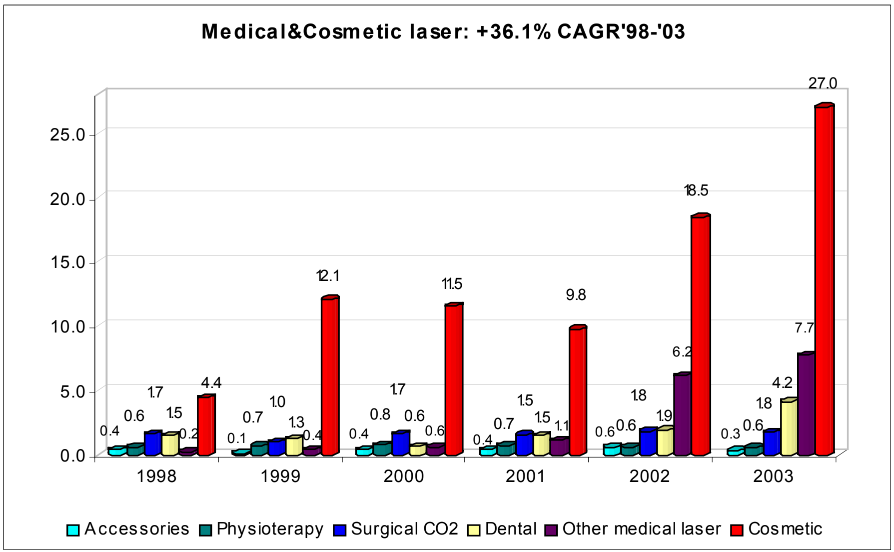
The Parent Company El.En is specialized in the production of laser sources, designing, manufacturing and selling both for the subsidiaries of the Group and for third party customers. The sources sold within the Group are intended for the assembly and production of more complex systems.
Depending on the technology at the basis of the source, lasers with different features and different applications are created; the light spectrum, which can be ultraviolet, visible or infrared, may therefore have various different characteristics, including different levels of efficiency (calculated as heat generated in relation to the energy utilized), different levels of power and precision. Depending on the developable power, the precision of the ray, the level of efficiency and the features of the light spectrum generated, the laser source will be used for medical-cosmetic type applications (precision based which require low levels of power), rather than for industrial-type applications (which require higher levels of power).

Greater rates of growth were reported in the medical-cosmetic sector recently; the increased revenues derive from the cosmetic sector

The medical-cosmetic sector, which at the end of 2003 represented 61% of the total sales revenues of the Group (54.6% at the end of 2002), is that which, thanks partly to the most recent acquisitions, has disclosed the greatest rates of growth (CAGR'98-'03 of 36.1%). The fields of application in which El.En. operates are numerous and extremely varied; the most important are indicated below

- dermatology and cosmetic surgery;
- orthopaedic and endoscopic surgery;
- dentistry;
- ophthalmology;
- physiotherapy;

- angioplasty;
- gynaecology.



The applications which have the most impact on the medical sales revenues are without doubt the cosmetic-dermatological applications, which over the last 5 accounting periods have disclosed a CAGR of 43.5% thanks to the numerous new fields of application discovered: the use of the lasers varies from medical-surgical type treatments (injuries, fat removal) to treatments of an exclusively cosmetic nature such as wrinkles, cellulite and hair removal. As from 2003, following the acquisition of Cynosure which took place in the previous year, the importance of dental lasers increased considerably, with sales revenues in just one year which rose from EUR 1.9m to EUR 4.2m.
In the medical division, the El.En products are sold under the Deka, Cynosure and Asclepion trademarks.
Over the next few accounting periods we believe that it will once again be the medical cosmetic sector which will experience the greatest rates of growth, again drawn along by lasers with cosmetic-dermatological applications, which present an extremely wide variety of possible uses still undergoing research.

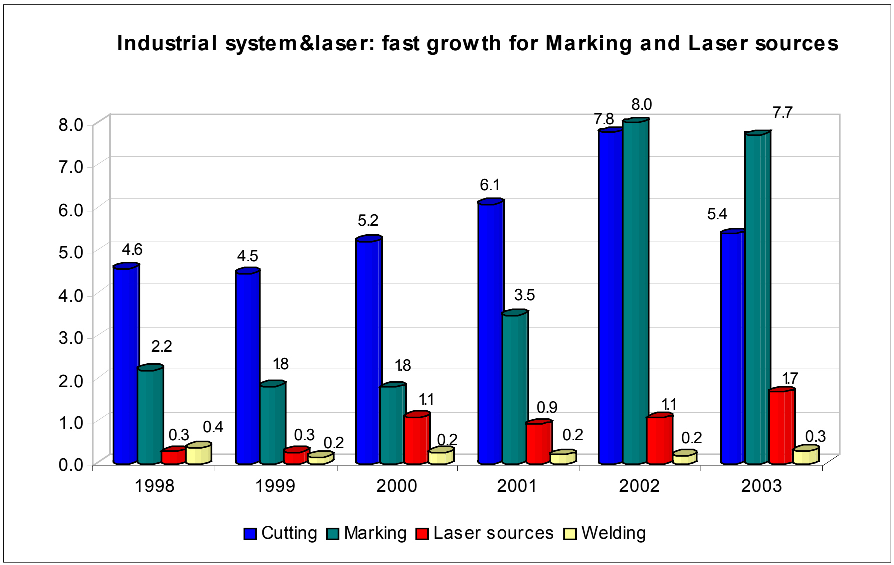
Lasers for cosmetic-dermatological applications disclosed a CAGR of 43.5%

The industrial sector, whose importance at the end of the previous year dropped to 22.0% (31.3% at the end of 2002), despite the recent acquisitions (Lasercut/Lasit), disclosed a decrease during 2003 in its turnover (- 11.5%), mainly as a result of the negative economic cycle situation, which manifested it effects mainly in the Italian market. The principal applications which El.En. is involved in within the industrial sector include:

The industrial sector is undergoing a slowdown; marking systems disclose the greatest importance

- cutting;
- marking;
- welding.

The revenues deriving from the sale of sources to third parties are also reclassified within the industrial division.



The cutting, marking and welding systems are in turn used for the processing of numerous different materials, such as metals, socket punches, fabrics, woods, glass, ceramics, plastic or marble.

Growth in marking systems seen in the industrial division

The application which over the last few years has disclosed the greatest rates of growth is marking, which during 2002 saw its turnover more than double, becoming the most important sector within the industrial division. Cutting systems were also of significant importance, having however suffered a heavy drop in terms of revenues during 2003, falling from EUR 7.8m to EUR 5.4m.

The most well-known trademarks by means of which El.En markets its products are Ot-Las and Lasit (marking systems) and Cutlite Penta (cutting).

At present, El.En.'s industrial division is the one which has been most greatly affected by the difficult economic situation in Europe and by the consequent slowdown in the last few months in sales of durable goods. A pick-up, for the next few months, could be linked to the development of projects associated with high-powered lasers used for the cutting and welding of metallic materials and projects relating to the nano-manufacturing of devices for the electronics and optoelectronics industries (segment in which El.En has as yet little presence).

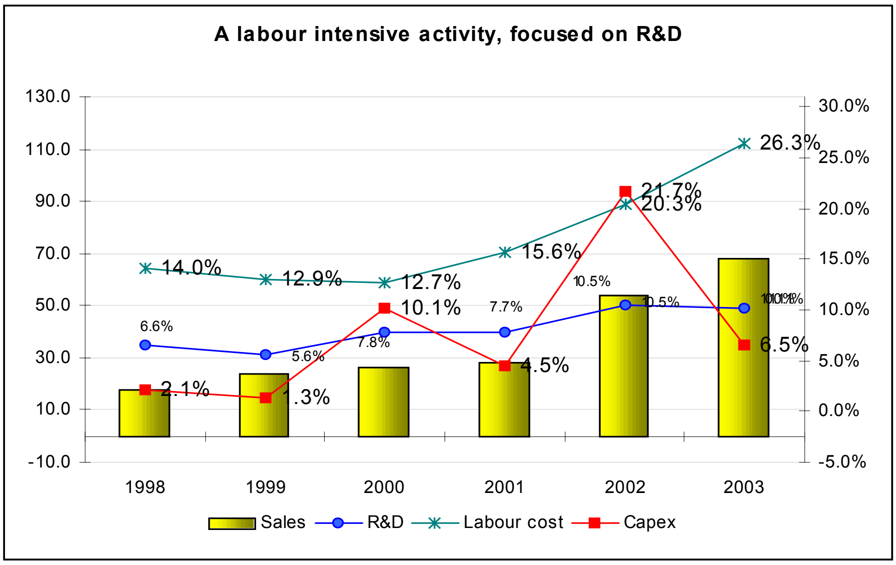
By means of the acquisition of Cynosure and Asclepion, after-sales service gains importance

A contribution which has become increasingly more important over the last two years, especially following the acquisition of the American company Cynosure and Asclepion, is that represented by the revenues deriving from after-sales assistance and service, which during 1998 amounted to EUR 0.9m and which at the end of 2003 came to EUR 11.4m, equating to 16.7% of total sales revenues. This category of revenues also includes the reclassified revenues deriving from "revenue sharing", or rather those deriving from leasing carried out by Cynosure, with leasing fees in proportion to the income produced by the equipment involved.

The investments in R&D at the basis of technological innovation

Investments in R&D over 10%, at the basis of labour intensive activities

The continual technological innovation, which has always been at the basis of the development and the growth of El.En's activities, has been continued over the years both via close collaboration with research centres and university institutes (C.N.R., E.N.E.A., I.N.O.A.), and by means of constant and elevated direct investments in R&D, which over the last two accounting periods have represented more than 10% of total revenues. Excluding research and development costs, fully expensed during the year, investments in tangible and intangible fixed assets emerge as decidedly low, weighing in on average for less than 10% of sales revenues (the 2002 value was influenced by the acquisition of Cynosure and, as a consequence, is fairly insignificant). The considerable importance of technological innovation for El.En. makes the business extremely labour intensive: the payroll and related costs item, also including the additional charges linked to the American subsidiary and its distribution network, over the last 5 years passed from a range of between 12.7% and 15.6%, to 26.3% in 2003, a value which incorporates extraordinary reorganization costs.



Lasers: a market of EUR 65.6bn in 2002

In 2002, the overall laser market came to EUR 65.6bn

From the introduction of the first commercial laser, which took place in 1960, to the present day, the laser systems have found numerous applications in sectors which are also extremely different from one other, from the industrial to the medical sector, from the cosmetic to the telecommunications sector, from control and gauging systems to the military and space sector, finally being used also for the restoration of works of art.
Overall, we can classify the applications associated with the use of laser sources and more complex systems and equipment under the five categories represented in the table below, which illustrates how the market at global level during 2002 amounted to EUR 65.5bn

Market of laser and Laser Systems	Sorgenti Laser	Sistemi Laser	Totale'02
Telecomunicazioni	1.0	10.5	11.5
Lavorazioni industriali	1.4	6.5	7.9
Information Tecnology	1.4	41.5	42.9
Medicale	0.5	1.1	1.5
Ricerca e misurazioni	0.2	1.6	1.8
	4.4	61.2	65.6

(source Optech Consulting)

El.En., as already seen, operates in two of the 5 segments shown, or rather in lasers for industrial processing, whose market during 2002 came to EUR 7.9bn and in equipment for the medical sector, whose turnover amounted to EUR 1.5bn.

The industrial sector: cyclical and extremely fragmented. Rofin-Sinar, Lumonics and Coherent are the leading players

Of the two sectors considered, the industrial processing segment (in which EL.En. during 2002 held a market share of 0.3%) is without doubt the most cyclical in nature and its performance is linked to the performance of the investments in durable goods and, therefore, to growth in GDP. Due to the different types of sources and the different types of applications and uses, the market emerges as extremely fragmented, involving the presence of few large operators and numerous small and highly specialized companies: the main players are Rofin-Sinar, an American operator with a turnover of US$ 257.8m at the end of 2003 (+ 16.1% on 2002), Lumonics, a Canadian manufacturer which during the previous year generated turnover of US$ 185.6m (+ 16.5% on 2002) and Coherent, an American manufacturer also involved in the medical sector, which last year generated turnover of US$ 406.2m (+ 2.2%). In Italy, one of the leading laser manufacturers for the industrial sector is Prima Industrie, who in 2003 generated revenues of EUR 95m.

The medical sector: linked to the propensity towards consumption and disposable income. Visx, Laserscope and Candela are the main operators

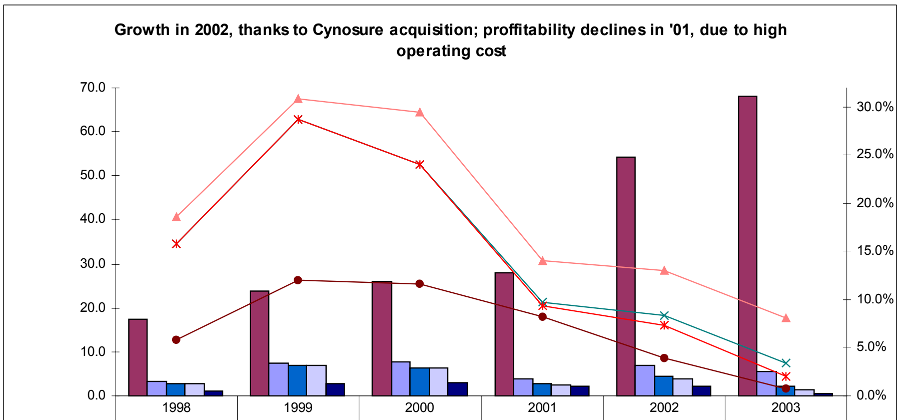
Sales trends in the medical sector (in which El.En held a market share of 2.7% in 2002) is by contrast dependent partly on the propensity towards consumption and partly on disposable income (and therefore the trend of the cycle and the fiscal policies). This segment as well, due to the numerous different types of applications, emerges as fairly fragmented. The main operators are Lumenis (with a market share in 2002 of more than 30%), Visx (with a market share in 2002 of 12.7% and 2003 turnover of US$ 143.9m, + 2.8% on 2002), Laserscope (2002 market share of 3.9% and 2003 turnover of US$ 57.4m, + 33.2% on 2002) and Candela (2002 market share of 5.3% and 2003 turnover of US$ 78.7m, + 34.1% on 2002).

The acquisition of Cynosure draws growth along, but generates reorganization costs

CAGR'99-'03 of turnover at 31.4%: in 2002 the jump with Cynosure

In the period '99-'03, a CAGR of turnover at 31.4%

The five-year period which ended at the end of 2003, was a period of enormous growth with regards to turnover. With a CAGR'99-'03 of 31.4%, the Group's revenues rose from EUR 17.4m at the end of 1998 to EUR 68.1m.



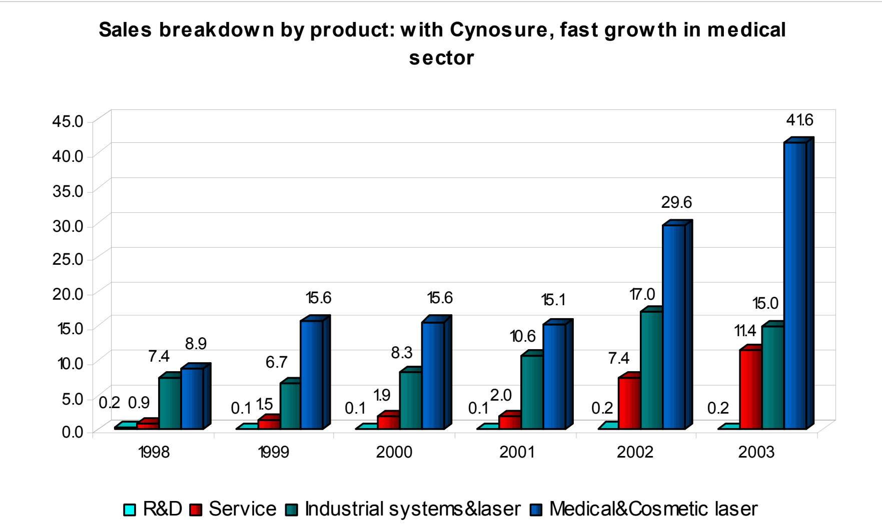
	1998	1999	2000	2001	2002	2003
Sales	17.4	23.9	26.0	27.8	54.1	68.2
EBITDA	3.2	7.4	7.6	3.9	7.0	5.5
EBITadj	2.8	6.8	6.3	2.7	4.5	2.3
EBIT	2.8	6.8	6.3	2.6	4.0	1.4
Net profit	1.0	2.9	3.0	2.3	2.1	0.6
EBITDA %	18.6%	30.9%	29.4%	14.0%	13.0%	8.1%
EBITadj.%	15.9%	28.7%	24.1%	9.7%	8.4%	3.4%
EBIT%	15.9%	28.7%	24.1%	9.3%	7.3%	2.1%
Net profi%	5.8%	12.1%	11.6%	8.2%	3.9%	0.8%

The most evident expansion was in 2002, with the acquisition of Cynosure

The most notable jump was that registered during 2002, to EUR 54.1m (vs EUR 27.8m in 2001), linked to the acquisition of the American company Cynosure: after three accounting periods in which the turnover of the medical sector was essentially flat at around EUR 15m, in 2002 a sharp jump was seen reaching EUR 29.6m. The growth in the medical sector subsequently continued in 2003 as well with a growth rate compared to 2002 of 40.5%, favoured both by the line-by-line consolidation of Cynosure, and the extension of the scope of consolidation linked to the most recent acquisitions (Asclepion and Deka LT).

In the last few years, revenues in the medical sector rose and those in the industrial sector fell

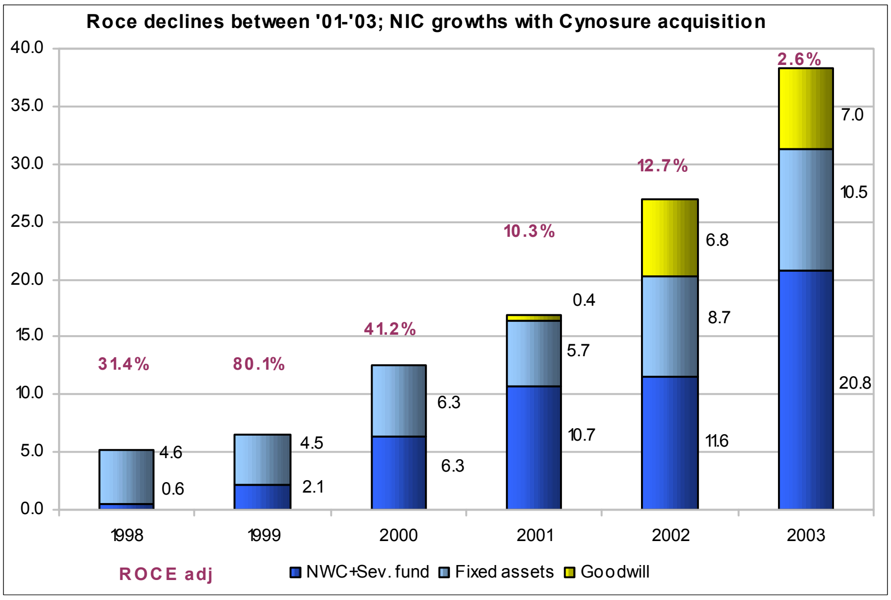
As illustrated in the following graph, over the last few accounting periods the different incidence on total turnover of the revenues deriving from the industrial sector and from the medical sector, became even more marked: in addition to the strong growth in the medical sector, this was also due to the drop in the industrial sector over the last year, which affected in particular the cutting lasers. The drop in revenues in the industrial sector is attributable to the crisis which, as early as the start of the year, affected the manufacturing sector, especially in Italy. This is joined by the weakness of the US dollar, which affected the competitiveness of the Italian companies with respect to their American competitors. Revenues from technical assistance and accessory services have also increased considerably over the last two years; the increase is mainly associated with the acquisitions of Cynosure, which leases laser equipment against the payment of fees proportionate to the income produced by the equipment involved, and Asclepion, operative in Germany with numerous service contracts.



Elevated profitability up until 2000 with a ROCE at 41%; heavy drop in the period '01-'03

Up until 2001, high levels of profitability guaranteed by continual investments in research and development

Over the last few accounting periods prior to 2001, the activities of the El.En. Group were characterized by elevated levels of profitability in terms of percentages on turnover, involving an EBITDA margin which reached its maximum during 1999 at 30.9% (29.4% at the end of 2002) and a ROS adj which equated to 28.7% (24.1% at the end of 2000). The ROCE adj reach its maximum point during 1999, arriving at 80.1% falling in 2000 to 41.2%. The elevated profitability of the Group during the years prior to 2001 was linked to El.En.'s type of business, which required a low level of net invested capital and whose strong points were investments in research and development (almost entirely expensed during the year) and the elevated level of specialization of the staff. Technological innovation, always present in El.En.'s new products, which during the period 1998-2000 made it possible to maintain a contribution margin greater than 50%, supported by a distribution network spread out at geographic level in the various major countries in which the Group exports, led to the achievement of the ROCE levels previously illustrated.



In 2001, the crisis in the medical sector affected the drop in profit margins

2001 was the year in which the Group's profitability started to decline, coinciding with a drop during the accounting period in the revenues from the medical sector. With regards to revenues, the rise of 7.3% to EUR 27.8m was lower than expectations, above all else taking into account the investments made both in terms of marketing and in terms of the distribution network, extended by means of the acquisition of Deka LMS, a company operating on the German market: said expectations were deluded both by the medical sector, with a decrease of 3.2%, mainly due to the particularly negative performance of the reference market, and by the industrial sector, which grew by 27.8% (thanks mainly to the effect of the Tremonti investment law), but in any event less than the forecasts made at the start of the year.
2001 should however be highlighted, not so much for the performance of the turnover, but rather for the sharp drop in profitability, which fell both in absolute terms, with an EBITDA and an EBIT adj down respectively by 48.9% and 56.8%, and in terms of percentage of turnover. The ROCE for the year was also considerably down, standing at 10.3%. The substantial decrease in the Group's margins during 2001 was essentially attributable to the crisis which affected the entire market of medical laser systems, which experienced a drop of 9% in turnover at global level having a twofold negative impact on the margins of the Group:

- at gross contribution margin level;
- on payroll and related costs and those for other indirect services.

The reduction in volumes and sales prices in the medical sector were at the basis of the fall in the gross contribution margin to 48.5% (55% in 2000)

The crisis of the medical laser market, involving a sharp drop in volumes sold, caused tension on sales prices, which for the El.En. Group were lower than the forecasts at the beginning of the year, both for the range of products already on sale and newly introduced products: this gave rise to the reduction in the gross contribution margin from 55% of 2000 revenues to 48.5% in 2001.
The considerable increase in payroll and related costs (incidence which passed from 12.7% in 2000 to 15.6% of 2001 turnover) and other costs for services (incidence which passed from 12.9% to 18.9%) is attributable to the rise in research and development costs and the internal reorganization of the Group (including the increase in sales and marketing expenses) both aimed

at a sustained expansion of sales for subsequent accounting periods, particularly on international markets; the crisis in the medical sector during 2001 and the lower growth of revenues with respect to the forecasts of the industrial sector did not make it possible to exploit the benefits deriving from the greater costs, associated with the structural expansion of the Group, dimensioned for a volume of activities greater than that registered during the year.

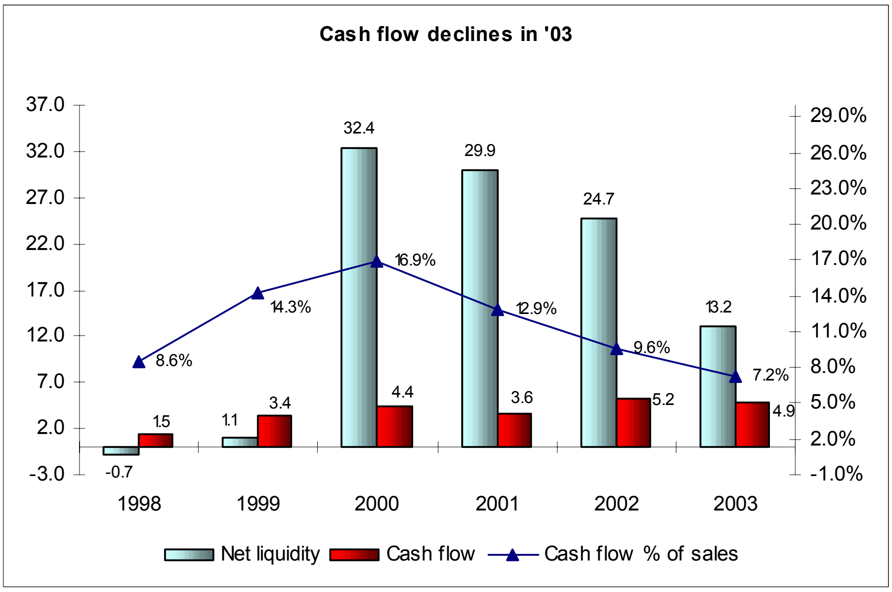
Profitability down also in the last two accounting periods: affected by the recent acquisitions

Profitability however underwent a sharp drop also in the period 2002-03, involving an EBITDA margin down to 13% in 2002 (from 14%) and a ROS adj for 2002 which fell from 9.7% to 8.4%; the 2002 decrease, which subsequently manifested more clearly during 2003, when the ROCE came to just 2.6%, was mainly the fault of the acquisitions, carried out during the two-year period, of companies with cost structures which were decidedly heavier, starting off with Cynosure, the American subsidiary whose ratio of payroll costs to turnover (and in particular of the distribution network) was considerably higher than the average of the El.En Group.

Net liquidity up sharply after the IPO and down following the acquisitions; cash flow generated down

Over the last 5 years, a constantly positive PFN

Over the last six accounting periods, El.En has continually disclosed a positive net financial position, with the exclusion of 1998, the year in which net indebtedness of EUR 0.7m was reported, with a D/E equating to 0.2. The positive net financial position, obtained during 1999 thanks to cash flow generation of 14.3% of sales revenues, was further increased thanks to funds raised at the time of stockmarket listing which took place at the end of 2000.



Stockmarket listing targeted at exogenous expansion

The liquidity raised at the time of the IPO was then partially utilized for the acquisitions which characterized the last three accounting periods. The net financial position at the end of 2003 disclosed a positive balance EUR 13.2m, down with respect to the figure of EUR 24.7m at the end of 2002.

Over the last few accounting periods, the cash flow generation was also down, falling to 7.2% of sales revenues, or EUR 13.2m.

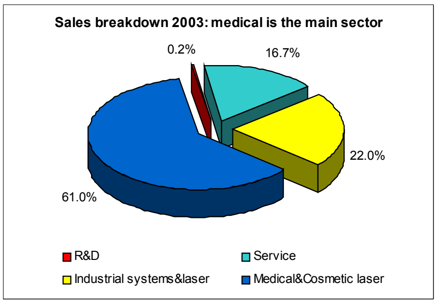
2003 characterized by growth, but with profitability down: burdened by the US dollar and the costs for the reorganization of Cynosure

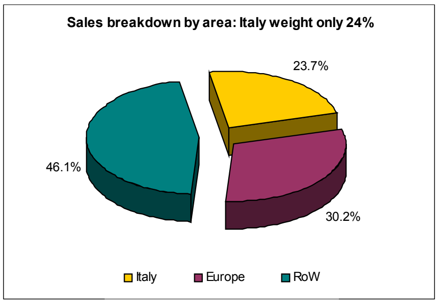
The year 2003 had two sides to the coin for El.En. who, vis-à-vis elevated growth in sales revenues of 25.8%, partly thanks to the extension of the scope of consolidation, disclosed a significant rise in overheads (including payroll and related costs) which weighed in on the deterioration of the profitability.

2003 saw sales revenues rise overall by 25.8% to EUR 68.1m, mainly drawn along by the latest acquisitions

EUR m	2003E	2003	2002	Q4'03E	Q4'03	Q4'02	Q3'03	Q3'02	Q2'03	Q2'02	Q1'03	Q1'02
Sales	**68.5**	**68.1**	**54.1**	**20.5**	**20.1**	**19.4**	**17.8**	**13.7**	**17.2**	**13.5**	**13.0**	**7.6**
growth	26.5%	25.8%		5.9%	4.0%		30.2%		27.5%		70.3%	
Industrial systems	15.7	15.0	17.0	5.8	5.1	6.7	3.6	3.8	3.7	3.4	2.6	3.0
growth	-7.8%	-11.5%		-13.6%	-23.0%		-7.4%		8.6%		-14.4%	
- Medical Lasers	42.3	41.6	29.6	12.2	11.5	10.3	11.5	7.3	10.7	7.9	7.8	4.0
growth	42.8%	40.5%		18.8%	12.2%		56.9%		35.2%		93.1%	
-Research	0.2	0.2	0.2	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.0
growth	-5.6%	-15.6%		0.0%	-64.3%		-16.5%		-31.6%		42.9%	
Assistance	10.4	11.4	7.4	2.5	3.5	2.4	2.6	2.4	2.7	2.1	2.5	0.5
growth	41.2%	54.2%		5.0%	45.1%		10.4%		30.6%		395.0%	
Change in finished goods	5.7	3.5	0.4	0.8	-1.4	-0.5	0.5	-0.1	2.5	0.8	1.9	0.2
Other income	0.9	1.1	0.5	0.5	0.6	0.4	0.1	0.0	0.2	0.0	0.1	0.0
Value production	**75.2**	**72.7**	**55.0**	**21.8**	**19.3**	**19.2**	**18.4**	**13.6**	**19.9**	**14.3**	**15.0**	**7.9**
Purchases	-30.8	-30.8	-22.8	-7.2	-7.1	-6.9	-6.8	-5.7	-9.9	-6.1	-6.9	-4.1
growth	35.2%	35.0%		4.4%	3.6%		19.7%		62.5%		67.9%	
% on sales	-45.0%	-45.2%	-42.1%	-35.0%	-35.4%	-35.5%	-38.5%	-41.9%	-57.8%	-45.3%	-53.1%	-53.8%
Change in row materials	0.0	2.5	1.1	-1.4	1.1	-0.7	0.2	1.0	0.5	0.0	0.7	0.7
Other direct cost	-7.3	-6.7	-5.8	-2.4	-1.9	-2.0	-1.5	-1.4	-1.8	-1.6	-1.6	-0.9
growth	24.7%	15.7%		22.8%	-4.0%		5.7%		13.3%		78.1%	
% on sales	-10.6%	-9.9%	-10.8%	-11.7%	-9.3%	-10.1%	-8.4%	-10.3%	-10.3%	-11.6%	-12.3%	-11.8%
Gross Margin	**37.0**	**37.6**	**27.4**	**10.8**	**11.4**	**9.6**	**10.3**	**7.5**	**8.7**	**6.7**	**7.2**	**3.6**
growth	35.1%	37.1%		12.2%	18.0%		37.2%		30.6%		99.8%	
% on sales	54.1%	55.2%	50.6%	52.8%	56.5%	49.8%	57.6%	54.7%	50.7%	49.5%	55.8%	47.5%
Other cost and services	-13.7	-14.2	-9.4	-3.9	-4.3	-3.1	-3.5	-2.7	-3.4	-2.4	-3.0	-1.1
growth	46.7%	51.5%		23.0%	37.4%		26.8%		45.6%		162.8%	
% on sales	-20.0%	-20.8%	-17.3%	-18.8%	-21.4%	-16.2%	-19.5%	-20.0%	-19.9%	-17.5%	-22.9%	-14.8%
Value added	**23.3**	**23.4**	**18.1**	**7.0**	**7.1**	**6.5**	**6.8**	**4.7**	**5.3**	**4.3**	**4.3**	**2.5**
growth	29.1%	29.6%		7.0%	8.7%		43.2%		22.4%		71.2%	
% on sales	34.0%	34.4%	33.4%	34.0%	35.1%	33.6%	38.1%	34.7%	30.8%	32.0%	32.8%	32.7%
Labour cost	-17.3	-17.9	-11.0	-4.7	-5.3	-3.6	-4.6	-3.2	-4.4	-2.9	-3.7	-1.3
growth	57.4%	62.6%		29.3%	45.2%		44.6%		49.9%		182.2%	
% on sales	-25.3%	-26.3%	-20.3%	-22.8%	-26.1%	-18.7%	-25.7%	-23.2%	-25.4%	-21.6%	-28.5%	-17.2%
EBITDA	**6.0**	**5.5**	**7.0**	**2.3**	**1.8**	**2.9**	**2.2**	**1.6**	**0.9**	**1.4**	**0.6**	**1.2**
growth	-15.2%	-21.8%	80.9%	-20.9%	-37.1%		40.3%		-34.6%		-52.3%	
% on sales	8.7%	8.1%	13.0%	11.1%	9.0%	14.9%	12.4%	11.5%	5.3%	10.4%	4.3%	15.5%
Deprec. and amortis.	-4.0	-4.1	-3.1	-1.3	-1.4	-1.3	-1.1	-0.8	-0.8	-0.6	-0.8	-0.4
EBIT	**2.0**	**1.4**	**4.0**	**1.0**	**0.5**	**1.6**	**1.1**	**0.8**	**0.1**	**0.8**	**-0.2**	**0.8**
growth	-50.5%	-63.7%	53.1%	-36.7%	-70.3%		46.6%		-91.3%		-126.8%	
% on sales	2.9%	2.1%	7.3%	4.8%	2.3%	8.0%	6.3%	5.6%	0.4%	6.1%	-1.7%	10.8%
Net financial charges	0.3	0.1	1.0	0.4	0.2	0.7	-0.2	0.1	0.0	0.0	0.1	0.2
Adjustments	0.5	0.6	0.2	0.0	0.1	-0.2	-0.1	0.3	-0.1	0.0	0.7	0.0
Extraordinary items	0.1	0.1	0.4	0.0	0.0	0.0	0.1	0.3	0.0	0.1	0.0	0.0
EBT	**2.9**	**2.3**	**5.5**	**1.4**	**0.8**	**2.1**	**0.9**	**1.5**	**0.0**	**0.9**	**0.6**	**1.0**
growth	-48.2%	-59.2%	53.1%	-34.3%	-63.2%		-40.4%		-102.7%		-38.1%	
% on sales	4.2%	3.3%	7.3%	6.8%	3.9%	10.9%	5.1%	11.0%	-0.1%	7.0%	4.7%	13.0%

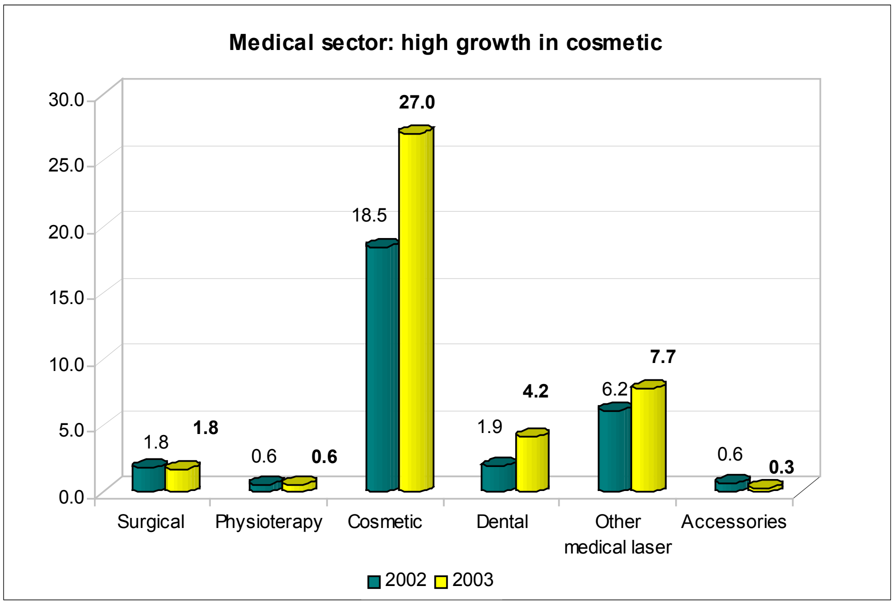
Sales revenues, amounting to EUR 68.1m, were essentially drawn along by the recently acquired and newly consolidated companies, such as Cynosure, Asclepion and Deka LT for the cosmetic-medical sector and Lasit and Lasercut for the industrial sector. The following tables indicate how the medical lasers currently represent by far the predominant portion of revenues, generated for a total of around 53% in Europe (including Italy with 23.7%) while the other 47% approximately was generated by the rest of the world.





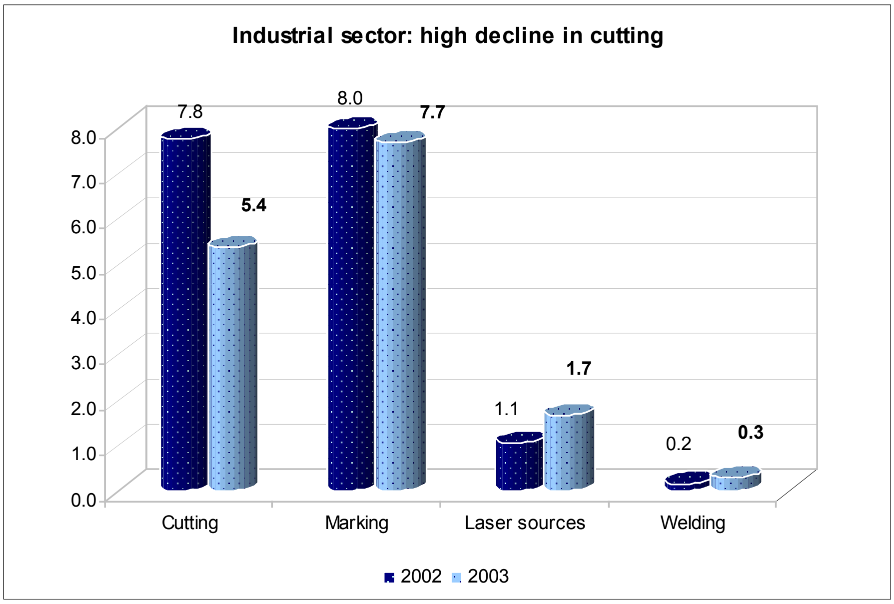
Medical lasers up sharply (+40%), drawn along by cosmetic and dental lasers

As anticipated, during 2003 revenues associated with the medical sector for El.En. underwent heavy growth of 40.5% to EUR 41.6m. The best results were achieved by dental and cosmetic lasers, disclosing a respective improvement of 117.7% and 46.1%, mainly thanks to Deka LT and Asclepion for the former and Cynosure for the latter. The performance of CO_2 surgical lasers was less brilliant, down YoY by 3.3%.



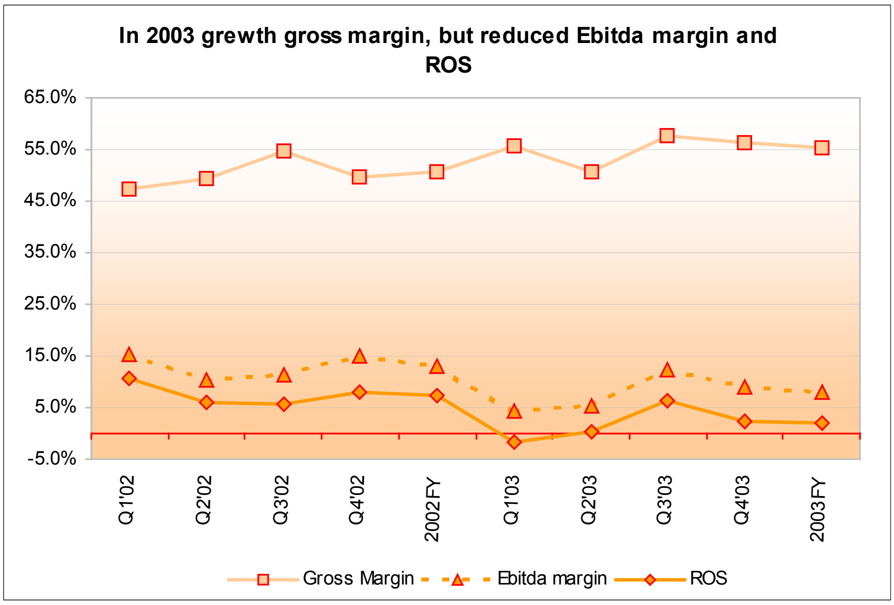
Despite the extension of the scope of consolidation, industrial lasers fell by 11.5%

The performance of industrial lasers was decidedly less satisfactory which, despite having benefited from the extension of the scope of consolidation due to the acquisitions of Lasercut (cutting) and Lasit (marking), disclosed a drop of 11.5%. In fact, it was precisely the cutting (- 30.7%) and the marking segment (-3.8%) which reported a reduction during 2003, while the performance of laser sources was positive (drawn along by 5 and 6 kilowatt systems), up by 56.7%. The crisis in the manufacturing industry was at the basis of the poor performance registered in the industrial sector, a crisis which particularly hit the revenues generated in Italy.



Margins down, despite the greater incidence of the gross margin on sales revenues

Elevated growth in the turnover during 2003 was accompanied by a not so positive rise in the Group's margins which, vis-à-vis an improvement for all the quarters YoY of the gross margin, saw both the EBITDA margin and the ROS adj drop heavily for each quarter, with the exception of the 3rd Q of 2003.



The higher contribution margin of the sales of Cynosure, when compared with the average of the rest of the Group, was at the basis of the improvement in the gross margin, despite the weakness of the US dollar (currency in which around 40% of the sales revenues is expressed). The gross margin improves, despite the difficult situation of the industrial laser sector, for which the reduction of the volumes sold on the market and the consequent tension on sales prices reduced the related contribution margin during the year.

The additional overheads of the newly acquired companies and the costs for restructuring Cynosure weigh in on the EBITDA

Despite the satisfactory performance of the gross margin, the EBITDA margin for the year dropped by 5 p.p., passing from 13% in 2002 to 8.1%. With the exception of the third quarter, which reported an increase in the margin in question in terms of percentage on sales revenues, the other quarters of 2003 disclosed a considerable increase in both “costs for services and other charges” (which rose during the year by 51.5%, with an incidence which passed from 17.3% to 20.8%), and in payroll and related costs (+ 62.6%, with an incidence which passed from 20.3% to 26.3%). Both of the cost items felt the effect of the consolidation of the newly acquired companies. As far as payroll and related costs were concerned, it was the line-by-line consolidation of Cynosure which had the greatest effect; the related incidence of the payroll and related costs on sales revenues was decidedly greater than the El.En Group average. The latter item is also burdened by extraordinary charges, relating to the shifts within the sales structure, carried out so as to reorganize the entire distribution network of the American subsidiary, which during the year did not obtain the desired results in terms of volumes sold. Reorganization and restructuring costs are also reclassified among services and other charges, which include marketing and sales costs incurred, mainly for the medical sector, with the aim of considerably increasing the volumes sold, but which have not yet had the expected return.

Provisions to the product warranty reserve also weigh in on the EBIT

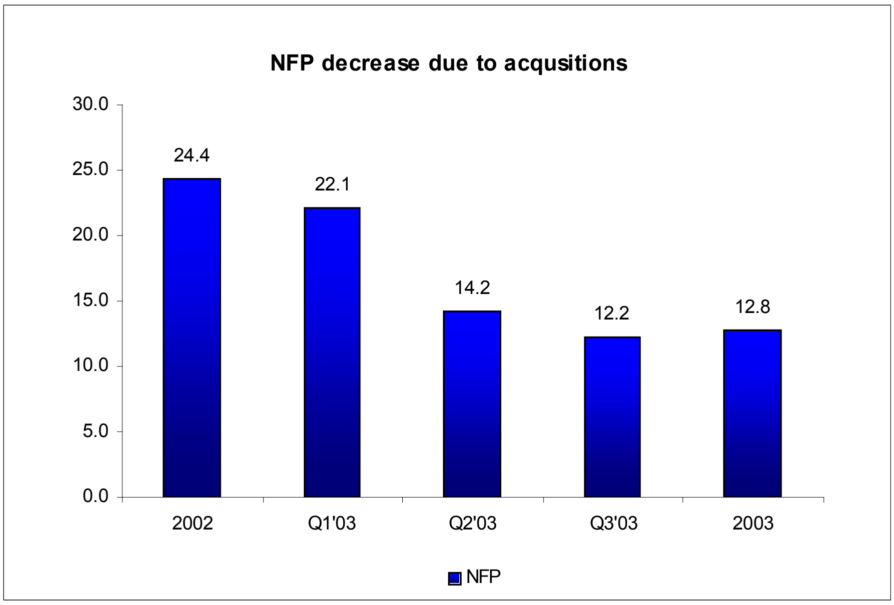
The reduction of the EBIT and the related incidence of sale revenues, which passed from 7.3% to 2.1%, is not only linked to the reduction of the margins already analyzed but also to an increase, considered to be of an extraordinary nature, in provisions to the product warranty reserve relating to the subsidiary Cynosure.

EBT down by 59.2%, also as a result of exchange rate differences

The EBT was also down 59.2% (the profit of the bottom line has still not yet been disclosed) following both the deterioration in the other margins and the reduction in financial income, influenced by the low levels of the interest rates and the EUR/US$ exchange rate fluctuations.

Acquisitions and investments reduce the net liquidity

From an financial point of view, the PFN of the El.En. Group fell from EUR 24.4m at the end of 2002 to EUR 12.8m at the end of 2003, mainly following the process for the acquisitions which dominated the central part of the year: the transactions which had the greatest impact on the financial structure of the Group were the payment by way of settlement for the Cynosure shares for EUR 1.3m and the distribution of dividends amounting in total to EUR 1.1m.



Investment activities generated a cash outflow of EUR 5.3m, while operating activities drained liquidity for a total of EUR 3.7m: the remaining part of the PFN variation is attributable to the afore-mentioned dividends and the negative change in the translation reserves forming part of the shareholders' equity.

Investments in R&D and improvements in the distribution networks at the basis of the 2004-2008 growth

Turnover for 2004 rises 29% with profit margins up considerably: the significant increase in volumes sold favours the improvement

The next few accounting periods of the El.En. Group are expected to disclose considerable growth, both in relation to turnover and profit margins. On the basis of our estimates, 2004, in line with the expectations communicated by the Group's management, should see a rise in revenues of 29.4% to EUR 88.1m, involving an improvement in the EBITDA from EUR 5.5m to EUR 8.6 (margin up from 8.1% to 9.8%) and a EBIT which should rise from EUR 1.4m to EUR 4.5m (ROS from 2.1% to 5.1%).

EUR m	2003	2004E	2005E	2006E	2007E	2008E	CAGR'04-'08
Sales	**68.1**	**88.1**	**99.2**	**107.3**	**111.9**	**115.3**	11.1%
Growth		*29.4%*	*12.6%*	*8.1%*	*4.3%*	*3.0%*	
- Industrial systems	15.0	17.4	18.7	19.7	20.4	21.0	6.9%
Growth		*15.6%*	*7.8%*	*5.1%*	*3.5%*	*3.1%*	
- Medical&Cosmetic	41.6	55.3	62.7	68.6	72.0	74.1	12.3%
Growth		*32.9%*	*13.5%*	*9.4%*	*4.9%*	*3.0%*	
- R&D	0.2	0.2	0.2	0.2	0.2	0.2	0.0%
- Service	11.4	15.3	17.6	18.9	19.4	20.0	12.0%
Gross Margin	**37.6**	**47.9**	**53.6**	**57.9**	**60.4**	**62.2**	10.6%
Growth		*27.4%*	*11.8%*	*8.1%*	*4.3%*	*3.0%*	
EBITDA	**5.5**	**8.6**	**11.4**	**13.8**	**15.8**	**17.6**	26.1%
Growth		*56.5%*	*31.8%*	*21.6%*	*14.2%*	*11.5%*	
EBIT	**1.4**	**4.5**	**7.4**	**9.9**	**11.8**	**13.5**	56.4%
Growth		*211.9%*	*65.3%*	*32.6%*	*19.2%*	*14.9%*	
EBT	**2.3**	**4.6**	**7.5**	**9.9**	**11.8**	**13.5**	43.0%
Growth		*100.8%*	*64.2%*	*32.4%*	*19.1%*	*14.9%*	
Gross Margin %	55.2%	54.4%	54.0%	54.0%	54.0%	54.0%	
EBITDA margin	8.1%	9.8%	11.5%	12.9%	14.1%	15.3%	
ROS	2.1%	5.1%	7.5%	9.2%	10.5%	11.7%	
ROCE	**2.6%**	**7.4%**	**11.1%**	**13.9%**	**15.9%**	**17.9%**	

The considerable growth in the turnover for 2004 is linked to both the extension of the scope of consolidation, involving the line-by-line inclusion of Lasercut and Asclepion (acquired in April and May last year) and of Quanta (which during 2003 was carried at equity), as well as the reorganization of the distribution network of Cynosure, launched during the second half of 2003 and whose effects will manifest as from the current accounting period. The growth should essentially be furthered by the medical-cosmetic sector, involving an increase of more than 30% linked to both Asclepion and the introduction of the new products in the dental and cosmetics segment on the American market. Following the difficult last year, an improvement is also expected in the industrial sector, mainly encouraged by sales outside Italy and the consolidation for the entire year of Lasercut.

Despite a decreasing incidence of the gross margin, the EBITDA margin and ROS improve

The enormous improvement concerning the profit margins essentially derives from two factors:

- the considerable increase in volumes sold;
- extraordinary reorganization costs which will no longer figure.

With a gross margin which in percentage terms on turnover is somewhat high, expected to drop from 55.2% in 2003 to 54.4% in 2004 due to the tension on sales prices (linked in part to the weakness of the US dollar against the European currency), a sharp increase in volumes sold will reflect in a considerable increase in the EBITDA margin and ROS, thanks to the lower incidence which follows from payroll and related costs and amortization/depreciation (whose burden in 2003 is in any event lower at 5%).
Also the disappearance of the extraordinary reorganization costs, mainly concerning the companies mostly recently acquired, as well as those incurred in order to overhaul Cynosure's sales structure, contribute towards estimating an improvement in profitability, both operating and net.

CAGR'04-'08 of turnover at 11.1% ; EBITDA margin expected to rise to 15.3% and ROS to 11.7% in 2008

We also expect satisfactory levels of growth for the accounting periods subsequent to 2004, albeit diminishing, involving a considerable improvement at income level. Against a pick up in the industrial lasers market, especially in America, in relation to which we anticipate average growth rates of around 4%, medical lasers are expected to rise over the next few years at average rates of 6% (with America playing a predominant role). With regards to El.En., against a CAGR'04-'08 of 11.1% and despite a gross margin in percentage terms on turnover estimated to be slightly down, we expect an improvement in the EBITDA margin of up to 15.3% (vs 8.1% in 2003) and a ROS of 11.7% (vs 2.1% in 2003). Growth in turnover in the accounting periods after 2004 will be favoured both by the efficiency of the distribution network (in particular Cynosure in USA and Asclepion in Germany), and by the launch of the new products, the result of heavy investment in R&D incurred in the last few years. The improvement in profitability in terms of percentage on turnover will be a direct consequence of the greater volumes sold and the dilution of the overheads.

During the period 2004-08 the financial structure should remain essentially unchanged, with a ROCE increasing up to 17.9%

The next few accounting periods - during which El.En.'s management, excepting advantageous opportunities, does not intend to make any further acquisitions, but rather seek to improve its profitability investing mainly in research and development - should be characterized by a considerable pick-up in Group ROCE, estimated at the end of 2008 at around 17.9%. The sharp growth in ROCE is made possible by the low level of average annual capexes, in the absence of significant investments.

In relation to the financial structure of the Group, which at the end of 2003 disclosed net liquidity of around EUR 13m, we anticipate maintaining a positive financial position, even if on the down due to the increase of working capital as a result of high turnover growth rates.

Analysis of the competitive system

Porter Model

The analysis of the El.En business made by using the Porter model is proposed below.

Competitors. The market on which El.En. operates (its activities being divided up between medical and industrial) is fairly fragmented, with the presence of few big players and numerous small but specialized competitors. El.En is currently leader in Italy on the laser market and is one of the leading European operators.

Potential incomers. In a sector involving a high technological content such as the laser industry, the high investments in research and development represent the main barrier to the entrance of potential incomers onto the market; the main potential incomers are represented by those players already present on the laser market in sectors other than those in which El.En. operates and who could develop their technology in such a way as to diversify the products offered and operate in other segments.

Replacement products. The existence of different technologies, utilizable for the same purpose make the laser market extremely competitive, a market on which the launch of replacement products is an effectively high risk. The greatest risk however is represented by the development of new technologies and by the consequent launch of more innovative replacement products.

Suppliers. El.En develops its technology internally and avails itself of suppliers, on whom it is not particularly dependent, for the production of the most standardized basic components with the lowest value added, such as glass tubes and the external structures of the laser systems.

Customers. Operating in an extremely differentiated geographic context and in segments which are decidedly different from each other (industrial and medical), no particular risk of concentration of the clientele is indicated for El.En. The 4 largest customers, at consolidated level, represent a share of 16% of the Group's entire turnover.

Swot Analysis

Strenghts

- Diversified geographic market
- Strong product diversification
- Integrated manufacturing process
- Costant investments in R&D
- Overhauled distrib. systems

Weakness

- Ind. Division extremely cyclical
- Elevated exposure to dollar
- Great importance of human resource

Opportunities

- Growth and development on foreign markets where it has a modest presence
- Possibility of developing technologies of the newly acquired newco
- External expansion

Threats

- Development of new technologies which render El.En existing ones obsolete
- Prolonged negative phase of economic cycle
- Leaving of highly qualified personnel

FINANCIALS

Balance sheet

EURm	1998	1999	2000	2001	2002	2003	2004E	2005E	2006E
Intangible asset	0.1	0.0	1.5	1.7	8.2	7.9	6.8	6.2	5.5
Technical asset	3.5	3.4	3.7	3.7	6.2	7.3	7.8	8.2	8.6
Financial asset	1.1	1.0	1.1	0.8	1.0	1.8	1.8	1.8	1.8
Net fixed capital	**4.6**	**4.5**	**6.3**	**6.2**	**15.4**	**17.1**	**16.5**	**16.2**	**15.9**
Inventories	2.3	4.0	6.7	9.1	14.8	20.0	25.2	27.7	29.5
receiveble	4.6	4.9	7.2	8.4	15.8	16.0	20.8	23.4	25.3
Other receiveble	1.0	2.6	1.9	3.5	3.2	4.8	6.2	7.0	7.6
Trade payables	-4.2	-4.7	-6.1	-6.2	-11.9	-11.7	-14.4	-16.4	-17.7
Other non-financial liabilities	-2.0	-3.4	-1.6	-2.0	-6.8	-5.8	-7.1	-8.1	-8.8
Provisions	-0.7	-0.8	-1.3	-1.4	-2.6	-2.7	-3.5	-3.9	-4.2
% on sales	-0.04	-0.03	-0.05	-0.05	-0.05	-0.04	-0.04	-0.04	-0.04
Working capital	**1.0**	**2.6**	**6.9**	**11.4**	**12.6**	**20.6**	**27.2**	**29.7**	**31.6**
% on sales	5.8%	10.8%	26.4%	41.0%	23.2%	30.3%	30.8%	29.9%	29.4%
Pension provision	-0.4	-0.5	-0.6	-0.7	-0.9	-1.1	-1.3	-1.4	-1.5
Net Working capital	**0.6**	**2.1**	**6.3**	**10.7**	**11.6**	**19.5**	**25.9**	**28.3**	**30.1**
NIC	**5.2**	**6.6**	**12.6**	**16.9**	**27.0**	**36.6**	**42.3**	**44.5**	**46.0**
growth	-22.3%	26.2%	91.4%	34.1%	60.0%	35.5%	15.5%	5.1%	3.5%
ST financial debt	0.6	0.3	0.4	0.4	0.9	2.1	2	2	2
M/LT financial debt	3.3	3.4	3.0	2.2	1.9	1.8	1.9	1.9	1.9
Cash and deposit	-3.2	-4.8	-35.9	-32.5	-27.1	-16.8	-13.0	-12.9	-13.8
Treasury stock	0.0	0.0	0.0	0.0	-0.4	-0.5	-0.4	-0.4	-0.4
NFP	**0.7**	**-1.1**	**-32.4**	**-29.9**	**-24.7**	**-13.3**	**-9.5**	**-9.4**	**-10.3**
Shareholders' equity	1.2	1.2	2.4	2.4	2.4	2.4	2.6	2.6	2.6
Reserves	2.6	5.3	41.3	42.7	43.2	41.8	43.6	46.0	48.8
Group equity	**3.9**	**6.6**	**43.7**	**45.0**	**45.6**	**44.2**	**46.2**	**48.6**	**51.4**
Minorities	0.7	1.1	1.3	1.7	6.2	5.7	5.5	5.2	4.9
Net Equity	**4.5**	**7.6**	**45.0**	**46.8**	**51.8**	**49.9**	**51.8**	**53.9**	**56.3**
Total capital	**5.2**	**6.6**	**12.6**	**16.9**	**27.0**	**36.6**	**42.3**	**44.5**	**46.0**

Profit & loss account

P/L	1998	1999	2000	2001	2002	2003	2004E	2005E	2006E
Sales	**17.4**	**23.9**	**26.0**	**27.8**	**54.1**	**68.2**	**88.2**	**99.4**	**107.4**
growth	59.3%	37.5%	8.7%	7.3%	94.4%	26.0%	29.4%	12.6%	8.1%
Change in finished goods	0.2	1.2	1.4	1.5	0.4	3.7	1.8	2.0	2.2
Other income	0.3	0.3	0.1	0.2	0.5	1.1	1.4	1.5	1.7
Value of production	**17.8**	**25.3**	**27.5**	**29.5**	**55.0**	**72.9**	**91.4**	**102.9**	**111.3**
Purchases	-7.8	-9.2	-11.2	-14.0	-22.8	-30.7	-36.6	-41.6	-45.0
Change in row materials	0.3	0.6	1.2	1.1	1.1	2.3	2.0	2.3	2.4
Other direct cost	-1.6	-3.2	-3.2	-3.1	-5.8	-6.9	-8.8	-9.9	-10.7
Gross Margin	**8.8**	**13.6**	**14.3**	**13.5**	**27.4**	**37.7**	**48.0**	**53.6**	**58.0**
Other cost and services	-3.1	-3.1	-3.4	-5.3	-9.4	-14.2	-18.4	-19.9	-20.4
Value added	**5.7**	**10.5**	**10.9**	**8.2**	**18.1**	**23.5**	**29.6**	**33.7**	**37.6**
growth	65.8%	84.7%	4.5%	-24.6%	119.1%	30.1%	26.1%	14.0%	11.3%
% on sales	32.6%	43.8%	42.1%	29.6%	33.4%	34.4%	33.6%	34.0%	35.0%
Labour cost	-2.4	-3.1	-3.3	-4.3	-11.0	-18.0	-21.0	-22.4	-23.8
growth	15.6%	26.8%	6.9%	31.7%	153.3%	63.1%	17.0%	6.6%	6.1%
% on sales	-14.0%	-12.9%	-12.7%	-15.6%	-20.3%	-26.3%	-23.8%	-22.6%	-22.1%
EBITDA	**3.2**	**7.4**	**7.6**	**3.9**	**7.0**	**5.5**	**8.6**	**11.3**	**13.8**
growth	146.6%	128.4%	3.4%	-48.9%	80.9%	-21.6%	55.4%	31.9%	21.7%
% on sales	18.6%	30.9%	29.4%	14.0%	13.0%	8.1%	9.7%	11.4%	12.8%
Deprec./amortis./provision	-0.5	-0.5	-1.4	-1.2	-2.5	-3.2	-3.4	-3.1	-3.1
% on sales	-2.7%	-2.3%	-5.3%	-4.3%	-4.6%	-4.7%	-3.9%	-3.1%	-2.9%
EBIT adj	**2.8**	**6.8**	**6.3**	**2.7**	**4.5**	**2.3**	**5.2**	**8.2**	**10.6**
growth	214.2%	148.2%	-8.6%	-56.8%	68.0%	-48.7%	122.3%	59.4%	29.2%
% on sales	15.9%	28.7%	24.1%	9.7%	8.4%	3.4%	5.9%	8.3%	9.9%
Goodwill	0.0	0.0	0.0	-0.1	-0.6	-0.9	-0.9	-0.9	-0.9
EBIT	**2.8**	**6.8**	**6.3**	**2.6**	**4.0**	**1.4**	**4.2**	**7.3**	**9.7**
growth	214.2%	148.2%	-8.6%	-58.5%	53.1%	-64.7%	203.2%	72.3%	32.8%
% on sales	15.9%	28.7%	24.1%	9.3%	7.3%	2.1%	4.8%	7.4%	9.0%
Net financial charges	-0.2	-0.1	0.2	1.2	1.0	0.2	0.1	0.1	0.1
Adjustment	0.0	-0.2	0.1	0.0	0.2	0.5	0	0	0
Extraordinary items	0.0	-0.1	0.0	0.0	0.4	0.1	0	0	0
EBT	**2.5**	**6.4**	**6.5**	**3.8**	**5.5**	**2.2**	**4.4**	**7.4**	**9.8**
Taxes	-1.1	-2.9	-2.9	-1.2	-2.7	-1.6	-2.1	-3.6	-4.8
Gros Net profit	**1.4**	**3.5**	**3.5**	**2.6**	**2.9**	**0.6**	**2.2**	**3.8**	**5.1**
Minorities	-0.4	-0.6	-0.5	-0.4	-0.7	0.0	-0.2	-0.3	-0.4
Net profit of the group	**1.0**	**2.9**	**3.0**	**2.3**	**2.1**	**0.6**	**2.1**	**3.5**	**4.7**

Cash flow

EUR m	1998	1999	2000	2001	2002	2003	2004E	2005E	2006E
Initial NFP	**-3.3**	**-0.7**	**1.1**	**32.4**	**29.9**	**24.7**	**13.3**	**9.4**	**9.4**
Change in scope of consolidation									
Net income/loss	1.4	3.5	3.5	2.6	2.9	0.6	2.2	3.8	5.1
Depreciation & Amortization	0.4	0.4	0.9	1.1	2.7	3.4	3.4	3.1	3.1
(Gains)/Losses on sales of long term assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Upward adj.)/writedowns of long term assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	1.2	-1.6	-4.3	-4.6	-1.2	-8.1	-6.5	-2.5	-1.9
Net change in reserve for empl.term.indemn	0.1	0.0	0.1	0.1	0.3	0.2	0.2	0.1	0.1
Transation adjustements and other changes	0.0	0.0	0.0	0.0	-0.1	0.2	0.0	0.0	0.0
Cash flows from operating activities	**3.1**	**2.4**	**0.2**	**-0.7**	**4.6**	**-3.7**	**-0.7**	**4.5**	**6.4**
Long-term investments:									
intangible assets	0.0	0.0	-1.9	-0.7	-7.7	-1.2	-0.3	-0.3	-0.3
goodwill	0.0	0.0	0.0	-0.5	-6.9	-1.1	0.0	0.0	0.0
other investments	0.0	0.0	-1.9	-0.1	-0.8	-0.1	-0.3	-0.3	-0.3
fixed assets	-0.4	-0.3	-0.8	-0.6	-4.0	-3.2	-2.5	-2.5	-2.5
other long-term investments	0.1	0.0	-0.1	0.3	-0.2	-0.9	0.0	0.0	0.0
Proceeds from sale of long temrm assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	**-0.2**	**-0.3**	**-2.7**	**-1.0**	**-11.9**	**-5.3**	**-2.8**	**-2.8**	**-2.8**
Capital increases	-0.3	-0.3	34.5	0.0	3.1	-1.3	-0.1	-0.6	-0.8
Contribution by shareholders	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from financings activities	**-0.3**	**-0.3**	**34.5**	**0.0**	**3.1**	**-1.3**	**-0.1**	**-0.6**	**-0.8**
Dividends	0.0	-0.1	-0.7	-0.9	-0.9	-1.1	-0.3	-1.1	-1.9
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net Financial position	2.6	1.7	31.4	-2.6	-5.2	-11.4	-3.9	0.0	0.9
Final NFP	**-0.7**	**1.1**	**32.4**	**29.9**	**24.7**	**13.3**	**9.4**	**9.4**	**10.2**

Ratios

EUR m	1998	1999	2000	2001	2002	2003	2004E	2005E	2006E
EBITDA margin	18.6%	30.9%	29.4%	14.0%	13.0%	8.1%	9.7%	11.4%	12.8%
ROS adj	15.9%	28.7%	24.1%	9.7%	8.4%	3.4%	5.9%	8.3%	9.9%
ROS	15.9%	28.7%	24.1%	9.3%	7.3%	2.1%	4.8%	7.4%	9.0%
ROE	32.6%	75.9%	48.6%	5.3%	4.8%	1.2%	4.7%	7.8%	9.9%
ROI	57.2%	141.1%	73.3%	19.9%	26.0%	9.9%	16.6%	22.9%	27.5%
ROCE	31.4%	80.1%	41.2%	10.3%	12.7%	2.7%	7.4%	11.6%	14.5%
D/E	0.15	-0.14	-0.72	-0.64	-0.48	-0.27	-0.18	-0.17	-0.18
D/MKT cap			-0.32	-0.39	-0.46	-0.19	-0.14	-0.14	-0.15

Valuation

EUR m	1998	1999	2000	2001	2002	2003	2004E	2005E	2006E
EV	n.a.	n.a.	**70.9**	**49.8**	**35.7**	**64.8**	**68.4**	**67.1**	**64.7**
EV/sales			2.7	1.8	0.7	0.9	0.8	0.7	0.6
EV/EBITDA			9.3	12.8	5.1	11.7	8.8	6.1	4.6
EV/EBITadj			11.3	18.4	7.9	27.8	14.2	8.3	5.9
EV/EBIT			11.3	19.2	9.0	46.3	17.7	9.2	6.3
P/E			33.7	34.1	25.4	127.2	37.2	20.2	14.3
P/E adj			34.0	36.9	76.0	-72.4	134.5	30.8	18.2
P/CF			23.1	21.7	10.4	15.1	12.2	9.7	8.2
P/CF adj			23.3	22.8	14.3	22.5	16.0	11.6	9.4
P/Book			2.32	1.72	1.19	1.60	1.54	1.46	1.37

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