

*Official documents are in Italian*



# **Consolidated Annual Report & Accounts**

**as at 31 December 2006**

Official documents are in Italian

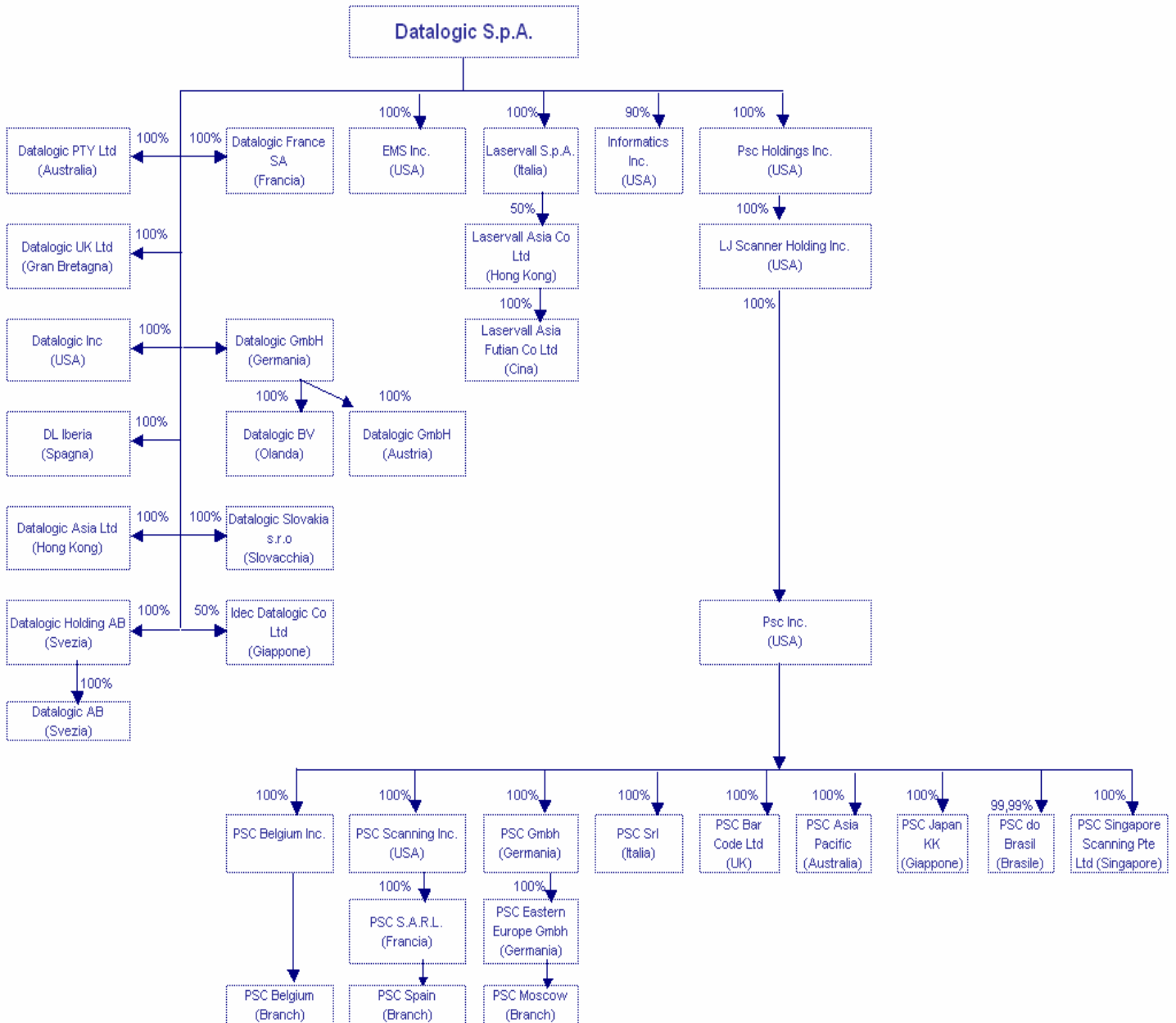


## **DATALOGIC GROUP**

### **Consolidated Financial Report as at December 31, 2006**

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## GROUP STRUCTURE



## COMPOSITION OF CORPORATE GOVERNANCE BODIES

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### **Board of Directors** (1)

**Romano Volta**

Chairman (2)

**Roberto Tunioli**

Vice Chairman and C.E.O. (3)

**Pier Paolo Caruso**

Director

**Alberto Forchielli**

Director

**Giancarlo Micheletti**

Director

**Umberto Paolucci**

Director

**Elserino Piol**

Director

**Gabriele Volta**

Director

**Valentina Volta**

Director

**John O'Brien**

Director

**Angelo Manaresi**

Director

**Giovanni Tamburi**

Director

**Lodovico Floriani**

Director

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### **Board of Statutory Auditors** (4)

**Stefano Romani**

President

**Gianluca Cristofori**

Standing auditor

**Roberto Feverati**

Standing auditor

**Patrizia Passerini**

Alternate auditor

**Giorgio Delli**

Alternate auditor

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### **Independent auditing firm**

PricewaterhouseCoopers SpA

(1) The Board of Directors will remain in office until the shareholders' meeting that approves financial statements for the year ending on December 31st 2006

(2) Powers of legal representation of the company vis-à-vis third parties

(3) Powers of legal representation of the company vis-à-vis third parties

(4) The Board of Statutory Auditors will remain in office until the shareholders' meeting that approves financial statements for the year ending on December 31st 2006

## DATALOGIC GROUP - NOTES ON THE CONSOLIDATED ANNUAL REPORT AT 31 DECEMBER 2006

### REPORT ON OPERATIONS

To Our Shareholders,

The annual report for the year ending on 31 December 2006, which we herewith submit to you for review, has been prepared in compliance with the requirements indicated in the instructions accompanying the Regulation issued by Borsa Italiana S.p.A..

More specifically, consolidated financial statements apply the approach envisaged by international accounting standards (IAS/IFRS) adopted by the European Union.

Note that based on the provisions of the CONSOB resolution 15519 of 27 July 2006 and subsequent circular dem/6064293 of 28 July 2006, the company did not conduct specific accounting audits on the performance indicators contained in the report.

### OPERATING AND FINANCIAL RESULTS

The following table summarises the Datalogic Group's key operating and financial highlights in FY2005 (i.e. as at 31 December 2006) comparing them with FY2005:

Datalogic Group	31/12/06	31/12/05	YoY Change	ch %
(€000)				
TOTAL REVENUES	381,614	205,948	175,666	85.3%
EBITDA	38,237	31,549	6,688	-21.2%
% of total revenues	10.0%	15.3%		
Group net profit/loss	4,125	12,997	-8,872	-68.3%
% of total revenues	1.1%	6.3%		
Net financial position (NFP)	-58,357	-125,718	67,361	-

(\*) **EBITDA** is a performance indicator not defined under IFRS. However, Datalogic's management uses it to monitor and assess the company's operating performance as it is not influenced by the volatility due to the various valuation criteria used to determine taxable income, by the total amount and nature of the capital involved or by the related depreciation and amortization policies. We define it as **Profit/loss for the period before amortization of tangible and intangible assets, non-recurring costs, financial income and expenses and income taxes.**

As up to 31 December 2006 the **Datalogic Group recorded revenues of €381,614 thousand (vs. €205,948 thousand in FY05)**, detailed as follows:

- €368,193 thousand in revenues from the sale of products (PSC Group: €172,961 thousand);
- €13,421 thousand of revenues from services (PSC Group: €5,542 thousand).

Revenues reported increases of 85% compared to the previous year, and an increase of 9% net of PSC Group results.

**Group EBITDA was €38,237 thousand (of which: PSC Group €3,385 thousand), with a 10% margin on total revenues (14.7% net of the PSC Group). The year-on-year increase totalled €6,688 thousand (+ 21.2% with respect to the €31,459 thousand posted at 31 December 2005).**

Note that acquisition of the American company, PSC, which took place on 30 November 2005, generated its effects throughout the FY2006, while in 2005 the data included in the consolidated figures refer only to the month of December.

In the fourth quarter, which was far and away the best quarter of the year, the Group reported revenues of €101,120 thousand, EBITDA of €11,758 (11.6% of revenues) and net income of €2,769 thousand and decreased its financial debts by more than €3,974 thousand (the financial position decreased from €62,331 at 30 September 2006 to €58,357 thousand at 31 December 2006).

Net profit at 31 December 2006 was €4,125 thousand. This result is positive despite the negative performance (due largely to extraordinary and non-recurring activities, details of which are given below) posted by PSC (€-5,595 thousand as up to 31 December 2006). The table below details the key operating results (including costs relating to the acquisition and intersegment revenues of €562 thousand) recorded as up to 31 December 2006.

(€000)	31/12/06 PSC	31/12/06 Acquisition costs	31/12/06 Restructuring provision	31/12/06 PSC net of acquisition costs
<b>TOTAL REVENUES</b>	<b>178,503</b>			<b>178,503</b>
Cost of sales	(112,136)			(112,136)
<b>Gross profit</b>	<b>66,367</b>	<b>0</b>	<b>0</b>	<b>66,367</b>
Other revenues	89			89
Research and development expenses	(11,304)			(11,304)
Distribution expenses	(40,237)			(40,237)
General & administrative expenses	(9,767)			(9,767)
Other operating costs	(1,085)			(1,085)
<b>EBITANR</b>	<b>4,063</b>	<b>0</b>	<b>0</b>	<b>4,063</b>
<i>% of total revenues</i>	<i>2.3%</i>			<i>2.3%</i>
Non-recurring costs and revenues	(5,422)	3,467	1,886	(69)
Depreciation & amortization due to acquisitions	(2,412)	2,412		0
<b>EBIT</b>	<b>(3,771)</b>	<b>5,879</b>	<b>1,886</b>	<b>3,994</b>
<i>% of total revenues</i>	<i>-2.1%</i>			<i>2.2%</i>
Depreciation of tangible assets	(4,178)			(4,178)
Amortization of intangible assets	(144)			(144)
<b>EBITDA</b>	<b>8,385</b>	<b>0</b>	<b>0</b>	<b>8,385</b>
<i>% of total revenues</i>	<i>4.7%</i>			<i>4.7%</i>

In order to assure better representation of the Group's ordinary profitability, we have preferred – in all tables in this section concerning information on operating performance – to show an operating result before the impact of non-recurring costs/income and of depreciation and amortization due to acquisitions, which we have called EBITANR (Earnings before interests, taxes, acquisition and not recurring). To permit comparability with detailed official accounting statements, we have in any case included a further intermediate profit margin (called "Operating result") that includes non-recurring costs/income and depreciation and amortization due to acquisitions and matches figure reported in year-end financial statements.

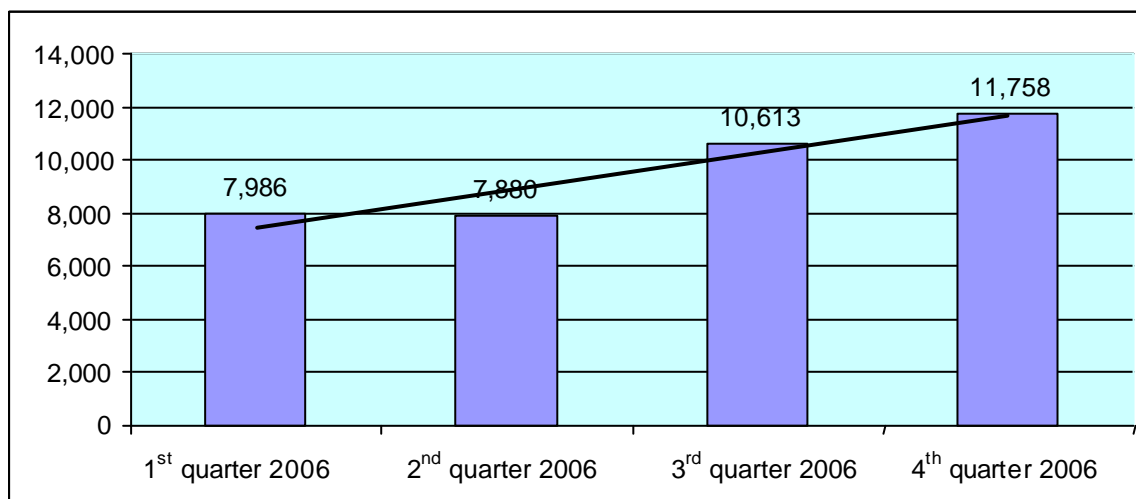
On the whole, Datalogic's expenses for the acquisition came to €5,879 thousand, as follows:

- adjustment of assets and liabilities to market value as of the date of acquisition (€972 thousand);
- amortization of intangible assets due to the allocation of the differences between PSC's purchase price and net equity (€2,412 thousand gross of taxes);
- other costs related to the PSC acquisition (€2,495 thousand).

In addition, a provision of €1,886 thousand was made to help pay for a restructuring and development plan, one effect of which is that 60 staff members have been cut for eventual savings of over 4.4 million dollars per year. At 31 December 2006, an amount of €1,621 thousand of this provision was used.

A return to profitability for PSC was one of Datalogic's top priorities. Company reorganization has already yielded very reassuring results. In the fourth quarter, EBITDA came to €4,156 thousand (8.6% of revenues) with respect to €350 thousand (1% of revenues), €1,282 thousand (3% of revenues) and €2,597 thousand (6% of revenues), respectively, in the first, second and third quarters of this year.

In the year after the acquisition, PSC has already begun to make a significant contribution to Group profitability. Overall, the business posted by PSC in 2006 has allowed the Group to report a significant growth in profitability in the year: in the fourth quarter, EBITDA was €11,758 thousand (11.6% of revenues). Below is a quarterly detail of the EBITDA achieved in the financial year by the Datalogic Group.



Below, a more precise picture of PSC's ordinary profitability as of 31 December 2006 is provided in the form of an adjusted income statement, which factors out the effects of the restructuring on the assumption that the savings in operating costs (4.4 million dollars per year) already applied to the first nine months of the year:



**ADJUSTED INCOME STATEMENT**

(€000)	31/12/06 PSC net of acquisition costs	31/12/06 PSC normalization	31/12/06 PSC normalized
<b>TOTAL REVENUES</b>	<b>178,503</b>		<b>178,503</b>
Cost of sales	(112,136)	68	(112,068)
<b>Gross profit</b>	<b>66,367</b>	<b>68</b>	<b>66,435</b>
Other revenues	89		89
Research and development expenses	(11,304)	111	(11,193)
Distribution expenses	(40,237)	903	(39,334)
General & administrative expenses	(9,767)	86	9,681
Other operating costs	(1,085)		(1,085)
<b>EBITANR</b>	<b>4,063</b>	<b>1,168</b>	<b>5,231</b>
Non-recurring costs and revenues	(69)		(69)
Depreciation & amortization due to acquisitions	0		0
<b>EBIT</b>	<b>3,994</b>	<b>1,168</b>	<b>5,162</b>
<i>% of total revenues</i>	<i>2.2%</i>		<i>2.9%</i>
Depreciation of tangible assets	(4,178)		(4,178)
Amortization of intangible assets	(144)		(144)
<b>EBITDA</b>	<b>8,385</b>	<b>1,168</b>	<b>9,553</b>
<i>% of total revenues</i>	<i>4.7%</i>		<i>5.4%</i>

**ANALYSIS OF RECLASSIFIED INCOME STATEMENT DATA**

The following table shows the main income statement items for the Datalogic Group compared with the same period in the previous year:

(€000)	31/12/06		31/12/05		Ch.	Ch. %
<b>TOTAL REVENUES</b>	<b>381,614</b>	<b>100.0%</b>	<b>205,948</b>	<b>100.0%</b>	<b>175,666</b>	<b>85.3%</b>
Cost of sales	(214,544)	-56.2%	(106,526)	51.7%	(108,018)	101.4%
<b>Gross profit</b>	<b>167,070</b>	<b>43.8%</b>	<b>99,422</b>	<b>48.3%</b>	<b>67,648</b>	<b>68.0%</b>
Other revenues	2,513	0.7%	2,659	1.3%	(146)	-5.5%
Research and development expenses	26,313	-6.9%	(14,676)	7.1%	(11,637)	79.3%
Distribution expenses	(83,915)	-22.0%	(42,949)	-20.9%	(40,966)	95.4%
General & administrative expenses	(28,752)	7.5%	(17,273)	-8.4%	(11,479)	66.5%
Other operating costs	(4,569)	-1.2%	(2,383)	-1.2%	(2,186)	91.7%
<b>EBITANR</b>	<b>26,034</b>	<b>6.8%</b>	<b>24,800</b>	<b>12.0%</b>	<b>1,234</b>	<b>5.0%</b>
Non-recurring costs and revenues	(6,315)	1.7%	(2,691)	-1.3%	(3,624)	134.7%
Depreciation & amortization due to acquisitions	(4,345)	1.1%	(1,830)	0.9%	(2,515)	137.4%
<b>EBIT</b>	<b>15,374</b>	<b>4.0%</b>	<b>20,279</b>	<b>9.8%</b>	<b>(4,905)</b>	<b>-24.2%</b>
Net financial income (expenses)	(5,160)	-1.4%	874	0.4%	(6,034)	n.a.
Subsidiaries' earnings/(losses)	(53)	0.0%	229	0.1%	(282)	n.a.
Foreign exchange earnings/(losses)	(1,128)	-0.3%	1,298	0.6%	(2,426)	n.a.
<b>Pre-tax profit/(loss)</b>	<b>9,033</b>	<b>2.4%</b>	<b>22,680</b>	<b>11.0%</b>	<b>(13,647)</b>	<b>-60.2%</b>
Taxes	(4,767)	-1.2%	(9,512)	-4.6%	-4,745	49.9%
<b>Net profit/(loss) for period</b>	<b>4,266</b>	<b>1.1%</b>	<b>13,168</b>	<b>6.4%</b>	<b>(8,902)</b>	<b>-67.6%</b>
Minority interests' share of net profit	(141)	0.0%	(171)	-0.1%	30	-17.5%
<b>GROUP NET PROFIT/LOSS</b>	<b>4,125</b>	<b>1.1%</b>	<b>12,997</b>	<b>6.3%</b>	<b>(8,872)</b>	<b>-68.3%</b>
Depreciation of tangible assets	(8,309)	-2.2%	(4,558)	-2.2%	(3,751)	82.3%
Amortization of intangible assets	(3,894)	-1.0%	(2,191)	-1.1%	(1,703)	77.7%
<b>EBITDA</b>	<b>38,237</b>	<b>10.0%</b>	<b>31,549</b>	<b>15.3%</b>	<b>6,688</b>	<b>21.2%</b>

Following the introduction of IAS/IFRS, non-recurring or extraordinary costs are no longer shown separately in financial statements below the operating line but are included in ordinary operating figures.

As of 31 December 2006, non-recurring costs/income (€6,315 thousand) were made up as follows:

ITEM	VALUE	DESCRIPTION
	(€'000)	
2) Cost of goods sold	(972)	Adjustment of assets and liabilities (of PSC) at the date of acquisition at market value
2) Cost of goods sold	222	Of which: costs for company reorganization of €218 thousand and leaving incentives of €4 thousand
<b>Total</b>	<b>(1,194)</b>	
3) Other operating revenues	1,352	Recharging expenses incurred for legal action
<b>Total</b>	<b>1,352</b>	
4) R&D expenses	(41)	Leaving incentives
<b>Total</b>	<b>(41)</b>	
5) Distribution expenses	(188)	Leaving incentives
<b>Total</b>	<b>(188)</b>	
6) General & administrative expenses	(18)	Leaving incentives
6) General & administrative expenses	(2,000)	Bonuses to the C.E.O. of the parent company
6) General & administrative expenses	(495)	Consulting pursuant to the PSC acquisition
<b>Total</b>	<b>(2,513)</b>	
7) Other operating expenses	(2,067)	Allocation to the company reorganization reserve, of which €1,886 thousand referring to PSC and €181 thousand relating to Datalogic S.p.A.
7) Other operating expenses	(312)	Tax audit provision
7) Other operating expenses	(1,352)	Recharging expenses incurred for legal action
<b>Total</b>	<b>(3,731)</b>	
<b>TOTAL NON-RECURRING COSTS</b>	<b>(6,315)</b>	

Depreciation & amortization due to acquisitions (€4,345 thousand), included under "General & administrative expenses", is made up as follows:

1. €1,295 thousand pertaining to Laservall;
2. €638 thousand pertaining to Informatics;
3. €2,412 thousand pertaining to the PSC Group.

**EBITANR amounted to €26,034 thousand (of which €4,063 thousand related to the PSC Group) with a 6.8% margin on revenues (10.8% net of the PSC Group), showing a 5% increase with respect to the same period in 2005.**

At 31 December 2006, Group net income was €4,125 thousand (of which - €5,595 thousand pertaining the PSC Group), worse with respect to the €12,997 thousand in income reported in the previous year, but showing improvements with respect to the profit reported at 30 September of the previous year, equal to €1,356 thousand.

Since the result was influenced so heavily by non-recurring costs/income and by depreciation & amortization from acquisitions, we attach an income statement cleansed of all effects produced by the acquisitions and restructuring in order to provide a better representation of ordinary profitability in as of 31 December 2006:

(€000)	31/12/06	31/12/06 <i>Acquisitions and Reorganization</i>	31/12/06
<b>TOTAL REVENUES</b>	<b>381,614</b>		<b>381,614</b>
Cost of sales	(214,544)		(214,544)
<b>Gross profit</b>	<b>167,070</b>	<b>0</b>	<b>167,070</b>
Other revenues	2,513		2,513
Research and development expenses	(26,313)		(26,313)
Distribution expenses	(83,915)		(83,915)
General & administrative expenses	(28,752)		(28,752)
Other operating costs	(4,569)		(4,569)
<b>EBITANR</b>	<b>26,034</b>	<b>0</b>	<b>26,034</b>
Non-recurring costs and revenues	(6,315)	5,752	(563)
Depreciation & amortization due to acquisitions	(4,345)	(4,345)	0
<b>EBIT</b>	<b>15,374</b>	<b>10,097</b>	<b>25,471</b>
<i>% of total revenues</i>	<i>4.0%</i>		<i>6.7%</i>
Depreciation of tangible assets	(8,309)		(8,309)
Amortization of intangible assets	(3,894)		(3,894)
<b>EBITDA</b>	<b>38,237</b>	<b>0</b>	<b>38,237</b>
<i>% of total revenues</i>	<i>10.0%</i>		<i>10.0%</i>

The next two tables compare the main operating results achieved in the fourth quarter of 2006 with, respectively, the fourth quarter of 2005 and the third quarter of 2006.

(€000)	4th quarter 2006		4th quarter 2005		Ch.	Ch. %
<b>Total revenues</b>	101,120	100.0%	73,145	100.0%	27,975	38.2%
<b>EBITDA</b>	11,758	11.6%	8,612	11.8%	3,146	36.5%
<b>EBITANR</b>	8,497	8.4%	6,575	9.0%	1,922	29.2%

Note that the third and fourth quarter 2006 results include the PSC Group, while the fourth quarter 2005 includes these results only for December.

(€000)	<i>4th quarter 2006</i>		<i>3rd quarter 2006</i>		<i>ch</i>	<i>ch %</i>
<b>Total revenues</b>	101,120	100.0%	91,555	100.0%	9,565	10.4%
<b>EBITDA</b>	11,758	11.6%	10,613	11.6%	1,145	10.8%
<b>EBITANR</b>	8,497	8.4%	7,741	8.5%	756	9.8%

**PERFORMANCE BY BUSINESS**

**Segment information**

A business segment is a group of assets and operations the aim of which is to provide products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment refers to a group of assets and operations that provides products and services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments.

We consider business segments to be primary (see IAS 14), while geographical segments have been considered secondary. Our segment information reflects the Group's internal reporting structure.

The amounts used for intersegment transfers of components or products are the Group's effective intercompany selling prices.

Segment information includes both directly attributable costs and those reasonably allocable.

**Business segments**

The Group consists of the following business segments:

**Data Capture:** this is Datalogic's traditional business and includes the development, production and sale of the following products: HHR (hand-held readers), USS (unattended scanning systems) for the industrial market, MC (mobile computers), and checkout scanners for the retail market.

**Business Development:** this segment includes businesses featuring high growth potential within Datalogic's traditional offering (RFID [radio-frequency identification devices] and self-scanning solutions) or those adjacent to the Group's traditional business areas. It consists of:

- Industrial marking products;
- Distribution of automatic identification products.

These last two activities relate to two companies recently acquired by Datalogic S.p.A (respectively Laservall S.p.A and Informatics).

Primary segment results as up to 31 December 2006, compared with those as up to 31 December 2005, were as follows:

(€'000)	Data Capture		Business Development		Adjustments		Consolidated Total	
	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
External sales	309,313	146,566	72,301	59,382			381,614	205,948
Intersegment sales	900	42		33	(900)	(75)	-	-
<b>Total revenues</b>	<b>310,213</b>	<b>146,608</b>	<b>72,301</b>	<b>59,415</b>	<b>(900)</b>	<b>(75)</b>	<b>381,614</b>	<b>205,948</b>
Cost of goods sold	179,991	76,492	34,553	30,073		(39)	214,544	106,526
Intersegment cost of goods sold		18	900	39	(900)	(57)	-	-
<b>Gross profit</b>	<b>130,222</b>	<b>70,098</b>	<b>36,848</b>	<b>29,303</b>	<b>-</b>	<b>21</b>	<b>167,070</b>	<b>99,422</b>
% of revenues	42.0%	47.8%	51.0%	49.3%	0.0%	-28.0%	43.8%	48.3%
Other attributable revenues	2,198	2,455	315	204			2,513	2,659
Other intersegment revenues	248	370			(248)	(370)	-	-
<b>Allocable operating costs:</b>	<b>113,851</b>	<b>52,852</b>	<b>24,070</b>	<b>19,682</b>	<b>(291)</b>	<b>(553)</b>	<b>137,630</b>	<b>71,981</b>
% of revenues	36.7%	36.0%	33.3%	33.1%	32.3%	737.3%	36.1%	35.0%
R&D expenses	22,162	11,308	4,160	3,368	(9)		26,313	(14,676)
Distribution expenses	70,143	31,632	13,811	11,651	(39)	(334)	83,915	42,949
Allocable G&A costs	18,353	8,732	5,779	4,460	(243)	(219)	23,889	12,973
Other allocable operating costs	3,193	1,180	320	203			3,513	1,383
<b>SEGMENT RESULT</b>	<b>18,817</b>	<b>20,071</b>	<b>13,093</b>	<b>9,825</b>	<b>43</b>	<b>204</b>	<b>31,953</b>	<b>30,100</b>
% of revenues	6.1%	13.7%	18.1%	16.5%	-4.8%	-272.0%	8.4%	14.6%
Unallocable G&A costs	-						4,863	4,300
Other unallocable operating costs							1,056	1,000
<b>EBITANR</b>	<b>18,817</b>	<b>20,071</b>	<b>13,093</b>	<b>9,825</b>	<b>43</b>	<b>204</b>	<b>26,034</b>	<b>24,800</b>
% of revenues	6.07%	13.69%	18.11%	16.54%	-4.78%	-272.00%	6.82%	12.04%
Allocable non-recurring costs/revenues	(6,315)	(295)		(2,396)			(6,315)	(2,691)
Unallocable non-recurring costs/revenues	-							
Amortization due to acquisitions	(2,412)		(1,933)	(1,830)			(4,345)	(1,830)
<b>OPERATING RESULT (EBIT)</b>	<b>10,090</b>	<b>19,776</b>	<b>11,160</b>	<b>5,599</b>	<b>43</b>	<b>204</b>	<b>15,374</b>	<b>20,279</b>
% of revenues	3.25%	13.49%	15.44%	9.42%	-4.78%	-272.00%	4.03%	9.85%
Net financial income (expenses)							(6,288)	2,172
Share of associates' profit							(53)	229
Income taxes							(4,767)	(9,512)
<b>NET PROFIT/LOSS</b>							<b>4,266</b>	<b>13,168</b>
% of revenues							1.12%	6.39%
Minority interests' share of net profit/loss							141	171
<b>GROUP NET PROFIT/LOSS</b>							<b>4,125</b>	<b>12,997</b>
% of revenues							10.8%	6.31%

**BALANCE SHEET BY BUSINESS SEGMENT**

	Data Capture		Business Development		Adjustments		Consolidated Total	
	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
(€'000)								
Segment assets	288,167	333,400	54,416	53,731	(327)	(8)	342,256	387,123
Interests in subsidiaries booked at equity	683	636	427	165			1,110	801
Unallocable assets							62,894	48,116
<b>Total assets</b>	<b>288,850</b>	<b>334,036</b>	<b>54,843</b>	<b>53,896</b>	<b>(327)</b>	<b>(8)</b>	<b>406,260</b>	<b>436,040</b>
Segment liabilities	76,554	87,003	12,018	7,453	320	(329)	88,252	94,127
Unallocable liabilities							131,398	212,052
Equity							186,610	129,861
<b>Total liabilities</b>	<b>76,554</b>	<b>87,003</b>	<b>12,018</b>	<b>7,453</b>	<b>(320)</b>	<b>(329)</b>	<b>406,260</b>	<b>436,040</b>
Allocable D&A net of D&A due to acquisitions)	10,451	5,819	1,129	792			11,580	6,611
Unallocable D&A							623	138

**REVENUES BY GEOGRAPHIC AREA**

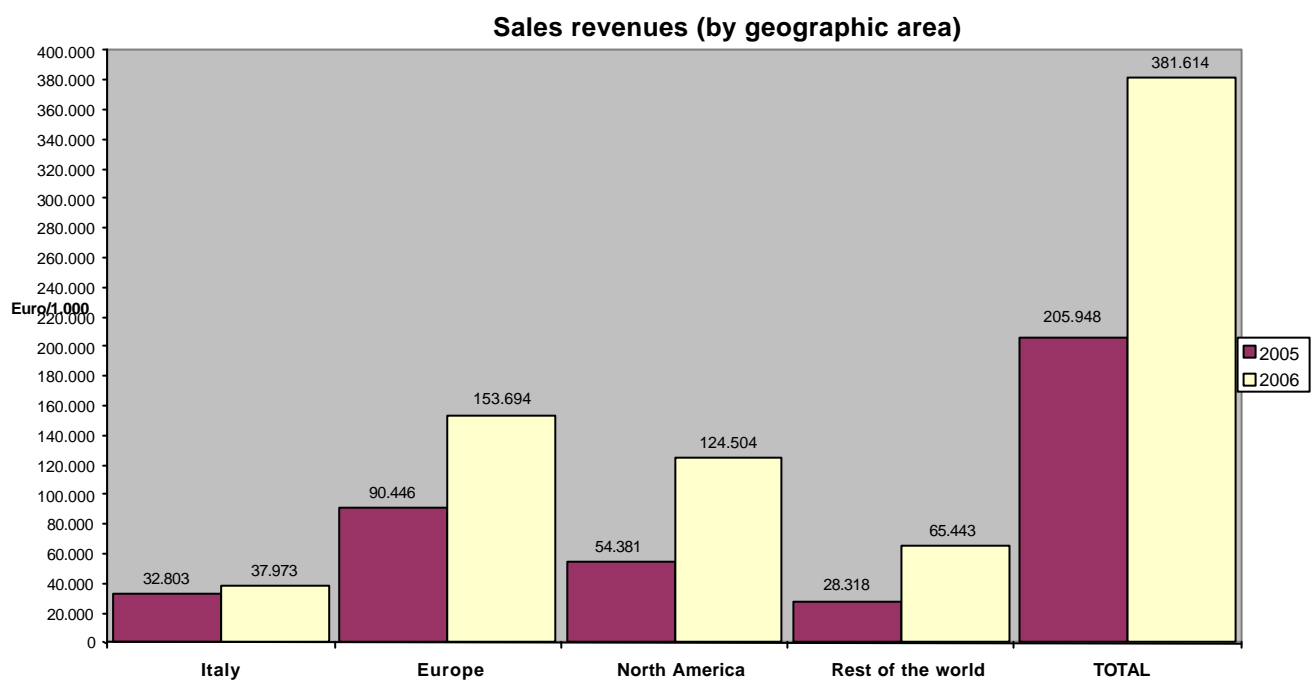
	31/12/06	31/12/05	Adjustments 31/12/06	Adjustments 31/12/05	Consolidated 31/12/06	Consolidated 31/12/05	YoY Change
<b>REVENUES BY GEOGRAPHIC AREA</b>							
Italy	37,973	32,803			37,973	32,803	16%
Europe	153,694	90,446			153,694	90,446	70%
North America	124,504	54,381			124,504	54,381	129%
Rest of the World	65,443	28,318			65,443	28,318	131%
<b>TOTAL</b>	<b>381,614</b>	<b>205,948</b>	-	-	<b>381,614</b>	<b>205,948</b>	<b>85%</b>
<b>ASSET VALUES BY GEOGRAPHIC AREA</b>							
Italy	88,410	101,364	16,736	(2,726)	105,146	98,638	7%
Europe	35,281	28,337	949	(1,305)	36,230	27,032	34%
North America	205,004	260,301	927	(369)	205,931	259,932	-21%
Rest of the World	2,289	1,946	(354)	(425)	1,935	1,521	27%
<b>TOTAL</b>	<b>330,984</b>	<b>391,948</b>	<b>18,258</b>	<b>-4,825</b>	<b>349,242</b>	<b>387,123</b>	<b>10%</b>
<b>COST FOR ACQUISITION OF THE ASSETS</b>							
Italy	16,366	5,367			16,366	5,367	205%
Europe	3,057	663			3,057	663	361%
North America	22,607	184,451			22,607	184,451	88%
Rest of the World	100	99			100	99	
<b>TOTAL</b>	<b>42,130</b>	<b>190,580</b>	-	-	<b>42,130</b>	<b>190,580</b>	<b>-78%</b>

As regards sales performance, some charts provided as annexes offer further information (by business and geographical segment) about the results achieved. Net of the contribution of PSC (€178,503 thousand gross of €562 thousand of interdivisional sales to Informatics) the Data Capture Division's growth was approximately 4% YoY.

Sales of the Data Capture Division at 31 December 2006 totalled €310,213 thousand (including intersegment sales), up by some 112% over FY2005.

Revenues of the Business Development Division amounted to €72,301 thousand (19% of the total), rising by over 21% vs. €59,415 thousand reported in 2005. All geographical areas reported growth.

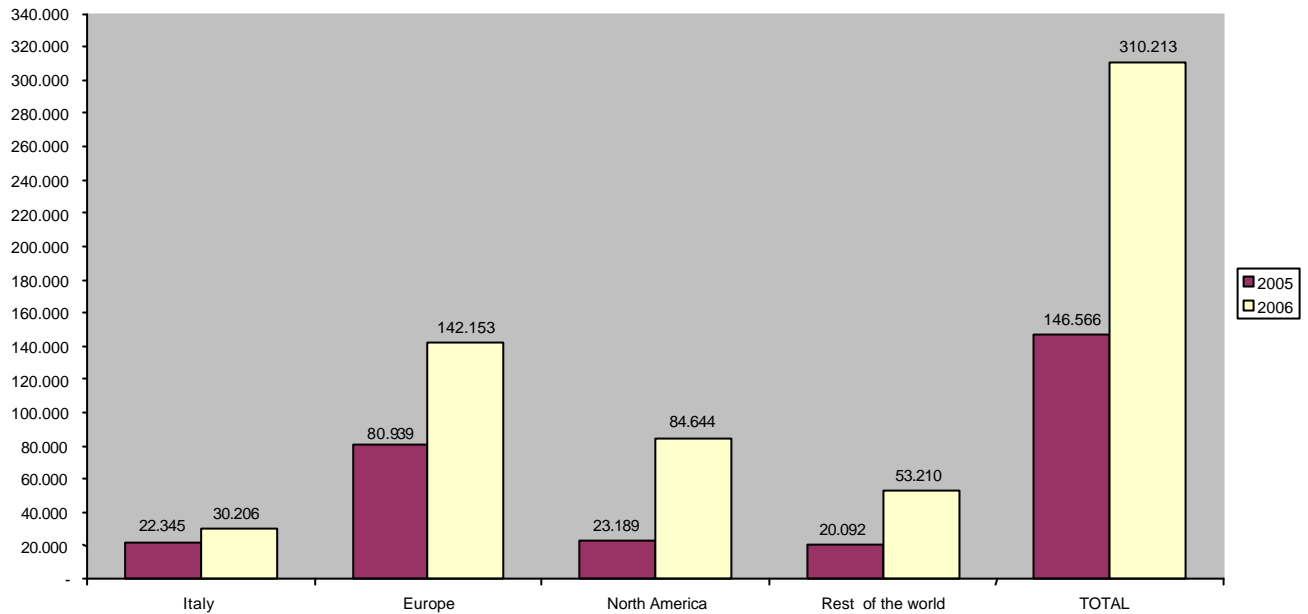
Going into greater detail, the contribution to sales by geographic areas was as follows:



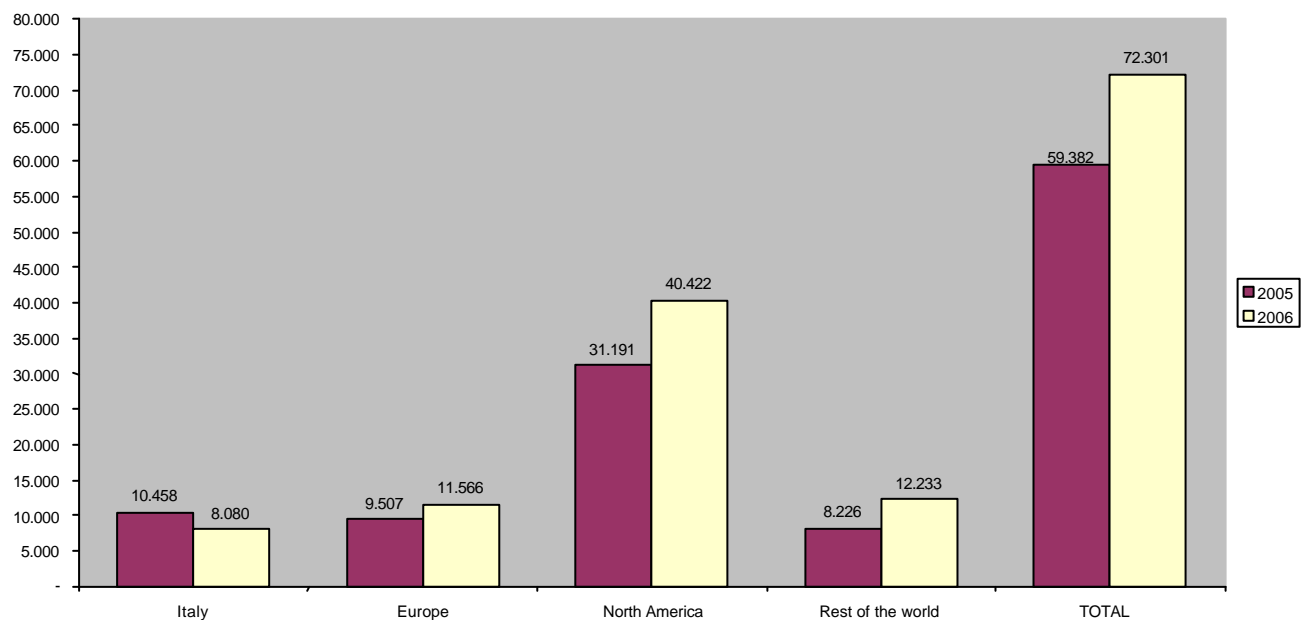


The following charts provide the geographical breakdown of sales by the Data Capture and Business Development divisions.

**Data Capture revenues (by geographic area)**



**Business Development revenues (by geographic area)**



Europe continued to represent the primary area of Group sales (40% of the total). The rest of the world (made up primarily by Asia/Pacific) reported higher growth with respect to the previous year (+131%), though nearly all the product lines reported double-digit increases.

The cost of goods sold increased from 51.72% of sales in the same period of 2005 to 56.22%.

The main reason for this trend is the consolidation of PSC, which has a higher cost of goods sold than the rest of the division (63% of revenues for 2006).

Gross contribution margin increased from €99,422 thousand (at 31 December 2005) to €167,070 thousand at 31 December 2006, marking an increase of 68%.

Operating costs attributable to the divisions amounted to €137,630 thousand in 2006 (+91% vs. €71,981 thousand reported in FY05). Of this total, €113,851 thousand related to the Data Capture division (+111% vs. 2005) and €24,070 thousand to the Business Development division (+22%), gross of €291 thousand in "interdivisional" operating costs.

In greater detail, the Data Capture division featured:

- nearly double the costs of research and development, which came to €22,162 thousand at 31 December 2006 (€11,304 thousand attributed to the PSC Group), amounting to 7.1% of total sales in the division.
- a 110% increase in allocable general & administrative expenses (+9% net of PSC), which came to €18,353 thousand for the period (of which €9,767 thousand pertaining to the PSC Group) compared with €8,732 thousand in the previous year (of which €882 thousand pertaining to the PSC Group);
- a 122% increase in distribution expenses (+9% net of PSC), which came to €70,143 as up to 31 December 2006, compared with €31,632 thousand in the same period in 2005.

Other operating costs (of €3,513 thousand) were up by 47% compared to 2005.

The other unallocable operating costs are comprised of a €1,056 thousand provision made by the parent company for a long-term management incentive plan due to mature in 2008.

The Business Development division featured:

- an increase in research & development expenses, which as up to 31 December 2006, totalled €4,160 thousand or 5,8% of the division's total revenues, a rise of 24% on the previous year;
- A 30% increase in allocable G&A costs, which amounted to €5,779 thousand in FY2006 vs. €4,460 thousand reported in FY2005.
- a 18% increase in distribution expenses, which came to €13,811 as up to 31 December 2006, compared with €11,651 thousand in the same period in 2005.

The Data Capture division's segment result (i.e. before non-allocable general and administrative expenses) amounted to €18,817 thousand, down from €20,071 thousand in 2005.

The Business Development division's segment result totalled €13,093 thousand, strong growth (+33%) over the €9,825 thousand reported in 2005.

Sector results do not include €4,863 thousand for general expenses and €1,056 thousand for other operating costs, neither one allocable.

#### **DEVELOPMENT OF PROCESSING/PRODUCTION TECHNOLOGIES**

In January 2006, Datalogic Slovakia S.r.o. became operational; the focus of this company is to handle the HHR product lines. During FY2006, Datalogic Slovakia S.r.o. allowed the Group to achieve significant cost savings. During the year, the production specialization process was completed (for the HHR, MC and USS lines) with aim of focussing each production facility on a specific product line.

In 2006, Laservall acquired a factory in the Municipality of Sesto Calende, which is expected to bring considerable improvements to the production capacity of the company.

#### **SOCIAL, POLITICAL, AND TRADE UNION CLIMATE**

In the last five years, the benefits of opening up new markets and removing barriers to currency exchange and international mobility of production have been gradually consolidated. The world economy has expanded, pro capita income has increased, inflation has settled at historic lows, the financial markets are denoted by abundant liquidity, interest rates are low and volatility has been minimized in the price of financial assets.

Economic growth in 2006 was 2.8% in Europe and 2.6% in the EU area. The unemployment rate was down from 9% to 8% in 2006; further decreases are expected in 2008.

Inflation in the EU area has settled at 2.2%, remaining within acceptable limits despite the sudden increases in the price of oil.

In this context, 2006 has been witness to a stabilization in the outlook of the Italian economy, which seems to be exiting a long phase of stagnation to return to growth: recovery is keeping pace with the wave of robust international demand, while growth in GDP has led to a significant correction upwards of the forecast for this year (up around 1.7%), albeit still less than EU averages. Inflation has remained stable at 2.2%. The unemployment rate has gradually decreased during 2006, with a forecast of less than 7% for 2007.

As regards the Datalogic Group, the internal climate in 2006 was influenced by the reorganization of production, which was initiated with a view to minimizing the impact on employment, while complying with assigned budget objectives.

These events have required intense dialogue between the company and the united labour organizations, at times fairly heated, but which were always conducted in constructive terms.

If we look at the employment dynamic overall, net of the PSC Inc Group, Group staff overall increased by 124 individuals (a rise of 12%); a substantial contribution to this increase was made by Datalogic Slovakia.

In addition to completing the new production layout - which is expected to promote an evolution in the organisation and business arrangement of the Group in 2007 - plans continued to shore up the sales force

and complete regional coverage. The number of vendors of the Data Capture division (not including PSC) increased by more than 20%, and it is expected that this reinforcement will begin to show results throughout 2007.

The FY2006 witnessed important investments in training, with particular attention paid to managerial training programmes, and a more frequent use of financed training initiatives.

#### **ANALYSIS OF FINANCIAL AND CAPITAL DATA**

As at 31 December 2006, our net financial position was negative by €58,357 thousand and featured the following breakdown:

<b>Datalogic Group</b>	<b>31/12/06</b>	<b>31/12/05</b>
<b>(€000)</b>		
A. Cash and bank deposits	30,139	19,974
B. Other liquidity	2,811	10,172
<i>b1. Restricted cash (*)</i>	2,811	10,172
C. Securities held for trading	370	5,369
<i>c1. Current</i>	0	3,497
<i>c2. Non-current</i>	370	1,872
<b>D. Cash &amp; Cash equivalents (A) + (B) + (C)</b>	<b>33,320</b>	<b>35,515</b>
<b>E. Current financial receivables</b>	<b>206</b>	<b>515</b>
F. Current bank overdrafts		0
G. Current portion of non-current debt	9,856	149,349
H. Other current financial liabilities	0	116
<i>h1. Hedging instruments</i>	0	116
<b>I. Current financial debt (F) + (G) + (H)</b>	<b>9,856</b>	<b>149,465</b>
<b>J. Current financial debt, net (I) - (E) - (D)</b>	<b>(23,670)</b>	<b>113,435</b>
K. Non-current bank borrowing	79,539	12,283
L. Bonds issued	0	0
M. Other non-current liabilities	0	0
<i>m1. Financial liabilities vs BoD member</i>	2,488	0
<b>N. Non-current financial debt (K) + (L) + (M)</b>	<b>82,027</b>	<b>12,283</b>
<b>O. Net financial debt (J) + (N)</b>	<b>58,357</b>	<b>125,718</b>

(\*) This includes €2,494 thousand for a security deposit received from PSC Holding (which is included in the item "Other liabilities") pursuant to the acquisition transaction and payment into the restricted preferential account, which will be released in February pursuant to the agreement entered into with the vendors, as indicated in the section "Business Forecast for Current Year and Subsequent Events." The remaining €317 thousand refers to other types of security deposits (letters of credit).

The net financial position at 31 December 2006 shows considerable improvement with respect to 31 December 2005 (- €125,718 thousand), due largely to the increase in capital of Datalogic S.p.A. executed in January, which involved 3,465,868 shares (13,863,472 after the share split), for a total value of €76.6 million (gross of expenses).

In addition, dividends of €3,489 thousand were distributed and treasury shares of €8,283 thousand were acquired (treasury shares in the portfolio are not included in the net financial position).

Lastly, the second and third earn-outs on the purchase of Laservall S.p.A. were paid in the amount of €3,000.

In the fourth quarter, the net financial position improved from - €62,331 thousand at 30 September 2006 to - €58,357 thousand at 31 December 2006. The €3,974 thousand improvement is added to the €4,160 thousand relating to acquisition of treasury shares.

Net working capital as up to 31 December 2006 totalled €64,880 thousand and decreased by €6,433 thousand with regard to 31 December 2005 (€71,313 thousand).

The reconciliation between the parent company's net equity and profit and the corresponding consolidated amounts is shown below:

	<b>31 December 2006</b>	
	<b>Total net equity</b>	<b>Net profit (loss) for the period</b>
<b>Datalogic S.p.A. net equity and profit</b>	183,690	-310
Difference between consolidated companies' net equity and their carrying value in Datalogic S.p.A.'s statement; effect of equity-based valuation	8,017	11,733
Reversal of dividends	0	-5,379
Laservall acquisition	-3,237	-1,295
Amortization of new Datalogic AB consolidation difference	-239	
Elimination of capital gain on sale of business branch	-208	
Effect of eliminating intercompany transactions	-3,519	-1,116
Elimination of intercompany profits	-82	-52
Effect of posting leasing transactions	-64	-21
Deferred taxes	2,043	832
Elimination of Minec brand	-267	-267
<b>Group portion of net equity</b>	<b>186,134</b>	<b>4,125</b>
<b>Minority interests in net equity</b>	<b>476</b>	<b>141</b>
<b>Total net equity</b>	<b>186,610</b>	<b>4,266</b>

**FINANCIAL INCOME AND EXPENSES**

Net financial expenses totalled €6,288 thousand. The drivers of this result were as follows:

(€000)	31/12/06
Financial income/expenses	-4,063
Net foreign exchange losses	-1,128
Bank charges	-597
Other	-500
<b>Total net financial expenses</b>	<b>-6,288</b>

The item "Other" is comprised of losses arising from the sale in 2005 of Ixla by Laservall S.p.A.

In addition, earnings of €448 thousand made by companies consolidated at equity were recognized along with a prior-year loss of €501 thousand by DL Slovakia.

**RESEARCH AND DEVELOPMENT ACTIVITIES**

In FY2006 R&D costs amounted to €26,313 thousand (equivalent to 6.9% of total revenues), up by some 79% vs. FY2005. Below we summarise the main R&D activities performed by the company's primary business units:

**HHR**

During the 2006 financial year, the HHR Business Unit reinforced the position of Datalogic in the sector of manual readers through its activities geared toward consolidation and expansion of the product offer.

Thanks to the specific redesign plans, the expansion of the number of Asian suppliers, and the use of low-cost labour obtained through Datalogic Slovakia, considerable results were obtained as regards the products intended for the "retail" market:

- The Gryphon product line was redesigned with the objective of increasing performance, adding new models and streamlining production costs.
- The range of low-cost readers (Heron products) was completely restructured, leading to a significant cost reduction.
- The range of contact readers (Touch products), and the Catcher and Diamond lines were substantially redesigned.

Additional activities dedicated to the "retail" sector were as follows:

- Introduction onto the market of a new product from the Gryphon line, dedicated to two-dimensional code reading (Gryphon D432 reader).
- Design of a new CCD technology cordless reader commenced, which is expected to be completed in 2007 and is poised to be one of the best linear CCD readers in terms of performance/price ratio.

As regards the "industrial" sector:

- Design of the new Dragon line of products - initiated in 2005 - was completed and production began of all the models in the range.
- Redesign of the 2D industrial Lynx reader also began. This is expected to bring an increase in the environmental characteristics, durability, reading performance and expansion of the range.

Finally, as regards Software products supporting hardware products, the Group started up and completed design of "Aladdyn", a software developed to make it easier to install and provide technical support to HHR products, and in the near future, to enable remote assistance over the internet.

Several different design and evaluation actions were conducted on new technological platforms designed to develop new readers, the design of which will begin in 2007, with a view to optimizing the product structure, increasing performance, and reducing costs.

In 2006, PSC made significant investments in new technological platforms, in particular regarding bar code readers using "imagers". For instance, introduction of the new PowerScan 7000 will allow the company to maintain the exceptional sales results achieved in the past by the PowerScan line, one of PSC's most successful products.

## **MC**

In 2006, the Mobile Computer Business Unit launched three new products on the market, all using the Windows CE 5.0 operating system. In particular:

- In the second quarter, the new version of the PDA Datalogic Jet, called "Version 5", was launched. This is the first Datalogic product developed on the new platform based on the Intel XScale PXA 270 microprocessor. The new Datalogic Jet expanded the Datalogic offer in mobility solutions and "Field-Force Automation".
- The third quarter began with introduction of the new Datalogic Skorpio, a highly ergonomic palm top computer also fitted with a new Intel platform, designed specifically for use in retail sales outlets.
- In December, the new Memor was added to the Datalogic range, a revolutionary product that combines the superior performance typical of top-of-the-range products with a compact size.

Two new projects were launched especially for warehouse solutions: the new Skorpio Gun, fitted with a comfortable "pistol" grip, and the new Kyman, which will migrate to a new Windows 5.0 / Intel PXA 270 platform and will be fitted with a new removable pistol grip. Both products will be launched in the first half of 2007.

Completing the product offer in the sectors of warehouse, mobility and large-scale distribution, the Group has also forecast introduction of several key accessories to achieve integrated solutions.

Also notable, the continuing increases in the software product offer, which has introduced important innovations with regard to compatibility with market leaders. By integrating the Vo-CE package, Datalogic has made its entry into voice-recognition solutions.

Finally, PSC has introduced important improvements to the Falcon product line, including introduction of the Windows Mobile operating system and a new version of the 2D reader.

**TRANSACTIONS WITH SUBSIDIARIES NOT CONSOLIDATED LINE-BY-LINE, WITH ASSOCIATES, AND WITH RELATED PARTIES**

For the definition of “Related Parties”, see both IAS 24, approved by European Commission Regulation No. 1725/2003, and the internal policy approved by the board of directors on 11 November 2005.

€'000	31/12/05							
RELATED PARTIES	Idec DI Co. Ltd.	Datasensor	Hydra	Sourcing Solution*	Nebulaxis (*)	St. Associato Caruso (*)	John O'Brian	Total
<b>Receivables</b>	796	164	443					1,403
<b>Payables</b>								-
Trade payables	-	377	988			73		1,438
Financial payables	-							
<b>Costs</b>								
Sales costs	-	1,582						1,582
Service costs	-				82	205		287
<b>Revenues</b>								
Commercial revenues	2,901							2,901
Financial revenues	-	278						278
€'000	31/12/06							
RELATED PARTIES	Idec DI Co. Ltd.	Datasensor	Hydra	Sourcing Solution*	Nebulaxis (*)	St. Associato Caruso (*)	John O'Brian	Total
<b>Receivables</b>	602		3,810					4,412
<b>Payables</b>								
Trade payables	-	423	11			51		485
Financial payables	-						2,488	2,488
<b>Capitalized costs</b>	-				1,161			1,161
<b>Costs</b>								
Sales costs	-	1,340						1,340
Service costs	59			56	567	136		818
<b>Revenues</b>								
Commercial revenues	2,794							2,794
Financial revenues	-							-

(\*) companies belonging to members of the Board of Directors

**Transactions with Datalogic Group companies**

Idec Datalogic Co. Ltd, a Japanese company in which the ultimate parent company owns a 50% stake, purchases products and components from Datalogic for resale in the Far Eastern region.

At 31 December 2006, the ultimate parent company sold to Idec Datalogic products and components valued at €2,794 thousand, incurred repair costs for €59 thousand, and trade accounts receivable from to Idec



Datalogic totalled €602 thousand. These transactions were executed at conditions comparable to those of other affiliates.

### **Transactions with companies belonging to shareholders**

Transactions with Datasensor S.p.A., controlled by the key shareholders of the ultimate parent company, refer chiefly to the purchase of components by Datalogic S.p.A. (€1,340 thousand) and to the distribution by certain Group companies of small quantities of Datasensor products.

At 31 December 2006, trade accounts payable to Datasensor totalled €423 thousand.

Relationships between the parent company and the indirect parent company (Hydra S.p.A.) mainly referred to the IRES receivable of €3,810 thousand and rental charges of an immaterial amount. The company joined the fiscal consolidation, as a consolidated company (Hydra is the consolidator).

Laservall S.p.A. has an IRES payable with Hydra S.p.A. of €11 thousand pursuant to its joining the fiscal consolidation, as a consolidated company (Hydra is the consolidator).

### **Transactions with companies belonging to members of the Board of Directors**

In 2006 trade transactions totalling approximately €56 thousand were carried out with Sourcing Solution Ltd (SSG), a company owned by the director A. Forchielli.

Nebulaxis (headed up by the director, John O'Brien) billed the parent company €1,728 thousand in 2006 for consulting related to acquisition of PSC and additional projects subsequent to this transaction. An amount of €1,161 thousand was capitalized as accessory costs for purchase of the PSC shareholding.

In addition, it should be noted that under the heading "financial liabilities" are posted, in accordance with IAS 32.23, €2,488 thousand pertaining to a PUT option signed by the director John O'Brien with the parent company (which therefore has a call option) on his minority stake of 10% in Informatics Inc. This liability is offset by a negative reserve of €2,502 thousand (net of interest accruing and exchange-rate adjustment).

In compliance with the requirements of CONSOB resolution 11520 of 1 July 1998, below is a listing of the equity interests owned in the parent company and its subsidiaries, by the direct parent company's directors and statutory auditors, either directly or via subsidiaries.

The Caruso law offices (headed up by the director, Pier Paolo Caruso) billed the parent company €136 thousand for tax consulting services in 2006

In compliance with the requirements of CONSOB (Italian securities & exchange commission) Resolution 11520 of 1 July 1998, below we show the equity interests owned by the direct parent company's directors and statutory auditors in the direct company and its subsidiaries, either directly or via companies controlled.

FULL NAME	TYPE OF OWNERSHIP	INVESTE COMPANY	NO. OF SHARES OWNED AT YEAR END 2005	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NO. OF SHARES after capital increase and splitting (*)	NO. OF SHARES PURCHASED after splitting	NO. OF SHARES SOLD after splitting	NO. OF SHARES OWNED AT END OF FY2006
Romano Volta	Indirect via Hydra S.p.A.	Datalogic S.p.A.	4,465,495			18,862,250			18,862,250
Romano Volta	Indirect via wife (Lucia Fantini)	Datalogic S.p.A.	4,487,494			18,903,850			18,903,850
Romano Volta	Direct	Datalogic S.p.A.	164,000			589,160			589,160
Roberto Tunioli	Direct	Datalogic S.p.A.	202,500		49,197	840,012		50,000	790,012
Roberto Tunioli	Direct	Datalogic Ltd.	1						1
Roberto Tunioli	Direct	Datalogic France	1						1
Roberto Tunioli	Indirect via wife (Paola China)	Datalogic S.p.A.	900			4,608		4,608	0
Giancarlo Micheletti	Direct	Datalogic S.p.A.	16,000			64,000			64,000
Pier Paolo Caruso	Direct	Datalogic France	1			1			1
Pier Paolo Caruso	Direct	Datalogic S.p.A.	0	441	441	0			0
Gabriele Volta	Direct	Datalogic S.p.A.	28,800			115,200			115,200
Valentina Volta	Direct	Datalogic S.p.A.	26,125			133,760			133,760
Angelo Manaresi	Direct	Datalogic S.p.A.	2,000			10,240			10,240
Stefano Romani	Direct	Datalogic S.p.A.	600	0	0	2,400			2,400

## PREPARATION OF OFFICIAL DATA SECURITY PLAN

In compliance with the requirements of Article 19 of Annex B (Technical rules concerning minimum security measures) of Italian Legislative Decree 196 of 30 June 2003 (Code concerning protection of personal data) the company approved and adopted, with the resolution passed by the Board of Directors on November 11th 2005, the Official Data Security Plan, prepared in collaboration with specialist consultants, certified as BS7799 lead auditors by the British Standards Institute.

During the FY2006, the Company maintained its security measures and kept them up to date, conforming to sector best practices. With particular reference to the IT security protocols, these were adapted to keep up with innovations introduced by the technological evolution underway.

## BUSINESS FORECAST FOR CURRENT YEAR AND SUBSEQUENT EVENTS

In December 2006, the Company launched an important reorganization project that foresees the evolution toward an operating structure by independent divisions with a view to supporting a business model focused by product and market. The Group will consist of three strategic operating divisions:

- Datalogic Scanning, headquartered in USA, will be comprised of two business units – Hand Held Readers and Stationary Readers - Retail. This results in the consolidation of the two hand held reader product lines of the Group, which will be harmonized into a cohesive offering. The current line of stationary readers for retail applications will continue as a core offering.

- Datalogic Automation, headquartered in Italy, will be comprised of three business units – Unattended Scanning Systems - Industrial, Marking and RFID. This allows Datalogic to leverage its field infrastructure for three businesses which share a common market and customer focus.

- Datalogic Mobile, headquartered in Italy, will include a business unit - Mobile Computers - leading to consolidation of the two product lines of Mobile Computers of the Group into a single offer. The three strategic operating divisions are coupled with a Business Development Unit that will continue to be responsible for the organic development of new business platforms in the Group and assessment of merger and acquisition opportunities.

The overriding corporate entity, Datalogic S.p.A., will continue to be headquartered in Bologna, Italy, and will be chartered to provide vision and strategy, values, policies and control of financial assets for the Group and its companies.

Datalogic expects that this new structure will allow it to achieve both economies of scale – which is a winning element in large, homogenous, mature markets; and economies of scope – which is a winning element to create a competitive advantage in smaller, fragmented markets.

The new organization will become operational starting in the second quarter 2007.

In addition, note that on 10 February 2007, an agreement was reached with the vendors of PSC Inc., acquired by the Datalogic Group on 30 November 2005.

This agreement envisages a reimbursement of USD 7,473 thousand, net of legal technical expenses incurred for formal audits.

The agreement also includes the definitive inclusion of tax benefits in the PSC Group, mainly attributed to past losses for USD 20,512 thousand.

These tax benefits were already booked in the consolidated financial statements of Datalogic Group (as part of the accounting process of the PSC acquisition) and can be converted into cash in the coming years, provided the PSC Group earns adequate profitability.

The agreement described above has made it possible for the Datalogic Group to review the purchase price of PSC from USD 151,178 thousand to USD 143,705 thousand ; furthermore, in the event of future use of the aforementioned tax benefits, an additional USD 20,512 thousand will be recovered which will indirectly reduce the cost of the company.

## **SECONDARY LOCATIONS**

The direct parent company has two secondary locations:

- one in the town of Quinto (province of Treviso) where the MC product line's production unit is located, together with management offices, the design department, and staff functions of the ShopEvolution product line;
- One in the Municipality of Castiglione di Messer Raimondo, where the USS product line's production unit is located.

## **ALLOCATION OF THE YEAR'S EARNINGS**

*To Our Shareholders*

We believe that the Management Report, which accompany the statutory year end accounts of the company and the Datalogic Group's consolidated year-end accounts, provide exhaustive illustration of their trend and of the results achieved in FY2006.

In view of the fact that the year-end accounts of Datalogic SpA show a loss equal to €309,127, mainly due to non-recurring costs relating PSC acquisition, we propose to distribute an ordinary unitary dividend, before mandatorily withheld amounts, of € 6 cents per share with coupon detachment on 7 May 2007 and payment as from 10 May 2007 for a total maximum amount of €3,832,649, to draw on the earning reserves (at 31/12/2006 equal to €5,272,000).

Lastly, we propose to you to:

allocate €23,759 to increase a reserve temporarily not distributable, until the date of effective realisation of deferred tax assets recognised in accounts.

**DATALOGIC S.p.A.**  
**CONSOLIDATED BALANCE SHEET**

<b>ASSETS</b>	Note	31-12-06 Euro/000	31-12-05 Euro/000
<b>A) NON-CURRENT ASSETS (1+2+3+4+5+6+7+8)</b>		<b>227.624</b>	<b>255.888 0</b>
<b>1) Tangible non-current assets</b>		<b>50.380</b>	<b>50.461</b>
Land	1	6.660	6.457
Buildings	1	18.238	18.928
Plant & machinery	1	7.946	6.711
Other tangible assets	1	15.726	16.528
Assets in progress and payments on account	1	1.810	1.837
<b>2) Investment property</b>		<b>0</b>	<b>0</b>
<b>3) Intangible non-current assets</b>		<b>153.652</b>	<b>196.820</b>
Goodwill	2	89.907	103.360
Development costs	2	3.010	3.908
Other intangible assets	2	60.735	89.552
<b>4) Equity interests in associate companies</b>	3	<b>1.110</b>	<b>801</b>
<b>5) Available-for-sale financial assets (non-current)</b>		<b>1.241</b>	<b>2.984</b>
Equity investments	4	871	1.112
Treasury stock			
Securities	4	370	1.872
<b>6) Trade and other receivables</b>	6	<b>503</b>	<b>796</b>
<b>7) Deferred tax credits</b>	13	<b>20.738</b>	<b>4.021</b>
<b>8) Tax credits</b>	7	<b>0</b>	<b>5</b>
<b>B) CURRENT ASSETS (8+9+10+11+12+13+14+15)</b>		<b>176.078</b>	<b>180.152</b>
<b>9) Inventories</b>	5	<b>52.005</b>	<b>51.512</b>
Raw & auxiliary materials plus consumables	5	30.936	28.547
Work in progress and semiprocessed goods	5	6.116	7.627
Finished products and goods for resale	5	14.953	15.338
<b>10) Job-order work in progress</b>		<b>0</b>	<b>0</b>
<b>11) Trade and other receivables</b>	6	<b>85.716</b>	<b>87.534</b>
<b>Trade receivables</b>	6	<b>81.533</b>	<b>83.727</b>
Within 12 months		75.998	81.734
After 12 months			0
Amounts receivable from associates		1.725	1.236
Amounts receivable from subsidiaries		0	150
Amounts receivable from parent company		3.810	443
Amounts receivable from related parties			164
Other receivables	6	1.611	1.783
Accrued income and prepaid expenses	6	2.572	2.024
<b>12) Tax credits</b>	7	<b>5.201</b>	<b>6.948</b>
<b>13) Available-for-sale financial assets (current)</b>	8	<b>206</b>	<b>4.012</b>
Securities		0	3.497
Loans to subsidiaries		206	515
<b>14) Hedging instruments</b>	9		
<b>15) Cash &amp; cash equivalents</b>	10	<b>32.950</b>	<b>30.146</b>
<b>TOTAL ASSETS (A+B)</b>		<b>403.702</b>	<b>436.040</b>

**DATALOGIC S.p.A.**  
**CONSOLIDATED BALANCE SHEET**

<b>LIABILITIES</b>	Note	31-12-06 Euro/000	31-12-05 Euro/000
<b>A) TOTAL NET EQUITY (1+2+3+4+5)</b>	<b>11</b>	<b>186.610</b>	<b>129.861</b>
<b>1) Share capital</b>		<b>159.098</b>	<b>90.556</b>
Share capital		33.072	25.746
Treasury stock		-6.301	1.881
Share premium reserve		127.888	58.490
Demerger capital reserve		4.439	4.439
<b>2) Reserves</b>		<b>-11.057</b>	<b>1.627</b>
Revaluation reserves			0
Consolidation reserve			0
Translation reserve/(loss)		-8.555	1.548
Cash-flow hedge reserve			0
Reserve for financial liabilities		-2.502	
<b>3) Retained earnings/(losses carried forward)</b>		<b>33.968</b>	<b>24.346</b>
Previous years' earnings/(losses)		10.311	9.216
Reserve for gain on Datasud cancellation		3.730	4.432
Untaxed capital grant reserve		958	256
Legal reserve		1.870	1.399
Treasury stock reserve		8.283	0
IAS transition reserve		8.816	9.043
<b>4) Profit/(loss) for period</b>		<b>4.125</b>	<b>12.997</b>
<b>5) Minority interests</b>		<b>476</b>	<b>335</b>
<b>B) NON-CURRENT LIABILITIES (6+7+8+9+10+11)</b>		<b>126.700</b>	<b>65.542</b>
<b>6) Borrowing</b>	<b>12</b>	<b>82.027</b>	<b>12.283</b>
<b>7) Tax payables</b>	<b>18</b>	<b>0</b>	<b>7</b>
<b>8) Deferred tax liabilities</b>	<b>13</b>	<b>26.468</b>	<b>40.522</b>
<b>9) Employee severance indemnity and retirement provision</b>	<b>14</b>	<b>7.624</b>	<b>6.894</b>
<b>10) Long-term provisions for risks and expenses</b>	<b>15</b>	<b>9.856</b>	<b>4.600</b>
<b>11) Other non-current liabilities</b>	<b>16</b>	<b>725</b>	<b>1.236</b>
<b>C) CURRENT LIABILITIES (12+13+14+15)</b>		<b>90.392</b>	<b>240.637</b>
<b>12) Trade and other payables</b>	<b>17</b>	<b>72.857</b>	<b>81.325</b>
<b>Trade payables</b>		<b>49.215</b>	<b>44.653</b>
Within 12 months		48.760	43.263
After 12 months			0
Amounts payable to associates		21	15
Amounts payable to parent company		11	998
Amounts payable to related parties		423	377
<b>Accrued liabilities and deferred income</b>		<b>6.860</b>	<b>5.766</b>
<b>Other current payables</b>		<b>16.782</b>	<b>30.906</b>
<b>13) Taxes payable</b>	<b>18</b>	<b>7.679</b>	<b>5.528</b>
<b>14) Short-term provisions for risks and expenses</b>	<b>15</b>	<b>0</b>	<b>4.319</b>
<b>15) Hedging instruments</b>	<b>9</b>		<b>116</b>
<b>16) Short-term borrowing</b>	<b>12</b>	<b>9.856</b>	<b>149.349</b>
<b>TOTAL LIABILITIES (A+B+C)</b>		<b>403.702</b>	<b>436.040</b>

**DATALOGIC S.p.A.**  
**CONSOLIDATED PROFIT & LOSS ACCOUNT**

	Note	31-12-06 Euro/000	31-12-05 Euro/000
<b>1) TOTAL REVENUES</b>	<b>19</b>	<b>381.614</b>	<b>205.948</b>
Revenues from sale of products		368.193	198.460
Revenues from services		13.421	7.488
<b>2) Cost of goods sold</b>	<b>20</b>	<b>215.738</b>	<b>106.526</b>
<i>of which non-recurring (*)</i>	<b>20</b>	<b>1.194</b>	
<b>GROSS PROFIT (1-2)</b>		<b>165.876</b>	<b>99.422</b>
<b>3) Other operating revenues</b>	<b>21</b>	3.865	2.659
		1.352	
<b>4) R&amp;D expenses</b>	<b>20</b>	26.354	14.676
<i>of which non-recurring (*)</i>	<b>20</b>	41	
<b>5) Distribution expenses</b>	<b>20</b>	84.103	43.048
<i>of which non-recurring (*)</i>	<b>20</b>	188	99
<b>6) General &amp; administrative expenses</b>	<b>20</b>	35.610	21.499
<i>of which non-recurring (*)</i>	<b>20</b>	2.513	2.396
<i>of which amort. pertaining to acquisitions (*)</i>	<b>20</b>	4.345	1.830
<b>7) Other operating expenses</b>	<b>20</b>	8.300	2.579
<i>of which non-recurring (*)</i>	<b>20</b>	3.731	196
<b>Total operating costs (4+5+6+7)</b>		<b>154.367</b>	<b>81.802</b>
<b>OPERATING PROFIT</b>		<b>15.374</b>	<b>20.279</b>
<b>8) Financial income</b>	<b>22</b>	-6.288	2.172
<b>9) Share of associate companies' profits</b>	<b>3</b>	-53	229
<b>PRE-TAX PROFIT/(LOSS)</b>		<b>9.033</b>	<b>22.680</b>
<b>Taxes</b>	<b>23</b>	4.767	9.512
<b>NET PROFIT FOR PERIOD</b>		<b>4.266</b>	<b>13.168</b>
<b>Minority interests' share of net profit</b>		141	171
<b>GROUP NET PROFIT</b>		<b>4.125</b>	<b>12.997</b>
<b>Earning per share (Euro)</b>	<b>24</b>	<b>0,0668</b>	<b>1,0733</b>
<b>Diluted earning per share (Euro)</b>	<b>24</b>	<b>0,0666</b>	<b>1,0679</b>

(\*) see the management report for the details of non- recurring costs and amort. pertaining to acquisitions

**DATALOGIC S.p.A.**  
**CONSOLIDATED CASH FLOW STATEMENT**

	<b>31-12-06</b>	<b>31-12-05</b>
	<b>Euro/000</b>	<b>Euro/000</b>
<b>Short-term net financial position at beginning of period</b>	<b>19.974</b>	<b>37.058</b>
Net profit/(loss) for period	4.125	11.558
Depreciation & amortisation	16.548	7.579
Employee severance indemnity provision	1.506	1.409
Write-down of financial assets	-448	-229
<b>Current cash flow</b>	<b>21.731</b>	<b>20.317</b>
<b>Effect of changes in operating assets and liabilities:</b>		
Trade receivables	2.194	-1.576
Inventories	-493	-216
Other current assets	1.367	3.509
Other medium-/long-term assets	-16.419	-39
Trade payables	4.562	5.917
Taxes payable	2.151	-5.518
Other current liabilities	-13.030	-2.701
Other medium-/long-term liabilities	-518	-1.964
Deferred taxes	-14.054	2.822
Provisions for risks and expenses	937	49
Employee severance indemnities paid out	-776	-457
<b>Net change in operating assets and liabilities</b>	<b>-34.079</b>	<b>-174</b>
<b>Operating cash flow/(absorption)</b>	<b>-12.348</b>	<b>20.143</b>
<b>Cash flow/(absorption) from investment activities:</b>		
(Increase)/decrease in intangible non-current assets	17.351	-2.047
(Increase)/decrease in tangible non-current assets	-9.369	-4.740
Exchange rate effect		
(Increase)/decrease in unconsolidated equity investments	139	279
PSC		-82.224
Short financial position PSC		4.998
Informatics		-11.265
Short financial position Informatics		752
<b>Investment cash flow/(absorption)</b>	<b>8.121</b>	<b>-94.247</b>
<b>Cash flow/(absorption) from financing activities:</b>		
Medium-/long-term loans taken out net of portions repaid in the period	67.256	-2.119
Short-term loans taken out net of portions repaid in the period	-139.493	58.878
Financial liabilities	2.488	
Minority interests' net equity	141	335
Effect of exchange-rate changes on consolidation of foreign companies	8.616	578
Other changes in net equity	-10.517	13.531
Capital increase with issue of new shares	76.596	
Dividend distribution	-3.489	-15.040
(Increase)/decrease in non-current financial assets	1.743	1.107
(Increase)/decrease in short-term financial activities	11.051	-250
<b>Finance cash flow/(absorption)</b>	<b>14.392</b>	<b>57.020</b>
<b>Change in net financial position</b>	<b>10.165</b>	<b>-17.084</b>
<b>Short-term net financial position at end of period</b>	<b>30.139</b>	<b>19.974</b>



**DATALOGIC S.p.A.**  
**STATEMENT OF CHANGES IN NET EQUITY**

Description	Share capital	Other reserves				Net profit for previous years								Net profit for period	Net equity	Minority Equity
		Fair value reserve	Translation reserve	Financial liabilities reserve	Total Other reserves	Consolid. Reserve	Retained earnings	Merger surplus	Capital grant reserve	Legal reserve	Treasury share reserve	IFRS reserve	Total			
31.12.03	78.241	71	-		71	1.878	6.375	-	-	617	5.381	9.042	23.293	7.180	108.785	-
Profit allocation					-		4.821			245			5.066	7.180	-2.114	
Capital increase	1.733				-								-		1.733	
Treasury shares	-3.099				-		-4.292				4.292		-		-3.099	
Datasud merger					-	-1.878	-2.810	4.432	256				-		-	
Fair value adjustment		12			12								-		12	
Translation reserve			-301		-301								-		-301	
Other changes					-		-41					3	-38		-38	
Net profit at 31.12.04					-								-	11.211	11.211	
31.12.04	76.875	83	-301		-218	-	4.053	4.432	256	862	9.673	9.045	28.321	11.211	116.189	-
Profit allocation					-		7.984			537			8.521	-11.211	-2.690	
Capital increase	3.725				-								-		3.725	
Translation reserve			1.849		1.849								-		1.849	
Increase in IFRS reserve					-							-2	-2		-2	
Sale of treasury shares	10.361				-		9.673				-9.673		-		10.361	
Fair value adjustment		-4			-4								-		-4	
Capital increase charges	-405				-								-		-405	
Extraordinary dividend					-		-12.350						-12.350		-12.350	
Other changes					-		-144						-144		-144	164
Net profit as at 31.12.05					-								-	12.997	12.997	171
31.12.2005	90.556	79	1.548		1.627	-	9.216	4.432	256	1.399	-	9.043	24.346	12.997	129.526	335
Profit allocation					-		9.037			471			9.508	-12.997	-3.489	
Capital increase	77.243				-								-		77.243	
Translation reserve			-10.103		-10.103								-		-10.103	
Increase in IFRS reserve					-							-227	-227		-227	
Sale of treasury shares	-8.182				-		-8.283				8.283		-		-8.182	
Fair value adjustment		-79			-79								-		-79	
Capital increase charges	-519				-								-		-519	
Extraordinary dividend					-								-		-	
Other changes				-2.502	-2.502		341	-702	702				341		-2.161	335
Net profit as at 31.12.06					-								-	4.125	4.125	141
31.12.2006	159.098	-	-8.555	-2.502	-11.057	-	10.311	3.730	958	1.870	8.283	8.816	33.968	4.125	186.134	476

## **Foreword**

Datalogic Group S.p.A. (hereinafter “Datalogic”, the “parent company” or the “company”) is an Italian corporation. Consolidated year-end financial statements as at 31 December 2006 comprise Datalogic S.p.A. and its subsidiaries (hereinafter defined as “the Group”) and the relevant share of associate companies’ profits.

The parent company is a joint-stock corporation listed on the TechStar section of the Milan Stock Exchange and is based in Italy. The address of its registered headquarters is: Via Candini 2, Lippo di Calderara (BO), Italy.

The parent company is a subsidiary of Hydra S.p.A, also based in Bologna, which is in turn controlled by the Volta family.

The consolidated financial statements were prepared for the approval by the Board of Directors called on 14 February 2007.

## **ACCOUNTING STANDARDS AND POLICIES**

### **(a) Accounting standards**

Pursuant to entry into force of Regulation 1606/2002 of the European Parliament and Council of 19 July 2002, commencing from the financial year 2005, the consolidated financial statements were drafted according to international accounting principles (IAS/IFRS) in accordance with European Regulation 1725/2003 and subsequent updates and in compliance with the provisions foreseen by CONSOB Regulation 11971 of 14/05/1999 as amended.

Assets and liabilities have been valued at cost, with the exception of certain financial assets recognized at fair value, and some property, plant and equipment that has been revalued for the transition to IFRS as described in greater detail below. In addition, these financial statements have been prepared in compliance with the IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations issued and effective at the time of its preparation.

The accounting principles are described below and have been applied uniformly to all periods for which figures are presented, except where otherwise noted.

### **(b) Preparation criteria**

Our consolidated year-end financial statements are presented in thousands of euro (€000). As mentioned above, they have been prepared on a cost basis, with the exception of certain financial assets, liabilities and derivatives recognized at fair value, and some property, plant and equipment that has been restated on a fair value basis as of the transition date.

Accounting standards and policies have been uniformly applied in all Group companies and for all periods presented.

### **(c) Consolidation standards and policies**

#### **(i) Subsidiaries**

Companies are defined as subsidiaries (i.e. they are "controlled") when the parent company has the power, directly or indirectly, to influence their operations in such a way as to obtain benefits from performance of the activity concerned. In general, control is presumed to exist when the Group owns the majority of voting rights. In defining control, the potential voting rights are exercisable or convertible as at reporting date are also taken into account. The accounts of subsidiaries are consolidated on a 100% line-by-line basis from the start of exercise of control until the date of its cessation.

The subsidiaries acquired by the Group are carried using the purchase method, according to which (see IFRS 3):

- cost is taken to be the fair value of the assets sold, considering any equity instruments issued and liabilities incurred or assumed at the date of exchange, plus any costs directly attributable to the acquisition;
- the assets and liabilities of the acquired company are recognized at fair value;
- the excess of acquisition cost over the fair value of the Group's share of net assets is recognized as goodwill;
- the difference is booked directly in the income statement if the acquisition cost is less than the fair value of the share pertaining to the Group in the net assets of the acquired subsidiary.

Reciprocal payables and receivables and cost and revenue transactions between consolidated companies and the effects of all significant transactions between them have been eliminated.

More specifically, profits not yet realized with third parties stemming from intra-group transactions, particularly those deriving from the valuation of inventories at the reporting date, have been eliminated.

#### **(ii) Associates**

Associates are companies in which the Group has significant influence but does not exercise control over operations. Significant influence is presumed to exist when the Group holds 20 to 50 percent of voting rights. Our consolidated annual accounts as at 31 December 2006 includes our share of the profits and losses of associate companies, accounted for at equity, from the date when significant influence over operations emerged until cessation of the same.

The Group's share of associates' post-acquisition profits or losses is recognized in the income statement and its post-acquisition share of changes in reserves is recognized in reserves. Cumulative post-acquisition changes are included in the investment's carrying value. If the Group's share of an associate's losses equals

or exceeds the value of its investment in the associate, including any other receivables, the Group does not recognize any further losses unless it has obligations to make payments on the associate's behalf.

Unrealized profits relating to transactions between the Group and its associates are eliminated in proportion to the Group's interests in such associates. Unrealized losses are also eliminated unless there is evidence of potential impairment of the assets transferred. Accounting standards adopted by associates have been modified when necessary to assure consistency with the policies adopted by the Group.

**(d) Treatment of foreign currency items**

(i) Foreign currency transactions

Transactions in foreign currencies are translated into EUR according to the exchange rate in force on the transaction date. Monetary assets and liabilities are translated at the exchange rate in force on the balance sheet date. Exchange differences emerging from translation at the period-end rate compared with the transaction exchange rate are recorded in the income statement. Monetary assets and liabilities carried at fair value are translated into EUR at the exchange rate in force on the date when fair value was determined.

(ii) Translation of foreign currency financial statements

The assets and liabilities of companies resident in countries other than those of the Eurozone, including consolidation adjustments, goodwill, and fair-value alignment, are converted at the exchange rates in force on the balance sheet date. The same companies' revenues and costs are translated at the period's average exchange rate, which approximates exchange rates in force on individual transaction dates. Exchange differences emerging from the translation process are directly classified in a specific equity reserve called "Translation reserve".

(iii) Net foreign currency investments

Exchange differences arising upon translation of net foreign currency investments – basically equity interests in unconsolidated subsidiaries and in associates – and from any hedging of foreign exchange risk are classified in the translation reserve. Such differences are recognized in profit or loss when the Group disposes of the investment.

The exchange differences in relation to points (ii) and (iii) above and which originated before 1 January 2004, the date of transition to IFRS, are presented in an equity reserve in accordance with the exemption granted by IFRS 1.

The exchange rates used are as follows:

FINAL EXCHANGE RATES	Final exchange rate at 31/12/06	Final exchange rate at 31/12/05
US dollar	1.3170	1.1797
British pound sterling	0.6715	0.6853
Australian dollar	1.6991	1.6109
Japanese yen	156.9300	138.9000
Swedish krona	9.0404	9.3885
Hong Kong dollar	10.2409	9.1474
Slovak koruna	34.4350	37.88

AVERAGE EXCHANGE RATES	Final exchange rate at 31/12/06	Final exchange rate at 31/12/05
US dollar	1.2556	1.2441
British pound sterling	0.6817	0.6838
Australian dollar	1.6668	1.6320
Japanese yen	146.0150	136.8490
Swedish krona	9.2544	9.2822
Hong Kong dollar	9.7545	9.6768
Slovak koruna	37.2341	38.5989

### (e) Property, plant, and equipment

#### (i) Owned assets

Land and buildings, considered separately in accordance with IAS 16, are recognized at fair value (market value) as of 31 December 2003 (the date of transition to IFRS). Fair value has been obtained through independent appraisal and assumed in place of cost since that date, as permitted by IFRS 1. Buildings are depreciated net of residual value – defined as the realizable value obtainable via disposal at the end of the building's useful working life.

Land is considered to be an asset with an indefinite life and therefore is not subjected to depreciation.

Plant and equipment are measured at cost and are shown net of depreciation and impairment.

Costs subsequently incurred after purchase (maintenance & repair costs and replacement costs) are recognized in the asset's carrying value, or are recognized as a separate asset, only if it is thought likely that the future economic benefits associated with the asset will be enjoyed and the asset's cost can be reliably measured. Maintenance and repair costs or replacement costs that do not have the above characteristics are recognized in the income statement in the year when they are borne.

Tangibles assets are depreciated on a straight-line basis each year according to economic/technical rates determined according to assets' residual possibility of utilisation and taking into account the month when they become available for use in the first year of utilisation.

The Group applies the following depreciation rates:

Asset Category	Annual Depreciation Rates
<b><u>Property:</u></b>	
Buildings	2% - 3.3%
Land	0%
<b><u>Plant &amp; equipment:</u></b>	
Automated machinery	20% - 14.29%
Furnaces and appurtenances	14.29%
Generic/specific production plant	20% - 10%
<b><u>Other tangible assets:</u></b>	
Plant pertaining to buildings	8.33% - 10% - 6.67%
Lightweight constructions	6.67% - 4%
Production equipment & electronic instruments	20% - 10%
Moulds	20%
Electronic office machinery	33% - 20% - 10%
Office furniture and fittings	10% - 6.67% - 5%
Cars	25%
Freight vehicles	14.29%
Trade show & exhibition equipment	11% - 20%
Leasehold improvements	According to contract duration

Assets are written down in the case of permanent impairment of value, regardless of the depreciation that has already been booked; their original value is written back in subsequent periods if the reasons for the writedown no longer apply. Assets' residual value and useful life are reviewed on each balance sheet date and, if deemed necessary, appropriate adjustments are made.

Proceeds and losses on asset disposals are determined by comparing the selling price and carrying value. The figure so determined is recognized in the income statement. Costs of borrowing for the purchase of tangible assets are recognized in the income statement.

(ii) Assets held under finance lease contracts

Assets held under finance lease contracts are those assets for which the Group has taken on all risks associated with ownership.

Such assets are measured at the lower of fair value and present value of lease instalments at the time of contract signature, net of cumulative depreciation and write-downs. Finance lease instalments are recognized according to the approach described in IAS 17.

**(f) Intangible assets**

(i) Goodwill

Acquisitions have been recognized in accounts using the purchase method. For acquisitions completed after January 1 2004 (IFRS transition date), goodwill is the difference between acquisition cost and the fair value of assets and liabilities acquired.

For acquisitions completed prior to the transition date, goodwill is posted according to the accounting standards adopted by the Italian National Council of Chartered & Registered Accountants, using the optional exemption granted by IFRS 1.

Goodwill is recognized at cost, less impairment losses.

As from 1 January 2004 goodwill is allocated to cash generating units corresponding to the acquired companies, and is no longer amortized. Carrying value is reviewed at least annually to check the absence of impairment in accordance with IAS 36. Goodwill relating to unconsolidated subsidiaries, associates or other companies is included in the equity investment's value.

Negative goodwill originated by acquisitions is directly recognized in the income statement.

(ii) Research and development costs

Research expenses are recognized in the income statement at the time when the cost is borne as required by IAS 38. Project costs for the development of innovative products or processes are recognized as intangible assets when it is believed that the project will be successful, considering the product's commercial and technological opportunities, on condition that costs can be reliably measured and appropriate analyses demonstrate that they will generate future economic benefits for the Group.

Other development expenses are recognized as costs as soon as they are incurred. Development costs previously recognized as costs are not recognized as assets in subsequent accounting periods. Development costs have a finite useful life and have been capitalized and amortized from the start of commercial production of the products concerned, on a straight-line basis, for a period equal to the useful life of the products to which they refer (IAS 38) – normally 5 years.

## (iii) Other intangible assets

Other intangible assets are comprised:

- of software used under licence, valued at purchase cost
- of specific intangible assets acquired as part of recent acquisitions (PSC, Laservall, Informatics) that have been identified and recognized at fair value as of the acquisition date in the context of purchase method accounting.
- of a license contract signed during the fourth quarter

These assets are amortized over their estimated useful life.

## (IV) Subsequent costs

Subsequent costs borne for intangible assets are capitalized only if they increase the future economic benefits of the specific asset capitalized. Otherwise they are charged to the income statement when they are borne.

## (v) Amortization

Amortization is charged to the income statement on a systematic straight-line basis according to the estimated useful life of the assets capitalized, with the exception of intangible assets featuring an indefinite life. Goodwill and intangible assets with an indefinite life are systematically tested to check the absence of impairment losses at 31 December of each year. Other intangible assets are amortized from the time they become useable.

The useful life for each category is detailed below:

DESCRIPTION	Useful life - years
Goodwill	Indefinite useful life
Development costs	5
Other intangible assets:	
- Software licenses	3/5
- Patents (PSC)	20
- Customer portfolio (PSC)	10
- Brands (PSC)	10
- "Service agreement" (PSC)	4
- Know how (Laservall)	7
- Commercial structure (Laservall)	10
- Commercial structure (Informatics)	10
- SAP licenses	10
- User licenses	According to contract duration



**(g) Investments in associates**

Investments in associates are classified in non-current assets and are measured according to the equity method, as envisaged by IAS 28. The portion of profits or losses stemming from application of this method is indicated in a separate item of the income statement.

**(h) Other equity investments and financial assets available for sale**

Equity investments in other companies are classified as financial instruments available for sale according to the definition provided in IAS 39, even though the Group has not expressed any plans to sell these investments, and are carried at fair value as of the reporting date.

The fair value of listed securities is based on current market prices. If the market of a financial asset is not active, the Group sets its fair value by using transactions taking place in proximity to the reporting date, by referring to other instruments of essentially the same nature, or by using discounted cash flow models. Under some circumstances, the Group may not have enough information to determine the fair value of these financial assets; in which case they are maintained at cost.

**(i) Inventories**

Inventories are measured at the lower of cost and net realizable value. Cost is calculated using the weighted average cost method. Finished product cost includes the cost of raw materials, direct manpower, and other production costs that are directly and indirectly allocable (in this case on the basis of normal production capacity). Net realizable value is the estimated selling price in the normal course of business, less any selling costs.

**(j) Receivables**

Receivables, with due dates consistent with normal terms of trade in the sector in which the Group is active, or that earn interest at market rates, are not discounted to present value. They are recognized at cost (identified as face value), net of provisions for doubtful accounts, which are shown as a direct deduction from such receivables in order to align them with their fair value. Receivables whose due date exceeds normal terms of trade (i.e. due dates longer than one year) are initially recognized at fair value and subsequently at amortized cost – using the effective interest rate method – net of related impairment losses.

### **(k) Cash & cash equivalents**

Cash and cash equivalents comprise cash in hand, bank and post office balances, and securities with original maturity of less than three months. Current-account overdrafts and advances on invoices subject to collection are deducted from cash only for the purposes of the cash flow statement.

### **(l) Impairment**

The book value of assets – with the exception of inventories, financial assets governed by IAS 39, deferred tax assets (see IAS 12), and non-current assets held for sale governed by IFRS 5 – are reviewed at each balance sheet date to look for any indications of impairment. If this analysis reveals the presence of such indications, it is necessary to calculate the asset's presumed recoverable value following the approach indicated below in point (i).

The presumed recoverable value of goodwill and of intangible assets not yet used is instead estimated at least annually, or more frequently if specific events indicate the possible presence of impairment.

If the recoverable value (estimated as indicated below) of the asset or cash generating unit (CGU) to which the asset belongs is lower than net carrying value, the asset is written down to reflect impairment, with the relevant loss posted in the period's income statement.

Write-downs made to CGUs for impairment losses are allocated first to goodwill and, for the remainder, to other assets on a proportional basis.

The Group's CGUs are defined as being individual companies in the consolidation area, given their autonomous ability to generate cash flows.

All goodwill recognised in accounts as at 31 December 2006 was subjected to impairment testing as at 1 January 2004 – the IFRS transition date – and as of 31 December 2004 and 31 December 2006. No impairment losses emerged from such tests.

#### **(i) Calculation of presumed recoverable value**

The presumed recoverable value of assets other than goodwill is the higher of net disposal price and value in use. Value in use is calculated according to projected future cash flows associated with the asset, discounted to present value at a rate that allows for current market interest rates and for the specific risks inherent in the asset to which presumed recoverable value refers.

For assets that do not generate stand-alone cash flows, presumed recoverable value is determined for the CGU to which the asset belongs.

(ii) Reversal of impairment losses

Impairment loss of assets other than goodwill is reversed when there is a change in the estimate used to determine presumed recoverable value. Goodwill impairment losses are never reversed. Impairment loss is reversed within the limits of the carrying value that would have emerged, net of depreciation and amortization, if no impairment loss had ever been recognized.

**(m) Share capital**

Costs relating to the issue of shares or options are classified in equity (net of associated tax benefit relating to the same) as a deduction from the proceeds from issuance of such instruments.

In the case of buyback of own shares ("treasury shares"), the price paid, inclusive of any directly attributable accessory costs, is deducted from the Group's equity until such shares are cancelled, re-issued, or sold. When treasury shares are resold or re-issued, the proceeds, net of any directly attributable accessory costs and the related tax effect, are posted as Group net equity.

**(n) Stock options**

On 28 February 2001 the Extraordinary Shareholders' Meeting of Datalogic S.p.A. gave the Board of Directors full powers to develop a stock-option incentive scheme for executive directors and for some employees. At the same time shareholders approved a capital increase (of up to a maximum of 600,000 shares, or some 4.8% of share capital) reserved for implementation of the stock option plan.

On 17 May 2001 the Board of Directors implemented the plan in question, making it possible to:

- Increase the capacity to attract and retain key managerial and professional figures;
- Aid alignment of the interests of key people and shareholders;
- Enable key persons to participate in the creation of value and share it with investors.

In addition, the Board of Directors identified the stock option plan's beneficiaries – 78 in total between executive directors and employees of the company and its subsidiaries, with the exception of Escort Memory System (EMS).

The options' vesting period started on 1 January 2004 and will end on 31 December 2007.

On 27 February 2002, the Board of Directors decided to recalculate – as an extraordinary measure – the grant price of shares relating to the stock option plan approved on 17 May 2001, setting it at €11.5 per share.

On 14 November 2002, the Board of Directors voted to grant 67% of the attributed options to the beneficiaries of the stock option plan; on 17 December 2003 the Board approved assignment of the remaining 33%. At 31 December 2003, all options relating to the 600,000 shares of the increase approved on 28 February 2001 had been assigned.

The following table summarises the plan's status as at 31 December 2006.

	<i>Number of shares</i>	<i>Average exercise price (EUR)</i>	<i>Market price (EUR)</i>	<i>% of share capital</i>
<b><i>Rights existing as at 01/01/06</i></b>	<b>125,400</b>	11.5	24.92	1.01%
<b><i>of which exercisable at that date</i></b>	<b>125,400</b>			
<b><i>New options granted during the period</i></b>	-	-	-	-
<b><i>Options granted as of 1 January 2006 post-split</i></b>	<b>501,600</b>	2.875		
<b><i>(Options exercised during the year)</i></b>	<b>(224,800)</b>	2.875	6.28	0.35%
<b><i>Total rights existing as at 31/12/06</i></b>	<b>276,800</b>	2.875	6.66	0.43%
<b><i>of which exercisable at that date</i></b>	<b>276,800</b>			

The company has not applied IFRS 2 (Share-based Payment) to the stock option plan described above, availing itself of the exemption offered by IFRS 1.

#### **(o) Interest-bearing financial liabilities**

Interest-bearing financial liabilities are initially recorded at fair value, net of accessory costs.

Subsequent to initial recognition, interest-bearing financial liabilities are measured at amortized cost.

#### **(p) Liabilities for employee benefits**

##### **(i) Defined contribution plans**

A defined contribution plan is a pension scheme for which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligation as regards payment of further contributions if the scheme were to have insufficient funds to pay all employees the benefits relating to their period of service.

Contribution obligations relating to employees for pensions or other types of benefit are posted in the income statement when they are incurred.

(ii) Defined benefit plans

The net obligations concerning defined benefit plans after the period of employment in the Group – consisting mainly of employee severance indemnities for the Group's Italian companies – are calculated separately for each plan, estimating (with use of actuarial techniques) the amount of the future benefit accrued by employees in the period and in previous periods. The benefit so determined is discounted to present value and is shown net of the fair value of any related assets. Calculation is performed by an independent actuary using the projected unit credit method.

Actuarial gains and losses at 1 January 2004, the transition date to IFRS, have been posted to a separate equity reserve. Actuarial gains and losses subsequent to that date are recognized in the income statement of the relevant period, therefore not adopting the "corridor" technique envisaged by IAS 19.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before normal pensionable retirement age or when an employee accepts voluntary redundancy in exchange for such benefits. The Group recognizes termination benefits when it is demonstrably under obligation to terminate current employees' employment in accordance with a detailed formal plan without any possibility of withdrawal, or to provide termination benefits following a proposal made to encourage voluntary redundancy. Benefits that fall due more than 12 months after the balance sheet date are discounted to their present value.

**(q) Provisions**

In cases where the Group has a legal or constructive obligation arising from a past event and will probably have to bear losses of economic benefits to settle the obligation, an appropriate provision is made. If the time factor of the expected loss of benefits is significant, the amount of future cash outlays is discounted to present value at an interest rate that allows for market interest rates and for the specific risk of the liability concerned.

Provisions are not made for possible (as opposed to probable) future operating losses.

Provisions are measured at the fair value of the best estimate made by management of the expense of meeting the current obligation as of the balance sheet date.

(i) Product warranty provision

Liabilities for servicing work under warranty are specifically provisioned when products are sold. The provision is calculated on the basis of historical cost data for work under warranty.

(ii) Other provisions

The Group has made a provision for a lawsuit against an ex-employee. The amount has been calculated based on estimates made by the Group, together with its legal advisors, to determine likelihood, timing, amounts involved and probable outlay of resources. The provision made will be adjusted according to progress with the restructuring plan. Upon conclusion of the dispute, the amount differing from the balance sheet provision will be recognized in the income statement.

The Group has also made a provision for restructuring by the PSC Group. The amount has been calculated based on estimates made by the Group to determine likelihood, timing, amounts involved and probable outlay of resources. Upon conclusion of the plan, the amount differing from balance sheet provision will be recognized in the income statement.

**(r) Trade and other payables**

Trade and other payables are measured at cost, representing their discharge value.

**(s) Revenues**

(i) Revenues from sales of goods and services

Revenues from sales of goods are recognized in the income statement when the risks and benefits associated with ownership of the goods have been substantially transferred to the purchaser. This usually coincides with delivery or shipment of the goods. Revenues for services rendered are recognized in the income statement according to percentage of completion at the balance sheet date.

(ii) Government grants

Government grants are recorded as deferred revenues among other liabilities at the time when it is reasonably certain that they will be given and when the Group has complied with all conditions necessary to obtain them. Grants received against costs borne are systematically posted in the income statement in the same periods when such costs are recorded. Grants received against specific balance sheet assets are recognized as deferred income and in the income statement as other operating revenues, based on the relevant asset's useful life.

(iii) Dividends

Dividends are recognised in the income statement on the date when the right to receive them matures. In the case of listed companies, this is on coupon detachment date.

**(t) Costs**

(i) Rental and operating lease costs

Rental and operating lease costs are recorded in the income statement on an accruals basis.

(ii) Finance lease instalments

In the case of finance lease instalments, the capital portion goes to reduce the financial liability, while interest is posted in the income statement.

(iii) Financial income and expenses

Financial income and expenses are recognized on an accruals basis.

**(u) Income taxes**

Income taxes shown in the income statement include current and deferred taxes. Income taxes are generally posted in the income statement, except when they refer to events recognized directly in equity.

Current income taxes are the taxes that are expected to be paid, calculated by applying to taxable income the tax rate in force at the balance sheet date and adjustments to previous periods' taxes.

Deferred taxes are calculated using the so-called liability method applied to temporary differences between the amount of assets and liabilities in consolidated accounts and the corresponding amounts recognised for tax purposes. Deferred taxes are calculated according to the expected manner of reversal of temporary differences, using the tax rate in force at the balance sheet date.

Deferred tax assets are recognized only if it is probable that sufficient taxable income will be generated in subsequent years to use such deferred taxes.

**(v) Segment reporting**

A segment is defined as a business activity or geographical area in which the Group does business that features conditions and returns different to those of other segments. In the Group's specific case, business segments are the primary segments and are identified as the Data Capture segment and the Business Development segment. Geographical areas (secondary segments) have been defined as being Italy, the Rest of Europe (including non-EU countries), North America, and the Rest of the World.

**(w) Non-current assets held for sale and discontinued operations**

Assets held for sale and any assets and liabilities belonging to company divisions or consolidated investments held for sale are measured at the lower of book value at the time of classification of such items as held for sale and their fair value net of selling costs.

Any impairment losses recognized via application of this policy are recognized in the income statement, both in the case of write-down for alignment with fair value and in that of gains and losses stemming from subsequent changes in fair value.

Business divisions are classified as discontinued operations at the time of their disposal or when they meet the requisites for being classified as held for sale, if such requisites existed previously.

**(x) Use of estimates**

The preparation of consolidated financial statements requires directors to apply accounting standards and methods that, in some cases, are based on complex and subjective evaluations, estimates based on historical experience, and on assumptions that, on each occasion, are deemed reasonable and realistic in relation to the circumstances concerned. The application of such estimates and assumptions affects the amounts reported in financial statements, i.e. the balance sheet, income statement, and cash flow statement, plus the information disclosed. The ultimate amounts of accounting items for which the aforesaid estimates and assumptions have been used might be different to those reported in financial statements due to the uncertainty characterizing assumptions and the conditions on which estimates are based.

Below we list the accounting items that, more than others, require greater subjectivity on the part of directors in developing estimates and for which any change in conditions underlying assumption could have a significant impact on the Group's consolidated financial statements.

- Goodwill;
- Impairment of non-current assets;
- Development costs;
- Deferred tax assets;
- Provisions for doubtful accounts;
- Employee benefits;
- Provisions for risks and charges.

We review estimates and assumptions regularly and the effects of every change are immediately reflected in the income statement.



## **(y) Financial risks and derivative instruments**

The Group is exposed to a variety of commercial and financial risks that are monitored and, in certain cases managed, centrally. It nevertheless does not use financial derivatives to minimize the impact of such risks on its results.

The market risks to which the Group is exposed can be divided into the following categories:

### **(i) Price risk**

The Group buys and sells on a global scale and is therefore exposed to the normal risk of price fluctuations typical of the sector.

### **(ii) Credit risk**

The Group trades only with known and reliable customers. It is Group policy to subject customers requesting extended payment terms to procedures to check their creditworthiness. In addition, the balance of receivables is monitored during the year so that the amount of non-performing positions is not significant. There is no significant concentration of credit risk in the Group.

### **(iii) Interest rate risks**

Risks of changes in interest rates refer to borrowing. Floating-rate loans expose the group to the risk of changes in cash flows due to interest expense. Fixed-rate loans expose the Group to the risk of changes in the loans' fair value.

## **(z) Earnings per share**

### **Basic**

Basic earnings per share is calculated by dividing the Group's profit by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares.

### **Diluted**

Diluted earnings per share is calculated by dividing the Group's profit by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares. The weighted average number of shares is determined assuming conversion of all potential shares with a dilutive effect, and the Group's net profit is adjusted for the post-tax effects of the conversion.

**(aa) Exemptions and exceptions envisaged by IFRS 1**

For the purposes of preparation of the present report and relevant comparative data, the accounting standards illustrated in the previous paragraphs have been applied retrospectively except in the case of optional exemptions to retrospective application allowed by IFRS 1 and adopted by the Group as described in the following table.

<b>Optional exemption</b>	<b>Choice</b>
Business combinations: aggregations of companies, acquisitions of equity interests in associates and joint ventures	The Group has decided to avail itself of exemption as regards retrospective application of IFRS 3 for business combinations and acquisitions of equity interests in associates and joint ventures taking place prior to 1 January 2004.
Opening value of tangible and intangible assets	The Group has decided to apply "deemed cost" for property assets. It has applied revalued cost based on specific appraisals performed by independent expert appraisers. As regards intangible assets, given the absence of active markets, the Group has been unable to benefit from use of the "deemed cost" method.
Employee benefits	As regards accounting treatment of defined-benefit plans (= employee severance indemnities in Italy) the Group has decided not to avail itself of the corridor approach and therefore, disregarding the exemption granted under IFRS 1, the actuarial gain/loss has been fully recognized at the transition date and duly reflected in net equity.
Cumulative translation differences	The Group has decided to opt for exemption from retrospective application of IAS 21. Gains/(losses) arising from translation of foreign investee companies' financial statements have been cleared, set against the "Retained earnings" reserve.
Compound financial instruments	The Group does not have any compound financial instruments.
Transition of subsidiaries, associates and joint ventures	Not applicable to consolidated financial statements
Alignment of comparative information concerning financial assets and liabilities	The Group has decided to apply IAS 32 and IAS 39 as from the transition date.
Designation of financial instruments already recognized	The Group has decided to apply IAS 32 and IAS 39 as from the transition date. The exemption has been taken as from this date.
Stock options	The Group has a stock option plan that it has not accounted for in the manner envisaged by IFRS 2, as it meets the conditions for exemption offered by IFRS 1.
Insurance contracts	Not applicable to the Group
Changes in liabilities booked for decommissioning, restoration and similar liabilities	The Group did not have any liabilities for decommissioning, restoration and similar liabilities.

The accounting standards applied to the opening balance sheet at 1 January 2004 have been uniformly applied to the balance sheet and income statement at 31 December 2006 and to comparative 2005 figures, including those concerning the recognition, classification and measurement of financial assets and liabilities (IAS 32 and IAS 39).

The effects of IFRS adoption have been recognized in opening equity in the “Retained earnings reserve”, except for the effects of application of fair value to available-for-sale financial assets, which have been recognized in the “Fair value reserve”.

## GROUP STRUCTURE

Consolidated financial statements include the statements of the direct parent company and of the companies in which the former directly or indirectly holds the majority of voting rights.

The companies consolidated on a 100% line-by-line basis as at 31 December 2006 were the following:

Company	Registered location	Share capital	Total equity (€'000)	Profit/loss for the period (€'000)	% ownership
Datalogic S.p.A. (parent company)	Lippo di Calderara di Reno (Bo) – Italy	Euro 159,099,000	183,690	(310)	
Laservall S.p.A.	Donnas (AO) - Italy	Euro 900,000	10,546	5070	100%
Datalogic Holding AB	Malmö –Sweden	KRS 1,400,000	1,161	(86)	100%
EMS INC	Scotts Valley (California) – United States	\$USA 1,949,084	927	(520)	100%
Datalogic France SA	Villebon Sur Yvette (Paris) – France	Euro 2,227,500	3,379	96	100%
Datalogic Optik elektronik GMBH	Erkenbrechtsweiler (Stuttgart) – Germany	Euro 1,025,000	3,748	309	100%
Datalogic Optic Electronics B.V.	Maarsse – The Netherlands	Euro 17,800	(124)	160	100%
Datalogic Handelsgesellschaft mbH	Wiener Neudorf (Vienna) – Austria	Euro 72,673	695	206	100%
Datalogic PTY LTD	Mount Waverley (Melbourne) - Australia	\$AUS 2,300,000	686	(170)	100%
Datalogic UK LTD	Redbourn (London) – United Kingdom	GBP 3,500,000	4,698	179	100%
Datalogic INC	Hebron (Kentucky) – United States	\$USA 1,847,000	1,789	293	100%
Datalogic Iberia	Madrid – S.p.A.in	Euro 60,500	691	-81	100%
Datalogic AB	Stockholm – Sweden	KRS 200,000	524	-323	100%
Datalogic Slovakia s.r.o.	Trnava - Slovakia	SKK 2,000,000	7,605	7441	100%
PSC Holding	Delaware	\$USA 117,000,000	83,743	(3,721)	100%
Datalogic Asia Limited	Hong Kong - China	HKD 100,000	208	153	100%
Informatics Holding Inc.	Plano Texas	\$USA 15,100,000	14,417	1407	90%

Company	Registered location	Share capital (\$ '000)	Total equity (€'000)	Profit/loss for the period (€'000)	% ownership
PSC Holdings Inc	959 Terry St, Eugene OR 97401	117,000	83,743	(3,721)	100%
LJ Scanner Holdings	959 Terry St, Eugene OR 97401	55,010	41,769	0	100%
PSC INC	959 Terry St, Eugene OR 97401	55,224	41,932	0	100%
PSC Scanning Inc	959 Terry St, Eugene OR 97401	55,438	43,529	1,958	100%
PSC do Brasil	Rua Arandu, 281 cj 32-Brooklin Novo Sao Paulo, SP 04562-030 Brazil	75	41	(15)	100%
PSC Barcode Limited	Axis 3, Rhodes Way, Watford, England WD24 4TR	(1,046)	(1,006)	(319)	100%
PSC GmbH	Roentgenstra. 43, 64291 Darmstadt Germany	1,043	838	(271)	100%
PSC S.A.R.L.	12 Avenue des Tropiques, Immeuble "Avenue", Z.A. de Courtaboeuf - BPI, 91941, Les Ulis Cedex France	417	(314)	213	100%
PSC S.p.A.	Centro Torri Bianche, Torre "F" Palazzo Quercia, Via Torri Bianche 9, Vimercate (MI) Italy	593	581	(93)	100%
PSC Australia	Unit 11, 277 Lane Cove Road, North Ryde 2113, Sydney NSW Australia	153	306	139	100%
PSC Japan	Gotanda Daiwa Building, 7-13-5, Nishigotanda, Shinagawa, Tokyo, Japan 141-00031	357	163	(86)	100%

The companies booked at equity as at 31 December 2006 were as follows:

Company	Registered location	Share capital	Total equity (€'000)	Total profit/loss for the period (€'000)	% ownership Direct and indirect
Idec DatalogicCo. Ltd.	Osaka – Japan	Yen 300,000,000	1,366	372	50%
Laservall Asia Co. Ltd.	Hong Kong - China	Hong- Kong \$ 460,000	-81	524	50%

Associate/subsidiary companies measured at cost at 31 December 2006 were the following:

Company	Registered location	Share capital	% ownership
Laservall Asia Co. Ltd.	Shenzhen - China	Renminbi 2,070,600	50%

## **Changes in consolidation area**

Note that as of 31 December 2006:

- Datalogic Slovakia was consolidated on a line-by-line basis, whereas at 31 December 2005 it was valued at cost;
- Laservall Asia Ltd, which is 50% owned by Laservall S.p.A, acquired 100% of Laservall Asia Futian Co. Ltd. Production at Laservall Asia Futian Co. Ltd began in June 2006. In order to finance this, Laservall S.p.A. granted a €206 thousand loan to Laservall Asia.
- The parent company sold the equity investment in DL Private India, amounting to €8,000, to the associated company Datasensor, realizing a capital gain of €2,000.

**BALANCE SHEET INFORMATION - ASSETS****NON-CURRENT ASSETS****1. Property, plant and equipment**

	<b>31/12/06</b>	<b>31/12/05</b>	<b>YoY Change</b>
Land	6,660	6,457	203
Buildings	18,238	18,928	(690)
Plant & equipment	7,946	6,711	1,235
Other tangible assets	15,726	16,528	(802)
Assets in prog. and payments on account	1,810	1,837	(27)
<b>Total</b>	<b>50,380</b>	<b>50,461</b>	<b>(81)</b>

Changes occurring in the period are detailed overleaf.

	Land	Buildings	Plant & equipment	Other tangible assets	Assets in prog. and payments on account	Total
<b><u>Closing value as at 31/12/05</u></b>						
historical cost	6,457	24,355	11,096	41,780	1,837	85,525
(Accumulated depreciation)	-	(5,427)	(4,385)	(25,252)	-	(35,064)
<b>Net closing value</b>	<b>6,457</b>	<b>18,928</b>	<b>6,711</b>	<b>16,528</b>	<b>1,837</b>	<b>50,461</b>
<b><u>Increases 31/12/06</u></b>						
Investments	384	1,034	2,427	4,395	2,570	10,810
amortization reversal	-	531	1,039	1,604	-	3,174
<b>Net closing value</b>	<b>384</b>	<b>1,565</b>	<b>3,466</b>	<b>5,999</b>	<b>2,570</b>	<b>13,984</b>
<b><u>Decreases 31/12/06</u></b>						
divestments	(142)	(1,847)	(1,149)	(2,059)	(2,427)	(7,624)
depreciation	-	(308)	(2,742)	(5,259)	-	(8,309)
writedowns	-	-	-	-	-	-
<b>Net closing value</b>	<b>(142)</b>	<b>(2,155)</b>	<b>(3,891)</b>	<b>(7,318)</b>	<b>(2,427)</b>	<b>(15,933)</b>
<b><u>Reclass. &amp; other changes 31/12/06</u></b>						
incoming transfers	-	12	156	471	-	639
(outgoing transfers)	-	-	-	-	-	-
Change in consolidation area - Slovakia historical cost	-	-	1,942	428	-	2,370
Change in consolidation area - Slovakia accumulated deprechn.	-	-	-	-	-	-
Forex differences historical cost	(39)	(100)	(437)	(739)	(170)	(1,485)
Forex differences accum. depreciation	-	(12)	(1)	357	-	344
<b><u>Closing value as at 31/12/06</u></b>						
historical cost	6,660	23,454	14,035	44,276	1,810	90,235
(Accumulated depreciation)	-	(5,216)	(6,089)	(28,550)	-	(39,855)
<b>Net closing value</b>	<b>6,660</b>	<b>18,238</b>	<b>7,946</b>	<b>15,726</b>	<b>1,810</b>	<b>50,380</b>

The "Land" item of €6,660 thousand was attributable to the direct parent company (€3,738 thousand), Datalogic UK (€1,289 thousand), Informatics (€607 thousand), Datalogic France (€514 thousand), Datalogic GmbH (€128 thousand), and Laversall S.p.A (€384 thousand).

The decrease in this item is primarily due to the sale of land by Datalogic Holding AB.

The "Buildings" item of €18,238 thousand is attributable to the parent company (€11,575 thousand), Informatics (€1,746 thousand), Datalogic UK (€1,573 thousand), Datalogic GmbH (€1,341 thousand), Datalogic France (€1,116 thousand) and Laservall S.p.A (€887 thousand).

Compared with 31 December 2005, this item showed:

- a decrease of €1,273 thousand due to the sale of a building by Datalogic Holding AB. The sale of the land and building produced a capital gain of €273 thousand, recorded as "other revenues".
- an increase of €1,034 thousand, referring for €884 thousand to Laservall S.p.A's purchase of a factory in Sesto Calende.

Plant and machinery showed:

- an increase of €4,369 thousand, attributable mostly to Datalogic Slovakia (€1,942 thousand), the PSC Group (€1,809 thousand) and the parent company (€437 thousand);
- a total decrease of €1,149 thousand due largely to the parent company.

The main components of "Other tangible assets" at 31 December 2006 were as follows: industrial and commercial equipment (€5,547 thousand), office furniture and equipment (€5,208 thousand), general plant for buildings (€1,477 thousand), cars (€471 thousand), and leasehold maintenance (€2,102 thousand).

This item showed:

- a total increase of €4,395 thousand, pertaining mostly to the parent company (€2,660 thousand), the PSC Group (€350 thousand), Datalogic Slovakia (€428 thousand) and Laservall S.p.A (€498 thousand);
- a total decrease of €2,059 thousand, attributable mainly to the parent company (€1,472 thousand).

The balance of the item "Assets in progress and payments on account" was attributable to the PSC Group (€1,019 thousand) and to Laservall S.p.A. (€544 thousand).

Depreciation and amortization of tangible and intangible assets, totalling €16,549 thousand, was split as follows in the income statement:

- Cost of goods sold: €4,188 thousand (€926 thousand in December 2005)
- R&D: €3,455 thousand (€1,579 in December 2005)
- Distribution expenses: €1,466 thousand (€662 thousand in December 2005)
- General & administrative expenses: €7,440 thousand (€2,515 thousand in December 2005).



General & administrative expenses include €4,345 thousand in amortization generated with the acquisition of Informatics, Laservall and the PSC Group.

## 2. Intangible assets

	31/12/06	31/12/05	YoY Change
Goodwill	89,907	103,360	(13,453)
Development costs	3,010	3,908	(898)
Other intangible assets	60,735	89,552	(28,817)
<b>Total</b>	<b>153,652</b>	<b>196,820</b>	<b>(43,168)</b>

Changes occurring in the period are detailed overleaf.

	Goodwill	Development costs	Other intangible assets	Total
<b>Closing value as at 31/12/05</b>				
Historical cost	110,701	6,440	98,861	216,002
(Cumulative amortisation)	7,341	(2,532)	9,309	(19,182)
Net closing value	<b>103,360</b>	<b>3,908</b>	<b>89,552</b>	<b>196,820</b>
<b>Increases 31/12/06</b>				
Increases	19,403	424	10,374	30,201
amortization reversal				
Other changes	37	(29)		8
Net closing value	19,440	395	10,374	30,209
<b>Decreases 31/12/06</b>				
Decreases	(23,179)		(24,368)	(47,547)
depreciation		(1,272)	(6,967)	(8,239)
Other changes		(5)	(8)	(13)
Net closing value	(23,179)	(1,277)	(31,343)	(55,799)
<u>Changes in consolidation area: DL Slovakia historical cost</u>				
<u>Changes in consolidation area: DL Slovakia amortization</u>				
delta change historical cost	(9,714)	(21)	(8,200)	(17,935)
delta change allowance for depreciation		5	352	357
<b>Closing value as at 31/12/06</b>				
Historical cost	97,248	6,809	76,659	180,716
(Cumulative amortisation)	(7,341)	(3,799)	(15,924)	(27,064)
Net closing value	<b>89,907</b>	<b>3,010</b>	<b>60,735</b>	<b>153,652</b>

Goodwill, totalling €89,907 thousand, consisted of the following items:

- €1,394 thousand for consolidation of the Minec Group, in which a 100% interest was acquired on 15 July 2002 by Datalogic Holding AB, in turn owned 100% by the parent company;
- €3,380 thousand, ascribable to the direct parent company, consisting of the merger loss and share-swap loss originated by the merger by incorporation of IdWare Srl during 1998;
- €5,119 thousand for consolidation of Laservall S.p.A., an interest acquired in 3Q04 by the parent company. We believe the conditions exist for posting as goodwill the difference between purchase cost

and fair value of net assets acquired, since it represents the acquired company's future profit-generation capacity;

- €9,141 thousand for the consolidation of Informatics Inc. (the change vs. 31 December 2005, €10,205 thousand, is due to the forex effect);
- €70,873 thousand, caused by consolidation of the PSC Group. Note that the Group made use of the opportunity granted by IFRS 3 to review the value of some intangible assets, namely goodwill, in drafting of the consolidated interim financial statements at 30 June 2006 and in light of the new information.

Details of the accounting of the acquisition is shown in the following table:

	Amounts as per acquiree's accounts	Adjustments to fair value	Carrying value (USD'000)	Carrying value (€'000) (X-rate as at 30/11/05)
Tangible and intangible assets	16,360	46,160	62,520	53,123
Other non-current receivables	348		348	296
Inventories	30,230	55	30,285	25,733
Trade and other receivables	45,822	86	45,908	39,008
Cash & cash equivalents	4,985		4,985	4,236
Interest-bearing financial liabilities	-43,952		-43,952	-37,346
Trade and other payables	-45,156	-988	-46,144	-39,208
Tax provision from adjustments to fair value		-18,907	-18,907	-16,065
Deferred taxes recognized upon purchases accounting		17,846	17,846	15,164
<b>NET ASSETS AT FAIR VALUE</b>	<b>8,637</b>	<b>44,252</b>	<b>52,889</b>	<b>44,939</b>
<b>GROUP'S SHARE OF NET ASSETS AT FAIR VALUE</b>	-		<b>52,889</b>	<b>44,939</b>
<b>Original price paid</b>	-		<b>151,178</b>	<b>128,454</b>
<b>Price adjustment</b>	-		<b>-7,473</b>	<b>-6,350</b>
Accessory expenses	-			1914
<b>ACQUISITION COST</b>	-		<b>143,705</b>	<b>124,019</b>
<b>GOODWILL AT ACQUISITION DATE</b>	-		<b>90,815</b>	<b>79,079</b>
Revaluation of goodwill due to forex change	-			-8,209
<b>GOODWILL AS AT 31 DECEMBER 2006</b>	-		<b>68,956</b>	<b>70,873</b>

The offset is made up of the conversion reserve.

More specifically, the opening balance of intangible assets has been revised as described below, and deferred tax assets have been recognized in relation to prior losses. On 10 February 2007, an adjustment to the initial purchase value was negotiated equal to a total of USD 7,473 thousand, net of the technical legal costs incurred for the requisite audits.

The goodwill has been allocated to the cash generating units corresponding to the individual companies to which the goodwill pertains. As highlighted in the section on accounting policies, goodwill has no longer been amortized since 1 January 2004 in accordance with IFRS 3, as it has undergone impairment testing at 31 December 2006.

The recoverable value of the cash generating units to which goodwill was allocated has been determined according to value in use. The latter, with reference to 31 December 2006, was calculated using the discounted cash flow method of income expected from the individual cash generating units, relating to a time span of five years of the CGU, which correspond to the individual companies, except for IDWARE goodwill which is allocated to the MC business unit.

In compliance with the procedures defined in the IAS 36 principle, no need for write downs was ascertained. For goodwill related to the PSC Group, the discount rate applied to cash flow of the expected income was 8.14% and corresponds to the weighted average cost of capital based on the financial structure of the PSC Group. For cash flows beyond 5 years, a growth rate of 3% was used, which was considered prudent.

Development costs, amounting to €3,010 thousand, are attributable to:

- the parent company = €2,881 thousand
- Informatics = €129 thousand

and consisted of development projects capitalized because they met IAS 38 requirements.

The heading "Other", at €60,735 thousand, consists primarily of intangible assets acquired through business combinations carried out by the Group in 2004 and 2005, which are specifically identified and valued in the context of purchase accounting. The main items are as follows:

**Intangible assets pertaining to the acquisition of the PSC Group (completed on 30 November 2005)**

- Patents of €29,186 thousand (historical cost USD 40,461 thousand), acquired from PSC. The useful life of this intangible asset has been defined as being 20 years. The original value, equal to USD 61,004 thousand at 31 December 2005, determined as an interim value, was decreased pursuant to the revision of the calculation made during preparation of the interim report and within 12 months after acquisition, pursuant to IFRS 3.
- A "Service agreement" of €542 thousand (historical cost USD 951 thousand), acquired from PSC. The useful life of this intangible asset has been defined as being 4 years. The original value, equal to USD 1,030 thousand at 31 December 2005, determined as an interim value, was decreased pursuant to the revision of the calculation made during preparation of the interim report and within 12 months after acquisition, pursuant to IFRS 3.
- "Brands" of €2,655 thousand (historical cost USD 3,885 thousand), acquired from PSC. The useful life of this intangible asset has been defined as being 10 years. The original value, equal to USD 4,800 thousand at 31 December 2005, determined as an interim value, was decreased pursuant to the revision of the calculation made during preparation of the interim report and within 12 months after acquisition, pursuant to IFRS 3.

- The "Customer portfolio" of €2,572 thousand (historical cost USD 3,763 thousand), acquired from PSC. The useful life of this intangible asset has been defined as being 10 years. The original value of USD 12,169 thousand at 31 December 2005 has decreased due to revision of the goodwill calculation.

#### **Intangible assets pertaining to the acquisition of the Laservall Group (completed on 27 August 2004)**

- "Unpatented technology" amounting to €3,836 thousand (€5,968 thousand at the date of initial recognition), acquired from Laservall S.p.A. and relating to technological expertise in the laser marking sector, in terms of product engineering and industrialization. The useful life of this intangible asset has been defined as being 7 years.
- A commercial facility (Far East Window) amounting to €3,312 thousand (€4,417 thousand at the date of initial recognition), acquired from Laservall S.p.A. and consisting of its well-established global sales network and customer base, with a direct presence in areas featuring strong economic growth. The useful life of this intangible non-current asset has been defined as being 10 years.

#### **Intangible assets pertaining to the acquisition of Informatics (completed on 28 February 2005)**

- A commercial facility amounting to €4,961 thousand (USD 8,000 thousand at the date of initial recognition) acquired from Informatics and relating to its sales network and customer portfolio. The useful life of this intangible non-current asset has been defined as being 10 years.

The outstanding amount, booked to the item "Other", was €13,672 thousand and refers for €12,336 thousand to the parent company and is made up mainly of €4,391 thousand for software licenses and €6,805 thousand for capitalization of a license contract. The remainder pertained mainly to the PSC group for software licenses.

### **3. Equity investments**

Equity investments owned by the Group as at 31 December 2006 were as follows:

	Balance at 31/12/05	Increases	Forex differences	Share of profit	Dividends	Changes	Balance at 31/12/06
a) Subsidiary companies							
Datalogic Slovakia s.r.o.	50					(50)	0
<b>Total subsidiaries</b>	<b>50</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>(50)</b>	<b>0</b>
b) Associates							
Idec DatalogicCo. Ltd.	578		(81)	186			683
Laservall Asia Co. Ltd.	165			262			427
DL PRIVATE India	8					(8)	0
<b>Total associates</b>	<b>751</b>	<b>0</b>	<b>(81)</b>	<b>448</b>	<b>0</b>	<b>(8)</b>	<b>1,110</b>

The change in subsidiaries with respect to 31 December 2005 is due to the line-by-line consolidation of Datalogic Slovakia s.r.o., valued at cost the previous year. The consolidation generated a loss, recorded under financial expenses, stemming from the company's performance in 2005.

The change in associates is explained by the Group's share of the earnings of Idec Datalogic Co. Ltd. and Laservall Asia Co. Ltd.

Below is a summary of the key figures at 31 December 2006 of the associated companies (in millions of Euro):

Company	Registered location	Currency	Assets €'000	Liabilities €'000	Revenues	Net profit (loss) for the period €'000	% owned
Idec Datalogic Co. Ltd.	Osaka - Japan	JPY	3,168	1,765	5,609	368	50%
Laservall Asia Co. Ltd	Hong Kong - China	Euro	258	175	12,573	524	50%
Laservall Asia Co. Ltd.	Shenzhen - China	CNY	676	478	1,095	-4,305	50%

#### 4. Available-for-sale (AFS) financial assets

##### Other equity investments

As at 31 December 2006 the Group owned the following equity interests in other companies:

	Balance at 31/12/05	Increases	Forex differences Share of profit	Share of profit	Dividends	Changes	Balance at 31/12/06
d) Other companies							
Nomisma S.p.A. - Italy	7						7
Conai	0						0
Caaf Ind. Emilia Romagna - Italy	4						4
Crit srl	51						51
Consorzio T3 Lab	8						8
Alien technology	1,042					(241)	801
<b>Total other equity investments</b>	<b>1,112</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(241)</b>	<b>871</b>

The amount of other equity investments consists mainly of the parent company's investment (an interest of less than 1%) in Alien Technology Corporation, a US company active in RFID (radio-frequency identification devices). It is recognized at cost, which is substantially aligned with fair value determined on the basis of recent transactions involving the company. The decrease in the company's value is due to the sale of part of this interest.

We nevertheless point out that, in the reporting period as in the previous year, the company reported significant losses. Notwithstanding this, the parent company's directors believe that the requisites do not exist for write-down of this investment as Alien Technology is a start-up active in a very promising segment (RFID).

## Securities

	31/12/05	Increases	(Decreases)	Changes in fair value	31/12/06
Securities as surety.	1,872	2	(1,505)	1	370
<b>Total</b>	<b>1,872</b>	<b>2</b>	<b>(1,505)</b>	<b>1</b>	<b>370</b>

This item consists chiefly of Italian government bonds (CCTs) held by the parent company in the amount of €360 thousand.

In the following tables we summarize the parent company's "Securities" item as at 31/12/06:

### LISTED SECURITIES (in EUR)

Type of security	Total purchase price	unit purchase price	par value	unitary market price as at 31/12/06	total market value as at 31/12/06
Government bonds	361,077.12	100.3	360,000.00	100.12	360,429.13
	<b>361,077.12</b>		<b>360,000.00</b>		<b>360,429.13</b>

The decrease in this item is mainly due to the sale of government bonds maturing on 1 August 2007 for a total of €1,505 thousand that were held to secure a bank guarantee issued to cover the third *earn-out* for the acquisition of Laservall S.p.A., which was paid, in advance, in July 2006.

## CURRENT ASSETS

### 5. Inventories

	31/12/06	31/12/05	YoY Change
1) Raw and ancillary materials and consumables	30,936	28,547	2,389
2) Work in progress and semi-finished products	6,116	7,627	(1,511)
4) Finished products and goods	14,953	15,338	(385)
<b>Total</b>	<b>52,005</b>	<b>51,512</b>	<b>493</b>

Inventories are shown net of obsolescence provision that, as at 31 December 2006, amounted to €10,453 thousand.

Changes in the latter during 2006 are shown below:

	€'000
Inventory write-down provision at 31/12/05	7,651
Foreign exchange difference	(734)
Change post-PSC acquisition	1,413
Provisions made as at 31/12/06	2,123
<b>Inventory write-down provision at 31/12/06</b>	<b>10,453</b>

## 6. Trade and other receivables

### Trade and other receivables - current

	31/12/06	31/12/05	YoY Change
<b>Trade and other receivables</b>	<b>85,716</b>	<b>87,534</b>	<b>(1,818)</b>
Trade receivables	81,533	83,727	(2,194)
Trade receivables due within 12 months	75,998	81,734	(5,736)
Trade receivables due after 12 months	-	-	-
Associate receivables:	1,725	1,236	489
- Idec Datalogic Co. Ltd.	588	827	(239)
- Laservall Asia	1,137	409	728
Subsidiary receivables:	-	150	150
- DL Slovakia	-	150	(150)
Receivables from parent company:	3,810	443	3,367
- Hydra S.p.A.	3,810	443	3,367
Related-party receivables		164	(164)
<b>Other current receivables</b>	<b>1,611</b>	<b>1,783</b>	<b>(172)</b>
Accrued income and prepayments	2,572	2,024	548

### Trade receivables

Trade receivables due within 12 months at 31 December 2006 totalled €75,998 thousand (net of the provision for doubtful accounts of €1,824 thousand at 31 December 2006, up from €1,102 thousand at 31/12/05), a decrease of 7% with respect to December 2005.

Associate receivables stem from trade transactions concluded under arm's length conditions.

Amounts receivable from the ultimate parent company Hydra S.p.A. (€3,810 thousand) relate to the corporate income tax (IRES) credit of Datalogic S.p.A. in connection with the Group tax election.

### Other receivables

	31/12/06	31/12/05	YoY Change
Security deposits	269	41	228
Advances paid to suppliers	427	574	(147)
Receivables for sale of investments	-	700	(700)
Other	915	468	447
<b>Total</b>	<b>1,611</b>	<b>1,783</b>	<b>(172)</b>

The item "Other" includes €222 thousand, paid by the parent company to the Inland Revenue for notice of tax reassessment received on 22 October 2002, against which the company has filed an appeal.

**Accrued income and prepayments**

	31/12/06	31/12/05	YoY Change
<b>a) accrued income</b>			
miscellaneous interest income	4	30	(26)
other deferred income	8	25	(17)
<b>total accrued income</b>	<b>12</b>	<b>55</b>	<b>(43)</b>
<b>b) prepayments</b>			
insurance	162	236	(74)
membership fees	5	22	(17)
rent and maintenance fees	967	515	452
leasing contracts	52	32	20
surety costs	25	57	(32)
trade fairs and sponsorships	122	110	12
substitute tax	104	208	(104)
other deferred income	1,123	789	334
<b>total prepayments</b>	<b>2,560</b>	<b>1,969</b>	<b>591</b>
<b>Total accrued income and prepayments</b>	<b>2,572</b>	<b>2,024</b>	<b>548</b>

The increase in rent and maintenance fees pertains to Datalogic Slovakia (€301 thousand) and the PSC Group (€456 thousand), for rent.

The item "Other" refers for €487 thousand to the non-competition agreement signed with former directors of a Group company.

**Trade and other receivables - non-current**

	31/12/06	31/12/05	YoY Change
Security deposits	496	772	(276)
Other	7	24	(17)
<b>Total</b>	<b>503</b>	<b>796</b>	<b>(293)</b>

Security deposits are attributable mainly to the PSC Group (€296 thousand) and Datalogic Slovakia (€137 thousand).

**7. Tax receivables**

	31/12/06	31/12/05	YoY Change
<b>Short-term tax receivables</b>	<b>5,201</b>	<b>6,948</b>	<b>(1,747)</b>
VAT credits	(1,818)	1,332	486
Other tax credits	3,383	5,616	(2,233)
<b>Long-term tax receivables</b>	<b>-</b>	<b>5</b>	<b>(5)</b>
Other tax credits		5	
<b>Total</b>	<b>5,201</b>	<b>6,953</b>	<b>(1,752)</b>



## 8. Available-for-sale (AFS) financial assets

	31/12/05	Increases	Disposals	Fair value	31/12/06
Other securities	3,497	1,263	(4,760)		-
Loans to subsidiaries	515	206	(515)		206
<b>Total</b>	<b>4,012</b>	<b>1,469</b>	<b>(5,275)</b>	<b>-</b>	<b>206</b>

The loan to subsidiaries/associates consists of the loan granted by Laservall S.p.A to Laservall Asia Co. Ltd. for the purchase of Laservall Asia Futian Co. Ltd.

## 9. Financial assets - derivative instruments

The parent company has two hedge transactions in place at 31 December 2006 related to a loan granted to a subsidiary and two interest rate swap transactions on loans opened with a bank, which are commented on below.

The characteristics of the contracts are the following:

Type of financial transaction	End date	Notional amount in foreign currency	Exchange rate at date of stipulation (Euro/currency)	Exchange rate at contract end date (euro/currency)	Total value at end-of-contract exchange rate
Forward forex sale	29/06/07	USD 1,000,000	1,3192	1,3305	751,600

Type of financial transaction	End date	Notional amount in foreign currency	Stipulated	Rate	Interest rate (5Y(6m))
Interest Rate Swap	02/05/12	Euro 20,000,000	30/06/06	Half-yearly	4.03%
Interest Rate Swap	30/12/10	\$ 35,000,000	07/11/06	Half-yearly	5.18%

The fair value of these transactions at 31 December 2006 was not accounted for as it was immaterial.

## 10. Cash & cash equivalents

	31/12/06	31/12/05	YoY Change
Bank and post office deposits	32,918	29,970	2,948
Cash and valuables on hand	32	176	(144)
<b>Total cash and cash equivalents</b>	<b>32,950</b>	<b>30,146</b>	<b>2,804</b>

The value of cash includes €2,811 thousand relating to the security deposit, of which the principal of €2,494 thousand related to the deposit received from PSC Holding (and included in the item "Other payables") pursuant to the acquisition and paid in a restricted preferential account.

Below we report the financial situation related to the Group:

Datalogic Group	31/12/06	31/12/05
(€000)		
A. Cash and bank deposits	30,139	19,974
B. Other liquidity	2,811	10,172
<i>b1. Restricted cash (*)</i>	2,811	10,172
C. Securities held for trading	370	5,369
<i>c1. Current</i>	0	3,497
<i>c2. Non-current</i>	370	1,872
<b>D. Cash &amp; Cash equivalents (A) + (B) + (C)</b>	<b>33,320</b>	<b>35,515</b>
<b>E. Current financial receivables</b>	<b>206</b>	<b>515</b>
F. Current bank overdrafts		0
G. Current portion of non-current debt	9,856	149,349
H. Other current financial liabilities	0	116
<i>h1. Hedging instruments</i>	0	116
<b>I. Current financial debt (F) + (G) + (H)</b>	<b>9,856</b>	<b>149,465</b>
<b>J. Current financial debt, net (I) - (E) - (D)</b>	<b>(23,670)</b>	<b>113,435</b>
K. Non-current bank borrowing	79,539	12,283
L. Bonds issued	0	0
M. Other non-current liabilities	0	0
<i>m1. Financial liabilities vs BoD member</i>	2,488	0
<b>N. Non-current financial debt (K) + (L) + (M)</b>	<b>82,027</b>	<b>12,283</b>
<b>O. Net financial debt (J) + (N)</b>	<b>58,357</b>	<b>125,718</b>

## INFORMATION ON THE BALANCE SHEET - NET EQUITY AND LIABILITIES

### 11. Equity

Details of net equity are shown below; movements during the period are presented in a separate table.

(€'000)	31/12/06	31/12/05
Share capital	33,072	25,746
Share premium reserve	127,888	58,490
Demerger reserve	4,439	4,439
Reserve for the purchase of treasury shares	(6,301)	1,881
<b>Share capital</b>	<b>159,098</b>	<b>90,556</b>
Translation reserve	(8,555)	1,548
Fair value reserve	0	79
Reserve for financial liabilities	(2,502)	0
<b>Other reserves</b>	<b>(11,057)</b>	<b>1,627</b>
Retained earnings	33,968	24,346
Net profit (loss) for the period	4,125	12,997
<b>Earnings carried forward</b>	<b>38,093</b>	<b>37,343</b>
<b>Total Group net equity</b>	<b>186,134</b>	<b>129,526</b>
Total minority interests in net equity	476	335

**a) Share capital**

Movements in share capital at 31 December 2006 are reported below (in €000):

	Number of shares	Share capital	Share premium reserve	Treasury shares	Demerger reserve	Total
01/01/05	11,464,220	25,073	55,843	(8,480)	4,439	76,875
Capital increase	323,950	673	3,052			3,725
Purchase of treasury shares	(144,753)			(3,470)		(3,470)
Sale of treasury shares	734,683			13,831		13,831
Capital increase expenses	-		(405)			(405)
01/01/06	12,378,100	25,746	58,490	1,881	4,439	90,556
<b>Number of shares at 31 December 2005 post-split</b>	<b>49,512,400</b>					
Capital increase from issue of new shares	13,863,472	7,209	69,387			76,596
Capital increase for exercise of stock options	224,800	117	529			646
Purchase of treasury shares	(1,431,304)			(8,422)		(8,422)
Sale of treasury shares	24,104			139		139
Exercise of rejected options and purchase of treasury shares	-			101		101
Capital increase expenses	-		(518)			(518)
31/12/06	62,193,472	33,072	127,888	(6,301)	4,439	159,098

On 8 May 2006, a share split was carried out at a ratio of 1 to 4, reducing the unit price from €2.08 to €0.52.

**Ordinary shares**

At 31 December 2006 the total number of ordinary shares was 63,600,672 (gross of 1,407,200 treasury shares) with a par value of €0.52 each; all shares issued are fully paid.

The main change taking place in 2006 was the rights issue (capital increase) of €76,596 thousand. This was approved by the extraordinary shareholders' meeting of 2 December 2005 and completed in January with the issue of 3,465,868 shares (13,863,472 post-split), at a unit price of €22.10 each.

**Treasury shares**

During 2006 the Group bought 1,431,304 treasury shares and sold 24,104, producing a capital gain of €12 thousand.

**Demerger reserve**

This reserve was a consequence of the split of the direct parent company on January 2 1998 into IES S.p.A. (demerged company, now Datasensor) and Datalogic S.p.A. (the beneficiary company).

**b) Other reserves**

The reserve for revaluation of financial assets (fair value reserve) comprises revaluation at fair value of AFS securities until the time when such securities are sold and is net of the tax effect.

A member of the board of directors (as reported in the 'related parties' section of the Management Report) has signed a PUT option with the parent company (which therefore has a CALL option) on his minority stake of 10% in Informatics Inc., which is 90% owned by the parent company.

In accordance with IAS 32.23, this transaction is recognised as a financial liability. Offsetting financial payables is a negative shareholders' equity provision of €2,502 thousand, equal to the fair value estimate of the minority share at the date the option will be exercised (2009). The minority share of shareholders' equity and results were kept on the books as it is believed that the risks and benefits on the minority share are faced by the minority shareholder.

The translation reserve is generated from the translation into euros of foreign companies' financial statements.

**c) Profits carried forward**

**Reserve for treasury shares**

This was created by the parent company in relation to buy-back transactions. As required by the Italian Civil Code, the reserve shows movements corresponding to the purchase and sale of treasury shares during the period.

**Reserve for gain on cancellation and untaxed capital grant reserve**

These reserves are a consequence of the merger of Datalogic S.p.A. and Datasud in 2004.

**IFRS transition reserve**

This is the reserve created upon first-time adoption of international accounting standards as at 1 January 2004 (consolidated year-end accounts as at 31 December 2003) as per IFRS 1.

The decrease in the reserve is attributed mainly to the release pursuant to sale of the factory and land of Datalogic AB, as these were revalued during transition to IAS principles.

**Retained earnings/ (losses carried forward)**

This item includes the equity changes of consolidated companies taking place subsequent to their acquisition.

## Dividends

At 31 December 2006, dividends were paid for €3,489 thousand, equal to €0.22 per share (€15,040 thousand at 31 December 2005 of which €12,350 thousand as an extraordinary dividend).

### d) Minority interests

Minority interests amount to €476 thousand and relate to 10% of Informatics Inc.

The reconciliation between the parent company's net equity and profit and the corresponding consolidated amounts is shown below:

	31 December 2006	
	Total net equity	Net profit (loss) for the period
<b>Datalogic S.p.A. net equity and profit</b>	<b>183,690</b>	<b>(310)</b>
Difference between consolidated companies' net equity and their carrying value in Datalogic S.p.A.'s statement; effect of equity-based valuation	8,017	11,733
Reversal of dividends	0	(5,379)
Laservall acquisition	(3,237)	(1,295)
Amortization of new Datalogic AB consolidation difference	(239)	
Elimination of capital gain on sale of business branch	(208)	
Effect of eliminating intercompany transactions	(3,519)	(1,116)
Elimination of intercompany profits	(82)	(52)
Effect of posting leasing transactions	(64)	(21)
Deferred taxes	2,043	832
Elimination of Minec brand	(267)	(267)
<b>Group portion of net equity</b>	<b>186,134</b>	<b>4,125</b>
<b>Minority interests in net equity</b>	<b>476</b>	<b>141</b>
<b>Total net equity</b>	<b>186,610</b>	<b>4,266</b>

**NON-CURRENT LIABILITIES****12. Short-/long-term financial payables**

	31/12/06	31/12/05	YoY Change
bank loans & mortgages and other financial institutions	89,395	161,632	(72,237)
financial liabilities	2,488		2,488
<b>Total financial payables</b>	<b>91,883</b>	<b>161,632</b>	<b>(69,749)</b>

Financial payables are shown in detail below:

31/12/06	Within 12 months	After 12 months	Beyond 5 years	Total
<b>Bank borrowing</b>				
current account overdrafts				-
bank loans & mortgages and other financial institutions	9,856	48,443	31,096	89,395
<b>Other financial liabilities</b>				
Miscellaneous		2,488		2,488
<b>Total</b>	<b>9,856</b>	<b>50,931</b>	<b>31,096</b>	<b>91,883</b>

The main changes with respect to 31 December 2005 are as follows:

**Parent company**

- long-term loan of €20 million taken out on 2 May 2006 to finance the capital increase of PSC Holding Inc.;
- closure of a short-term loan of €1,780 thousand contracted in 2005 to finance the PSC operation;
- closure of a bridge loan of €70 million taken out in 2005 to finance the acquisition of the PSC Group.

**PSC Group**

- closure of a bridge loan of USD 89,669,000 taken out by PSC Holding Inc., subsequently replaced by a bank loan of USD 70 million. In relation to this loan, the Company was asked to comply with several financial agreements represented by economic and financial parameters and comprised of:
  - DCR (debt cover ratio) - a debt indicator, calculated on the ratio between net debt and EBITDA;
  - ICR (interest cover ratio) – indicator of the proportion of costs per interest expense, calculated on the ratio between EBITDA and interest expense;
  - DSCR (debt service cover ratio) – indicator of the proportion of financial debt, calculated on the relationship between cash flow and total financial liabilities (total interest expense and capital amounts reimbursed);
- Capex (capital expenditure) - investment value.

Failure to comply with these agreements will entitle the bank to revoke the loan and renegotiate its terms and conditions. At 31 December 2006, the Company complied with all the financial agreements above.

The loans are secured as follows:

- Loan to Datalogic GmbH = real estate mortgage of €1,968 thousand;
- Loan to Informatics = surety issued by the parent company of €9,112 thousand.

The parent company has also granted sureties of €79,073 thousand and letters of patronage of €1,898 thousand against the use of a credit line by associates.

The item “miscellaneous” relates to the put option on a minority interest in Informatics held by a director of the parent company, as mentioned in section 11 (Other reserves) and includes interest accruing and exchange rate adjustment.

### 13. Deferred taxes

Deferred tax assets and liabilities stem from both (a) positive items already recognised in the income statement and subject to deferred taxation under current tax regulations and (b) temporary differences between consolidated balance-sheet assets and liabilities and their relevant taxable value,

The detail of deferred tax assets is shown below:

Deferred tax assets	31/12/06	31/12/05	YoY Change
Datalogic S.p.A.	2,655	1,832	823
Laservall S.p.a.	242	305	(63)
DL AB Holding	-	147	(147)
DL AB	-	-	-
DL INC	167	181	(14)
DL Handels	364	416	(52)
DL PTY	168	98	70
Informatics	492	153	339
PSC	15,529	24	15,505
DL UK	329	341	-12
<b>Total long-term deferred tax assets</b>	<b>19,946</b>	<b>3,497</b>	<b>16,449</b>
Deferred taxes recognized due to effect of consolidation adjustments	792	524	268
<b>Total deferred tax assets</b>	<b>20,738</b>	<b>4,021</b>	<b>16,717</b>

The item “deferred tax assets recognized due to effect of consolidation adjustments” is due mainly to elimination of the inventory margin.



Details of deferred tax liabilities are as follows:

Deferred tax liabilities	31/12/06	31/12/05	YoY Change
Laservall S.p.a.	149	105	44
Informatics	1,898	2,386	(488)
DL France	46	43	3
Adjustment for the elimination of Swedish brands	-	-	-
<b>Total short-term deferred tax liabilities</b>	<b>2,093</b>	<b>2,534</b>	<b>(441)</b>
Datalogic S.p.A.	6,753	1,925	4,828
DL AB	12	-	12
DL GMBH	154	90	64
Laservall S.p.a.	-	-	-
DL PTY	15	-	15
PSC	14,491	27,064	(12,573)
Informatics	-	-	-
France	60	-	60
Inc	6	-	6
DL UK	149	-	149
EMS	15	-	15
<b>Total long-term deferred tax liabilities</b>	<b>21,655</b>	<b>29,079</b>	<b>(7,424)</b>
<b>Deferred tax liabilities posted due to effect of IFRS transition</b>	<b>-</b>	<b>5,764</b>	<b>(5,764)</b>
Deferred taxes recognized due to effect of consolidation adjustments	57	-	57
Deferred tax liabilities due to effect of Laservall consolidation adjustments	2,663	3,145	(482)
<b>Total deferred tax liabilities</b>	<b>26,468</b>	<b>40,522</b>	<b>(14,111)</b>

The balance at 31 December 2005 of the item "Deferred tax liabilities posted due to effect of IFRS transition" has been reallocated to the individual companies.

The item "Deferred tax liabilities due to effect of Laservall S.p.A. consolidation adjustments" includes the deferred taxation provision (€3,868 thousand upon initial recognition) created as part of the accounting protocol for the acquisition of Laservall S.p.A.. Certain intangible assets from the acquisition ("know-how" and "Far East window") were specifically identified and valued at fair value, and against those assets, which were posted to the balance sheet but not recognized for tax purposes, a provision was made for the relative deferred tax liabilities. This provision is released in parallel with the process of amortisation.

The decrease in the PSC Group's deferred tax liabilities is due primarily to the revised goodwill calculation as mentioned above.

The increase in the PSC Group's deferred tax assets relates chiefly to the recognition after 31 December 2005 of deferred tax assets as a result of the purchase accounting method.

The temporary differences leading to recognition of deferred tax assets and liabilities are summarised, by individual group company, in the following tables:

Deferred tax assets	Prior years' losses	Exchange rate adjustment	Operations deriving from acquisitions	Provisions	Asset write-downs	Other	Total
31/12/06							
DL PTY	127			41			168
PSC	4,407		5,087	1,211	3,007	1,816	15,528
DL Handels	364						364
DL UK	329						329
DL INC				112		55	167
Informatics				226	156	110	492
Laservall S.p.A.				112	95	36	242
parent company		158		1,258	1,201	38	2,655
<b>Total Group companies</b>	<b>5,227</b>	<b>158</b>	<b>5,087</b>	<b>2,961</b>	<b>4,459</b>	<b>2,055</b>	<b>19,946</b>
Deferred taxes recognized due to effect of consolidation adjustments						792	792
<b>Total deferred tax assets</b>	<b>5,227</b>	<b>158</b>	<b>5,087</b>	<b>2,961</b>	<b>4,459</b>	<b>2,847</b>	<b>20,738</b>

#### 14. Post-employment benefit obligations

Changes in this liability during the period were as follows

	€'000
31/12/05	6,894
Amount provisioned in period	1506
Utilisation	(786)
Foreign exchange difference	10
31/12/06	7,624

Of the figure shown for utilizations, €574 thousand is ascribable to the parent company, of which €118 thousand for advances and €456 thousand for resignations.

#### 15. Provisions

The breakdown of the total "provisions" item was as follows:

	31/12/06	31/12/05	YoY Change
Short-term provisions	4,070	4,319	(249)
Long-term provisions	5,786	4,600	1,186
<b>Total provisions</b>	<b>9,856</b>	<b>8,919</b>	<b>937</b>

Below we show the changes occurring in the item:

	31/12/05	Increases	(Utilisation)	Unused amounts	Forex differences Share of profit	31/12/06
Product warranty provision	4,672	858	(321)	(400)	(321)	4,488
Provision for legal disputes	1,371		(1,139)		118	(1)
Restructuring provision	-	1,911	(1,465)			446
Provision for management incentive scheme	1,104	1,133	(87)			2,150
Other	1,772	1,700	(639)		(175)	2,658
<b>Total provisions</b>	<b>8,919</b>	<b>5,602</b>	<b>(3,651)</b>	<b>(400)</b>	<b>(614)</b>	<b>9,856</b>

The product warranty provision covers the estimated cost of repairing products sold under warranty; it amounts to €4,488 thousand and is considered sufficient in relation to the specific risk it covers. It is mainly attributable to the PSC Group (€3,193 thousand, of which €1,939 thousand long-term), to the parent company (€950 thousand) and to Laservall S.p.A. (€300 thousand).

The decrease in the provision for legal disputes was mainly attributable to the PSC Group.

The restructuring provision is attributable to the PSC Group for €265 thousand and €181 thousand to the parent company. For additional comments, see the Report on Operations.

Of the provision for the management incentive scheme, €2,056 thousand was attributable to the direct parent company and €94 thousand to the PSC Group.

The heading "Other" mainly consists of:

- €1,776 thousand for a "stock rotation" provision concerning the PSC Group, showing an increase of €892 thousand vs. 31 December 2005;
- €60 thousand attributable to the PSC Group and provisioned in compliance with directive 2002/95/EC, i.e. the "Directive on restrictions of use of some hazardous substances in electric and electronic equipment", enacted in Italian law by Legislative Decree 151. of 25 July 2005. This provision decreased by €607 thousand with respect to the close of 2005;
- €350 thousand to a provision for tax disputes relating to the parent company. For further information, you are referred to the comments made in Paragraph 21 of the notes to the income statement.

## 16. Other non-current liabilities

Other non-current payables	31/12/06	31/12/05	YoY Change
due for the purchase of equity investments		1,000	(1,000)
due to employees	647	82	565
due to directors			-
security deposits from third parties	56	38	18
loans from Group companies			-
leasing instalments due	22	116	(94)
<b>Total</b>	<b>725</b>	<b>1,236</b>	<b>(511)</b>

The decrease in this item is explained primarily by the reclassification to short-term payables of a €1 million debt by the parent company for the acquisition of Laservall S.p.A., corresponding to its share of the third earn-out that was paid in the month of July.

## CURRENT LIABILITIES

### 17. Trade and other payables

These are the details of trade and other payables:

	31/12/06	31/12/05	YoY Change
<b>Trade and other payables</b>	<b>72,857</b>	<b>81,325</b>	<b>(8,468)</b>
Trade payables	49,215	44,653	4,562
Trade payables due within 12 months	48,760	43,263	5,497
Trade payables due after 12 months			-
Due to associates	21	15	6
Idec Datalogic Co. Ltd.	18	15	3
Laservall Asia	3	-	3
Due to ultimate parent company	11	998	(987)
Amounts payable to related parties	423	377	46
<b>Other current payables</b>	<b>16,782</b>	<b>30,906</b>	<b>(14,124)</b>
<b>Accrued liabilities and deferred income</b>	<b>6,860</b>	<b>5,766</b>	<b>1,094</b>

#### Trade payables

Trade payables include €5,758 thousand from the consolidation of Datalogic Slovakia.

Related-party payables are due to Datasensor.

Amounts payable to the ultimate parent company consisted of Laservall S.p.A.'s debt to Hydra in relation to the Group tax election.

**Other payables**

The detailed breakdown of other current payables was as follows:

Other current payables	31/12/06	31/12/05	YoY Change
Due for acquisition of equity interest in Laservall S.p.A.	-	2,000	(2,000)
Due to pension and social security agencies	2,693	2,555	138
Due to employees	8,377	9,401	(1,024)
Security deposits received	2,526	10,172	(7,646)
Directors' remuneration due	600	633	(33)
Due to insurers	-	-	-
Royalty costs yet to be paid	355	1,686	(1,331)
Other payables	2,231	4,459	(2,228)
<b>Total</b>	<b>16,782</b>	<b>30,906</b>	<b>(14,124)</b>

The debt due for acquisition of equity interest in Laservall S.p.A. was paid off in July.

Amounts payable to employees represent the amount due for salaries and vacations accrued by employees at period end. The decrease in this payable is attributed mainly to PSC pursuant to the restructuring plan.

The item "Security deposits received" is made up largely of the outstanding payable to the vendor of PSC Holding for purchase of the PSC Group for €2,494 thousand. The change in this item is due to the effect of the change and booking interest accrued.

The item "Royalties payable" relates to the PSC Group in 2005 and 2006 and shows a decrease due to the contract stipulated by the parent company for both companies in fourth quarter 2006.

The heading "Other payables" decreased because of the settlement of PSC payables in relation to the acquisition that were outstanding at the close of 2005.

## Accrued liabilities and deferred income

The detail of accrued liabilities and deferred income is as follows:

	31/12/06	31/12/05	YoY Change
<b>a) accrued liabilities</b>			
consulting services	232	310	(78)
advertising and promotion	-	381	(381)
other deferred income	818	656	162
<b>Total accrued liabilities</b>	<b>1,050</b>	<b>1,347</b>	<b>(297)</b>
<b>b) deferred income</b>			
maintenance contracts	3,068	2,789	279
intercompany transactions	603	225	378
warranty extension	825	615	210
capital grants	666	666	-
other deferred income	648	124	524
<b>Total deferred income</b>	<b>5,810</b>	<b>4,419</b>	<b>1,391</b>
<b>Total accrued liabilities &amp; deferred income</b>	<b>6,860</b>	<b>5,766</b>	<b>1,094</b>

The balance of the deferred income heading "maintenance contracts" mainly concerns the PSC Group for €2,625 thousand (€925 thousand long-term), Datalogic S.p.A. for €148 thousand and Datalogic Iberia for €148 thousand, due to suspension of the portion of revenues from maintenance contracts with customers that does not pertain to the period.

The item "intercompany transactions" refers to the elimination of the inventory margin of Idec Datalogic Co. Ltd. (€202 thousand) and Laservall Asia and Laservall Futian (€401 thousand), which are booked at equity.

The "Capital grants" item of €666 thousand reflects reclassification of government grants for the purchase of assets, obtained in the past by the subsidiary Datasud Srl (now merged with the parent company).

These grants have been reversed from equity reserves as per the requirements of IAS 20 and reallocated to deferred income, in order to match them with effective cost incurred, i.e. with depreciation of the assets to which they refer.

## 18. Taxes payable

	31/12/06	31/12/05	YoY Change
Short-term taxes payable	7,679	5,528	2,151
Long-term taxes payable		7	(7)
<b>Total</b>	<b>7,679</b>	<b>5,535</b>	<b>2,144</b>

At 31 December 2006, taxes payable amounted to €7,679 thousand, as detailed below, by individual company:

Short-term taxes payable	31/12/06	31/12/05	YoY Change
DL S.p.A.	2,227	2,042	185
PSC	838	1,147	(309)
Laservall S.p.A.	800	573	227
DL AB Holding	2	19	(17)
DL AB	193	227	(34)
Informatics	154	9	145
DL GMBH	297	627	(330)
BV	144	34	110
HANDEL	4	7	(3)
DL Iberia	461	339	122
DL France	202	31	171
DL UK	389	422	(33)
Inc	64	52	12
EMS	-	-	-
DL PTY	4	-	4
DL Slovakia	1,900	-	1,900
DL Asia	-	-	-
<b>Total</b>	<b>7,679</b>	<b>5,528</b>	<b>2,151</b>
payables recognized due to consolidation adjustments	-	-	-
<b>Total short-term taxes payable</b>	<b>7,679</b>	<b>5,528</b>	<b>2,151</b>
Long-term taxes payable			
DL PTY	-	7	(7)
<b>Total long-term taxes payable</b>	<b>-</b>	<b>7</b>	<b>(7)</b>
<b>Total taxes payable</b>	<b>7,679</b>	<b>5,535</b>	<b>2,144</b>

## INFORMATION ON THE INCOME STATEMENT

### 19. Revenues

	31/12/06	31/12/05	YoY Change
Revenues from sale of products	368,193	198,460	169,733
Revenues for services	13,421	7,488	5,933
<b>Total revenues</b>	<b>381,614</b>	<b>205,948</b>	<b>175,666</b>

Total revenues increased by 85% YoY (+9% net of the PSC Group).

For greater detail, see the section “Revenue trends and key factors affecting operations” in the Management Report.

Below is the geographical breakdown of revenues in percentage terms:

	31/12/06	31/12/05	YoY Change
Italy	10%	16%	1%
Elsewhere - EU	40%	44%	-34%
Elsewhere - non-EU	50%	40%	33%

### 20. Cost of goods sold and operating costs

To provide a more accurate breakdown by unit, since the first quarter of 2006 the general and administrative expenses of the Group's commercial branches have been treated as “distribution expenses”. Figures at 31 December 2005 have been reclassified for the sake of comparison, as shown in the table below.

	31/12/05	reclassifications	31/12/05
<b>TOTAL COST OF GOODS SOLD (1)</b>	<b>106,526</b>		<b>106,526</b>
<b>TOTAL OPERATING COSTS (2)</b>	<b>81,802</b>	-	<b>81,802</b>
R&D expenses	14,676		14,676
Distribution expenses	36,385	6,663	43,048
General & administrative expenses	28,162	(6,663)	21,499
Other operating costs	2,579		2,579
<b>TOTAL (1+2)</b>	<b>188,328</b>	-	<b>188,328</b>

The following schedule highlights non-recurring costs and amortization arising from acquisitions, as the extraordinary components pursuant to introduction of IAS principles are no longer listed separately, but are included in ordinary operations.



	31/12/06	31/12/05	YoY Change
<b>TOTAL COST OF GOODS SOLD (1)</b>	<b>215,738</b>	<b>106,526</b>	<b>109,212</b>
<i>of which non-recurring</i>	<i>1,194</i>		<i>1,194</i>
<b>TOTAL OPERATING COSTS (2)</b>	<b>154,367</b>	<b>81,802</b>	<b>72,565</b>
R&D expenses	26,354	14,676	11,678
<i>of which non-recurring</i>	<i>41</i>		<i>41</i>
Distribution expenses	84,103	43,048	41,055
<i>of which non-recurring</i>	<i>188</i>	<i>99</i>	<i>89</i>
General & administrative expenses	35,610	21,499	14,111
<i>of which non-recurring</i>	<i>2,513</i>	<i>2,396</i>	<i>117</i>
<i>of which amortization pertaining to acquisitions</i>	<i>4,345</i>	<i>1,830</i>	<i>2,515</i>
Other operating costs	8,300	2,579	5,721
<i>of which non-recurring</i>	<i>3,731</i>	<i>196</i>	<i>3,535</i>
<b>TOTAL (1+2)</b>	<b>370,105</b>	<b>188,328</b>	<b>181,777</b>
<i>of which non-recurring</i>	<i>7,667</i>	<i>2,691</i>	<i>4,976</i>
<i>of which amortization pertaining to acquisitions</i>	<i>4,345</i>	<i>1,830</i>	<i>2,515</i>

Below is the detail of non-recurring costs and revenues:

ITEM	VALUE	DESCRIPTION
	(€'000)	
2) Cost of goods sold	(972)	Adjustment of assets and liabilities (of PSC) at the date of acquisition at market value
2) Cost of goods sold	(222)	Of which: costs for company reorganization of €218 thousand and leaving incentives of €4 thousand
<b>Total</b>	<b>(1,194)</b>	
3) Other operating revenues	1,352	Recharging expenses incurred for legal action
<b>Total</b>	<b>1,352</b>	
4) R&D expenses	(41)	Leaving incentives
<b>Total</b>	<b>(41)</b>	
5) Distribution expenses	(188)	Leaving incentives
<b>Total</b>	<b>(188)</b>	
6) General & administrative expenses	(18)	Leaving incentives
6) General & administrative expenses	(2,000)	Bonuses to the C.E.O. of the parent company
6) General & administrative expenses	(495)	Consulting pursuant to the PSC acquisition
<b>Total</b>	<b>(2,513)</b>	
7) Other operating expenses	(2,067)	Allocation to the company reorganization reserve, of which €1,886 thousand relating to PSC and €181 thousand relating to Datalogic S.p.A.
7) Other operating expenses	(312)	Tax audit provision
7) Other operating expenses	(1,352)	Recharging expenses incurred for legal action
<b>Total</b>	<b>(3,731)</b>	
<b>TOTAL NON-RECURRING COSTS</b>	<b>(6,315)</b>	

**Total cost of goods sold (1)**

This item increased by 103% compared with 2005; without the PSC Group it would have risen by 10%, in line with revenue growth net of PSC.

**Total operating costs (2)**

“R&D expenses”, which totaled €26,354 thousand at 31 December 2006 (€15,051 thousand net of the PSC Group) were equivalent to approximately 6.9% of revenues (7.4% net of the PSC Group). They doubled compared with the same period in 2005, due primarily to the consolidation of PSC.

“Distribution expenses” totaled €84,103 thousand. Net of the PSC Group, they came to €43,801 thousand, an increase of €4,929 thousand with respect to the same period in 2005. Most of the rise pertains to:

- Informatics = €1,954 thousand;
- Datalogic S.p.A. = €537 thousand;
- Datalogic Slovakia = €887 thousand
- Datalogic Asia = €410 thousand
- Datalogic BV = €388 thousand;
- Datalogic Iberia = €328 thousand
- Datalogic INC = €251 thousand.

Note that Datalogic Slovakia became operational as of 1 January 2006.

With regard to Informatics, note that the 2005 figure covers ten months only since the company was acquired on 28 February of that year.

With regard to Datalogic Asia, note that the 2005 figure covers six months only since the company entered operation in July 2005.

Most of the increase at the parent company is explained by the convention held in February 2006 (€532 thousand), which did not take place in 2005.

For the other companies, the increase primarily refers to costs of sales personnel and other sales-related costs.

“General and administrative expenses” amounted to €35,610 thousand. Net of the PSC Group, they totaled €23,859 thousand, an increase of €3,242 thousand attributable mainly to:

- the parent company, for €1,710 thousand (€495 thousand pertaining to the PSC acquisition);
- Informatics, for €1,070 thousand, of which €571 thousand relating to a medium- to long-term plan of management incentives and €638 thousand relating to amortization pursuant to the acquisition.

The detailed breakdown of "Other operating costs" is as follows:

	31/12/06	31/12/05	YoY Change
Capital losses on assets	229	141	88
Incidental costs and cancellation of income items	168	203	(35)
Provisions for doubtful accounts	838	230	608
Other provisions	3,826	1,174	2,652
Non-income taxes	1,099	474	625
Other	2,140	357	1,783
<b>TOTAL OTHER OPERATING COSTS</b>	<b>8,300</b>	<b>2,579</b>	<b>5,721</b>

Other provisions, totaling €3,826 thousand, consisted of the following items:

- a provision of €1,886 thousand made by PSC Group to help pay for a restructuring and development plan, one effect of which is that 60 staff members have been cut for eventual savings of over 4.4 million dollars per year;
- allocations of €1,937 thousand made by the parent company related to
  - €1,056 to the estimated amount for 2006 of a long-term incentive plan (expiration in 2008) in favor of management;
  - €350 thousand for a provision for tax audits in progress;
  - €350 thousand to an additional provision for short-term bonuses;
  - €181 thousand related to the company restructuring plan.

As regards the provision of €350 thousand relating to the tax audit, note that this provision refers to a dispute in progress regarding the ten-year ILOR exemption envisaged by Pres. Decree 218/78 (Unified law on Initiatives in Southern Italy), relating to the former Datasud, for the 1996 tax year.

More than ten years after the income tax return which included special incentives for Datasud was submitted, the Revenue Office of Teramo disallowed the ILOR exemption in 2002.

Datasud filed a petition against this decision in 2004 before the Province of Teramo Tax Commission, which accepted the petition, acknowledging the requirements for taking advantage of the ILOR exemption. Subsequently, due to a formal fault in the first instance ruling, it was declared null and the proceedings returned before the Province of Teramo Tax Commission. With a decision on 16 December 2005, the tax commission ruled in favor of Datasud, confirming the decision issued in 2004.

The provincial tax authority appealed the decision before the L'Aquila Regional Tax Commission, which issued a decision on 14 December 2006 voiding the ruling in the first instance essentially disallowing the right of DL S.p.A. (as incorporating company of Datasud S.r.l.) to use the ten-year exemption from ILOR.

As a prudent response to this ruling, the Company allocated an amount of €350 thousand, which represented the tax burden for the 1996 year (taxes plus accrued interest).

The Company intends to bring an appeal to the higher court, if the circumstances allow, as it is convinced that it has the prerequisites to make use of the exemption.

Note that the Company also has another dispute underway related to the general disallowance of the ten-year ILOR exemption, relating to the incorporated company, Datasud (same regulations as above); no

notice of audit was issued due to the general nature of this deficiency. As regards this dispute, the Company has already had two decisions issued in its favor by the Province of Teramo Tax Commission and one unfavorable decision issued by the Regional Tax Commission. In any event, the Company believes that the circumstances prevail to use the aforementioned exemption and believes it has a good chance for success before the higher court, to which it intends to file an appeal. In the name of full disclosure, note that, in the worst possible scenario, if the Supreme Court issues a decision against the Company and the audit notices are issued for all the years still subject to audit (1999-2005), the total tax burden would be €876 thousand, plus €62 thousand; fines have not been considered since the uncertainty of the regulation would lead the Regional Tax Commission to disallow their application.

The provision for doubtful accounts (€838 thousand) increased by €608 thousand, due mainly to a provision by Datalogic GMBH (€304 thousand) in relation to the financial problems of one of its distributors and a provision by the PSC Group (€315 thousand).

Non-income taxes were attributable mainly to the direct parent company (€305 thousand), Datalogic UK (€82 thousand), Datalogic France (€62 thousand), Informatics (€57 thousand), and the PSC Group (€526 thousand).

Capital losses on assets, totaling €229 thousand, relate mainly to the parent company (€177 thousand).

The item 'Other' includes €1,352 thousand relating to legal fees recharged to PSC.

## Breakdown of costs by nature

In the following table we detail total costs (cost of goods sold and operating costs) by nature, for the main items:

	31/12/06	31/12/05	YoY Change
Payroll & employee benefits	100,171	56,780	43,391
Depreciation & amortization	16,548	8,579	7,969
Inventory change	(3,364)	2,690	(6,054)
Purchases	174,053	78,228	95,825
Subcontracted work	2,274	3,038	(764)
Repairs	4,787	2,972	1,815
Marketing	6,884	4,154	2,730
Directors' remuneration	3,986	4,500	(514)
Travel & accommodation	5,465	2,952	2,513
Technical, legal, and tax advisory services	7,750	2,669	5,081
Goods receipt & shipment	12,331	3,473	8,858
Meetings	1,148		1,148
Other payroll costs	38,072	18,293	19,779
<b>Total (COGS + operating costs)</b>	<b>370,105</b>	<b>188,328</b>	<b>181,777</b>

The increase in depreciation & amortization was mainly due to:

- the consolidation of PSC for €6,441 thousand (of which €2,412 thousand due to amortization of intangible assets generated by the PSC acquisition);
- amortization of other intangible assets of Informatics for €638 thousand; these assets were allocated at the time of defining goodwill in 2005;
- the consolidation of Datalogic Slovakia for €285 thousand.

The cost of goods sold, i.e. the sum of purchases and the inventory change, amounted to €77,719 thousand net of the PSC Group for an increase of 10%.

The rise of €1,815 thousand in repair costs is mainly due to the consolidation of the PSC Group.

Marketing expenses (€4,493 thousand net of the PSC Group) amounted to €6,884 thousand. They mostly consisted of advertising spending and sponsorships (€3,420 thousand), tradeshows (€1,190 thousand), and co-marketing participation in commercial partners' marketing spending (€1,533 thousand).

Directors' remuneration, at €3,986 thousand, concerns the parent company for €3,444 thousand.

Travel & accommodation expenses totaled €5,465 thousand. Net of the PSC Group, they amounted to €3,021 thousand.

Advisory services cost €7,750 thousand. Net of the PSC Group, these amount to €4,652 thousand and refer primarily to the parent company (€2,691 thousand), Laservall (€619 thousand), Informatics (€373 thousand). The YoY increase, net of the PSC Group, comes to €2,410 thousand and pertains to the Parent Group for €1,233 and to Laservall for €247 thousand.

Expenses for goods receipt & shipment amounted to €12,331 thousand. Net of the PSC Group, they totaled €3,757 thousand, an increase of €630 thousand YoY. This increase was mainly attributable to Datalogic Slovakia.

The detailed breakdown of payroll and employee benefit costs is as follows:

	31/12/06	31/12/05	YoY Change
Wages and salaries	77,105	43,629	33,476
Social security charges	17,245	9,234	8,011
Post-employment benefits	1,506	1,177	329
Retirement and similar benefits	490	277	213
Other payroll costs	3,825	2,463	1,362
<b>Total</b>	<b>100,171</b>	<b>56,780</b>	<b>43,391</b>

The increase in payroll and employee benefit costs was attributable mainly to:

- the consolidation of the PSC Group (€42,455 thousand for 743 employees)
- Informatics (€6,300 thousand for 107 employees, a €1,978 thousand increase over the same period of 2005, during which the company had been consolidated for only 10 months);
- Datalogic Slovakia (€1,097 thousand for 164 employees);
- the parent company (€29,718 thousand, a €2,354 thousand increase YoY, mostly related to increased use of temporary workers).

## 21. Other operating revenues

The detailed breakdown of this item is as follows:

	31/12/06	31/12/05	YoY Change
Miscellaneous income and revenue	780	255	525
Release of restructuring provision	-	1,128	(1,128)
Rent income	251	237	14
Charge-back of miscellaneous costs	1,352	323	1,029
Capital gains on asset disposals	325	83	242
Operating grants	654	330	324
Incidental income and cost cancellation	280	71	209
Other	223	232	(9)
<b>TOTAL OTHER REVENUES</b>	<b>3,865</b>	<b>2,659</b>	<b>1,206</b>

The reduction in this item is due mainly to the parent company, which at 31 December 2005 had released a restructuring provision recognized in the 2004 financial statements (€1,128 thousand) as a result of acquiring a business branch.

"Capital gains on assets disposals" includes €255 thousand from the sale of the land and building belonging to Datalogic Holding AB (in Sweden).

"Incidental income and cost cancellation" includes €111 thousand in relation to Laservall.

"Operating Grants" consists of grants totaling €606 thousand from the Italian Ministry for Universities and Scientific Research (Murst) for research and development projects, and €48 thousand in hiring bonuses as per art. 7 of Law 388 of 2000.

## 22. Net financial income (expenses)

	31/12/06	31/12/05	YoY Change
Interest expenses on bank current accounts/loans	4,981	543	4,438
Foreign exchange losses	6,959	1,491	5,468
Bank charges	597	335	262
Other	500	446	54
<b>TOTAL FINANCIAL EXPENSES</b>	<b>13,037</b>	<b>2,815</b>	<b>10,222</b>
Interest income on bank current accounts/loans	522	611	(89)
Foreign exchange gains	5,831	2,789	3,042
Dividends	-	292	(292)
Income from investment disposal	-	952	(952)
Other	396	343	53
<b>TOTAL FINANCIAL INCOME</b>	<b>6,749</b>	<b>4,987</b>	<b>1,762</b>
<b>NET FINANCIAL INCOME (EXPENSES)</b>	<b>(6,288)</b>	<b>2,172</b>	<b>(8,460)</b>

## **Total financial expenses**

The item "Interest expenses on bank current accounts and loans", totaling €4,981 thousand, pertains mainly to the PSC Group (€3,362 thousand), the parent company (€1,061 thousand) and Informatics (€453 thousand).

"Foreign exchange losses" came to €6,959 thousand and are mostly attributable to the parent company (€2,140 thousand), PSC Group (€2,062 thousand) and Datalogic Slovakia (€2,306 thousand).

The breakdown of the parent company's foreign exchange losses is as follows:

- €685 thousand in exchange losses on commercial transactions, of which €63 thousand refers to retranslation at period-end exchange rates;
- €1,436 thousand in exchange losses on borrowings and current accounts in foreign currency, of which €572 thousand refers to the retranslation at period-end exchange rates;
- €19 thousand for forward hedging transactions.

The item "bank charges" of €597 thousand refers to €282 thousand attributed to the parent company, of which €134 thousand relates to new loans and €181 thousand relates to the PSC Group.

The item "Other" is comprised of €500 thousand in losses arising from the sale of Ixla by Laservall S.p.A. in 2005.

## **Total financial income**

"Interest income on bank current accounts/loans" totaled €522 thousand, of which €129 thousand pertains to the PSC Group and €259 thousand pertains to the parent company.

Of the €5,831 thousand in "Foreign exchange gains", €2,156 thousand refers to Datalogic Slovakia, €2,567 thousand to the PSC Group, and €793 thousand to the parent company.

The breakdown of the parent company's foreign exchange gains is as follows:

- €423 thousand in exchange losses on commercial transactions, of which €59 thousand refers to retranslation at period-end exchange rates;
- €141 thousand in exchange gains on borrowings and current accounts in foreign currency;
- €229 thousand for hedging transactions.

The heading "Other" totals €396 thousand and includes €219 thousand in income on Datalogic S.p.A. shares and €114 thousand in financial income attributable to the PSC Group.



## 23. Taxes

	31/12/06	31/12/05
Income taxes	8,474	9,186
Deferred taxes	(3,707)	326
	4,767	9,512

The average tax rate applied was 52.7% (vs. 41.9% at December 2005).

The statement of reconciliation for 2006 between the effective tax burden and the burden that would emerge based on application of the average tax rate to the pre-tax result of individual companies consolidated (on a 100% line-by-line basis) is shown in the appendices.

## 24. Earnings/loss per share

### Basic earnings/loss per share

Basic EPS at 31 December 2006 is calculated on Group net profit of €4,125 thousand (€12,997 thousand at 31 December 2005) divided by the weighted average number of ordinary shares outstanding at 31 December 2006, which numbered 61,768,442 (12,109,111 at 31 December 2005).

### Diluted earnings/loss per share

Diluted EPS at 31 December 2006 is calculated on net profit of €4,125 thousand (€12,997 thousand at 31 December 2005) divided by the weighted average number of ordinary shares outstanding at 31 December 2006, which numbered 61,918,522 (12,170,617 at 31 December 2005) considering also the effect of future exercise of stock options calculated as follows:

	31/12/05	31/12/06
Group profit/(loss) for period	12,997,000	4,125,000
Average number of shares as at 31 December	12,109,111	61,768,442
Effect of future exercise of stock options	61,505	150,080
Diluted average number of shares as at 31 December	12,170,617	61,918,522
Diluted earnings/loss per share	1.0679	0.0666

## SEGMENT REPORTING

### Segment information

A business segment is a group of assets and operations the aim of which is to provide products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment refers to a group of assets and operations that provides products and services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments.

We consider business segments to be primary (see IAS 14), while geographical segments have been considered secondary. Our segment information reflects the Group's internal reporting structure.

The amounts used for intersegment transfers of components or products are the Group's effective intercompany selling prices.

Segment information includes both directly attributable costs and those reasonably allocable.

### Business segments

The Group consists of the following business segments:

**Data Capture:** this is Datalogic's traditional business and includes the development, production and sale of the following products: HHR (hand-held readers), USS (unattended scanning systems) for the industrial market, MC (mobile computers), and checkout scanners for the retail market.

**Business Development:** this segment includes businesses featuring high growth potential within Datalogic's traditional offering (RFID [radio-frequency identification devices] and self-scanning solutions) or those adjacent to the Group's traditional business areas. It consists of:

- Industrial marking products;
- Distribution of automatic identification products.

These last two activities relate to two companies recently acquired by Datalogic S.p.A. (respectively Laservall S.p.A and Informatics).

	Data Capture		Business Development		Adjustments		Consolidated Total	
	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
(€'000)								
External sales	309,313	146,566	72,301	59,382			381,614	205,948
Intersegment sales	900	42		33	(900)	(75)	-	-
<b>Total revenues</b>	<b>310,213</b>	<b>146,608</b>	<b>72,301</b>	<b>59,415</b>	<b>(900)</b>	<b>(75)</b>	<b>381,614</b>	<b>205,948</b>
Cost of goods sold	179,991	76,492	34,553	30,073		(39)	214,544	106,526
Intersegment cost of goods sold		18	900	39	(900)	(57)	-	-
<b>Gross profit</b>	<b>130,222</b>	<b>70,098</b>	<b>36,848</b>	<b>29,303</b>	<b>-</b>	<b>21</b>	<b>167,070</b>	<b>99,422</b>
% of revenues	41.98%	47.81%	50.96%	49.32%	0.00%	-28.00%	43.78%	48.28%
Other attributable revenues	2,225	2,455	288	204			2,513	2,659
Other intersegment revenues	248	370		-	(248)	(370)	-	-
<b>Allocable operating costs:</b>	<b>113,767</b>	<b>54,068</b>	<b>24,550</b>	<b>19,682</b>	<b>(291)</b>	<b>(553)</b>	<b>138,026</b>	<b>73,197</b>
% of revenues	36.7%	36.9%	34.0%	33.1%	32.3%	737.3%	36.2%	35.5%
R&D expenses	22,097	11,308	4,225	3,368	(9)		26,313	14,676
Distribution expenses	70,181	31,632	13,773	11,651	(39)	(334)	83,915	42,949
Allocable G&A costs	18,296	8,948	6,232	4,460	(243)	(219)	24,285	13,189
Other allocable operating costs	3,193	2,180	320	203			3,513	2,383
<b>SEGMENT RESULT</b>	<b>18,928</b>	<b>18,855</b>	<b>12,586</b>	<b>9,825</b>	<b>43</b>	<b>204</b>	<b>31,557</b>	<b>28,884</b>
% of revenues	6.1%	12.9%	17.4%	16.5%	-4.8%	-272.0%	8.3%	14.0%
Unallocable G&A costs	-						4,467	4,084
Other unallocable operating costs							1,056	
<b>EBITANR</b>	<b>18,928</b>	<b>18,855</b>	<b>12,586</b>	<b>9,825</b>	<b>43</b>	<b>204</b>	<b>26,034</b>	<b>24,800</b>
% of revenues	6.10%	12.86%	17.41%	16.54%	43.78%	-272.00%	6.82%	12.04%
Allocable non-recurring costs/revenues	(6,315)	(295)		(2,396)			(6,315)	(2,691)
Unallocable non-recurring costs/revenues	-							
Amortization due to acquisitions	(2,412)		(1,933)	(1,830)			(4,345)	(1,830)
<b>OPERATING RESULT (EBIT)</b>	<b>10,201</b>	<b>18,560</b>	<b>10,653</b>	<b>5,599</b>	<b>43</b>	<b>204</b>	<b>15,374</b>	<b>20,279</b>
% of revenues	3.29%	12.66%	14.73%	9.42%	-4.78%	-272.00%	4.03%	9.85%
Net financial income (expenses)							(6,288)	2,172
Share of associates' profit							(53)	229
Income taxes							(4,767)	(9,512)
<b>NET PROFIT/LOSS</b>							<b>4,266</b>	<b>13,168</b>
% of revenues							1.12%	6.39%
Minority interests' share of net profit/loss							141	171
<b>GROUP NET PROFIT/LOSS</b>							<b>4,125</b>	<b>12,997</b>
% of revenues							1.08%	6.31%

	Data Capture		Business Development		Adjustments		Consolidated Total	
	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
(€'000)								
Segment assets	288,167	333,400	54,416	53,731	(327)	(8)	342,256	387,123
Interests in subsidiaries booked at equity	683	636	427	165			1,110	801
Unallocable assets							62,894	48,116
<b>Total assets</b>	<b>288,850</b>	<b>334,036</b>	<b>54,843</b>	<b>53,896</b>	<b>(327)</b>	<b>(8)</b>	<b>406,260</b>	<b>436,040</b>
Segment liabilities	76,554	87,003	12,018	7,453	(320)	(329)	88,252	94,127
Unallocable liabilities							131,398	212,052
Equity							186,610	129,861
<b>Total liabilities</b>	<b>76,554</b>	<b>87,003</b>	<b>12,018</b>	<b>7,453</b>	<b>(320)</b>	<b>(329)</b>	<b>406,260</b>	<b>436,040</b>
Allocable D&A (net of D&A due to acquisitions)	10,451	5,819	1,129	792			11,580	6,611
Unallocable D&A							623	138

	31/12/06	31/12/05	Adjustments 31/12/06	Adjustments 31/12/05	Consolidated 31/12/06	Consolidated 31/12/05	YoY Change
<b>REVENUES BY GEOGRAPHIC AREA</b>							
Italy	37,973	32,803			37,973	32,803	16%
Europe	153,694	90,446			153,694	90,446	70%
North America	124,504	54,381			124,504	54,381	129%
Rest of the world	<u>65,443</u>	<u>28,318</u>			65,443	28,318	131%
<b>Total</b>	<b>381,614</b>	<b>205,948</b>	<b>-</b>	<b>-</b>	<b>381,614</b>	<b>205,948</b>	<b>85%</b>
<b>ASSET VALUES BY GEOGRAPHIC AREA</b>							
Italy	88,410	101,364	16,736	(2,726)	105,146	98,638	7%
Europe	35,281	28,337	949	(1,305)	36,230	27,032	34%
North America	205,004	260,301	927	(369)	205,931	259,932	-21%
Rest of the world	<u>2,289</u>	<u>1,946</u>	<u>(354)</u>	<u>(425)</u>	<u>1,935</u>	1,521	27%
<b>Total</b>	<b>330,984</b>	<b>391,948</b>	<b>18,258</b>	<b>-4,825</b>	<b>349,242</b>	<b>387,123</b>	<b>-10%</b>
<b>COST FOR ACQUISITION OF THE ASSETS</b>							
Italy	16,366	5,367			16,366	5,367	205%
Europe	3,057	663			3,057	663	361%
North America	22,607	184,451			22,607	184,451	88%
Rest of the world	<u>100</u>	<u>99</u>			<u>100</u>	99	-78%
<b>Total</b>	<b>42,130</b>	<b>190,580</b>	<b>-</b>	<b>-</b>	<b>42,130</b>	<b>190,580</b>	<b>-78%</b>

For comments, please see the "Segment Information" section of the Management Report.

## TRANSACTIONS WITH SUBSIDIARIES NOT CONSOLIDATED LINE-BY-LINE, WITH ASSOCIATES, AND WITH RELATED PARTIES

For the definition of "Related Parties", see both IAS 24, approved by European Commission Regulation No. 1725/2003, and the internal policy approved by the board of directors on 11 November 2005.

€'000	31/12/05								
RELATED PARTIES	Idec DI Co. Ltd.	Datasensor	Hydra	Sourcing Solution*	Nebulaxis (*)	St. Associato Caruso (*)	John O'Brian	Total	
<b>Receivables</b>	796	164	443					<b>1,403</b>	
<b>Payables</b>								-	
Trade payables	-	377	988			73		<b>1,438</b>	
financial payables	-								
<b>Costs</b>									
sales costs	-	1,582						<b>1,582</b>	
service costs	-				82	205		<b>287</b>	
<b>Revenues</b>									
commercial revenues	2,901							<b>2,901</b>	
financial revenues	-	278						<b>278</b>	
€'000	31/12/06								
RELATED PARTIES	Idec DI Co. Ltd.	Datasensor	Hydra	Sourcing Solution*	Nebulaxis (*)	St. Associato Caruso (*)	John O'Brian	Total	
<b>Receivables</b>	602		3,810					<b>4,412</b>	
<b>Payables</b>									
Trade payables	-	423	11			51		<b>485</b>	
financial payables	-						2,488	<b>2,488</b>	
<b>Capitalized costs</b>	-				1,161			<b>1,161</b>	
<b>Costs</b>									
sales costs	-	1,340						<b>1,340</b>	
service costs	59			56	567	136		<b>818</b>	
<b>Revenues</b>									
commercial revenues	2,794							<b>2,794</b>	
financial revenues	-							-	

(\*) companies belonging to members of the Board of Directors

### Transactions with Datalogic Group companies

Idec Datalogic Co. Ltd, a Japanese company in which the ultimate parent company owns a 50% stake, purchases products and components from Datalogic for resale in the Far Eastern region.

At 31 December 2006, the ultimate parent company sold products and components to Idec, valued at €2,794 thousand, incurred repair costs for €59 thousand, and trade accounts receivable from Idec totaled €602 thousand. These transactions were executed at conditions comparable to those of other affiliates.

#### **Transactions with companies belonging to shareholders**

Transactions with Datasensor S.p.A., controlled by the key shareholders of the ultimate parent company, refer chiefly to the purchase of components by Datalogic S.p.A. (€1,340 thousand) and to the distribution by certain Group companies of small quantities of Datasensor products.

At 31 December 2006, trade payables to Datasensor totaled €423 thousand.

Relationships between the parent company and the indirect parent company (Hydra S.p.A.) mainly referred to the IRES receivable of €3,810 thousand and rental charges of an immaterial amount. The company joined the fiscal consolidation, as a consolidated company (Hydra is the consolidator).

Laservall S.p.A. has an IRES payable with Hydra S.p.A. of €11 thousand pursuant to its joining the fiscal consolidation, as a consolidated company (Hydra is the consolidator).

#### **Transactions with companies belonging to members of the Board of Directors**

In 2006 trade transactions totaling approximately €56 thousand were carried out with Sourcing Solution Ltd (SSG), a company owned by the director A. Forchielli.

Nebulaxis (headed up by the director, John O'Brien) billed the parent company €1,728 thousand in 2006 for consulting related to acquisition of PSC and additional projects subsequent to this transaction. An amount of €1,161 thousand was capitalized as accessory costs for purchase of the PSC shareholding.

In addition, it should be noted that under the heading "financial liabilities" are posted, in accordance with IAS 32.23, €2,488 thousand pertaining to a PUT option signed by the director John O'Brien with the parent company (which therefore has a call option) on his minority stake of 10% in Informatics Inc. This liability is offset by a negative reserve of €2,502 thousand (net of interest accruing and exchange-rate adjustment).

In compliance with the requirements of CONSOB resolution 11520 of 1 July 1998, below is a listing of the equity interests owned in the parent company and its subsidiaries, by the direct parent company's directors and statutory auditors, either directly or via subsidiaries.

The Caruso law offices (headed up by the director, Pier Paolo Caruso) billed the parent company €136 thousand for tax consulting services in 2006.

In compliance with the requirements of CONSOB (Italian securities & exchange commission) Resolution 11520 of 1 July 1998, below we show the equity interests owned by the direct parent company's directors and statutory auditors in the direct company and its subsidiaries, either directly or via companies controlled.

FULL NAME	TYPE OF OWNERSHIP	INVESTEE COMPANY	NUM. SHARES OWNED AT YEAR END 2005	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NUM. SHARES after capital increase and splitting (*)	NUM. SHARES PURCHASED after splitting	NUM. SHARES SOLD after splitting	NUM. NO. OF SHARES OWNED AT YEAR END 2006
Romano Volta	Indirect via Hydra S.p.A.	Datalogic S.p.A.	4,465,495			18,862,250			18,862,250
Romano Volta	Indirect via wife (Lucia Fantini)	Datalogic S.p.A.	4,487,494			18,903,850			18,903,850
Romano Volta	Direct	Datalogic S.p.A.	164,000			589,160			589,160
Roberto Tunioli	Direct	Datalogic S.p.A.	202,500		49,197	840,012		50,000	790,012
Roberto Tunioli	Direct	Datalogic Ltd.	1						1
Roberto Tunioli	Direct	Datalogic France	1						1
Roberto Tunioli	Indirect via wife (Paola China)	Datalogic S.p.A.	900			4,608		4,608	0
Giancarlo Micheletti	Direct	Datalogic S.p.A.	16,000			64,000			64,000
Pier Paolo Caruso	Direct	Datalogic France	1			1			1
Pier Paolo Caruso	Direct	Datalogic S.p.A.	0	441	441	0			0
Gabriele Volta	Direct	Datalogic S.p.A.	28,800			115,200			115,200
Valentina Volta	Direct	Datalogic S.p.A.	26,125			133,760			133,760
Angelo Manaresi	Direct	Datalogic S.p.A.	2,000			10,240			10,240
Stefano Romani	Direct	Datalogic S.p.A.	600	0	0	2,400			2,400

## NUMBER OF EMPLOYEES

	31/12/06	31/12/05	YoY Change
DL S.p.A.	532	558	(26)
DL AB	22	31	(9)
DL France	16	16	-
DL Iberia	20	19	1
DL Central Europe	55	56	(1)
DL Benelux	10		10
DL INC	45	47	(2)
DL PTY	12	13	(1)
DL UK	15	14	1
EMS	55	60	(5)
Informatics	107	97	10
Laservall	91	79	12
PSC Group	743	818	(75)
Slovakia	164		164
Asia	10		10
<b>Total</b>	<b>1897</b>	<b>1808</b>	<b>89</b>

## Compensation to Directors and Auditors

Pursuant to CONSOB resolution no. 11520 of 01/01/1998, we show the total remuneration payable to directors and members of the Board of Statutory Auditors for FY2006:

INDIVIDUAL FULL NAME	DESCRIPTION OF OFFICE		REMUNERATION in €'000		
	OFFICE HELD	TERM OF OFFICE	EMOLUMENTS FOR OFFICE	OTHER EMOLUMENTS	BONUSES & OTHER INCENTIVES
Mr. R. Volta	Chairman	31/12/06	268		
Mr. R. Tuniola	Vice Pres. Managing Director	31/12/06	900	13	2,050
Mr. A. Forchielli	Director	31/12/06	22		
Mr. G. Micheletti	Director	31/12/06	28	* 128	30
Mr. U. Paolucci	Director	31/12/06	16		
Mr. U. Piol	Director	31/12/06	16		
Mr. P. Caruso	Director	31/12/06	9		
Mr. G. Volta	Director	31/12/06	9		
Ms. V. Volta	Director	31/12/06	9		
Mr. J. O'Brian	Director	31/12/06	9		
Mr. A. Manaresi	Director	31/12/06	9		
Mr. L. Floriani **	Director	31/12/06	6		
Mr. G Tamburi **	Director	31/12/06	6		
Mr. M. Saracino	Secretary		9	0	
Mr. S. Romani	Pres. of Board of Statutory Auditors	31/12/06	23	3	
Mr. G. Cristofori	Statutory auditor	31/12/06	15	1	
Mr. R. Feverati	Statutory auditor	31/12/06	15	1	
Mr. P. Passarini	Substitute statutory auditor	31/12/06			
Mr. G. Delli	Substitute statutory auditor	31/12/06			

\*Remuneration relating to his employment as a manager of Datalogic S.p.A..

\*\* Board members appointed on 20 April 2006

The remuneration listed above has been fully paid by Datalogic S.p.A..



No other remuneration is owed to directors by other subsidiary companies. The total remuneration payable to the directors and statutory auditors of Laservall S.p.A. for FY2006 was as follows:

INDIVIDUAL FULL NAME	DESCRIPTION OF OFFICE OFFICE HELD	TERM OF OFFICE	REMUNERATION in €'000		
			EMOLUMENTS FOR OFFICE	NON- MONETARY BENEFITS	BONUSES & OTHER INCENTIVES
Mr. P. Cucchi	Director	31/12/07 *	88		
Mr. M. Cucchi	Director	31/12/07 *	100		
Mr. G. Piazzzi	C.E.O.	31/12/07 **	30		82
Mr. R. Tunioi	Chairman	31/12/07			
Mr. M. Rondelli	Director	31/12/07 ***			
Mr. M. Saracino	Chairman of Board of Statutory Auditors	31/12/06	8		1
Mr. M. Campanini	Statutory auditor	31/12/06	5		
Mr. R. Azzimonti	Statutory auditor	31/12/06 *	3		
Mr. G. Delli	Statutory auditor	31/12/06 ****	3		
Mr. G. Ronzani	Substitute statutory auditor	31/12/06			

\*resignation received and approved by the Board of 3 July 2006

\*\*in office since 9 February 2006

\*\*\*in office since 3 July 2006

\*\*\*\*appointed auditor on 7 July 2006

*Romano Volta*  
Chairman of the Board of Directors

## ANNEX 1

## TAX RECONCILIATION 31/12/2006

	DL PTY	DL France	DL Gmbh	DL AU	DL BV	DL UK	DL AB Holding	DL AB	DL INC	EMS	DL Spain	Informatics	PSC Group	Asia	Laservall Spa	Parent Company	Slovakia	consolidated adj.	Consolidated
Pre-tax profit/loss	-241	106	308	275	-233	242	63	-323	494	-470	-98	2.494	-3.060	153	8.454	-341	9.132	-7.922	9.033
Local rate	30%	34,33%	37,00%	25%	31%	30%	28%	28%	40%		30% primi 60 Euro /000-35%	35%			33%ires+ 4,25% irap	33%ires+4,25% irap	19,00%		
Taxes calculated applying local statutory tax rate to pre-tax result without IAS/IFRS		3	-114	-69		-73	-75		-198			-873	-436	0	-2.796	262	-1.735		-6.103
IRAP															-527	-1.057			-1.584
tax effect (downward changes)		14	106			28									368		97		613
tax effect (upward changes)		-26					-86		-7			-838			-141		-42	0	-1.140
Deferred taxes	71	39	4		73	-19	12		5		17	624	1.300		-239	950	-10	878	3.707
IAS/IFRS effect		-39																	-40
Others	0		5			0	0	0		-50	0	0	0	0	-49	-124		0	-218
Total taxes	71	-10	1	-69	73	-64	-149	0	-200	-50	17	-1.087	864	0	-3.384	31	-1.691	878	-4.767
Net profit(loss)	-170	96	309	206	-160	178	-86	-323	294	-521	-81	1.407	-2.196	153	5.070	-310	7.441	-7.044	4.266
Minority interests's share of net profit																			141
Group net profit																			4.125
Average tax rate	29,59%	9,07%	-0,28%	25,00%	31,43%	26,28%	236,57%	0,00%	40,40%	-10,64%	17,65%	43,58%	28,24%	0,00%	40,03%	9,10%	18,51%	11,08%	52,77%

**ANNEX 2**

**HYDRA S.P.A.**

Sede in via D'Azeglio n. 57 - 40100 Bologna (Bo)  
 Capitale sociale Euro 31.200.000 i.v.  
 Codice Fiscale e iscrizione Registro Imprese di Bologna n° 00445970379  
 R.E.A. di Bologna n° 202001

**Balance Sheet as of 31<sup>st</sup> Dec.2005**

<b>ASSETS</b>	<b>31/12/2005</b>
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<b>A) SUBSCRIBED CAPITAL UNPAID</b>	
<b>B) FIXED ASSETS</b>	<b>124.065.773</b>
<b>C) CURRENT ASSETS</b>	<b>18.584.412</b>
<b>D) ACCRUED INCOME AND PREPAYMENTS</b>	<b>742</b>
<b>TOTAL ASSETS</b>	<b>142.650.927</b>

<b>LIABILITIES AND EQUITY</b>	<b>31/12/2005</b>
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<b>A) NET EQUITY</b>	<b>45.967.360</b>
<i>Share Capital</i>	31.200.000
<i>Reserves</i>	3.616.241
<i>Net profit/(loss)</i>	11.151.119
<b>B) PROVISIONS FOR RISKS AND CHARGES</b>	
<b>C) Employees' severance indemnity provision</b>	<b>13.988</b>
<b>D) PAYABLES</b>	<b>96.585.558</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>84.021</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>142.650.927</b>

<b>MEMORANDUM ACCOUNTS</b>	<b>258.228</b>
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<b>PROFIT &amp; LOSS ACCOUNTS</b>	<b>31/12/2005</b>
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<b>A) PRODUCTION VALUE</b>	<b>941.776</b>
<b>B) PRODUCTION COSTS</b>	<b>(1.477.419)</b>
<b>C) FINANCIAL INCOME AND CHARGES</b>	<b>12.475.719</b>
<b>D) ADJUSTMENT TO THE VALUE OF FINANCIAL ASSETS</b>	<b>105.564</b>
<b>E) EXTRAORDINARY INCOME AND CHARGES</b>	<b>(1.698.564)</b>
Current income and deferred taxes	804.043
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>11.151.119</b>

## ANNEX 3

**HYDRA S.p.a.****CONSOLIDATED BALANCE SHEET**

Euro /000

ASSETS	31/12/2005
NON-CURRENT ASSETS	349.387
FIXED ASSETS	229.721
TOTAL ASSETS	579.108
LIABILITIES AND EQUITY	31/12/2005
A) NET EQUITY	
Share Capital	31.200
Reserves	3.994
Net profit/(loss) for the year	121.530
Total net equity	156.724
NON-CURRENT LIABILITIES	169.430
CURRENT LIABILITIES	252.954
TOTAL LIABILITIES AND EQUITY	579.108

**CONSOLIDATED PROFIT & LOSS ACCOUNTS**

Euro /000

	31/12/2005
PRODUCTION VALUE	233.697
PRODUCTION COSTS	(120.615)
GROSS PROFIT	113.082
OTHER REVENUES	3.106
TOTAL OPERATING EXPENSES	(95.400)
NET FINANCIAL INCOME	3.630
PRE-TAX PROFIT/(LOSS)	24.418
TAXES	(9.957)
NET PROFIT/(LOSS) FOR THE PERIOD	14.461
Profit/(Loss) pertaining to minorities	(3.766)
GROUP NET PROFIT/(LOSS) FOR THE YEAR	10.695