Official documents are in Italian

Consolidated Annual Report & Accounts

as at 31 December 2005

DATALOGIC

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COMPOSITION OF CORPORATE GOVERNANCE BODIES

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

Board of Statutory Auditors (4)

Stefano Romani
President

Gianluca Cristofori
Standing auditor

Roberto Feverati
Standing auditor

Patrizia Passerini
Alternate auditor

Giorgio Delli
Alternate auditor

Indipendent 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 – MANAGEMENT REPORT AS AT 31 DECEMBER 2005

To Our Shareholders

A) INFORMATION ON PERFORMANCE

The annual report for the year ending on 31 December 2005, 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 SpA.

More specifically, consolidated financial statements apply the approach envisaged by international accounting standards (IAS/IFRS) introduced by European Regulation 1725/2003.

The Datalogic Group's net profit in the financial year 2005 (FY2005) totalled € 12,997 thousand, growing by over 15.9% vs. € 11,211 thousand reported in FY2004.
An important contribution was made to this result by the recent acquisitions of Informatics Inc. (consolidated line by line as from March FY2005) and of the PSC Group (consolidated line by line for December 2005).

The acquisition of PSC, one of the historic companies in our sector, takes Datalogic up to 3rd place in the global ranking for our sector, and enables the company to achieve its market share substantially for HHR products (hand-held readers) and MC (mobile computers) and to enter via the "front door" (PSC is world leader) one of the most attractive segments in our market, i.e. checkout scanners for the retail market.

The following table summarises the key operating results of the PSC Group in the last month of FY2005:

	FY2005 (1 month) PSC
	€ '000
Total revenues	19,425
EBITDA	149
% on total revenues	*0.8%*
Net profit	-219
% on total revenues	*-1.1%*

PSC's results were affected by accounting adjustments made (€ 542 thousand) – as required by IASs/IFRSs – to adjust assets and liabilities as at acquisition to fair value. During FY2005 the PSC Group achieved revenues of some USD 241 million (mn) and EBITDA of some USD 19.2 mn, with an 8% margin on sales.

The following table summarises key operating results of Informatics Inc. as at 31 December 2005 (duly adjusted to allow for consolidation adjustments concerning the company):

	FY2005 Informatics
	€ '000
Total revenues	25,477
EBITDA	3,652
% on total revenues	*14.3%*
Net profit	1,786
% on total revenues	*7.0%*

In FY2005 the **Datalogic Group achieved total revenues of € 205,948 thousand (vs. € 146,267 thousand in FY2004)**, detailed as follows:

- € 198,460 thousand consisting of revenues from the sale of products (of which: PSC Group €18,828 thousand, and Informatics Inc. € 25,477 thousand);
- € 7,488 thousand of revenues from services (of which: PSC Group € 597 thousand).

These revenues showed reported growth of some 40.8% YoY (vs. revenues of € 146,267 thousand in FY2004), with growth of 10.1% YoY net of the PSC Group and Informatics Inc.

The following table summarises the Datalogic Group's key operating and financial highlights in FY2005 (i.e. as at 31 December 2005) comparing them with FY2004:

Datalogic Group	**FY2005**	**FY2004**	**YoY Change**	
	€ ‘000	**€ ‘000**	**€ ‘000**	*%*
Total revenues	205,948	146,267	59,681	*40.8%*
EBITDA	31,548	25,249	6,299	*24.9%*
% on total revenues	*15.3%*	*17.3%*		
Group net profit (i.e. of parent company’s shareholders)	12,997	11,211	1,786	*15.9%*
% on total revenues	*6.3%*	*7.7%*		
Net Financial Position (NFP)	-125,718	35,878	-161,596	*-450.4%*

Group EBITDA was € 31,548 thousand (of which: PSC € 149 thousand and Informatics Inc. €3,652 thousand), with a 15.3% margin on total revenues (17.2% net of the PSC Group and Informatics Inc.). The outright increase over FY2004 totalled € 6,299 thousand (+24.9% vs. €25,249 thousand as at 31 December 2004, +9.9% net of the PSC Group and Informatics Inc.).

The following table shows the main components of EBITDA and the comparison with FY2004.

	FY2005		FY2004(*)		YoY Change	
	€ ‘000		€ ‘000		€ ‘000	%
Total revenues	***205,948***	***100.0%***	***146,267***	***100.0%***	***59,681***	***40.8%***
Cost of goods sold and operating costs	-174,400	*-84.7%*	-121,018	*-82.7%*	*-53,382*	*44.1%*
EBITDA	***31,548***	***15.3%***	***25,249***	***17.3%***	***6,299***	***24.9%***
Depreciation of property, plant & equipment	-4,558	*-2.2%*	-3,349	*-2.3%*	*-1,209*	*36.1%*
Amortisation of intangible assets	-2,191	*-1.1%*	-2,347	*-1.6%*	*156*	*-6.6%*
EBIT	***24,799***	***12.0%***	***19,553***	***13.4%***	***5,246***	***26.8%***
Non-recurrent costs	-4,521	*-2.2%*	-1,322	*-0.9%*	-3,199	*242.0%*
Operating profit	***20,279***	***9.8%***	***18,231***	***12.5%***	***2,047***	***11.2%***
Net finance income/(costs) and income from associate companies	2,401	*1.2%*	446	*0.3%*	*1,955*	*438.3%*
EBT	***22,680***	***11.0%***	***18,677***	***12.8%***	***4,002***	***21.4%***
Income tax	-9,512	*-4.6%*	-7,466	*-5.1%*	**-2,046**	*27.4%*
NET PROFIT BEFORE MINORITY INTEREST	***13,168***	***6.4%***	***11,211***	***7.7%***	***1,957***	***17.5%***
Minority interest	171	*0.1%*	0	*0.0%*	***171***	
GROUP NET PROFIT	***12,997***	***6.3%***	***11,211***	***7.7%***	***1,786***	***15.9%***

(*) FY2004 data have been restated to make them comparable with IFRS-compliant FY2005 data.

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

In order to assure better representation of the Group’s ordinary profitability, we have preferred – in all tables in this management report – to show an operating result before the impact of non-recurrent costs/income that we have called “EBIT”. To permit comparability with detailed official accounting statements, we have in any case included a further intermediate profit margin (called “Operating profit”) that includes the net impact of non-recurrent items.

As at 31 December 2005 non-recurrent costs (€ 4,521 thousand) consisted of the following items:

- Non-recurrent remuneration for the CEO (€ 2,396 thousand)
- Amortisation of intangible assets recognised in accounts due to the acquisition of Laservall and Informatics (€ 1,830 thousand)
- Other non-recurrent items (€ 295 thousand).

EBIT (i.e. before non-recurrent items) amounted to € 24,799 thousand (of which: € -143 thousand PSC Group and € 3,480 thousand Informatics Inc.) with a 12% margin on revenues and 26.8% growth over FY2004 performance (+9.8% net of the PSC Group and Informatics Inc.).

As at 31 December 2005 Group net profit (i.e. of the parent company's shareholders) totalled € 12,997 thousand (of which: € -219 thousand PSC Group and € 1,786 thousand Informatics Inc.), up by 15.9% vs. € 11,211 thousand reported in FY2004 (+1.9% net of the PSC Group and Informatics Inc.).

The next 2 tables compare the main operating results achieved in the last quarter of 2005 (4Q05) with, respectively, 4Q04 and the third quarter of 2005 (3Q05).

€ '000	*4Q05*		*4Q04*		*YoY Change*	
					Amount	*%*
Total revenues	*73,145*	*100.0%*	*43,842*	*100.0%*	*29,303*	*66.8%*
EBITDA	*8,612*	*11.8%*	*7,586*	*17.3%*	*1,026*	*13.5%*
EBIT	*6,575*	*9.0%*	*5,865*	*13.4%*	*710*	*12.1%*

It should be noted that 4Q05 included the results of Informatics and of the PSC Group, whereas 4Q05 did not.

€ '000	*4Q05*		*3Q05*		*YoY Change*	
					Amount	*%*
Total revenues	*73,145*	*100.0%*	*46,236*	*100.0%*	*26,909*	*58.2%*
EBITDA	*8,612*	*11.8%*	*8,188*	*17.7%*	*424*	*5.2%*
EBIT	*6,575*	*9.0%*	*6,524*	*14.1%*	*51*	*0.8%*

Net of PSC, which, as already highlighted, in 4Q05 did not make a contribution in line with the Datalogic Group's average profitability, EBITDA and EBIT would have respectively been € 8,463 thousand (15.8% margin on revenues of € 53,720 thousand) and € 6,718 thousand (12.5% margin on revenues).

REVENUE TRENDS AND KEY FACTORS AFFECTING OPERATIONS IN FY2005

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), whilst 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. They consist of:

- Industrial marking products
- Distribution of automatic identification products.

These last two activities relate to two companies recently acquired by Datalogic SpA (i.e. respectively to Laservall SpA and Informatics Inc.).

Primary segment results as at 31/12/2005 (FY2005), compared with those as at 31/12/2004 (FY2004) were as follows:

€ '000	Data Capture		Business Development		Adjustments		Consolidated Total	
	FY2005	**FY2004**	**FY2005**	**FY2004**	**FY2005**	**FY2004**	**FY2005**	**FY2004**
Revenues:								
External sales	146,566	123,592	59,382	22,675			205,948	146,267
Intersegment sales	42	9	33	65	(75)	(74)	-	-
TOTAL REVENUES	146,608	123,601	59,415	22,740	(75)	(74)	205,948	146,267
Cost of goods sold	76,492	61,534	30,073	11,110	(39)		106,526	72,644
Intersegment cost of goods sold	18	66	39		(57)	(66)	-	-
GROSS PROFIT	70,098	62,001	29,303	11,630	21	(8)	99,422	73,623
Other attributable revenues	2,455	2,169	204	536			2,659	2,705
Other intersegment revenues	370	603	-		(370)	(603)	-	-
Operating costs:								
R&D expenses	11,308	8,965	3,368	2,430			14,676	11,395
Distribution expenses	24,970	19,442	11,651	4,317	(334)	(327)	36,287	23,432
Allocable G&A costs	15,054	14,391	4,460	1,857	(219)	(276)	19,295	15,972
Other allocable operating costs	2,180	1,755	203				2,383	1,755
SEGMENT RESULT	**19,411**	**20,220**	**9,825**	**3,562**	**204**	**(8)**	**29,440**	**23,774**
Unallocable G&A costs		-		-			4,641	4,221
OPERATING PROFIT	**19,411**	**20,220**	**9,825**	**3,562**	**204**	**(8)**	**24,799**	**19,553**
Allocable net non-recurrent (costs)	(295)	(676)	(1,830)	(646)			(2,125)	(1,322)
Unallocable net non-recurrent (costs)							(2,396)	-
Net finance income							2,172	95
Share of associates' profit	149	125	80	226			229	351
Income tax							9,512	7,466
NET PROFIT	**19,265**	**19,669**	**8,075**	**3,142**	**204**	**(8)**	**13,168**	**11,211**
OTHER INFORMATION								
Segment assets	333,400	117,587	53,731	15,471	(8)	(59)	387,123	132,999
Interests in associates booked at equity	636	437	165	414			801	851
Unallocable assets							48,116	56,770
Total assets	334,036	118,024	53,896	15,885	(8)	(59)	436,040	190.620
Segment liabilities	87,003	39,690	7,453	4,411	(329)	(231)	94,127	43.870
Unallocable liabilities							212,052	30.561
Equity							129,861	116.189
Total liabilities	87,003	39,690	7,453	4,411	(329)	(231)	436,040	190.620
Deprec. & amort.n (D&A)	5,819	5,167	792	409			6,611	5.576
Unallocable D&A							138	120

As regards sales performance, later on we show some charts providing further information (by business division and geographical segment) about the results achieved. We point out that Data Capture revenues included, solely for the month of December, PSC's sales (€ 19,245 thousand).

The **Data Capture Division**'s sales as at December 31st 2005 (FY2005) totalled € 146,566 thousand, growing by some 19% over FY2004.

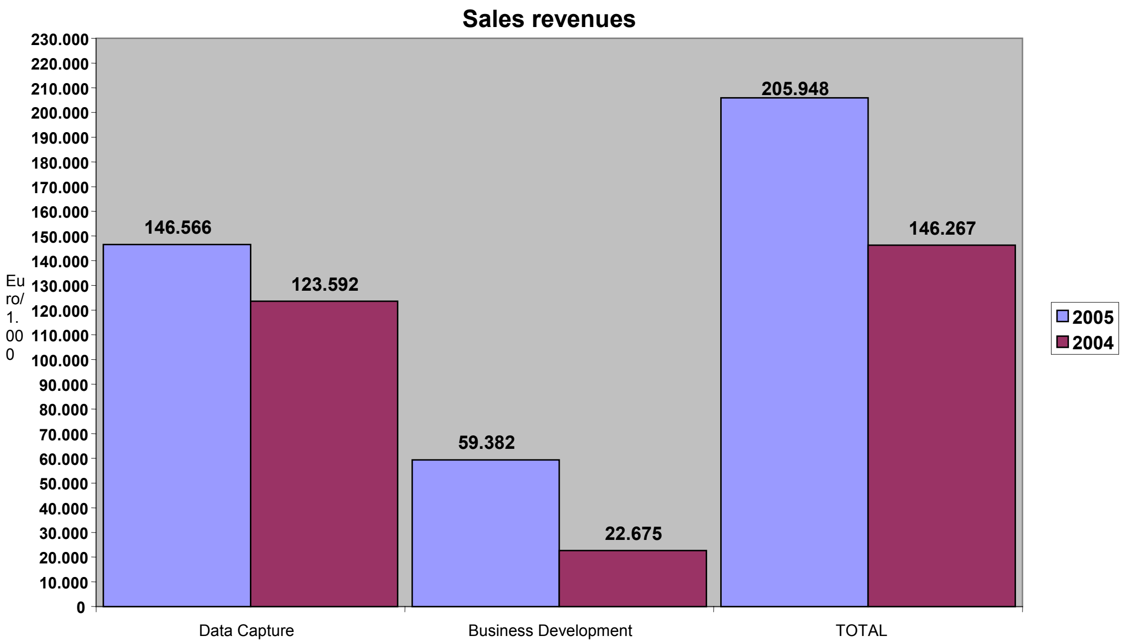
Net of the contribution of PSC and of third-party products, the Data Capture Division's growth was about 5% YoY.

All product lines (hand-held readers, mobile computers, and unattended scanners) contributed to the Division's good performance, with mobile computers and unattended scanners making a particularly significant contribution.

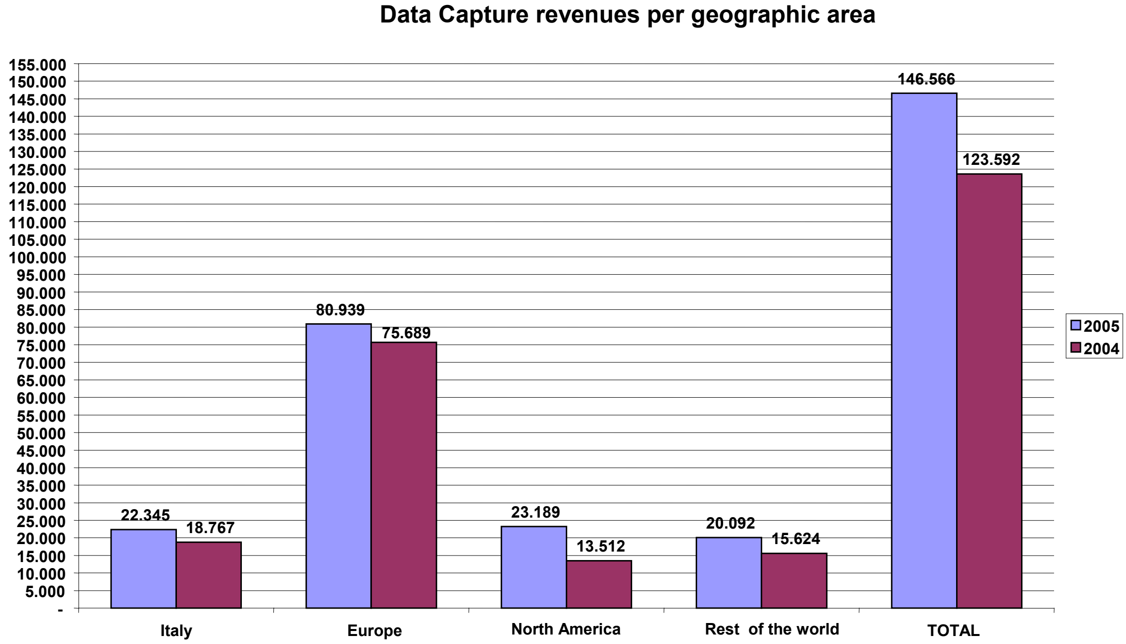
Revenues of the **Business Development Division** amounted to € 59,382 thousand (29% of the total), growing by over 162% vs. € 22,675 thousand reported in FY2004. As already highlighted several times, the new acquisitions (Laservall and Informatics) made a significant contribution to this result.

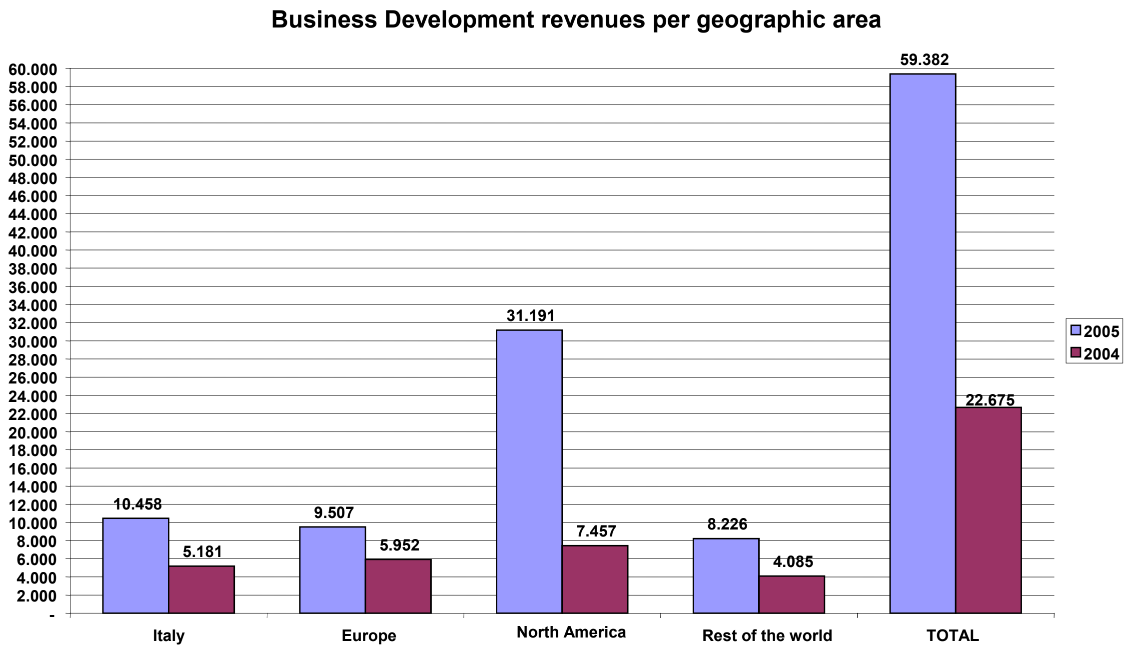
All geographical areas showed growth, with particularly good results in North America (+72% YoY) and in the Rest of the World area (+29% YoY).

Going into greater detail, in FY2005 the various geographical areas' contribution to sales was as follows:



The following charts provide the geographical breakdown of the Data Capture and Business Divisions' sales.





Cost of goods sold as a percentage on sales increased to 51.7% vs. 49.7% reported in 2004. The main reason for this change was consolidation of PSC, which had a higher cost of goods sold than the rest of the Data Capture Division (68% in December due, among other things, also to accounting adjustments consequent to its acquisition by Datalogic) but a more efficient operating cost structure.

Gross profit rose from € 73,623 thousand (in FY2004) to € 99,422 thousand in FY2005 (+36%). A significant contribution was made to this result by both the Data Capture Division (+13% YoY) and, above all, the Business Development Division (+152%).

Operating costs attributable to the Divisions amounted to € 72,641 thousand as at 31 December 2005 (+27.9% vs. € 56,775 thousand reported in FY2004). Of this total, € 53,512 thousand of costs related to the Data Capture Division (+20% vs. 2004) and € 20,217 thousand to the Business Development Division (+129% vs. 2004), gross of € 553 thousand of "interdivisional" operating costs.

Going into greater detail, the **Data Capture Division** featured:

- An increase in R&D costs, which in FY2005 amounted € 11,308 thousand (equivalent to 7.71% of total sales and up by 26.1% vs. FY2004)
- A 4% increase in allocable G&A costs, which amounted to € 15,054 thousand in FY2005 vs. € 14,391 thousand reported in FY2004
- An increase of 28.41% in distribution expenses to € 24,970 thousand in FY2005 vs. € 19,442 thousand reported in FY2004.

Other allocable operating costs (€ 2,180 thousand) increased by 24.2% vs. FY2004, mainly due to provision of € 1,000 thousand made by the direct parent company for the estimated 2005 portion of a long-term management incentive scheme (ending in 2008).

The **Data Capture Division**'s total operating costs amounted to € 53,512 thousand and, compared with FY2004, grew faster than sales (+20% vs. +18.6%).

The **Business Development Division** featured a significant increase of all operating cost categories – mainly because of the change in the scope of consolidation.

The **Data Capture Division's segment result** (i.e. before non-allocable G&A expenses) amounted to € 19,411 thousand – down vs. € 20,220 thousand reported in FY2004. Net of PSC's contribution, the Data Capture Division's result would have been € 19,554 thousand and therefore down by about –3.3% YoY.

The **Business Development Division's segment result** totalled € 9,825 thousand, with strong growth (+176%) vs. the € 3,562 thousand reported in FY2004. Once again in this case the result was almost entirely due to the change in the scope of consolidation.

Segment revenues and assets by geographical segment

	FY2005	FY2004	Adjustments FY2005	Adjustments FY2004	Consolidated Total FY2005	Consolidated Total FY2004	% YoY
REVENUES BY GEOGRAPHIC AREA							
Italy	32.803	23.947			32.803	23.947	37%
Europe	90.446	81.641			90.446	81.641	11%
North America	54.381	20.969			54.381	20.969	159%
Rest of the world	28.318	19.709			28.318	19.709	44%
TOTAL	**205.948**	**146.267**	**-**	**-**	**205.948**	**146.267**	**41%**
ASSETS BY GEOGRAPHICAL SEGMENT							
Italy	101.364	95.095	(2.726)	5.216	98.638	100.311	-2%
Europe	28.337	31.503	(1.305)	(6.650)	27.032	24.853	9%
North America	260.301	6.782	(369)	(335)	259.932	6.447	3932%
Rest of the world	1.946	1.785	(425)	(397)	1.521	1.388	10%
TOTAL	**391.948**	**135.165**	**- 4.825**	**- 2.166**	**387.123**	**132.999**	**191%**
ASSETS PURCAHSE COST							
Italy	5.367	18.971			5.367	18.971	-72%
Europe	663	13			663	13	5000%
North America	184.451	95			184.451	95	194059%
Rest of the world	99	-			99	-	
TOTAL	**190.580**	**19.079**	**-**	**-**	**190.580**	**19.079**	**899%**

As at 31 December 2005, our net financial position was negative by € -125,718 thousand and featured the following breakdown:

Datalogic Group	***31/12/05***	***31/12/04***
	€ '000	**€ '000**
Non-current financial assets	1,872	2,979
M-/L-term bank borrowing	-12,283	-5,500
M-/L-term net financial position	***-10,411***	***-2,521***
Short-term bank borrowing and other short-term financial liabilities	-149,349	-2,660
Current financial assets	4,012	3,407
Hedging transactions	-116	239
Commercial paper	0	0
Cash and cash equivalents	30,146	37,413
Short-term net financial position	***-115,307***	***38,399***
Total net financial position	***-125,718***	***35,878***

NFP structure for the to periods shown has been restated following adoption of IASs/IFRSs.

Our net financial position (NFP) as at 31 December 2005 decreased by € 161,596 vs. 31 December 2004 (net cash of € 35,878 thousand).
We highlight the fact that, during FY2005, acquisitions completed had a total impact of € 178,124 thousand on NFP, of which € 96,980 thousand used for acquisitions (€ 10,975 thousand for Informatics, € 3,711 thousand for Laservall, and € 83,294 thousand for PSC) and € 81,144 thousand consisting of acquired companies' financial liabilities (of which € 8,149 thousand for Informatics and € 72,995 thousand for PSC).
In addition, we paid out dividends of € 15,040 thousand (of which € 12,350 thousand as an extraordinary dividend).

As regards cash-in, we would like to highlight the fact that the parent company collected, as at 31 December 2005::

- € 2,778 thousand for a VAT rebate
- € 3,725 thousand for the exercise of stock options.

Net of finance income and of cash-out for acquisitions/dividends, during FY2005 the Datalogic Group generated positive cash flows of € 15,766 thousand, net of the effect of € 9,299 thousand for IFRS conversion, consisting mainly of treasury shares held as at 31 December 31 2004 (€ 9,673 thousand.

Net working capital as at 31 December 2005 totalled € 71,313 thousand and increased by € 36,590 thousand vs. 31 December 2004 (€ 34,723 thousand).

Net of Informatics and the PSC Group, investments in tangible and intangible assets amounted to €6,391 thousand.

DEVELOPMENT OF PROCESSING/PRODUCTION TECHNOLOGIES

During FY2005 we laid the foundations for overall revamping of the Group's manufacturing organisation, with the objective – as regards the Data Capture Division – of specialising each production site in a specific product line, consistently with the organisational choices (focus by product line) recently made. As regards this, and with the aim of strengthening the Group's manufacturing set-up, during 2005 we founded a new company – Datalogic Slovakia – whose activity will consist of managing the HHR product line (with the main exceptions being sales activities, delegated to the Groups sales affiliates, and R&D, which will continue to be performed by Datalogic SpA).
Datalogic Slovakia will be operational as from January 2006.
During the year we virtually completed the project for total overhauling of distribution logistics. This envisages transition from a model based on shipment from the parent company to affiliates and from the latter to end-user customers to direct shipment to all European end-user customers, maintaining the same service level and significantly reducing finished-product inventories, no longer present at the Group's European affiliates.

SOCIAL, POLITICAL, AND TRADE UNION CLIMATE

2005 ended confirming – in terms of basic features – the macroeconomic trends of 2004. In the face of still robust growth of the US and Eastern economies, Europe showed signs of recovery that grew stronger in the second half, albeit with a lower growth rate than that of the USA and Asia – headed by China and India.

Substantial stagnation continued in the case of the Italian economy, which continued to grow more slowly than that of other European countries – including France and Germany. It achieved GDP progress of just 0.1% and – on the minus side – an increase of public debt, which in 2006 should not be less than 4.4%.

Conversely, unemployment continued to decrease – and is expected to remain below 8% during 2005 – even although so-called "precarious" employment (i.e. fixed-term as opposed to indefinite employment contracts) increased, particularly among young university graduates (at one year after graduation 59% of graduates did not have stable employment)

Salaries in 2005 also grew faster than inflation (by 3.3% vs. an inflation rate of just over 2%). This was also thanks to renewal – in many industries – of national collective labour agreements.

The social climate felt the effects of the round of collective contract renewals. As regards the engineering industry, this led to numerous strike days – and the imminence of the general elections and the highly conflictual national political climate also gave industrial action a more exquisitely political connotation.

As regards the engineering industry, apart from the lengthiness of negotiations for renewal of the collective contract (over 1 year), the social climate was better than that experienced in 2004, thanks to the return to a more united front of the three main national trade unions CIGL, CISL, and UIL.

As far as our group is concerned, trade union relations continued in a substantially relaxed and constructive climate, albeit in the presence of issues potentially generating conflict, such as reorganisation of the entire manufacturing activity, which started in the second half.

There was a certain increase in representation by unitary workplace trade union representatives, present at the three main sites of Datalogic SpA, in particular at the Bologna site, where the number of representatives increased from 3 to 5, and at the Castiglione di Messer Raimondo site with participation in union meetings and strikes generally increased.

As regards our employment trend, the Group featured a big increase – but this was due more to the acquisition of Informatics and inauguration of Datalogic Slovakia SRO than to other factors. Headcount increased from 875 to 1,031 employees (excluding PSC Inc.), of which 635 working in Italy.

In particular, the inauguration of Datalogic Slovakia involved the hire of some 65 people, of which 41 already on the payroll as at 31 December 2005.

Staff turnover remained low (and in Datalogic SpA was at around 3%).

We also completed the programme designed to strengthen our management team already started in 2004, thanks to the hiring of Country Managers in Datalogic Iberia and Datalogic Asia, and to hiring of the Central Marketing Director and of the new Factory Manager at Quinto di Treviso.

In addition, we continued with inauguration of commercial units in geographical zones not adequately covered (as well as in China, Norway, Finland, Belgium and the Netherlands, where a full-scale affiliate has been created, also in Austria, from where East European countries are commercially followed).

Once again in 2005 we made significant investments (in Italy and abroad) in staff training, with special reference to training and development of managerial staff and to technical/operating training of production staff. 11,651 hours of training were provided, with an increase of some 9% over 2004, to which we should add numerous on-the-job training initiatives, above all in the production area.

FINANCE INCOME AND EXPENSE

There was net finance income of € 2,172 thousand. The drivers of this result were as follows:

Finance income in the strict sense of the term	304
Net foreign exchange gains	1,298
Banking expenses	(335)
Financial component of accrued post-employment benefit provision	-
Laservall capital gain	952
Others	(47)
Net finance income	**2.172**

In addition, we note that earnings of € 229 thousand made by companies consolidated at equity were also reported.

INVESTMENTS

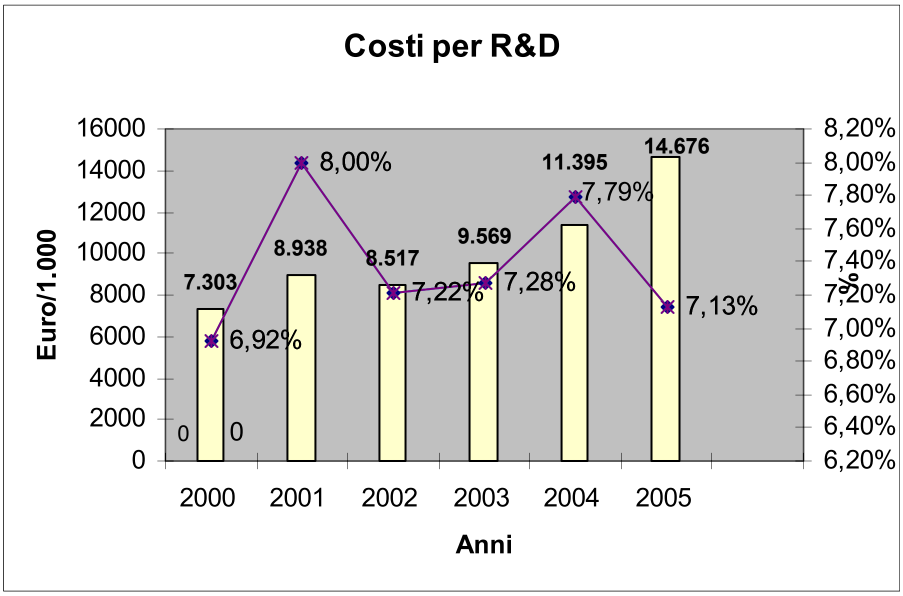
During FY2005 the Group made investments in tangible and intangible assets that, net of disposals, amounted to € 6,391 thousand (net of the PSC and Informatics acquisitions) and featured the following breakdown:

Land & buildings	€ 158 thousand
Plant & machinery	€ 728 thousand
Other tangible assets	€ 4,012 thousand
Tangible assets under construction	€ 159 thousand

Development costs	€	851 thousand
Other intangible assets	€	483 thousand.

RESEARCH AND DEVELOPMENT ACTIVITIES

In FY2005 R&D costs amounted to € 14,676 thousand (equivalent to 7.13% of total revenues), up by some 28.8% vs. FY2004. Of this total, € 3,003 thousand borne by the HHR unit, € 3,391 thousand by the MC unit, € 3,472 thousand by the USS unit, € 833 thousand by the EBUS (e-business solutions for retailing) unit. € 1,522 thousand by the RFID unit, € 1,204 thousand by the Laservall company, and €1,236 thousand by the PSC Group, whilst € 14 thousand consisted of common costs. The R&D investments made in the last few years have been as follows:



We capitalised € 851 thousand relating to patents.

Below we summarise the main R&D activities performed by the company's primary business units:

<u>HHR</u>

During FY2005 the HHR business unit completed and launched on the market a number of important products that expand Datalogic's already substantial offering in the field of hand-held readers.

Going into greater detail, for products dedicated to the retailing market:

- A new CCD (charge-coupled device) gun-shaped reader (Heron™ G CCD gun) in the economic price range was launched, joining the already well-established Heron™ product, providing an ergonomically complementary alternative.

- The range of laser presentation scanners was extended with the introduction of Catcher TM, a new product featuring an innovative and flexible system for treatment of the video signal. This solution forms the technological base for a more complete family of presentation scanners that will come into being during FY2006.
- Lastly, development work was completed on a new 2D code reader (Gryphon TM D432), which will be launched at the beginning of 2006.

For products dedicated to the industrial market:

- A new model of the already established Dragon TM hand-held laser scanner was launched for long-range reading applications (DragonTM XLR)
- The cordless model was launched of the Lynx 2D code reader, based on Bluetooth® technology (LynxTM BT432)
- Development, already initiated in 2004, continued of the new technological platform dedicated to one of Datalogic's most successful products (the DragonTM hand-held laser scanner), which will be introduced during FY2006.

In addition, during FY2005 work continued on strategic reduction of product costs, via both the quest for alternative components plus new suppliers, and redesign of some important products or basic technological modules.

<u>USS</u>

In the area of fixed-position scanners, development work was completed for some important products, expanding the offering in several market segments:

- Transportation & Logistics and Distribution: during the year new products and system solutions were announced that aim to improve performance, costs, reliability, simplicity of use and installation, by unifying HW and SW platforms (among these we mention the new DX6500 omni-directional laser scanner and the DX8200A). In addition, study activities continued in the area of vision systems with the aim of improving their reading performance.
- Manufacturing and OEM: work continued on the development and launch of new products (among which we highlight the DS 1500 scanner and the new DS6400 omni-directional laser scanner), and at the same time projects were started to revamp some product ranges.

<u>MOBILE COMPUTERS</u>

As regards the MC area, we highlight expansion of the range of terminals for the management of applications in industrial environments, with the launch of the new Kyman-NETTM terminal (particularly suited for mobility and warehouse applications). In addition, the new version was launched of the Datalogic JetTM PDA (the so-called Datalogic Black Jet), which features higher performance (it in fact has more memory) and increasingly innovative technology (vehicle cradle with loudspeaker functions).

At the same time application packets' capacity was developed and upgraded to simplify management of mobile terminal communication and make it more efficient. In addition, migration started of the operating system to the more recent and upgraded Windows CE 5.0 version.

PERFORMANCE OF GROUP COMPANIES

The business performance of group companies as 31 December 2005 – inclusive of intercompany transactions – is summarised in the following tables (the result for the period, shown after tax, is the one obtained after making the necessary adjustments to assure alignment with group accounting policies).

REVENUES FROM SALES & SERVICES - € '000

COMPANY NAME	% Ownership as at 31/12/05	31/12/2005	31/12/2004	% YoY Change
Datalogic SpA (direct parent company) *		109,712	143,331	-23.5%
PSC Group (3)		19,425		0.0%
Laservall SpA **	100%	20,073	8,672	131.5%
Datalogic AB	100%	9,364	10,460	
Minec System Holding (2)	100%	0	0	
Datalogic Holding AB (2)	100%	0	0	0.0%
EMS Inc.	100%	8,852	10,337	-14.4%
Datalogic France SA (1)	100%	115	3,495	-96.7%
Datalogic Optik Elektronik GmbH	100%	36,866	38,008	-3.0%
Datalogic Optic Electronics BV (1)	100%	0	0	0.0%
Datalogic Handelsgesellschaft mbH (1)	100%	0	0	0.0%
Datalogic Pty. Ltd.	100%	5,752	5,412	6.3%
Datalogic UK Ltd (1)	100%	6,754	7,498	-9.9%
Datalogic Inc.	100%	15,134	13,589	11.4%
Informatics Inc.	90%	25,485	0	
Datalogic Asia (1)	100%	0		

** 2004 includes reclassified revenues of the Datasud company, which was merged by incorporation during 2004*

*** The figure as at 31/12/2004 relates solely to the 2nd half (June-December) because the company was consolidated during the second half of 2004*

(1) These companies operate on the basis of an agency contract by virtue of which they receive commissions that are posted among "Other revenues". During the year the status of Datalogic France and Datalogic UK

changed from that of agency to commercial affiliate in the strict sense of the term (trading of products instead of receipt of orders).

(2) Zero total revenues because the company is not operational.

(3) Since the PSC Group was consolidated for just one month (December 2005), the detail by individual company is not given here because it is not considered to be meaningful.

NET PROFIT (i.e. after tax) (€ ‘000):

COMPANY NAME	% Ownership as at 31/12/05	31/12/2005	31/12/2004	% YoY Change
Datalogic SpA (direct parent company) *	100%	9.924	10.263	- 339
PSC Group ***		-269	0	- 269
Laservall SpA **	100%	4.403	1.261	3.142
Datalogic AB	100%	-650	153	- 803
Minec System Holding	100%	0	-9	9
Datalogic Holding AB	100%	-128	46	- 174
EMS Inc.	100%	-298	464	- 762
Datalogic France SA (1)	100%	207	193	14
Datalogic Optik Elektronik GmbH	100%	1.234	1.478	- 244
Datalogic Optic Electronics BV	100%	-26	-34	8
Datalogic Handelsgesellschaft mbH	100%	231	185	46
Datalogic Pty. Ltd.	100%	-107	-29	- 78
Datalogic UK Ltd	100%	221	426	- 205
Datalogic Inc.	100%	222	-127	349
Informatics Inc.	90%	1.708	0	1.708
Datalogic Asia	100%	55	0	55

** 2004 includes reclassified revenues of the Datasud company, which was merged by incorporation during 2004*

*** The figure as at 31/12/2004 relates solely to the 2nd half (June-December) because the company was consolidated during the second half of 2004*

**** Since the PSC Group was consolidated for just one month (December 2005), the detail by individual company is not given here because it is not considered to be meaningful.*

TRANSACTIONS WITH SUBSIDIARIES NOT CONSOLIDATED 100% LINE-BY-LINE, WITH ASSOCIATE COMPANIES, AND WITH RELATED PARTIES

Transactions with Datalogic Group companies

Idec Datalogic Co. Ltd, a Japanese company in which the indirect (i.e. ultimate) parent company owns a 50% stake, purchases products and components from Datalogic for resale in the Far Eastern area. In FY2005 the ultimate parent company sold Idec products and components totalling about € 2,901 thousand. As at 31 December 2005, trade accounts receivable from Idec totalled € 796 thousand. These transactions were executed at conditions comparable to those of other affiliates.

Transactions with DL Private Ltd., an Indian company in which the ultimate parent company owns a 20% equity interest, are not significant.

Transactions with companies belonging to shareholders

Transactions with Datasensor SpA – a company controlled by the indirect parent company's key shareholders – mainly concerned purchase of components by the direct parent company (€ 1,498 thousand), financial charges (€ 84 thousand), and contributions to interest payments (€ 278 thousand) concerning the IMI long-term loan (which, following the demerger on 02/01/1998, is now jointly held by the direct parent company and Datasensor SpA), and to distribution, by some group companies, of modest quantities of Datasensor products.
As at 31 December 2005 trade accounts payable to Datasensor totalled € 377 thousand and receivables € 164 thousand.

Transactions with the indirect parent company (Hydra SpA) during the period were marginal and limited to reciprocal debiting of rents with Datalogic SpA and to participation in domestic tax consolidation. More specifically, we not that Datalogic SpA had a credit with the indirect parent company of € 443 thousand Laservall had a liability with Hydra of € 998 thousand.

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	No. of Shares Owned at End of FY2004	No. of Shares Purchased	No. of Shares Sold	No. of Shares Owned at End of FY2004
Romano Volta	Indirect via Hydra SpA	Datalogic SpA	4,465,495			4,465,495
Romano Volta	Indirect via wife (Lucia Fantini)	Datalogic SpA	4,482,688	4,806		4,487,494
Romano Volta	Direct	Datalogic SpA	130,000	34,000		164,000
Roberto Tunioli	Direct	Datalogic SpA	102,500	100,000 (*)		202,500
Roberto Tunioli	Direct	Datalogic Ltd.	1			1
Roberto Tunioli	Direct	Datalogic France	1			1
Roberto Tunioli	Indirect via wife (Paola China)	Datalogic SpA	900			900
Giancarlo Micheletti	Direct	Datalogic SpA	500	27,000 (*)	11,500	16,000
Pier Paolo Caruso	Direct	Datalogic France	1			1
Pier Paolo Caruso	Direct	Datalogic SpA	750	40,500 (*)	41,250	0
Gabriele Volta	Direct	Datalogic SpA	28,800			28,800
Valentina Volta	Direct	Datalogic SpA	26,125	856	856	26,125
Alberto Forchielli	Direct	Datalogic SpA	2,100		2,100	0
Angelo Manaresi	Direct	Datalogic SpA	0	2,000		2,000
Stefano Romani	Direct	Datalogic SpA	600			600
Giorgio Delli	Direct	Datalogic SpA	500		500	0

(*) Exercise of stock options.

In addition, we point out that, as at 31 December 2005, no treasury shares were held.

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.

EXPECTED BUSINESS PROGRESS FOR THE CURRENT FY AND EVENTS AFTER FY2005 YEAR-END

During November Datalogic signed a contract to acquire 100% of PSC Inc., a US company active in the design, manufacture and sale of hand-held readers, portable terminals, and fixed scanners for the retail market.

This is by far the most important acquisition made by Datalogic, in terms of both size and the name of the company acquired. PSC for over 30 years has in fact been the most important company in our sector, with a premier customer portfolio, above all in the retail market (PSC is world leader in checkout counter scanners).

In 2005 PSC achieved consolidated sales of USD 241 mn and EBITDA of USD 19.2 mn.

The acquisition cost is about USD 195 mn (enterprise value), of which € 105 mn equity financed and the remaining € 90 mn financed via bank borrowing. The price is subject to adjustments according to the amount, as at November 30th 2005, of PSC's working capital and cash. The final calculation will presumably be completed at the end of the first quarter of 2006 – but it is believed that the price will not change significantly with respect to the USD 195 mn mentioned above.

As regards this, we recall the fact that, during January the capital increase, with which to finance part of the acquisition deal, was completed. 3,465,868 shares were issued at a price of € 22.1 each. The capital increase was fully subscribed and therefore total cash-in amounted to € 76.6 mn (before deduction of expenses).

The combination of Datalogic and PSC offers outstanding business opportunities. The two companies are in fact very complementary. Datalogic has, for many years now, been one of the leading suppliers of barcode readers and RFID devices to operators in the industrial and logistics market, with a prevalently European vocation (60% of revenues generated in Europe in the first 9 months of 2005). PSC is instead more focused on the retail market and, from a geographical standpoint, North America is the main outlet market for its products.

With its new configuration the Datalogic Group is therefore more balanced in terms both of user markets served and geographical coverage (the group will generate over 40% of its total sales in North America, which accounts for roughly half of the global market,).

INDICATION OF SECONDARY LOCATIONS

The direct parent company has two secondary locations:

- One in the Municipality 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 HHR 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 FY2005.

In view of the fact that the year-end accounts of Datalogic SpA show individual net profit of €9,423,653, the Board of Directors proposes to you to:

- Allocate 5% of earnings (i.e. € 471,182.65) to the legal reserve
- Allocate € 223,117.00 to increase a reserve temporarily not distributable, until the date of effective realisation of deferred tax assets recognised in accounts
- Allocate € 267,081.49 to increase a reserve temporarily not distributable, until the date of effective realisation of net gains stemming from application of the spot exchange rate a year-end
- Distribute to shareholders an ordinary unitary dividend, before mandatorily withheld amounts, of €22 cents per share with coupon detachment on 8 May 2006 and payment as from 11 May 2006 for a total maximum amount of € 3,513,260.96
- Carry forward the remainder of the year's earnings.

DATALOGIC S.p.A.

CONSOLIDATED BALANCE SHEET

ASSETS	Note	31-12-05 Euro/000	31-12-04 Euro/000
A) NON-CURRENT ASSETS (1+2+3+4+5+6+7+8)		**255.888**	**74.443 0**
1) Tangible non-current assets		**50.461**	**37.323**
Land	1	6.457	5.833
Buildings	1	18.928	17.232
Plant & machinery	1	6.711	2.590
Other tangible assets	1	16.528	11.469
Assets in progress and payments on account	1	1.837	199
2) Investment property		**0**	**0**
3) Intangible non-current assets		**196.820**	**28.273**
Goodwill	2	103.360	9.893
Development costs	2	3.908	4.032
Other intangible assets	2	89.552	14.348
4) Equity interests in associate companies	3	**801**	**851**
5) Available-for-sale financial assets (non-current)		**2.984**	**4.091**
Equity investments	4	1.112	1.112
Treasury stock			0
Securities	4	1.872	2.979
6) Trade and other receivables		**796**	**103**
7) Deferred tax credits	13	**4.021**	**3.802**
8) Tax credits	7	**5**	
B) CURRENT ASSETS (8+9+10+11+12+13+14+15)		**180.152**	**116.177**
9) Inventories	5	**51.512**	**22.754**
Raw & auxiliary materials plus consumables	5	28.547	12.147
Work in progress and semiprocessed goods	5	7.627	3.498
Finished products and goods for resale	5	15.338	7.109
10) Job-order work in progress		**0**	**0**
11) Trade and other receivables	6	**87.534**	**44.546**
Trade receivables	6	**83.727**	**42.845**
Within 12 months		81.734	40.742
After 12 months			47
Amounts receivable from associates		1.236	1.930
Amounts receivable from subsidiaries		150	
Amounts receivable from parent company		443	
Amounts receivable from related parties		164	126
Other receivables	6	**1.783**	**900**
Accrued income and prepaid expenses	6	**2.024**	**801**
12) Tax credits	7	**6.948**	**7.818**
13) Available-for-sale financial assets (current)	8	**4.012**	**3.407**
Securities		3.497	3.407
Loans to subsidiaries		515	
14) Hedging instruments	9		**239**
15) Cash & cash equivalents	10	**30.146**	**37.413**
TOTAL ASSETS (A+B)		**436.040**	**190.620**

DATALOGIC S.p.A.

CONSOLIDATED BALANCE SHEET

LIABILITIES	Note	31-12-05 Euro/000	31-12-04 Euro/000
A) TOTAL NET EQUITY (1+2+3+4+5)	**11**	**129.861**	**116.189**
1) Share capital		**90.556**	**76.875**
Share capital		25.746	25.073
Treasury stock		1.881	-8.480
Share premium reserve		58.490	55.843
Demerger capital reserve		4.439	4.439
2) Reserves		**79**	**83**
Revaluation reserves			0
Consolidation reserve			0
Translation reserve/(loss)			0
Cash-flow hedge reserve			0
Fair-value reserve from available-for-sale financial assets		79	83
3) Retained earnings/(losses carried forward)		**25.894**	**28.020**
Previous years' earnings/(losses)		10.764	3.752
Reserve for gain on Datasud cancellation		4.432	4.432
Untaxed capital grant reserve		256	256
Legal reserve		1.399	862
Treasury stock reserve		0	9.673
IAS transition reserve		9.043	9.045
4) Profit/(loss) for period		**12.997**	**11.211**
5) Minority interests		**335**	**0**
B) NON-CURRENT LIABILITIES (6+7+8+9+10+11)		**65.542**	**27.665**
6) Borrowing	12	12.283	5.500
7) Tax payables	18	7	0
8) Deferred tax liabilities	13	40.522	10.635
9) Employee severance indemnity and retirement provision	14	6.894	5.697
10) Long-term provisions for risks and expenses	15	4.600	2.775
11) Other non-current liabilities	16	1.236	3.058
C) CURRENT LIABILITIES (12+13+14+15)		**240.637**	**46.766**
12) Trade and other payables	**17**	**81.325**	**34.209**
Trade payables		**44.653**	**19.999**
Within 12 months		43.263	19.593
After 12 months			0
Amounts payable to associates		15	7
Amounts payable to parent company		998	
Amounts payable to related parties		377	399
Accrued liabilities and deferred income		**5.766**	**2.024**
Other current payables		**30.906**	**12.186**
13) Taxes payable	**18**	**5.528**	**9.897**
14) Short-term provisions for risks and expenses	**15**	**4.319**	
15) Hedging instruments	**9**	**116**	
16) Short-term borrowing	**12**	**149.349**	**2.660**
TOTAL LIABILITIES (A+B+C)		**436.040**	**190.620**

DATALOGIC S.p.A.

CONSOLIDATED PROFIT & LOSS ACCOUNT

	Note	31-12-05 Euro/000	31-12-04 Euro/000
1) TOTAL REVENUES	**20**	**205.948**	**146.267**
Revenues from sale of products		198.460	139.589
Revenues from services		7.488	6.678
2) Cost of goods sold	**21**	**106.526**	**72.759**
GROSS PROFIT (1-2)		**99.422**	**73.508**
3) Other operating revenues	**21**	2.659	2.705
4) R&D expenses	**21**	14.676	11.395
5) Distribution expenses	**21**	36.385	23.432
6) General & administrative expenses	**21**	28.162	20.839
7) Other operating expenses	**21**	2.579	2.316
Total operating costs (4+5+6+7)		**81.802**	**57.982**
OPERATING PROFIT		**20.279**	**18.231**
8) Financial income	**22**	2.172	95
9) Share of associate companies' profits	**3**	229	351
PRE-TAX PROFIT/(LOSS)		**22.680**	**18.677**
Taxes	**23**	9.512	7.466
NET PROFIT FOR PERIOD		**13.168**	**11.211**
Minority interests' share of net profit		171	0
GROUP NET PROFIT		**12.997**	**11.211**
Earning per share (Euro)		**1,0733**	**0,9769**
Diluted earning per share (Euro)		**1,0679**	**0,9658**

DATALOGIC S.p.A.

CONSOLIDATED CASH FLOW STATEMENT

	Note	31-12-05 Euro/000	31-12-04 Euro/000
Short-term net financial position at beginning of period		**38.399**	**37.243**
Net profit/(loss) for period		11.558	10.400
Depreciation & amortisation		7.579	5.242
Employee severance indemnity provision		1.409	1.399
Write-down of financial assets		-229	-125
Flusso di cassa della gestione corrente		**20.317**	**16.916**
Current cash flow			
		-1.576	-6.423
Effect of changes in operating assets and liabilities:		-216	3.256
Trade receivables		3.509	5.018
Inventories		-39	-484
Other current assets		5.917	-2.080
Other medium-/long-term assets		-5.518	5.659
Trade payables		-2.701	1.271
Taxes payable		-1.964	-7
Other current liabilities		2.822	
Other medium-/long-term liabilities		49	1.873
Deferred taxes		-457	-724
Provisions for risks and expenses		0	290
Other changes in employees' severance indemnity			
Employee severance indemnities paid out		**-174**	**7.649**
Net change in operating assets and liabilities		**20.143**	**24.565**
Cash flow/(absorption) from investment activities:			
(Increase)/decrease in intangible non-current assets		-2.047	-5.269
(Increase)/decrease in tangible non-current assets		-4.740	-5.340
(Increase)/decrease in unconsolidated equity investments		279	24
Laservall S.p.a.			-7.325
Short financial position Laservall S.p.a.			768
PSC		-82.224	
Short financial position PSC		-72.996	
Informatics		-11.265	
Short financial position Informatics		752	
Investment cash flow/(absorption)		**-172.241**	**-17.142**
Cash flow/(absorption) from financing activities:			
		-2.119	-1.451
Medium-/long-term loans taken out net of portions repaid in the period			
Minority interests' net equity		335	0
		578	
Effect of exchange-rate changes on consolidation of foreign companies			
Other changes in net equity		13.531	-1.692
Dividend distribution		-15.040	-2.114
(Increase)/decrease in non-current financial assets		1.107	-1.010
Finance cash flow/(absorption)		**-1.608**	**-6.267**
Change in net financial position		**-153.706**	**1.156**
Short-term net financial position at end of period		**-115.307**	**38.399**

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

		Other reserves			Net profit for previous years										
Description	Share capital	Fair value reserve	Translation reserve	Total Other reserves	Consolid. Reserve	Retained earnings	Merger surplus	Capital grant reserve	Legal reserve	Treasury share reserve	IFRS reserve	Total	Net profit for period	Net equity	Minority Equity
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

DATALOGIC GROUP – EXPLANATORY NOTES TO CONSOLIDATED YEAR-END ACCOUNTS AS AT 31 DECEMBER 2005

ACCOUNTING STANDARDS AND POLICIES

Datalogic SpA is a company incorporated in Italy. Consolidated year-end financial statements as at 31 December 2005 comprise Datalogic SpA and its subsidiaries (hereinafter defined as "the Group") and the relevant share of associate companies' profits.

Datalogic SpA, the direct parent company, is a limited joint-stock company listed on the Italian Bourse and is based in Italy. The address of its registered headquarters is: Via Candini 2, Lippo di Calderara (BO), Italy.

(a) Accounting standards applicable

Following the coming into force of EC Regulation no. 1606/2002 of the European Parliament and Commission dated July 19 2002, as from FY2005 companies with securities listed in a regulated market of European Union member countries prepare consolidated accounts in compliance with the international accounting and financial reporting standards (IASs/IFRSs) endorsed by the European Commission. Our consolidated annual report & accounts as at 31 December 2005 has been prepared in accordance with international accounting standards (hereinafter also "IASs", "IFRSs", or "IASs/IFRSs"). Year-end financial statements have been prepared in accordance with IFRSs. Therefore IFRS 1 (First-time Adoption of International Financial Reporting Standards) has been applied. This report has also been prepared in compliance with the IFRSs and IFRIC (International Financial Reporting Interpretations Committee) interpretations issued and effective at the time of its preparation.

The Datalogic Group's consolidated year-end financial statements were prepared in compliance with Italian law, supplemented and interpreted by the provisions of the Italian accounting standards indicated by the Italian National Councils of Chartered and Registered Accountants (Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri) and by the Italian Accounting Body (Organismo Italiano di Contabilità – OIC – a standard setter) until December 31 2004. As is known there are differences, sometimes significant, between such standards (Italian GAAPs) and IFRSs. In preparing the present year-end financial statements, the company's directors have modified some recognition, measurement and consolidation practices applied to the Italian consolidated year-end accounts in order to adapt them to IFRS 1 requirements. The accounting standards adopted in consolidated year-end financial statements as at 31 December 2005 have been uniformly applied also to all comparative periods, including IASs 32 and 39 concerning the recognition, measurement and presentation of financial instruments and derivatives. As required by IFRS 1, the accounting standards and policies described hereinafter have been applied to comparative periods, i.e. to the:

- Opening balance sheet as at 1 January 2004, the date of transition to IFRSs, as required by IFRS 1

- Balance sheet and income statement as at January 31st 2004.

The reconciliations of equity, profit and cash flow between Italian GAAPs and IFRSs, required by paragraphs 39 and 40 of IFRS 1, and the transition approach are shown in the appendix called "Illustration of IAS/IFRS Transition".

(b) Presentation and basic approach

Our consolidated year-end financial statements are presented in thousands of euro (€ '000). They have been prepared according to the cost criterion, with the exception of derivative financial instruments, which are measured at fair value.

Non-current assets available for sale are measured at the lowest between carrying value and fair value less selling costs.

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

(c) Consolidation standards and policies

(i) Subsidiaries (companies controlled)

Companies are defined as being "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 defining control, the potential voting rights are exercisable or convertible as at reporting date are also taken into account. Control is presumed to exist when the Group owns the majority of voting rights. The accounts of companies controlled – i.e. subsidiaries - are consolidated on a 100% line-by-line basis from start of exercise of control until the date of its cessation. We have not consolidated the accounts of Datalogic Slovakia because, as at 31 December 2005, it was not yet operational.

We do not, however, consolidate the accounts of subsidiaries if they are deemed to be insignificant Subsidiaries acquired by the Group are recognised using the acquisition cost method as per the requirements of IFRS 3:

- The acquisition cost method is based on the fair value of the assets sold, considering any equity instruments issued and liabilities incurred or assumed as at the date of exchange, plus any costs directly attributable to the acquisition.
- The excess of acquisition cost over the fair value of the Group's share of net assets is recognised as goodwill.
- If acquisition cost is instead less than the fair value of the Group's share of the acquiree subsidiary's net assets, the difference is immediately recognised in the income statement.

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 realised with third parties, stemming from intragroup transactions and those included, as at reporting date, in the measurement of inventories have been eliminated.

(ii) Associate companies

Associate companies are those in which the Group has significant influence but does not exercise control over operations. Such influence is represented by the Group's ownership of an interest ranging from 20% to 50% of voting rights. Our consolidated annual accounts as at 31 December 2005 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 associate companies' post-acquisition profits or losses is recognised in the income statement and its post-acquisition share of changes in reserves is recognised in reserves. Cumulative post-acquisition changes are included in the investment's carrying value. If the Group's share of an associate company's losses equals or exceeds the value of its investment in the associate company, including any other receivables, the Group does not recognise any further losses unless it has obligations to make payments on the associate company's behalf.

Unrealised profits relating to transactions between the Group and its associates are eliminated in proportion to the Group's interests in such associates. Unrealised 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 euro according to the exchange rate in force on transaction date. Monetary assets and liabilities are translated at the exchange rate in force on balance sheet date. Exchange differences emerging from translation at the year-end rate compared with the transaction exchange rate are recorded in the income statement. Non-monetary assets and liability are translated at the historical exchange rate in force on the date of the transaction concerned. Monetary assets and liabilities carried at fair value are translated into euro 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 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 recognised in profit or loss when the investment is divested. Foreign exchange differences originated before January 1 2004 – IFRS transition date – are shown in a specific net equity reserve.

The exchange rates used were as follows:

EXCHANGE RATES AS AT 31/12/2005	End-of-period exchange rate	Average exchange rate
US dollar (USD)	1.1797	1.2441
British pound sterling (GBP)	0.6853	0.6838
Australian dollar (AUD)	1.6109	1.6320
Japanese yen (JPY)	138.9000	136.8490
Swedish krona (SEK)	9.3885	9.2822
Hong Kong dollar (HKD)	9.1474	9.6768

As the PSC Group was consolidated only for one month – December – the average annual exchange rate was not used but the monthly exchange rate for December 2005, which was 1.1856.

(e) Property, plant, and equipment

(i) Owned assets

Land and buildings, considered separately as per the requirements of IAS 16, have been measured at fair value as at December 31 2003, obtained via appraisals performed by independent outside consultants. Buildings are depreciated net of residual value – defined as the realisable 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 recognised in the asset's carrying value, or are recognised 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 recognised 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
Property:	
Buildings	2%
Land	0%
Plant & equipment:	
Automatic operating machines	20% - 14.29%
Furnaces and appurtenances	14.29%
Generic/specific production plant	20% - 10%
Other assets:	
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%
Improvements to third-party assets	According to contract duration

We point out that the useful life of the German affiliate's building has been recalculated and that the new depreciation rate is 3.3%.

If, regardless of depreciation already entered in accounts, enduring impairment of value occurs, the asset in question is written down. If in subsequent years the reasons for such write-down cease to exist, the original value is written back. 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 recognised in profit or loss in the income statement. Costs of borrowing for the purchase of tangible assets are recognised in the income statement.

(ii) Assets held under finance lease contracts

Tangible 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 lowest between their 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 recognised according to the approach described in IAS 17.

(f) Intangible assets

(i) Goodwill

Acquisitions have been recognised 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 transition date, goodwill is posted on the basis of cost determined according to the accounting standards adopted by the Italian National Councils of Chartered & Registered Accountants, using the optional exemption granted by IFRS 1.

Goodwill is recognised at cost, less impairment losses. As from January 1 2004 goodwill is allocated to cash generating units and is no longer amortised. Carrying value is reviewed annually to check the absence of impairment (IFRS 3). Goodwill relating to unconsolidated subsidiaries, associate companies or other companies is included in the equity investment's value.

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

(ii) Research and development costs

Research expenses are recognised 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 recognised 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.

Other development expenses are recognised as costs as soon as they are incurred. Development costs previously recognised as costs are not recognised as assets in subsequent accounting periods. Development costs with a finite useful life have been capitalised and amortised 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.

(iv) Other intangible assets

Other intangible assets are measured at cost, less cumulative amortisation and impairment.

The purchase of software licenses is capitalised according to the costs borne to render the software operational. These costs are amortised for the duration of expected useful life.

(v) Subsequent costs

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

i) Amortisation

Amortisation is charged to the income statement on a systematic straight-line basis according to the estimated useful life of the assets capitalised, 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 as at December 31 of each year. Other intangible assets are amortised from the time when they become useable.

The useful life for each category is detailed below:

Intangible asset category	***Useful life - years***
Goodwill	**Indefinite**
Development costs	**5**
Other intangible assets:	
• **Software licenses**	**3-5**
• **Licenses and trademarks**	**3-8**
• **SAP licenses**	**10**
• **Usage licenses**	**Contract duration**

(g) Investments in associates

Investments in associate companies 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

Investments in other companies are classified among available-for-sale (AFS) financial instruments, as envisaged by IAS 39, even if the Group has not expressed the intention of selling such investments.

If as at reporting date an impairment loss is found on the amount determined using the above method, the investment is written down accordingly.

Listed securities' fair value is based on current market prices. If a financial asset's market is not active (and also in the case of unlisted securities), the Group establishes fair value using transactions occurring as up to balance sheet date, referring to other instruments of substantially the same nature and to discounted cash flow analysis adjusted to the reflect the issuer's specific circumstances.

(i) Inventories

Inventories are measured at the lowest between cost and net realisable value. Cost is calculated using the weighted average cost method. The cost of finished products includes raw materials, direct labour, other direct production costs and related indirect production costs (based on normal production capacity). Net realisable 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, taking into account the sector in which the Group is active, or that earn interest at market rates, are not discounted to present value and are recognised at cost (identified as being their face value), net of doubtful debt provision, shown as a direct deduction from such receivables in order to bring their value down to fair value. Receivables whose due date exceeds normal terms of trade (i.e. due dates longer than 1 year) are initially recognised at fair value and subsequently at amortised 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 of assets

The book value of assets – with the exception of inventories (see IAS 2), financial assets governed by IAS 39, deferred tax assets (see IAS 19), deferred tax assets (see IAS 19), 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 later on 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 later on) 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 firstly 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 2005 was subjected to impairment testing as at 1 January 2004 – the IFRS transition date – and 31 December 2004. No impairment losses emerged from such tests.

(i) Calculation of presumed recoverable value

The presumed recoverable value of assets other than goodwill is the highest between their 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 pre-tax 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. An impairment loss is reversed within the limits of the amount of carrying value, net of amortisation, that would have existed if no impairment loss had ever been recognised.

(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 related tax effect, are posted as group equity i.e. equity of the direct parent company’s shareholders).

(n) Stock options

On February 28 2001 the Extraordinary Shareholder Meeting of Datalogic SpA 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 May 17 2001 the Board of Directors implemented the plan in question, which would have made 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 shareholders.

In addition, the Board of Directories 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 January 1st 2004 and will end on December 31st 2007.

On February 27 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 May 17th 2001, setting it at €11.5 per share.

On November 14 2002, the Board of Directors approved assignment to the stock option plan's beneficiaries of 67% of the rights attributed. On December 17 2003 the Board approved assignment of the remaining 33%. As at December 31 2003 all rights relating to the 600,000 shares of the increase approved on February 28 2001 had been assigned.

The following table summarises the plan's status as at 31 December 2005.

	Number of shares	**Average exercise price (€)**	**Market price (€)**	**% of share capital**
Rights existing as at 1/01/2005 Of which exercisable as at 1/01/2005	**449,350**	**11.5**	**17.91**	**3.73%**
New rights granted in the period	-	-	-	-
(Rights exercised in period)	323,950	11.5	22.57	2.61%
(Rights lapsing in period) (1)	-	-	-	-
Total rights existing as at 31/12/2005	**125,400,**	**11.5**	**25.28**	**1.01%**
Of which exercisable as at 31 December 2005	125,400,	11.5	25.28	1.01%

(1) Rights lapsing in the period refer to rights granted to persons no longer employed by the Company.

The company has not applied IFRS 2 (Share-based Payment) to the stock option plan described above, availing itself of the exemption envisaged 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 amortised 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 as at January 1 2004, the IFRS transition date, have been classified in a specific equity reserve, since the company has not availed itself of the specific exemption envisaged by IFRS 1. Actuarial gains and losses subsequent to that date are recognised 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 (a) recognises 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 (b) provides termination benefits following a proposal made to encourage voluntary redundancy. Benefits that fall due after more than 12 months after 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, 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 a pre-tax 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 at balance sheet date.

(i) Product warranty provision

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

(ii) Other provisions

The Group has made provision within overall provisions 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 the lawsuit's development. Upon conclusion of the controversy, the amount differing from balance sheet provision will be recognised 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 recognised in the income statement when the risks and benefits associated with ownership of the goods have been substantially transferred to the purchaser. Revenues for services rendered are recognised in the income statement according to percent completion status as at 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 recognised on a straight-line basis 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 accrual accounting basis.

(ii) Finance lease instalments

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

(iii) Finance income and expenses

Finance income and expenses are recognised on an accrual accounting 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 recognised directly in equity. In such cases income taxes are directly classified 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 as at 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 as at balance sheet date.

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

(v) Segment information

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 lowest between 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 recognised via application of this policy are recognised 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 characterising 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
- Doubtful debt provision
- 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 minimise the impact of such risks on its results.

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

Price risk

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

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.

Interest-rate risk

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.

Despite this, the Group does not use financial derivatives to hedge interest-rate risk.

(z) Exemptions and exceptions envisaged by IFRS 1

For the purposes of preparation of the present annual 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.

Optional Exemption	**Choice**
Business combinations: aggregations of companies, acquisitions of equity interests in companies under common control and in 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 companies under common control and in joint ventures taking place prior to January 1 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 valuers. 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 [= transitional] approach and therefore, disregarding the exemption granted under IFRS 1, the actuarial gain/loss has been fully recognised as at 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 subsidiary, associated and JV companies	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 early, as from the transition date.
Designation of financial instruments already recognised	The Group has decided to apply IAS 32 and IAS 39 as from the transition date.
Stock options	The Group has a stock option plan in place, assignment of which took place prior to November 7 2002. The company has thus availed itself of the optional exemption of not putting this through profit and loss.
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 as at transition date

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

The effects of IFRS adoption have been recognised 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 recognised in the “Fair value reserve”.

(aa) IFRSs and IFRIC interpretations not yet endorsed

During the last few months the IASB (International Accounting Standards Board) and the IFRIC (International Financial Reporting Interpretations Committee) have published new standards and interpretations. Although, to date, the EU legislator has not yet endorsed such standards and interpretations, the Group has in any case considered their effects, highlighting their potential impact on its balance sheet and income statement, without finding them to have any significant effects.

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 2005 were the following:

Company name	Registered location	Share capital		Total equity (€ '000)	FY2005 result (€ '000)	% ownership
Datalogic SpA (direct parent company)	Lippo di Calderara di Reno (BO) – Italy	EUR	86,117,524	126,759	9,924	
Laservall SpA	Donnas (AO) – Italy	EUR	900,000	7,543	4,403	100%
Datalogic Holding AB	Malmö –Sweden	SEK	1,400,000	1,302	-128	100%
EMS Inc.	Scotts Valley (California) – USA	USD	1,949,084	1,588	-298	100%
Datalogic France SA	Villebon Sur Yvette (Paris) – France	EUR	2,227,588	3,622	207	100%
Datalogic Optik Elektronik Gmbh	Erkenbrechtsweiler (Stuttgart) – Germany	EUR	1,025,000	4,940	1,234	100%
Datalogic Optic Electronics BV	Maarssen – The Netherlands	EUR	17,800	34	-26	100%
Datalogic Handelsgesellschaft mbH	Wiener Neudorf (Vienna) – Austria	EUR	72,673	773	231	100%
Datalogic Pty. Ltd.	Mount Waverley (Melbourne)- Australia	AUD	2,300,000	885	-107	100%
Datalogic UK Ltd.	Redbourn (London) – UK	GBP	3,500,000	4,479	221	100%
Datalogic Inc.	Hebron (Kentucky) – USA	USD	1,847,000	1,684	222	100%
Datalogic Iberia	Madrid – Spain	EUR	60,500	798	171	100%
Datalogic AB	Stockholm – Sweden	SEK	200,000	823	-650	100%
PSC Holding	Delaware – USA	USD	97,000,000	81,991	-269	100%
Datalogic Asia Limited	Hong Kong - China	HKD	100,000	69	55	100%
Informatics Holding Inc.	Plano (Texas) – USA	USD	15,100,000	14,598	1,708	90%

The companies booked at equity as at 31 December 2005 were as follows:

Company name	Registered location	Share capital		Total net equity (€ '0000)	FY2005 result (€ '000)	% direct and indirect ownership
Idec Datalogic Co. Ltd.	Osaka– Japan	JPY	3,000,000	1,156	298	50%
Laservall Asia Co. Ltd.	Hong-Kong - China	HKD	460,000	331	214	50%

We point out that Izumi Datalogic Ltd. during FY2005 changed its corporate name, which is now Idec Datalogic Ltd.

During 2005 Laservall SpA sold its equity interest in Laservall China Co. Ltd. and Ixla SA. Reference should be made to the next section "Changes in consolidation area" for further details.

Associate/subsidiary companies measured at cost as at 31 December 2005 were the following:

Company Name	Registered location	Share capital		% Ownership
Datalogic Private Ltd.	Shankarapuram (Bangalore) – India	INR	1,000,000	20%
Datalogic Slovakia sro	Trnva - Slovakia	SKK	2,000,000	100%

Datalogic Slovakia s.r.o. was founded on 23 September 2005 and has been valued at cost since it was not yet operational as at 31 December 2005.

Changes in consolidation area

During FY2005 the following changes in consolidation area:

- On 2 March 2005 Datalogic SpA set up the company Informatics Acquisition Inc., based in Delaware (USA), subscribing 14,100,000 shares for a total of USD 14,100,000, accounting for 90% of share capital (consisting of 15,666,666 shares for a total of USD 15,100,000).

This newco subsequently acquired the equity interest in, and merged by incorporation, the company Informatics Inc., based in Dallas (Texas).

Informatics is active in the American market with various brands, of which the best known are System ID and Wasp Barcode.

This acquisition is strategic for the company since, besides strengthening its presence and standing in the US market, it enriches the business-solution offering, permitting achievement of significant synergies in sectors featuring attractive growth prospects.

Informatics Inc. as at 31 December 2005 was consolidated on a 100% line-by-line basis and the net profit considered (€ 1,708 thousand) relates to the period 1 March 31 December 2005.

In the following table we show the acquiree company's net assets as at acquisition date and calculation of goodwill pertaining to the Group. As envisaged by IFRS 3 the latter can be revised within one year after acquisition date.

	Amounts as per acquiree's accounts (USD '000)	Adjustments to fair value (USD '000)	Carrying value (USD '000)	Carrying value (€ '000) (X-rate as at 28/02/05)
Tangible and intangible assets	3,606	580	4,186	3,158
Trademark and customer portfolio		8,000	8,000	6,035
Inventory	3,423	155	3,578	2,699
Trade and other receivables	3,978		3,978	3,001
Cash & cash equivalents	-520		-520	-392
Interest-bearing financial liabilities	-12,000		-12,000	-9,052
Tax provision for trade mark and customer portfolio		-2,877	-2,877	-2,170
Trade and other payables	-1,502		-1,502	-1,132
NET ASSETS AT FAIR VALUE			**2,843**	**2,143**
% pertaining to Group				90%
GROUP'S SHARE OF NET ASSETS AT FAIR VALUE				**1,930**
Price paid				10,636
Accessory expenses				375
ACQUISITION COST				**11,011**
GOODWILL AS AT ACQUISITION DATE				**9,081**
Revaluation of goodwill due to change in exchange rate				**1,123**
GOODWILL AS AT 31 DECEMBER 2005				**10,205**

- In April 2005 the company Datalogic Asia Ltd. (based in Hong Kong) was founded and, as from July 2005, has been looking after sale of our products in the Asian market. This company was consolidated on a 100% line-by-line basis as from September 2005.

- In September the Minec System Holding company was merged by incorporation in the company Datalogic AB

- As highlighted in the previous section:
  - In December 2005 Laservall SpA sold its equity interest in Laservall China Co., making a capital gain of € 86 thousand
  - In November 2005 Laservall SpA sold its equity interest in Ixla SA, making a capital gain of € 866 thousand

These capital gains were posted among finance income.

- On 23 September 2005 Datalogic SpA set up the company Datalogic Slovakia sro, based in Bratislava, which as from 2006 will handle production and sale of one of the Datalogic Group's product lines.

- During November Datalogic signed a contract to acquire 100% of PSC Inc., a US company active in the design, manufacture and sale of hand-held readers, portable terminals, and fixed scanners for the retail market.

The acquisition cost is about USD 195 mn (enterprise value), of which € 105 mn equity financed and the remaining € 90 mn financed via bank borrowing. The price is subject to adjustments according to the amount, as at November 30th 2005, of PSC's working capital and cash. The final calculation will presumably be completed at the end of the first quarter of 2006 – but it is believed that the price will not change significantly with respect to the USD 195 mn mentioned above.

As at 31 December 2005 the company in question was consolidated on a 100% line-by-line basis and the net result (a loss of € -269 thousand) related to the period 1 December-31 December 2005. PSC's result was affected by accounting adjustments made (€ 542 thousand) – as required by IASs/IFRSs – to adjust assets and liabilities as at acquisition to fair value.

In the following table we show the acquiree company's net assets as at acquisition date and calculation of goodwill pertaining to the Group. As envisaged by IFRS 3 the latter can be revised within one year after acquisition date.

	Amounts as per acquiree's accounts (USD '000)	**Adjustments to fair value (USD '000)**	**Carrying value (USD '000)**	**Carrying value (€ '000) (X-rate as at 30/11/05)**
Tangible and intangible assets	16.360	76.103	92.463	78.565
Other non-current receivables	348		348	296
Inventory	30.230	1.829	32.059	27.240
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
Tax provision for trade mark and customer portfolio		-31.928	-31.928	-27.129
Trade and other payables	-45.156	-988	-46.144	-39.208
NET ASSETS AT FAIR VALUE	**8.637**	**45.102**	**53.739**	**45.660**
% pertaining to Group			100%	100%
GROUP'S SHARE OF NET ASSETS AT FAIR VALUE	-		**53.739**	**45.660**
ENTERPRISE VALUE			**195.000**	**165.690**
PSC Group's financial liabilities as at acquisition date			-45.102	-38.323
Vendor's liability vs. a supplier			-1.500	-1.275
Adjustment of preliminary price			2.780	2.362
PRICE PAID			**151.178**	**128.454**
Accessory expenses				664
ACQUISITION COST			**151.178**	**129.118**
GOODWILL AS AT ACQUISITION DATE			**97.438**	**83.458**
Revaluation of goodwill due to change in exchange rate				**-196**
GOODWILL AS AT 31 DECEMBER 2005			**82.598**	**83.262**

BALANCE SHEET INFORMATION - ASSETS

NON-CURRENT ASSETS

1. Property, plant, and equipment

	31/12/2005	31/12/2004	Change
Land	6,457	5,833	624
Buildings	18,928	17,232	1,696
Plant & equipment	6,711	2,590	4,121
Other tangible assets	16,528	11,469	5,059
Assets in progress and down payments	1,837	199	1,638
Total	**50,461**	**37,323**	**13,138**

Changes occurring in the period are detailed overleaf.

	Land	Buildings	Plant & equipment	Other tangible assets	Assets in prog. and payments on account	Total
Opening value as at 31/12/2004						
Historical cost		25,566	6,881	28,547	199	61,193
IAS adj. of historical cost	5,833	(3,210)		5,038		7,661
Cumulative depreciation		(6,707)	(4,574)	(22,164)		(33,445)
IAS adj. of cumulative depreciatn.		1,583	283	48		1,914
Net opening value	**5,833**	**17,232**	**2,590**	**11,469**	**199**	**37,323**
Increases						
Investments	16	142	728	4,012	159	5,057
Depreciation reversal			756	411		1,167
Total increases	**16**	**142**	**1,484**	**4,423**	**159**	**6,224**
Decreases						
Disposals		(22)	(756)	(453)	(130)	(1,361)
Depreciation for period		(288)	(761)	(3,509)		(4,558)
Write-downs	(100)	(162)				(262)
Total decreases	**(100)**	**(472)**	**(1,517)**	**(3,962)**	**(130)**	**(6,181)**
Reclass. and other changes						
Positive transfers				113		113
(Negative transfers)						-
Change in consolidation area:						
- PSC historical cost			4,076	4,011	1,609	9,696
- PSC cumulative deprecn.			(73)	(6)		(79)
- Informatics historical cost	678	2,043	167	525		3,413
- Informatics cumulative deprecn.		(15)	(16)	(32)		(63)
Foreign exchange difference	30	(2)		(13)		15
Closing value						
Historical cost	6,457	24,355	11,096	41,780	1,837	85,525
(Cumulative depreciation)		(5,427)	(4,385)	(25,252)	-	(35,064)
Net closing value	**6,457**	**18,928**	**6,711**	**16,528**	**1,837**	**50,461**

The "Land" item of € 6,457 thousand was attributable to the direct parent company (€ 3,738 thousand), Datalogic UK (€ 1,263 thousand), Informatics (€ 678 thousand), Datalogic France (€ 514 thousand), Datalogic Optik Elektronik Gmbh (€ 127 thousand), and Datalogic Holding AB (€ 178 thousand).

The increase of this item was mainly due to acquisition of Informatics Inc.

Based on analysis of the fairness of the residual value of this item, it was judged necessary to write down the land owned by Datalogic Optik Elektronik Gmbh (by € 100 thousand).

The "Buildings" item of € 18,928 thousand was attributable to the direct parent company (€ 11,516 thousand), Informatics Inc. (€ 1,985 thousand), Datalogic UK (€ 1,605 thousand), Datalogic Optik Elektronik Gmbh (€ 1,411 thousand), Datalogic France (€ 1,139 thousand), and Datalogic Holding AB (€ 1,782 thousand).

The increase of this item was due to acquisition of Informatics Inc.

For Datalogic Optik Elektronik Gmbh, based on analysis of the fairness of this item's residual value, it was judged necessary to write-down the company's building by € 162 thousand, using the IAS reserve created following the FY2003 restatement.

The "Plant & equipment" item increased by € 728 thousand, with this being mainly attributable to the direct parent company (€ 525 thousand) and Laservall SpA (€ 108 thousand).

The detail of the direct parent company's increase was as follows:

- € 262 thousand = purchase of automatic production equipment
- € 178 thousand = purchase of specific plant
- € 85 thousand = purchase of furnaces and related items.

Of the decrease in the item, € 755 mn related to the direct parent company, mainly because of sale of automatic production equipment (€ 402 thousand), specific plant (€ 214 thousand), and of furnaces and related items (€ 138 thousand).

As at 31 December 2005 the main components of the "Other tangible assets" item were:

- Industrial & commercial equipment = € 4,804 thousand
- Office furniture & fittings = € 6,487 thousand
- Generic building plant = € 1,676 thousand
- Cars = € 350 thousand
- Maintenance of 3rd-party assets = € 2,496 thousand
- Tradeshow equipment = € 202 thousand.

The "Other tangible assets" item featured an increase of € 4,012 thousand, mainly attributable to:

- The direct parent company: € 2,393 thousand, consisting mainly of the purchase of:
  - Equipment and electronic instruments = € 785 thousand
  - Moulds = € 1,028 thousand
  - Electronic office equipment = € 282 thousand
  - Generic plant = € 108 thousand
- Laservall SpA: € 542 thousand, consisting mainly of:
  - Expenditure for enhancement of 3rd-party assets = € 141 thousand
  - Purchase of office furniture and electronic equipment = € 125 thousand
  - Purchase of equipment = € 207 thousand.

The increase due to acquisition of Informatics Inc., i.e. € 493 thousand, consisted of office furniture (€216 thousand) and electronic office equipment (€ 277 thousand).

The increase due to acquisition of the PSC Group consisted of € 2,603 thousand for office furniture and € 1,262 thousand for maintenance of 3rd-party assets.

The decrease of € 453 thousand was mainly attributable to the direct parent company and reflected sale of office machinery (€ 256 thousand) and of generic plant for buildings (€ 52 thousand).

The balance of the item "Assets in progress and down payments" was attributable to the direct parent company (€ 207 thousand) and to the PSC Group (€ 1,609 thousand)

Depreciation and amortisation of tangible and intangible assets in the period – totalling € 8,579 thousand – was split as follows in the income statement:

- Cost of goods sold: € 1,344 thousand (€ 819 thousand in December 2004)
- R&D: € 2,219 thousand (€ 1,879 in December 2004)
- Distribution expenses: € 358 thousand (€ 67 thousand in December 2004)
- General & administrative expenses: € 4,658 thousand (€ 2,399 thousand in December 2004).

The increase in the general & administrative expense category was mainly due to amortisation of the intangible assets "Know-how" and "Far East Window" created as a result of consolidation of Laservall SpA (€ 1,295 thousand) and of the intangible assets generated following the Informatics acquisition (€535 thousand).

Mortgages on land and buildings amounted to € 2,784 thousand (vs. € 4,007 thousand in December 2004) and related to the companies Datalogic AB Holding and Datalogic Optik Elektronik Gmbh. The decrease was mainly due to discharge of a mortgage loan pertaining to Datalogic UK (as at 31/12/2004 the mortgage amounted to € 1,199 thousand).

2. Intangible assets

	31/12/2005	31/12/2004	Change
Goodwill	103.360	9.893	93.467
Development costs	3.908	4.032	(124)
Other intangible assets	89.552	14.348	75.204
Total	**196.820**	**28.273**	**168.547**

Changes occurring in the period are detailed overleaf.

	Goodwill	Development costs	Other intangible assets	Total
Opening value as at 31/12/2004				
Historical cost	23,751		14,868	38,619
IAS adj. of historical cost	(6,517)	5,534	5,691	4,708
Cumulative amortisation	(9,136)		(10,023)	(19,159)
IAS adj. of cumulative amortisation	1,795	(1,502)	3,812	4,105
Net opening value	9,893	4,032	14,348	28,273
Increases				
Increases		851	483	1,334
Amortisation reversal				
Other changes				
Total increases		851	483	**1,334**
Decreases				
Decreases				
Amortisation for period		(1,030)	(2,991)	(4,021)
Other changes		(110)	122	12
Total decreases		(1,140)	(2,869)	**(4,009)**
Changes in consolidation area:				
PSC historical cost	83,262		70,716	153,978
PSC cumulative amortisation			(107)	(107)
Informatics historical costs	10,205	165	6,981	17,351
Informatics cumulative amortisation				
Foreign exchange difference				
Closing value				
Historical cost	110,701	6,440	98,861	216,002
(Cumulative amortisation)	(7,341)	(2,532)	(9,309)	(19,182)
Net closing value	**103,360**	**3,908**	**89,552**	**196,820**

"Goodwill", totalling € 103,360 thousand, consisted of the following items:

- € 1,394 thousand caused by consolidation of the Minec group, in which a 100% interest was acquired on July 15 2002 by Datalogic Holding AB, in turn 100% owned by the direct 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 caused by consolidation of Laservall SpA, an interest acquired during 3Q04 by the direct parent company. We believe the conditions exist for posting the difference between purchase cost and fair value of net assets acquired as goodwill, since it represents the acquired company's future profit-generation capacity.
- € 10,205 thousand caused by consolidation of Informatics Inc., as already detailed in the section of "Changes in consolidation area".

- € 83,262 thousand caused by consolidation of the PSC Group, as already detailed in the section of “Changes in consolidation area”.

These items of goodwill have been allocated to the CGUs (cash generating units). As highlighted in the section concerning accounting policies, they have no longer been amortised since 1 January 2004 in accordance with the requirements of IFRS 3, as they have undergone impairment testing.

For the most recent acquisitions – Informatics, Laservall, and PSC – we have used the valuation performed at the time of acquisition, because no significant events had occurred between acquisition date and 31 December 2005, such as to suggest any significant impairment loss. For the acquisition of Minec and for IdWare we performed impairment testing as at 31 December 2005.

The recoverable value of CGUs (cash-generating units) to which goodwill was allocated has been determined according to value in use. The latter, as at 31 December 2005, was measured on the basis of the discounted cash flow method applied to the expected income of individual CGUs. In practice, the latter are the individual companies, except in the case of IdWare goodwill, which is allocated to the MC (mobile computer) division.

The “Development costs” item, which amounted to € 3,908 thousand, was attributable to:

- The direct parent company = € 3,743 thousand
- Informatics = € 165 thousand

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

“Other intangible assets”, totalling € 89,552 thousand, mainly consisted of the following sub-items:

- Patents totalling € 51,713 thousand of the PSC Group
- “Customer portfolio” amounting to € 11,189 thousand relating to the PSC Group
- “Trademark” amounting to € 4,068 thousand relating to the PSC Group
- Know-how amounting to € 4,689 thousand (€ 5,968 thousand as at the date of initial recognition), acquired from the investee company Laservall SpA and relating to technological expertise in the laser marking sector, in terms of product engineering and industrialisation. The useful life of this intangible asset has been defined as being 7 years.
- A commercial facility (Far East Window) amounting to € 3,754 thousand (€ 4,417 thousand as at the date of initial recognition), acquired from the investee company Laservall SpA and consisting of the latter’s 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.
- A commercial facility amounting to € 6,218 thousand (€ 6,782 thousand at the date of initial recognition) acquired from the investee company Informatics and relating to the latter’s sales network and customer portfolio. The useful life of this intangible non-current asset has been defined as being 10 years.

- € 7,923 thousand for other intangible assets, of which:
  - € 3,966 thousand ascribable to the direct parent company and mainly relating to software licenses (€ 2,973 thousand), third-party licenses and patents (€ 554 thousand), and development of software for the sale of our products (€ 257 thousand)
  - € 3,642 thousand attributable to the PSC Group and mainly relating to software licenses (€ 1,225 thousand) and to third-party licenses and patents, plus development of software for sale of our products (€ 2,417 thousand).

The increase of € 483 thousand was mainly ascribable to the direct parent company and was due to the purchase of software licenses.

3. Investments in associate companies

Equity investments owned by the Group as at 31 December 2005 were as follows:

	Balance 31/12/04	Increases	Forex differences	Share of profit	Dividends	Changes	Balance 31/12/05
a) Subsidiary companies							
Datalogic Slovakia s.r.o.	0	50				0	50
Total subsidiaries	**0**	**50**	**0**	**0**		**0**	**50**
b) Associate companies							
Idec Datalogic Co. Ltd	429			149			578
Laservall Asia Co. Ltd	85			80			165
Laservall China Co. Ltd	228					(228)	0
Ixla SA	101					(101)	0
Datalogic Private Ltd. - India	8						8
Total associate companies	**851**	**0**	**0**	**229**	**0**	**(329)**	**751**

The change vs. 31/12/04 in Subsidiaries was due to creation by the direct parent company of Datalogic Slovakia s.r.o., based in Trnava, which, as from 2006, will handle production and sale of a Datalogic Group product line.

The change vs. 31/12/04 in Associate Companies was due to sale by Laservall SpA of its associate companies Laservall China Co. Ltd. and Ixla SA, as highlighted earlier, as well as to the Group's share of profits made by the associate companies Idec Datalogic Co. Ltd. and Laservall Asia Co. Ltd.

In the tables overleaf we summarise the financial data of subsidiaries, none of which is listed.

Data as at 31/1205 in € '000:

Company	Registered location	Total Assets	Revenues	Net profit	% owned
Idec Datalogic Co. Ltd	Osaka - Japan	3,092	5,646	298	50%
Laservall Asia Co. Ltd	Hong Kong - China	1,129	6,553	214	50%
Datalogic Private Ltd. - India	Shankarapuram (Bangalore) - India	n.a.	n.a.	n.a.	20%

Data as at 31/12/04 in € '000:

Company	Registered location	Total Assets	Revenues	Net profit	% owned
Izumi Datalogic Co. Ltd	Osaka - Japan	3,483	4,713	250	50%
Laservall Asia Co. Ltd	Hong Kong - China	870	4,811	75	50%
Laservall China Co. Ltd	Shenzhen - China	1,326	2,471	283	45%
Ixla SA	Avry - Switzerland	176	624	39	97%
Datalogic Private Ltd. - India	Shankarapuram (Bangalore) - India	n.a.	n.a.	n.a.	20%

4. Non-current available-for-sale financial assets

Other equity investments

As at 31 December 2005 the Group owned the following equity interests in other companies:

	Balance 31/12/04	Increases	Forex differences	Share of profit	Dividends	Changes	Balance 31/12/05
d) Other companies							
Nomisma SpA - Italy	7						7
Conai	0						0
Caaf Ind. Emilia Romagna - Italy	4						4
Crit Srl	51						51
Consorzio T3 Lab	8						8
Alien Technology Corporation	1,042						1,042
Total other equity investments	**1,112**	**0**	**0**	**0**		**0**	**1,,112**

The amount of other equity investments consists mainly of the direct 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 recognised at cost – and this is substantially aligned with fair value determined on the basis of recent transactions involving the company. 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) and, consequently, that the loss is not of an enduring nature.

Securities

	31/12/2004	Increases	(Decreases)	Changes in fair value	30/06/2005
Securities as surety.	2,979	1,509	(2,483)	(133)	1,872
Total	**2,979**	**1,509**	**(2,483)**	**(133)**	**1,872**

The item consisted mainly of € 1,865 thousand in Italian medium- and long-term treasury notes (BTP and CCT), owned by the direct parent company.

The increase vs. December 31st 2004 was due to purchase of CCT maturing on 1/08/2007 for € 1,509 thousand. These are held as collateral for the banking surety issued to cover earn-out relating to the acquisition of Laservall SpA.

The decrease of the item vs. 31 December 2004 was mainly (€ 2,454 thousand) due to reclassification to current assets under the heading “Available-for-sale financial assets – securities” of securities and related fair value that, as at 31 December 2004 were kept as a guarantee of the secured medium-term loan in place with San Paolo IMI SpA, which, as at 31 December 2005, had been discharged.

In the following tables we summarise the direct parent company’s “Securities” item as at 31/12/05:

LISTED SECURITIES (in euro)

Type of security	Total purchase price	Unitary purchase price	Par value	Unitary market price as at 31/12/2005	Total market value as at 31/12/2005
Government bonds	362,808.00	100.78	360,000.00	100	360,000.00
Government bonds	1,509,300.00	100.62	1,500,000.00	100.32	1,504,800.00
	1,872,108.00		**1,860,000.00**		**1,864,800.00**

CURRENT ASSETS

5. Inventories

	31/12/2005	31/12/2004	Change
1) Raw & auxiliary materials, plus consumables	28,547	12,147	16,400
2) Work in progress and semiprocessed goods	7,627	3,498	4,129
4) Finished products and goods for resale	15,338	7,109	8,229
Total	**51,512**	**22,754**	**28,758**

As at 31 December 2005 inventories had increased by 126% vs. 31/12/04 (€ +28,758 thousand). This increase was mainly due to acquisition of the PSC Group (whose inventory amounted to € 26,074 thousand as at 31 December 2005) and of Informatics (whose inventory amounted to € 2,488 thousand as at 31 December 31 2005).

Inventories are shown net of obsolescence provision that, as at 31 December 2005, amounted to € 7,651 thousand. Changes in the latter during FY2005 are shown below:

	31/12/2005
Cumulative inventory write-down provision as at 31/12/04	3,961
Foreign exchange difference	26
Change due to acquisition	4,146
Provisions made as at 31/12/2005	282
Use of surplus during the period	-764
Cumulative inventory write-down provision as at 31/12/05	7,651

We point out that the company Datalogic AB has a pledge on merchandise given against borrowing of € 868 thousand.

6. Trade and other receivables

Current

	31/12/2005	31/12/2004	Change
Trade and other receivables	**87,534**	**44,546**	**42,988**
Trade receivables:	**83,727**	**42,845**	**40,289**
Trade receivables due within 12 months	81,734	40,742	40,992
Trade receivables due after 12 months	-	47	(47)
Associate receivables:	1,236	1,930	(694)
- Idec Datalogic Co. Ltd.	*827*	*1,353*	*(526)*
- Ixla SA	*-*	*1*	*(1)*
- Laservall Asia	*409*	*576*	*(167)*
Subsidiary receivables:	150		
- Datalogic Slovakia	*150*		
Receivable from parent companies:	443	-	443
- Hydra SpA	*443*	*-*	*443*
Related-party receivables	164	126	38
Other current receivables	**1,783**	**900**	**883**
Accrued income and prepaid expenses	**2,024**	**801**	**1,223**

Trade receivables

Net trade receivables as at 31 December 2005 totalled € 81,734 thousand (doubtful-debt provision as at 31/12/05 totalled € 1,102 thousand vs. € 791 thousand as at 31/12/04), with an increase of 96% over the comparable figure in December 2004. Net trade receivables of the PSC Group amounted to € 36,189 thousand (net of doubtful debt provision of € 290 thousand) whilst those of the Informatics company totalled € 3,117 thousand (net of doubtful-debt provision of € 70 thousand). Without these acquisitions trade receivables would have increased by 4% vs. 31/12/04.

Associate receivables stemmed from trade transactions concluded at arm's length market conditions.

Related-party receivables (€ 164 thousand) related to the Datasensor company.

Amounts receivable from the ultimate parent company Hydra SpA (€ 443 thousand) related to the corporate income tax (IRES) credit of Datalogic SpA.

Other current receivables

The item "Other current receivables" (€ 1,783 thousand) included:

- € 222 thousand, paid by the direct parent company to the Inland Revenue for notice of tax reassessment received on 22/10/02, against which the company has filed an appeal
- € 103 thousand for advance payments to suppliers

- € 103 thousand claimed by the subsidiary Laservall SpA from the Valle d'Aosta regional authorities for excess rent paid
- € 700 thousand claimed by the subsidiary Laservall SpA following sale of its interest in Ixla SA, which caused in the increase in the period. This receivable is backed by specific sureties issued by the counterparties in the disposal deal.

Accrued income and prepaid expenses

	31/12/2005	31/12/2004	Change
a) Accrued income			
Miscellaneous interest income	30	23	7
Foreign exchange differences	25	7	18
Others	**55**	**30**	**25**
Total accrued income			
b) Prepaid expenses			
Insurance	236	82	154
Association membership dues	22	27	(5)
Rentals and maintenance fees	515	54	461
Lease contracts	32	12	20
Surety costs	57	107	(50)
Tradeshows and sponsorships	110	44	66
Substitute tax	208	313	(105)
Others	789	132	657
Total prepaid expenses	**1,969**	**771**	**1,198**
Total accrued income and prepaid expenses	**2,024**	**801**	**1,223**

Consolidation of the PSC Group caused the increase of the following prepaid expense items:

- Rentals and maintenance fees = € 361 thousand
- Others - € 495 thousand.

Non-current

	31/12/2005	31/12/2004	Change
Cautionary deposits	772	41	731
Others	24	62	(38)
Total	**796**	**103**	**693**

€ 695 thousand of the increase in cautionary deposits related to the PSC Group.

7. Tax receivables

	31/12/2005	31/12/2004	Change
Short-term tax receivables	**6,948**	**7,818**	**(870)**
Tax authorities for VAT	1,332	3,869	**(2,537)**
Tax authorities for other tax credits	5,616	3,949	**1,667**
Long-term tax receivables	**5**	**-**	**5**
Tax authorities for other tax credits	5		
Total	**6,953**	**7,818**	**(865)**

Amounts receivable from the tax authorities for VAT mainly related to the direct parent company (€ 676 thousand), Laservall SpA (€ 216 thousand), and to the PSC Group (€ 214 thousand) The decrease vs. December 31 2004 was due to partial interim refund of VAT by the Inland Revenue (€ 2,772 thousand).

Other tax credits vis-à-vis the tax authorities related to tax payments on account and sundry taxes withheld relating to the direct parent company (€ 1,435 thousand), the PSC Group (€ 3,166 thousand) Laservall SpA (€ 335 thousand), Informatics (€ 119 thousand), and Datalogic GmbH (€ 112 thousand), with the remainder (€ 215 thousand) relating to other group companies.

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

	31/12/2004	Increases	Decreases	Fair Value	31/12/2005
Other securities	3,407	7,966	(8,001)	125	3,497
Loans to subsidiaries	-	515			515
Total	**3,407**	**8,481**	**(8,001)**	**125**	**4,012**

The increase in the item “Loans to subsidiaries” consisted of the loan granted by the direct parent company to Datalogic Slovakia sro.

The following table summarises “Other securities” as at 31/12/2005 – pertaining wholly to the direct parent company.

Current AFS securities - LISTED

Type of security	Total purchase price	Unitary price of fund share	Par value	Unitary price of fund share as at 31/12/2005	Total market value as at 31/12/2005
Inventment fund	905,329.25	8.341	-	8.344	905,654.87
Investment fund	443,045.30	5.931		6.781	506,625.67
Investment fund	134,950.19	5.284		5.515	170,822.11
Investment fund	132,936.01	5.762		7.173	168,647.56
Total	**1,616,260.75**				**1,751,750.21**

Type of security	Total purchase price	Unitary purchase price	Par value	Unitary market price as at 31/12/2005	Total market value as at 31/12/2005
Government bonds	39,986.86	100.52	39,780.00	100.18	39,851.60
Corporate bonds	115,715.74	97.09	148,980.00	103.8	123,712.99
Government bonds	808,654.36	100.36	805,740.00	100	805,753.65
Government bonds	506,500.18	100.52	503,880.00	100	503,880.00
Total	**1,470,857.13**				**1,473,198.24**

Non-current AFS securities - UNLISTED

Type of security	Total purchase price	Unitary purchase price	Par value	Unitary market price as at 31/12/2005	Total market value as at 31/12/2005
Banca Intesa bonds	**272,220.00**	100		100	**272,220.00**

9. Financial assets – derivative instruments

The item “Derivative instruments” included a negative amount of € -107 thousand due to alignment of financial transactions to the end-of-period exchange rate and a negative amount of € -9 thousand caused by calculation of the premium relating to the period ending on 31/12/2005.

In the following table we summarise all derivative instruments extant as at 31 December 2005 that did not possess the formal characteristics required by IAS 29 for application of hedge accounting.

Type of financial transaction	End date	Notional amount in foreign currency	Exchange rate at contract end date (currency/euro)	Total value at end-of-contract exchange rate	Exchange rate as at 31/12/05 (currency/euro)	Total value at exchange rate as at 31/12/05
Forward forex sale	13/04/2006	USD 1,000,000	1.3012	768,500	1.1797	847,700
Forward forex sale	13/04/2006	USD 500,000	1.2557	398,200	1.1797	423,850
Forward forex sale	31/01/2006	USD 500,000	1.2048	415,000	1.1797	423,850
Forward forex sale	28/02/2006	USD 500,000	1.2067	414,350	1.1797	423,850

10. Cash & cash equivalents

	31/12/2005	31/12/2004	Change
Bank and post-office deposits	29,970	37,201	(7,231)
Cash and valuables in hand	176	212	(36)
Total cash and cash equivalents	**30,146**	**37,413**	**(7,267)**

The item included € 14,370 thousand stemming from consolidation of PSC Inc. (€ 15,170 thousand) and Informatics Inc. (€ 752 thousand).

The decrease of the item was a consequence of acquisition of the PSC Group and of distribution of an extraordinary dividend totalling € 12,350 thousand.

BALANCE SHEET INFORMATION - LIABILITIES

11. Equity

Changes in equity as at 31/12/2005 were as follows:

	Balance as at 31/12/04	Profit Allocation	Capital Increases	Other Changes	Profit/(loss) in period	Balance as at 31/12/05
1) Total share capital:	**76,875**	**0**	**3,725**	**9,956**	**0**	**90,556**
Share capital	25,073		673			25,746
Treasury shares	(8,480)			10,361		1,881
Share premium reserve	55,843		3,052	(405)		58,490
Demerger capital reserve	4,439					4,439
2) Total reserves:	**83**	**0**	**0**	**(4)**	**0**	**79**
Fair-value reserve	83			(4)		79
3) Total retained earnings:	**28,020**	**8,521**	**0**	**(10,647)**	**0**	**25,894**
Legal reserve	862	537				1,399
Treasury share reserve	9,673			(9,673)		0
Gain on Datasud cancellation	4,432					4,432
Untaxed capital grant reserve	256					256
IFRS transition reserve	9,045			(2)		9,043
Previous years' earnings	3,752	7,984		(972)		10,764
4) Group profit/(loss) for period	**11,211**	**(11,211)**			**12,997**	**12,997**
Total (1+2+3+4)	**116,189**	**(2,690)**	**3,725**	**(695)**	**12,997**	**129,526**
Minority interest earnings	**0**				**171**	171
Minority interest equity	0			164		164
Total	**116,189**	**(2,690)**	**3,725**	**(531)**	**13,168**	**129,861**

The profit made by the direct parent company in 2004 was allocated as follows:

- € 537 thousand = increase of legal reserve
- € 2,690 thousand = dividend distribution
- € 7,506 = to retained earnings (of which € 1,608 thousand constitute a reserve temporarily not distributable until the date of effective realisation of deferred-tax assets posted in financial statements).

In addition, an extraordinary dividend of € 1.00 per share was distributed for a total amount of € 12,350 thousand, which is included in "Other changes".

Share capital

The breakdown of share capital was as follows:

	Total shares outstanding	Ordinary shares issued	Treasury shares
31/12/2003	11,419,080	11,903,500	- 484,420
31/12/2004	11,464,220	12,054,150	- 589,930
31/12/2005	12,378,100	12,378,100	-

The increase of € 9,956 thousand in “Other changes” in total share capital (net of treasury shares) was due to:

- An increase of € 10,361 thousand following sale of treasury shares (held as at December 31 2004) completed in the early months of 2005, of which € 688 thousand consisting of the capital gain (net of the tax effect and related expenses) made on these transactions, reversed from the income statement as required under IAS 32. The “Treasury shares” balance of € 1,881 thousand included in total share capital consists of the capital gains (net of the tax effect) made, during 2004 and 2005, on the sale of treasury shares net of treasury shares held as at 31/12/2005
- Reversal of € 405 thousand (net of the tax effect) consisting of the expenses borne for the capital increase approved by shareholders at the extraordinary meeting held on 2 December 2005. The capital increase was completed during January 2006 and 3,465,898 shares issued at a per-share price of € 22.1. The capital increase was fully subscribed and therefore cash-in totalled € 76.6 mn (before deduction of expenses).

Ordinary shares

As at 31 December 2005 total ordinary shares numbered 12,378,100 with a unitary par value of €2.08. All shares issued had been fully paid.

The increase in ordinary shares, which caused the item “Share capital” to increase by € 673 thousand and the “Share premium reserve” by € 3,052 thousand, was to due to exercise of part of the stock options assigned to the company’s directors and employees.

Reacquired own equity instruments

The amount of treasury shares held by the direct parent company is recorded in an equity reserve. As at 31 December 2005 the Group did not hold any treasury shares.

Treasury shares sold

During FY2005 the Group sold 753,046 treasury shares, making a total capital gain of € 1,190 thousand, which, net of the tax effect and related expenses, was deducted from share capital.

Demerger capital reserve

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

Reserves

The reserve for revaluation of financial assets (the 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.

Cumulative retained earnings

Treasury share reserve

This was set up by the direct parent company following share buybacks, as required by the Italian Civil Code. In compliance with legal requirements as at 31/12/04, this reserve changed by an amount equal to that of changes in treasury shares. As at 31 December 2005 it was at zero because no treasury shares were held.

Reserve for gain on cancellation and Untaxed capital grant reserve

These reserves were a consequence of the merger of Datalogic SpA and Datasud in 2004.

They decreased by € 702 thousand as a consequence of the requirements of IAS 20 (Accounting for government grants and disclosure of government assistance).

IFRS transition reserve

This is the reserve created upon first-time adoption of international accounting standards as at 1 January 1st 2004 (consolidated year-end accounts as at 31/12/2003) as per IFRS 1.

Previous years' earnings

This item includes equity changes occurring in consolidated companies after acquisition date and absorbs the translation reserve (€ 657 thousand) generated by consolidation of foreign companies.

Dividends

As at 31 December 2005 dividends totalling € 15,040 thousand had been paid (vs. € 2,114 thousand as at 31 December 2004) featuring the following split:

- € 2,690 thousand corresponding to a per-share dividend of € 22 cents (vs. € 18 cents per share in 2004)
- € 12,350 thousand corresponding to an extraordinary per-share dividend of € 1.00 per share paid out on 17 October 2005, as decided upon by the annual general meeting of shareholders on 28 April 2005.

Minority interest

Minority interest amounted to € 335 thousand and related to 10% of Informatics Inc.

Earnings per share (EPS)

Base EPS

Base EPS as at 31 December 2005 is calculated on Group net profit (i.e. of the direct parent company's shareholders) of € 12,408 thousand (€ 11,211 thousand in FY2004) divided by the weighted average number of ordinary shares outstanding during FY2005, i.e. 12,109,111 (11,475,603 in FY2004).

Diluted EPS

FY2005 diluted EPS is calculated on the net profit of € 12,408 thousand (€ 11,211 thousand in FY2004) divided by the weighted average number of ordinary shares outstanding during FY2005, i.e. 12,170,617 (11,757,778 in FY2004) considering also the effect of future exercise of stock options – but does not take into account the option rights issued for the share capital increase described earlier. It is calculated as follows:

	31/12/2005	31/12/2004
Group net profit	12,997,000	11,211,000
Average number of shares as at 31 December	12,109,111	11,475,603
Effect of future exercise of stock options	61,505	132,324
Diluted average number of shares as at 31 December	12,170,616	11,607,927
Diluted EPS	1.0679	0.9658

Reconciliation between the direct parent company's equity and profit and the corresponding consolidated figures is as shown below:

	Total equity	Net profit for period
Datalogic SpA net equity and profit	**121,716**	**9,924**
Differences between consolidated companies' net equity and their carrying value in the parent co.'s statement and effect of the equity-based valuation	9,996	6,632
Reversal of dividends	0	(3,677)
Laservall acquisition	(1,942)	(1,295)
Amortisation of new Datalogic AB consolidation difference	(239)	
Elimination of capital gain on sale of company division	(200)	
Effect on elimination of intercompany transactions	(1,052)	1,281
Elimination of intercompany profits	(53)	8
Effect of posting of finance leases	(43)	(20)
Deferred taxes	1,343	144
Group equity and profit	**129,526**	**12,997**
Minority interest	**335**	**171**
Net equity	**129,861**	**13,168**

NON-CURRENT LIABILITIES

12. Short-/long-term borrowing

	31/12/2005	31/12/2004	Change
Current account overdrafts	0	355	(355)
Bank loans & mortgages and other financial institutions	161,632	7,805	153,827
Total	**161,632**	**8,160**	**153,472**

The breakdown of borrowing was as follows:

31/12/2005	Within 12 months	After 12 months	After 5 years	Total
Bank borrowing				
Current account overdrafts				-
Bank loans & mortgages and other financial institutions	149,349	12,283		161,632
Total	**149,349**	**12,283**	**-**	**161,632**

The increase of this item vs. 31 December 2004 was mainly due to:

- A secured loan of USD 12 mn (€ 8,901 thousand), taken out by Informatics Inc., to finance the acquisition described earlier.
- A short-term loan of € 1,780 thousand taken out by the direct parent company to finance the PSC deal, which was closed in the early months of 2006.
- A bridge loan of € 70,000 thousand taken out by the direct parent company to finance the PSC acquisition. This loan was repaid in January 2006 upon completion of the capital increase described earlier.
- A bridge loan of USD 89,669,000 (€ 76,011 thousand), taken out by the PSC Group to finance the acquisition described earlier. Following completion of acquisition, it was replaced by a bank loan of USD 70 mn.

In addition, we highlight the fact that:

- In April 2005 Datalogic UK Ltd. discharged a secured loan, which as at 31/12/04 had amounted to € 948 thousand (non-current portion = € 884 thousand).
- As at 31/12/2005 the IMI low-rate loan obtained by the direct parent company to finance applied research had been discharged.

Borrowing from banks and other financial institutions included in the item was split as follows among group companies (amounts in € '000):

Company	Loan Type	Expiry Date	Interest Rate	IR Type	Current Portion	L-T Portion	Instal-ments
DL SpA	IMI loan under Law 46 (MURST)* 67231	01/07/2012	2.00%	FIXED	54	316	6-monthly
	IMI loan under Law 46 (MURST) 66985	01/01/2011	2.00%	FIXED	14	58	6-monthly
	IMI loan under Law 46 (MURST) 66985	01/01/2011	2.00%	FIXED	80	335	6-monthly
	IMI loan under Law 46 (MURST) 67231	01/07/2012	2.00%	FIXED	3	17	6-monthly
	IMI loan under Law 46 (MURST) 67231	01/07/2012	2.00%	FIXED	11	67	6-monthly
	IMI loan under Law 46 (MURST) 67231	01/07/2012	2.00%	FIXED	11	64	6-monthly
	IMI loan under Law 46 (MURST) 67231	01/07/2012	2.00%	FIXED	13	77	6-monthly
	IMI loan under Law 46 (MURST) 67231	01/07/2012	2.00%	FIXED	23	135	6-monthly
	IMI loan under Law 46 (MURST) 67231	01/07/2012	2.00%	FIXED	35	203	6-monthly
	IMI loan under Law 46 (MURST) 67232	01/07/2012	2.00%	FIXED	50	295	6-monthly
	IMI loan under Law 46 (MURST) 67232	01/07/2012	2.00%	FIXED	14	84	6-monthly
	IMI loan under Law 46 (MURST) 67233	01/07/2012	2.00%	FIXED	13	76	6-monthly
	BNL loan	31/01/2006	4.57%	VARIABLE	1,780	0	Quarterly
	B. Pop. Emilia Romagna loan	26/01/2006	2.87%	VARIABLE	70,000	0	Quarterly
DL France	Bank loan	18/06/2006	Euribor (3 mths) + 1.5%	VARIABLE	46		Quarterly
	Bank loan	18/06/2006	Euribor (3 mths) + 1.5%	VARIABLE	46		Quarterly
DL AB Holding	Loans secured by mortgages	28/02/2005	4.20%	FIXED	0	362	Lump sum
DL Gmbh	Loans secured by mortgages	01/01/2011	4.98%	FIXED	87	394	Monthly
Laservall SpA	Law 46/82 Project No. 11005	09/03/2015	1.56%	FIXED	38	379	Annual
	Unionfidi-backed loan (collective credit guarantee scheme)	11/02/2008	3.89%	FIXED	83	100	Monthly
	Unionfidi-backed loan (€ 1 mn)	01/06/2009	3.65%	FIXED	200	500	Quarterly
	Law 46/82 Project No. 3153	01/01/2013	2.00%	FIXED	44	282	6-monthly
Informatics Inc.	Secured bank loan	03/05/2013	4.41%	FIXED		8.901	Quarterly
PSC Group	Bridge loan	30/05/2006	5.00%	FIXED	76,011	-	Annual
TOTAL					**149,349**	**12,283**	

** MURST = Italian Ministry for the University and for Scientific & Technological Research*

Loans were issued in the following currencies, with the total amount converted into euro applying the end-of-period exchange rate:

Currencies '000	31/12/2005	31/12/2004	Change
Euro	76,027	6,112	**69,915**
USD (US dollar)	100,169	-	**100,169**
AUD (Australian dollar)	-	40	**(40)**
GBP (British pound sterling)	-	668	**(668)**
SEK (Swedish krona)	6,516	6,522	**(6)**

The loans are secured as follows:

- Loan to Datalogic GmbH = real estate mortgage of € 1,968 thousand
- Loan to Datalogic Holding AB = real estate mortgage of € 803 thousand
- Loan to Informatics = surety issued by direct parent company of € 10,172 thousand.

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	**31/12/2005**	**31/12/2004**	**Change**
Datalogic SpA	1,832	1,609	223
Laservall SpA	305	39	266
Datalogic Holding AB	147	203	(56)
Datalogic AB	-	74	(74)
Datalogic Inc.	181	162	19
EMS Inc.	-	2	(2)
Datalogic France	-	-	-
Datalogic Iberia	-		-
Total short-term deferred tax assets	**2,465**	**2,089**	**376**
DL Handels	416	469	(53)
DL Pty	98	51	47
Informatics	153		
PSC	24	-	
Datalogic UK	341	320	21
Total long-term deferred tax assets	**1,032**	**840**	**192**
Deferred tax assets posted due to effect of consolidation adjustments	**524**	**873**	**(349)**
Total deferred tax assets	**4,021**	**3,802**	**219**

The item “deferred tax assets posted due to effect of consolidation adjustments” was due to elimination of inventory margin.

The detail of deferred tax liabilities was instead as shown below:

Deferred tax liabilities	**31/12/2005**	**31/12/2004**	**Change**
Laservall SpA	105	-	105
Informatics	2,386		2,386
Datalogic France	43	-	43
Total short-term deferred tax liabilities	**2,534**	**-**	**2,534**
Datalogic SpA	1,925	1,042	883
Datalogic AB	-	117	(117)
Datalogic Optik Elektronik Gmbh	90	50	40
Laservall SpA	-	41	(41)
Datalogic Pty. Ltd.	-	9	(9)
PSC	27,064		27,064
EMS Inc.	-	3	(3)
Total long-term deferred tax liabilities	**29,079**	**1,262**	**27,817**
Deferred tax liabilities posted due to effect of IFRS transition	5,764	5,746	18
Deferred tax liabilities due to effect of Laservall consolidation adjustments	3,145	3,627	(482)
Total deferred tax liabilities	**40,522**	**10,635**	**29,887**

The item “Deferred tax liabilities posted due to effect of IFRS transition” consisted of taxes calculated on adjustments made to adapt accounts to the new accounting standards (IASs/IFRSs).

The item “Deferred tax liabilities posted due to effect of Laservall consolidation adjustments” consists of deferred tax provision (€ 3,868 thousand on the date of initial recognition) made upon simultaneous recognition in “Intangible assets” of the intangible assets of the subsidiary Laservall SpA (“Know-How” and “Far East Window”). This provision is released in parallel with the process of amortisation.

The Informatics’ deferred tax liabilities relate to simultaneous recognition in “Intangible assets” of the company’s intangible assets. This provision is released in parallel with the process of amortisation.

The PSC Group’s deferred tax liabilities refer to simultaneous fair valuing of the group’s assets and liabilities.

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	Previous years' losses	Provisions	Asset write-downs	Others	Total
31/12/2004					
Datalogic Pty. Ltd.	20	31			51
Datalogic Handelsgesellschaft mbH	469				469
Datalogic AB Holding	192	11			203
Datalogic AB		74			74
Datalogic UK	320				320
Datalogic Inc.	162				162
EMS Inc				2	2
Laservall SpA			32	7	39
Datalogic SpA (direct parent company)		200	1246	163	1,609
Total for Group companies	**1,163**	**316**	**1,278**	**172**	**2,929**
Deferred taxes recognised due to effect of consolidation adjustments	-			873	873
Total deferred tax assets	**1,163**	**316**	**1,278**	**1,045**	**3,802**
31/12/2005					
Datalogic Pty. Ltd.	56	9		33	98
Datalogic Handelsgesellschaft mbH	416				416
Datalogic AB Holding	147				147
PSC				24	24
Datalogic UK	327	14			341
Datalogic Inc.	181				181
Informatics		34	115	4	153
Laservall SpA		183	63	59	305
Datalogic SpA (direct parent company)		461	1245	126	1,832
Total for Group companies	**1,127**	**701**	**1,423**	**246**	**3,497**
Deferred taxes recognised due to effect of consolidation adjustments	-			524	524
Total deferred tax assets	**1,127**	**701**	**1,423**	**770**	**4,021**

Deferred tax liabilities	Depreciation & amortisation	Reserve for previous losses	Provisions	Others	Total
31/12/2004					
EMS Inc.				3	3
Datalogic Pty. Ltd.	8			1	9
Datalogic Optik Elektronik Gmbh	50				50
Datalogic AB		117			117
Laservall SpA	33			8	41
Datalogic SpA (direct parent company	985		57		1,042
Total for Group companies	**1,076**	**117**	**57**	**12**	**1,262**
Deferred tax liabilities posted due to effect of IFRS transition	-			5,746	5,746
Deferred tax liabilities due to effect of Laservall consolidation adjustments	-			3,627	3,627
Total deferred tax liabilities	**1,076**	**117**	**57**	**9,385**	**10,635**
31/12/2005					
PSC				27,064	27,064
Datalogic Optik Elektronik Gmbh	90				90
Informatics				2,386	2,386
Datalogic France	43				43
Laservall SpA	105				105
Datalogic SpA (direct parent company	1743		115	67	1,925
Total for Group companies	**1,981**	**0**	**115**	**29,517**	**31,613**
Deferred tax liabilities posted due to effect of IFRS transition	-			5,764	5,764
Deferred tax liabilities due to effect of Laservall consolidation adjustments	-			3,145	3,145
Total deferred tax liabilities	**1,981**	**0**	**115**	**38,426**	**40,522**

14. Post-employment benefit obligations

In our case this item basically refers to mandatory Italian employee severance provision, which is considered to be a defined-benefit obligation to be treated according to IAS 19. Consequently, it has to be measured and recognised in accounts applying the projected unit credit method. The latter consists of estimating the amount payable to each employee when he/she leaves the company for any reason (the time factor also has to be estimated) and discounting this amount to present value.

Besides the value of the severance indemnity provision (i.e. the post-employment benefit obligation) to be entered in year-end accounts in the balance sheet – and that conceptually substitutes the item's book value – the following primary items have to be considered in the income statement:

- "Current service costs" – which represents the annual increase of the present value of the obligation corresponding to the increase of employees' service tenure in the year considered

- "Interest cost" – represented by the increase in the obligation's present value due to the fact that the beneficiary date is one year closer
- "Actuarial gains and losses) – i.e. the amount that, each year, stems from differences between the assumptions used to calculate provision for the obligation and what has actually happened during the year.

The estimate was performed by an independent actuary.

The main actuarial assumptions used were as shown below:

	Unit of measurement	31/12/2005	31/12/2004
Discounting rate	%	4.5	5.0
Expected rate of salary growth	%	4.5 – 3.5	4.5 – 3.5
Rate of annual cost-of-living increase	%	2.0	2.0
Average employee service tenure	Years	35	35

Changes in this liability during the period were as follows

	€ '000
31/12/2004	**5,697**
Amount provisioned in period	1,177
Utilisation	-457
Financial component	232
Actuarial impact	0
Increase due to PSC acquisition	245
31/12/2005	**6,894**

Utilisation was mainly attributable to the direct parent company, i.e. € 384 thousand, of which € 144 thousand for advances and € 240 thousand for resignations.

The effects on the income statement were allocated as follows:

	FY2005
	€ '000
Cost of goods sold	348
Research & development	419
Commercial expenses	255
General & administrative expenses	155
Financial expenses	232
Total	**1,409**

15. Provisions

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

	31/12/2005	31/12/2004	Change
Short-term provisions	4,319	-	4,319
Long-term provisions	4,600	2,775	1,825
Total provisions	**8,919**	**2,775**	**6,144**

Below we show the changes occurring in the item:

	31/12/2004	Increases	(Use)	Unused amounts	Foreign exchange diff.	31/12/2005
Product warranty provision	906	3,755			11	4,672
Litigation provision	154	1,318	(101)			1,371
Restructuring provision	1,153		(1,153)			-
Provision for management incentive scheme	-	1,104				1,104
Others	562	1,769	(536)	(23)		1,772
Total provisions	**2,775**	**7,946**	**(1,790)**	**(23)**	**11**	**8,919**

Product warranty provision represents estimated costs to be borne for service work on products sold under a periodical warranty. It totals € 4,672 thousand and is deemed sufficient to meet the specific risk concerned. It is mainly attributable to the PSC Group (€ 3,075 thousand, of which €1,777 thousand long-term), to the direct parent company (€ 950 thousand) and to Laservall SpA (€ 590 thousand).

The restructuring provision was acquired by the direct parent company following acquisition of a company division (€ 1,730 thousand at the time of acquisition). As at 31/12/2005 it had been cleared to zero.

Litigation provision was mainly attributable, for the amount of € 1,144 thousand, to the PSC Group, for a lawsuit currently underway.

Of the provision for the management incentive scheme, € 1,000 thousand was attributable to the direct parent company and € 104 thousand to the PSC Group.

The “Other provisions” item consisted of:

- € 98 thousand = return sales provision of Informatics Inc.
- € 987 thousand = provision relating to the PSC Group (of which provision of € 64 thousand for customer credit notes and € 922 thousand for stock rotation)
- € 632 thousand = attributable to the PSC Group and provisioned for 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 no. 151 of 277/5/2005.

16. Other non-current liabilities

€ 1,000 thousand of the “Other non-current liabilities” item consists of Datalogic SpA’s debt for the acquisition of Laservall SpA, i.e. the long-term portion of the third earn-out that has to be paid on 31/12/2006. We point out that, as done last year, the entire debt continues to be recognised as it is thought likely that the business and financial objectives to which payment of this sum is subject will be achieved. The sum was in any case included in the acquisition’s value.

CURRENT LIABILITIES

17. Trade and other payables

These are the details of trade and other payables:

	31/12/2005	31/12/2004	Change
Trade and other payables	**81,325**	**34,209**	**47,116**
Trade payables:	**44,653**	**19,999**	**24,654**
Trade payables due within 12 months	43,263	19,593	23,670
Trade payables due after 12 months		-	-
Associate payables:	15	7	8
Idec Datalogic Co. Ltd	*15*	*7*	*8*
Amounts payable to ultimate parent company	*998*		
Related-party payables	377	399	(22)
Other current payables	**30,906**	**12,186**	**18,720**
Accrued liabilities and deferred income	**5,766**	**2,024**	**3,742**

Trade payables

Trade payables included € 18,038 thousand and € 700 thousand coming, respectively, from consolidation of the PSC Group and of Informatics.

Related-party payables referred to the Datasensor company.

Amounts payable to the ultimate parent company consisted of Laservall SpA’s debt to Hydra following participation in domestic tax consolidation.

Other current payables

The detailed breakdown of other current payables was as follows:

Other current payables	31/12/2005	31/12/2004	Change
Acquisition of equity interest in Laservall SpA	2,000	3,711	(1,711)
Pension and social security agencies	2,555	2,282	273
Employees	9,401	5,028	4,373
Cautionary deposits	10,172	22	10,150
Directors’ remuneration	633	411	222
Insurance	-	104	(104)
Royalty costs yet to be paid	1,686	189	1,497
Sundry current payables	4,459	439	4,020
Total	**30,906**	**12,186**	**18,720**

Employee payables represent amounts due for salaries and holidays accrued by staff as at balance sheet date (the PSC Group accounted for € 3,353 thousand and Informatics for € 336 thousand).

The increase of the item "Royalty costs yet to be paid" consisted of PSC Holding's debt with the vendor for purchase of the PSC Group.

The item "Sundry current payables" included € 3,223 thousand attributable to the PSC Group, of which € 1,685 thousand relating to purchase of a license and € 1,538 thousand for debts connected with the acquisition.

Accrued liabilities and deferred income

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

	31/12/2005	31/12/2004	Change
a) Accrued liabilities			
Interest payable for long-term loans	85	32	53
Consulting services	310	74	236
Advertising and promotion	381	-	381
Other accrued liabilities	571	115	456
Total accrued liabilities	**1.347**	**221**	**1.126**
b) Deferred income			
Maintenance contracts	1.945	174	1.771
Intercompany transactions	225	287	(62)
Warranty extension	615	514	101
Capital grants	666	684	(18)
Other deferred income	968	144	824
Total deferred income	**4.419**	**1.803**	**2.616**
Total accrued liabilities & deferred income	**5.766**	**2.024**	**3.742**

The increase in accrued liabilities was mainly due to consolidation of the PSC Group and, in particular, "Advertising and promotion" included € 354 thousand relating to the PSC Group.

The increase in the deferred-income item "Maintenance contracts" was mainly attributable to consolidation of the PSC Group (€ 1,617 thousand, of which € 614 thousand long-term) and to Datalogic UK, i.e. € 77 thousand following suspension of the portion of revenues not pertaining to the period of maintenance contracts stipulated with customers.

The "Intercompany transactions" item concerns elimination of inventory margin for the companies Idec Datalogic Co. Ltd. (€ 200 thousand) and Laservall Asia (€ 25 thousand), which are booked at equity.

The “Capital grants” item of € 666 thousand reflects reclassification of capital government grants for assets, obtained in the past by the subsidiary Datasud Srl (now merged with the direct 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.

The item “Other deferred income” included € 754 thousand (of which € 275 thousand long-term) attributable to the PSC Group for revenues suspended because they related to specific contracts that had not yet been fully completed.

18. Taxes payable

	31/12/2005	31/12/2004	Change
Short-term taxes payable	5,528	9,897	(4,369)
Long-term taxes payable	7	-	7
Total	**5,535**	**9,897**	**(4,362)**

As at 31 December 2005 taxes payable amounted to € 5,535 thousand. This amount was mainly attributable as follows:

- € 2,041 thousand for the direct parent company and consisting of:
  - € 1,107 thousand for Italian regional business tax
  - € 934 thousand for personal income tax withheld for employees
- € 627 thousand for Datalogic GmbH (€ 275 thousand for income tax and € 352 thousand for VAT)
- € 573 thousand for Laservall SpA, of which € 398 thousand for Italian regional business tax
- € 1,147 thousand for the PSC Group for income tax
- € 422 thousand for Datalogic UK (€ 83 thousand for income tax and € 339 thousand for VAT).

19. Guarantees and commitments

Collateral provided

Collateral provided totalled € 6,121 thousand and consisted of:

- Mortgages on tangible assets for a total of € 2,775 thousand
- Pledges of € 2,478 thousand on securities owned to guarantee the IMI loan to the direct parent company and other pledges of € 868 thousand.

Commitments

They totalled € 258 thousand and related to commitments for finance lease and rental contracts.

INFORMATION ON THE INCOME STATEMENT

20. Revenues

	31/12/2005	31/12/2004	Change
Revenues from sale of products	198,460	139,589	58,871
Revenues for services	7,488	6,678	810
Total revenues	**205,948**	**146,267**	**59,681**

Total revenues increased by 41% YoY (+10% YoY net of Informatics Inc. and of the PSC Group).

For greater detail, reference should be made to the comments contained in the earlier section "Revenue trends and key factors affecting operations" contained in the Management Report.

The percent geographical breakdown of revenues was as follows:

	31/12/2005	31/12/2004	Change
Revenues - Italy	16%	17%	-1%
Foreign revenues – Rest of EU	44%	56%	-12%
Foreign revenues – Rest of World	40%	27%	13%

21. Cost of goods sold and operating costs

	31/12/2005	31/12/2004	Change
TOTAL COST OF GOODS SOLD (1)	**106,526**	**72,759**	**33,767**
TOTAL OPERATING COSTS (2)	**81,802**	**57,982**	**23,820**
R&D expenses	14,676	11,395	3,281
Distribution expenses	36,385	23,432	12,953
General & administrative expenses	28,162	20,839	7,323
Other operating costs	2,579	2,316	263
TOTAL (1+2)	**188,328**	**130,741**	**57,587**

Total cost of goods sold (1)

This item increased by 47% YoY (without Informatics and the PSC Group it would have increased by 9%, i.e. about 1 percent point less than the revenue increase).

Total operating costs (2)

R&D expenses, which totalled € 14,676 thousand as at 31/12/05 (€ 13,440 thousand net of the PSC Group) were equivalent to 7.1% of revenues (7.2% net of the PSC Group) and grew by 29% vs. FY2004. The main reasons for this growth were:

- Full-year consolidation of Laservall SpA, which in FY2004 had been consolidated as from the second half
- Inclusion in the consolidation area in December of the PSC Group.

Reported distribution expenses amounted to € 36,385 thousand. Net of the PSC Group the amount decreases to € 25,767 thousand. The increase of € 2,335 thousand vs. FY2004 was mainly due to the effect of the different period of consolidation of Laservall SpA (€ 775 thousand), to the increase in payroll costs, and to the increase in tradeshow costs.

G&A expenses amounted to € 28,162 thousand (€ 25,395 thousand net of Informatics and of the PSC Group) and included non-recurrent remuneration to the CEO of € 2,396 thousand. The increase of G&A was due to Laservall's different consolidation period (€ 1,975 thousand, of which € 647 thousand ascribable to amortisation of the Know-How and Far East Window assets) and to an increase in the organisation of Datalogic Optic Electronics BV.

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

	31/12/2005	31/12/2004	Change
Capital losses on assets	141	6	135
Incidental costs and cancellation of income items	203	628	(425)
Previous years' taxes	-	303	(303)
Doubtful-debt provision	230	112	118
Other provisions	1.174	25	1.149
Non-income taxes	474	317	157
Sundry operating costs	357	925	(568)
TOTAL OTHER OPERATING COSTS	**2.579**	**2.316**	**263**

Capital losses on assets included € 100 thousand for write-down of the land of the Datalogic GmbH affiliate, as reported for the item "Property, plant, and equipment".

"Other provisions" consisted of:

- € 174 thousand = litigation provision made by the direct parent company (€ 161 thousand) and Datalogic France (€ 13 thousand)
- € 1,000 thousand = provision made by the direct parent company for the estimate 2005 portion of a long-term management incentive scheme (due to end in 2008).

Non-income taxes were attributable mainly to the direct parent company (€ 111 thousand), Datalogic UK (€ 88 thousand), Datalogic France (€ 74 thousand), Informatics (€ 54 thousand), and to the PSC Group (€ 51 thousand).

Breakdown of costs by nature:

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

	31/12/2005	31/12/2004	Change
Payroll & employee benefits	56.780	42.401	14.379
Depreciation & amortisation	8.579	6.343	2.236
Inventory change	2.690	2.507	183
Materials and goods	78.228	56.057	22.171
Outsourced processing	3.038	2.499	539
Repairs	2.972	1.879	1.093
Marketing	4.154	1.989	2.165
Directors' remuneration	4.500	1.434	3.066
Travel & accommodation	2.952	1.924	1.028
Technical, legal, and tax advisory services	2.669	2.364	305
Goods receipt & shipment	3.473	1.893	1.580
Other costs	18.293	14.465	3.828
Total (COGS + operating costs)	**188.328**	**135.755**	**52.573**

The increase in depreciation & amortisation was mainly due to:

- Amortisation of the intangible assets Know-How and Far East Window created following consolidation of Laservall SpA (€ 1,295 thousand)
- Inclusion of Informatics for a total of € 707 thousand (of which € 535 thousand due to amortisation of intangible assets generated following the Informatics acquisition)
- Inclusion of PSC for a total of € 292 thousand.

Cost of goods sold – which is the sum of the items "Materials and goods" and "Inventory change" – amounted, net of Informatics and of the PSC Group, to € 56,316 thousand and decreased by about 4% vs. FY2004.

The increase in the cost of outsourced processing was due to (a) Laservall SpA (€ 183 thousand), which in FY2004 was consolidated only for the second half and (b) greater use of outsourcing by the direct parent company for certain phases of production activity and consolidation of the PSC Group (€161 thousand).

The increase in "Repairs" – which, net of Informatics and of the PSC Group, amounted to € 378 thousand - was due to the increase in outsourced repair work.

Marketing expenses (€ 2,513 thousand net of Informatics and of the PSC Group) amounted to € 4,154 thousand. They consisted of advertising spending and sponsorships (€ 2,679 thousand), tradeshows

(€956 thousand), and co-marketing participation in commercial partners' marketing spending – marketing funds (€ 518 thousand).

The increase in the item "Directors' remuneration" was, for € 555 thousand, due to the different period of consolidation of Laservall SpA , with € 2,396 thousand being due to payment of non-recurrent remuneration to the direct parent company's CEO.

Of total travel & accommodation expenses – which net of Informatics and the PSC Group amounted to €2,441 thousand - € 985 thousand were attributable to the direct parent company (€ 800 thousand in FY2004) and € 327 thousand to Laservall (vs. € 109 thousand for the six months of consolidation in FY2004).

€ 1,191 thousand of expenses for advisory services – which net of Informatics and the PSC Group amounted to € 1,996 thousand – were attributable to the direct parent company (vs. € 1,508 thousand in FY2004).

Expenses for goods shipment and receipt – which net of Informatics and of the PSC Group amounted to € 2,171 thousand – related mainly to the direct parent company (€ 1,118 thousand vs. € 758 thousand in FY2004) and to Datalogic Inc. (€ 432 thousand vs. € 282 thousand in FY2004).

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

	31/12/2005	31/12/2004	Change
Wages and salaries	43,629	30,443	13,186
Social security charges	9,234	8,009	1,225
Severance indemnities	1,177	1,080	97
Retirement and similar benefits	277	151	126
Other payroll costs	2,463	2,718	(255)
Total	**56,780**	**42,401**	**14,379**

The increase in payroll costs was mainly due to:

- Consolidation of Informatics Inc. (€ 4,322 thousand, 97 employees) and of the PSC Group (€ 4,002 thousand, 818 employees)
- Greater use of temporary working by the direct parent company (€ 1,851 thousand in FY2005 vs. €753 thousand in FY2004)
- Lower capitalisation of staff costs for new-product development (€ 851 thousand in FY2005 vs. €1,305 thousand in FY2004)
- Increase in Group employee headcount (net of Informatics and of the PSC Group), which as at 31/12/2005 totalled 937 employees vs. 875 employees at the end of FY2004.

21. Other operating revenues

The detailed breakdown of this item was as follows:

	31/12/2005	31/12/2004	Change
Miscellaneous income and revenue	255	234	21
Release of restructuring provision	1,128	217	911
Rent income	237	264	(27)
Charge-back of miscellaneous costs	323	280	43
Capital gains on asset disposals	83	86	(3)
Operating grants	330	539	(209)
Incidental income and cost cancellation	71	280	(209)
Reversal of provisions	-	134	(134)
Others	232	671	(439)
TOTAL OTHER REVENUES	**2,659**	**2,705**	**(46)**

"Release of restructuring provision" relates to release of the residual provision acquired by the parent company following acquisition of a company division on 1/04/2004, which had been cleared to zero as at 31/12/2005.

22. Finance income

	31/12/2005	31/12/2004	Change
Interest expenses for bank overdrafts/loans	543	187	356
Foreign exchange losses	1,491	1,334	157
Banking expenses	335	173	162
Other finance expense	446	70	376
TOTAL FINANCE EXPENSE	**2,815**	**1,764**	**1,051**
Interest income on bank current accounts	611	688	(77)
Foreign exchange gains	2,789	1,024	1,765
Dividends	292	-	292
Income from investment disposal	952	-	952
Other finance income	343	147	196
TOTAL FINANCE INCOME	**4,987**	**1,859**	**3,128**
NET FINANCE INCOME/EXPENSE)	**2,172**	**95**	**2,077**

Total finance expense

"Foreign exchange losses" totalling € 1,491 thousand were mainly attributable to the direct parent company (€ 1,061 thousand), Datalogic Holding AB for end-of-period alignment of the loan in euro (€129 thousand), and to Datalogic AB (€ 242 thousand).

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

- € 401 thousand = foreign exchange losses relating to commercial transactions, of which € 68 thousand for alignment with the end-of-period exchange rate
- € 331 thousand = foreign exchange losses relating to foreign currency loans and current accounts of which € 60 thousand for alignment with the end-of-period exchange rate
- € 329 thousand = financial transactions, of which € 116 thousand caused by alignment with end-of-period exchange rates of forward hedging transactions, net of the adjustment made as at 31/12/2004.

"Banking expenses" included € 214 thousand attributable to the direct parent company, of which € 51 thousand for surety fees, € 90 thousand for related bank commission, and € 73 thousand for loan arrangement expenses.

"Other finance expense" included € 232 thousand for reclassification of the financial component of Italian severance indemnity provision.

Total finance income

"Foreign exchange gains" totalling € 2,789 thousand were mainly attributable to the direct parent company (€ 2,369 thousand) and Datalogic AB (€ 300 thousand).

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

- € 754 thousand = foreign exchange gains relating to commercial transactions, of which € 34 thousand for alignment with the end-of-period exchange rate
- € 784 thousand = foreign exchange gains relating to foreign currency loans and current accounts of which € 475 thousand due to alignment with the end-of-period exchange rate
- € 831 thousand = foreign exchange gains on adjustment of equity stake in PSC Holding.

The "Dividends" item included € 292 thousand received from Ixla SA.

The item "Income from investment disposal" consisted of income of € 866 thousand for the sale of Ixla SA and € 86 thousand for the sale of Laservall China.

"Other finance income" included:

- € 76 thousand attributable to the direct parent company for income on securities held as non-current assets

- € 190 thousand attributable to the direct parent company for income on securities held as current assets.

24. Income tax

	31/12/2005	31/12/2004
Income tax	9,186	7,525
Deferred income tax	326	-59
	9,512	**7,466**

The average tax rate applied was 41.9% (vs. the average tax rate of 40% applied as at December 2004).

The statement of reconciliation – for FY2005 – 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.

SEGMENT INFORMATION

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), MC (mobile computers), and checkout counter scanners for the retailing market.

Business Development: this division 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. They consist of:

- Industrial marking products
- Distribution of automatic identification products.

These last two activities relate to two companies recently acquired by Datalogic SpA (i.e. respectively to Laservall SpA and Informatics).

Primary segment results in FY2005, compared with those in FY2004, were as follows:

€ '000	Data Capture		Business Development		Adjustments		Consolidated Total	
	FY2005	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Revenues:								
External sales	146,566	123,592	59,382	22,675			205,948	146,267
Intersegment sales	42	9	33	65	(75)	(74)	-	-
TOTAL REVENUES	146,608	123,601	59,415	22,740	(75)	(74)	205,948	146,267
Cost of goods sold	76,492	61,534	30,073	11,110	(39)		106,526	72,644
Intersegment cost of goods sold	18	66	39		(57)	(66)	-	-
GROSS PROFIT	70,098	62,001	29,303	11,630	21	(8)	99,422	73,623
Other attributable revenues	2,455	2,169	204	536			2,659	2,705
Other intersegment revenues	370	603	-		(370)	(603)	-	-
Operating costs:								
R&D expenses	11,308	8,965	3,368	2,430			14,676	11,395
Distribution expenses	24,970	19,442	11,651	4,317	(334)	(327)	36,287	23,432
Allocable G&A costs	15,054	14,391	4,460	1,857	(219)	(276)	19,295	15,972
Other allocable operating costs	2,180	1,755	203				2,383	1,755
SEGMENT RESULT	**19,411**	**20,220**	**9,825**	**3,562**	**204**	**(8)**	**29,440**	**23,774**
Unallocable G&A costs		-		-			4,641	4,221
OPERATING PROFIT	**19,411**	**20,220**	**9,825**	**3,562**	**204**	**(8)**	**24,799**	**19,553**
Allocable net non-recurrent (costs)	(295)	(676)	(1,830)	(646)			(2,125)	(1,322)
Unallocable net non-recurrent (costs)							(2,396)	-
Net finance income							2,172	95
Share of associates' profit	149	125	80	226			229	351
Income tax							9,512	7,466
NET PROFIT	**19,265**	**19,669**	**8,075**	**3,142**	**204**	**(8)**	**13,168**	**11,211**
OTHER INFORMATION								
Segment assets	333,400	117,587	53,731	15,471	(8)	(59)	387,123	132,999
Interests in associates booked at equity	636	437	165	414			801	851
Unallocable assets							48,116	56,770
Total assets	334,036	118,024	53,896	15,885	(8)	(59)	436,040	190.620
Segment liabilities	87,003	39,690	7,453	4,411	(329)	(231)	94,127	43.870
Unallocable liabilities							212,052	30.561
Equity							129,861	116.189
Total liabilities	87,003	39,690	7,453	4,411	(329)	(231)	436,040	190.620
Deprec. & amort.n (D&A)	5,819	5,167	792	409			6,611	5.576
Unallocable D&A							138	120

Geographical business segmentation

The results of the secondary segment (geographical area) as at 31/12/2005, compared with those as at 31/12/2004 were as follows:

	FY2005	FY2004	Adjustments FY2005	Adjustments FY2004	Consolidated Total FY2005	Consolidated Total FY2004	% YoY
REVENUES BY GEOGRAPHIC AREA							
Italy	32.803	23.947			32.803	23.947	37%
Europe	90.446	81.641			90.446	81.641	11%
North America	54.381	20.969			54.381	20.969	159%
Rest of the world	28.318	19.709			28.318	19.709	44%
TOTAL	**205.948**	**146.267**	**-**	**-**	**205.948**	**146.267**	**41%**
ASSETS BY GEOGRAPHICAL SEGMENT							
Italy	101.364	95.095	(2.726)	5.216	98.638	100.311	-2%
Europe	28.337	31.503	(1.305)	(6.650)	27.032	24.853	9%
North America	260.301	6.782	(369)	(335)	259.932	6.447	3932%
Rest of the world	1.946	1.785	(425)	(397)	1.521	1.388	10%
TOTAL	**391.948**	**135.165**	**- 4.825**	**- 2.166**	**387.123**	**132.999**	**191%**
ASSETS PURCAHSE COST							
Italy	5.367	18.971			5.367	18.971	-72%
Europe	663	13			663	13	5000%
North America	184.451	95			184.451	95	194059%
Rest of the world	99	-			99	-	
TOTAL	**190.580**	**19.079**	**-**	**-**	**190.580**	**19.079**	**899%**

For comments, reference should be made to the "Segment Information" section of the Management Report.

TRANSACTIONS WITH SUBSIDIARIES NOT CONSOLIDATED LINE-BY-LINE, WITH ASSOCIATED COMPANIES, AND WITH RELATED PARTIES

Transactions with Datalogic Group companies

Idec Datalogic Co. Ltd, a Japanese company in which the indirect (i.e. ultimate) parent company owns a 50% stake, purchases products and components from Datalogic for resale in the Far Eastern area. In FY2005 the ultimate parent company sold Idec products and components totalling about € 2,901 thousand. As at 31 December 2005, trade accounts receivable from Idec totalled € 796 thousand. These transactions were executed at conditions comparable to those of other affiliates.

Transactions with DL Private Ltd., an Indian company in which the ultimate parent company owns a 20% equity interest, are not significant.

Transactions with companies belonging to shareholders

Transactions with Datasensor SpA – a company controlled by the indirect parent company's key shareholders – mainly concerned purchase of components by the direct parent company (€ 1,498 thousand), financial charges (€ 84 thousand), and contributions to interest payments (€ 278 thousand) concerning the IMI long-term loan (which, following the demerger on 02/01/1998, is now

jointly held by the direct parent company and Datasensor SpA), and to distribution, by some group companies, of modest quantities of Datasensor products.
As at 31 December 2005 trade accounts payable to Datasensor totalled € 377 thousand and receivables € 164 thousand.

Transactions with the indirect parent company (Hydra SpA) during the period were marginal and limited to reciprocal debiting of rents with Datalogic SpA and to participation in domestic tax consolidation. More specifically, we not that Datalogic SpA had a credit with the indirect parent company of € 443 thousand Laservall had a liability with Hydra of € 998 thousand.

OTHER INFORMATION – Employee headcount

	31/12/2005	31/12/2004	Change
Datalogic SpA	558	553	5
Datalogic AB	31	33	(2)
Datalogic France	16	18	(2)
Datalogic Iberia	19	16	3
Datalogic Gmbh Cluster	56	52	**4**
Datalogic Inc.	47	43	**4**
Datalogic Pty. Ltd.	13	12	**1**
Datalogic UK Ltd.	14	16	**(2)**
EMS Inc.	60	65	**(5)**
Informatics	97	0	**97**
Laservall SpA	79	67	**12**
PSC Group	818	0	**818**
Total	**1,808**	**875**	**933**

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 FY2005:

INDIVIDUAL	**DESCRIPTION OF OFFICE**		**REMUNERATION**		
FULL NAME	OFFICE HELD	TERM OF OFFICE	EMOLUMENTS FOR OFFICE	OTHER EMOLUMENTS	BONUSES & OTHER INCENTIVES
R. Volta	Chairman	31/12/2006	147,900		
R. Tunioli	Vice President & CEO	31/12/2006	600,000	6,583	2,810,362
A. Forchielli	Director	31/12/2006	21,700		
G. Micheletti	Director	31/12/2006	15,500	* 128,527	64,889
U. Paolucci	Director	31/12/2006	15,500		
U. Piol	Director	31/12/2006	15,500		
P. Caruso	Director	31/12/2006	9,300		
G. Volta	Director	31/12/2006	9,300		
V. Volta	Director	31/12/2006	9,300		
J. O'Brian	Director	31/12/2006	9,300		
A. Manaresi	Director	31/12/2006	9,300		
M. Saracino	Secretary		9,300	372	
S. Romani	Pres. of Board of Statutory Auditors	31/12/2006	23,040	2,606	
G. Cristofori	Statutory auditor	31/12/2006	15,360	2,073	
R. Feverati	Statutory auditor	31/12/2006	15,360	1,550	
P. Passarini	Substitute statutory auditor	31/12/2006			
G. Delli	Substitute statutory auditor	31/12/2006			

*Remuneration relating to his employment as a manager of Datalogic SpA.

The remuneration listed above has been fully paid by Datalogic SpA. No other remuneration is owed to directors by other subsidiary companies.

The total remuneration payable to the directors and statutory auditors of Laservall SpA for FY2005 was as follows:

INDIVIDUAL	**DESCRIPTION OF OFFICE**		**REMUNERATION**		
FULL NAME	OFFICE HELD	TERM OF OFFICE	EMOLUMENTS FOR OFFICE	NON-CASH EMOLUMENTS	BONUSES & OTHER INCENTIVES
P. Cucchi	Director	31/12/2007	175,000		43,750
M. Cucchi.	Director	31/12/2007	200,000		50,000
A. Saporiti	Director	31/12/2007 *	197,000		60,272
R. Tunioli	Director	31/12/2007			
M. Saracino	Pres. of Board of Statutory Auditors	31/12/2006	8,100		1,453
M. Campanini	Statutory auditor	31/12/2006	5,400		
R. Azzimanti	Statutory auditor	31/12/2006	5,400		710
G. Ronzani	Substitute statutory auditor	31/12/2006			
G. Delli	Substitute statutory auditor	31/12/2006			

Romano Volta
Chairman of the Board of Directors

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 31st Dec. 2004

ASSETS	31/12/2004
A) SUBSCRIBED CAPITAL UNPAID	-
B) FIXED ASSETS	80.200.199
C) CURRENT ASSETS	4.755.671
D) ACCRUED INCOME AND PREPAYMENTS	905
TOTAL ASSETS	84.956.775

LIABILITIES AND EQUITY	31/12/2004
A) NET EQUITY	34.816.245
Share Capital	31.200.000
Reserves	2.424.805
Net profit/(loss)	1.191.440
B) PROVISIONS FOR RISKS AND CHARGES	
C) Employees' severance indemnity provision	11.055
D) PAYABLES	50.063.980
E) ACCRUED EXPENSES AND DEFERRED INCOME	65.495
TOTAL LIABILITIES AND EQUITY	84.956.775

MEMORANDUM ACCOUNTS	258.228

PROFIT & LOSS ACCOUNTS	31/12/2004
A) PRODUCTION VALUE	912.501
B) PRODUCTION COSTS	(1.384.175)
C) FINANCIAL INCOME AND CHARGES	448.121
D) ADJUSTMENT TO THE VALUE OF FINANCIAL ASSETS	457.304
E) EXTRAORDINARY INCOME AND CHARGES	(16.712)
PRE-TAX PROFIT/(LOSS)	417.039
Current income taxes	
Deferred taxes	(774.401)
PROFIT/(LOSS) FOR THE YEAR	1.191.440

HYDRA S.p.a.

CONSOLIDATED BALANCE SHEET

Euro /000

ASSETS	31/12/2004
A) SUBSCRIBED CAPITAL UNPAID	-
B) FIXED ASSETS	99.644
C) CURRENT ASSETS	138.452
D) ACCRUED INCOME AND PREPAYMENTS	1.098
TOTAL ASSETS	239.194

LIABILITIES AND EQUITY	31/12/2004
A) NET EQUITY	
Share Capital	*31.200*
Reserves	*50.979*
Net profit/(loss) for the year	*7.661*
Total net equity	*89.840*
Net equity pertaining to minorities	*24.595*
TOTAL NET EQUITY	114.435
B) PROVISIONS FOR RISKS AND CHARGES	4.445
C) Employees' severance indemnity provision	8.946
D) PAYABLES	109.953
E) ACCRUED EXPENSES AND DEFERRED INCOME	1.415
TOTAL LIABILITIES AND EQUITY	239.194

MEMORANDUM ACCOUNTS	11.513

CONSOLIDATED PROFIT & LOSS ACCOUNTS

Euro /000

	31/12/2004
A) PRODUCTION VALUE	174.413
B) PRODUCTION COSTS	(155.248)
C) FINANCIAL INCOME AND CHARGES	(858)
D) ADJUSTMENT TO THE VALUE OF FINANCIAL ASSETS	809
E) EXTRAORDINARY INCOME AND CHARGES	(1.352)
Pre-tax profit/(loss)	17.764
Current income taxes	7.749
PROFIT/(LOSS) FOR THE YEAR	10.015
Profit/(Loss) pertaining to minorities	2.354
NET PROFIT/(LOSS) FOR THE YEAR	7.661