



Consolidated Financial

Report at

September 30th, 2005

DATALOGIC GROUP

Consolidated Financial Report as at September 30, 2005

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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

Independent auditing firm

PricewaterhouseCoopers SpA

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

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

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

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

DATALOGIC GROUP – NOTES ON QUARTERLY INTERIM REPORT AS AT SEPTEMBER 30, 2005

To Our Shareholders

A) INFORMATION ON PERFORMANCE

The quarterly interim report for the period ending on September 30, 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.

Specifically:

- Consolidated financial statements apply the format envisaged by international accounting standards (IAS/IFRS) introduced by European Regulation 1725/2003
- Comments have been prepared as per the requirements indicated in Attachment 3D of CONSOB (Italian securities & exchange commission) regulation no. 11971 of 14/09/1999 and subsequent updates.

The Datalogic Group's net profit in the first 9 months of 2005 (9M05) totalled € 8,957 thousand, growing by over 14.6% vs. € 7,818 thousand reported in the same period in the previous year (9M04).

Important contributors to this result were the recent acquisitions of Laservall SpA (consolidated on a 100% line-by-line basis as from the third quarter of 2004) and of Informatics Inc. (consolidated on a 100% line-by-line basis as from March of the current year).

The following table summarises key operating results of Informatics Inc. as up to 30 September 2005 (9M05) (duly adjusted to allow for consolidation adjustments concerning the company):

	9M05 Informatics
	€ '000
Total revenues	18,039
EBITDA	2,777
% on total revenues	15.4%
Net profit	1,662
% on total revenues	9.2%

In 9M05 the **Datalogic Group achieved total revenues of € 132,803 thousand (vs. € 102,425 thousand in 9M04)**, detailed as follows:

- € 127,889 thousand consisting of revenues from the sale of products (of which: Informatics Inc. € 18,039 thousand);
- € 4,914 thousand of revenues from services.

These revenues showed reported growth of some 29.7% YoY (vs. € 102,425 thousand in 9M04), with growth of 12% YoY net of Informatics Inc.

The following table summarises the Datalogic Group's key operating and financial highlights in 9M05 (i.e. as up to September 30, 2005) comparing them with 9M04:

Datalogic Group	9M05	9M04	YoY Change	
	€ '000	€ '000	€ '000	%
Total revenues	132,803	102,425	30,378	29.7%
EBITDA	22,936	17,663	5,273	29.9%
% on total revenues	17.3%	17.2%		
Net profit	8,957	7,818	1,139	14.6%
% on total revenues	6.7%	7.6%		
Net Financial Position (NFP)	38,898	34,264	4,634	13.5%

Group EBITDA was € 22,936 thousand (of which Informatics Inc. = € 2,777 thousand), with a 17.3% margin on total revenues (17.6% net of Informatics Inc.). The outright increase over 9M04 totalled € 5,273 thousand (+29.9% vs. € 17,663 thousand as up to 30 September 2004, +14.1% net of Informatics Inc.).

The following table shows the main EBITDA components, comparing them with 9M04.

	9M05		9M04 (*)	YoY Change		
	€ '000		€ '000	€ '000	%	
Total revenues	132,803	100.0%	102,425	100.0%	30,378	29.7%
Cost of goods sold and operating costs	-109,867	-82.7%	-84,762	-82.8%	-25,105	29.6%
EBITDA	22,936	17.3%	17,663	17.2%	5,273	29.9%
Depreciation of property, plant & equipment	-3,055	-2.3%	-2,446	-2.4%	-609	24.9%
Amortisation of intangible assets	-2,627	-2.0%	-1,853	-1.8%	-774	41.8%
EBIT	17,254	13.0%	13,364	13.0%	3,890	29.1%
Non-recurrent costs	-1,988	-1.5%	-90	-0.1%	-1,898	2108.9%
Operating profit	15,266	11.5%	13,274	13.0%	1,992	15.0%
Net finance income/(costs) and income from associate companies	780	0.6%	49	0.0%	731	1491.8%
EBT	16,046	12.1%	13,323	13.0%	2,723	20.4%
Income tax	-6,931	-5.2%	-5,505	-5.4%	-1,426	25.9%
NET PROFIT BEFORE MINORITY INTEREST	9,115	6.9%	7,818	7.6%	1,297	16.6%
Minority interest	158	0.1%	0	0.0%	158	
GROUP NET PROFIT	8,957	6.7%	7,818	7.6%	1,139	14.6%

(*) 9M04 data have been reclassified in order to make them comparable with 9M05 results, which have been calculated according to IAS/IFRS.

Following the introduction of IAS, non-recurrent or extraordinary costs are no longer shown separately in the financial statements presented 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 section concerning information on operating performance – 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.

EBIT, as thus defined, amounted to € 117,254 (of which € 2,655 thousand Informatics Inc.), with a 13% margin on revenues (112.7% net of Informatics Inc.) and with reported growth of 29.1% vs. 9M04 (+9.2% net of Informatics Inc.).

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

€ '000	3Q05		3Q04		YoY Change	
					Amount	%
Total revenues	46,236	100.0%	35,009	100.0%	11,227	32.1%
EBITDA	8,188	17.7%	7,098	20.3%	1,090	15.4%
EBIT	6,200	13.4%	5,270	15.1%	930	17.6%

We point out that 3Q05 includes Informatics results, whereas 3Q04 did not.

€ '000	3Q05		2Q05		QoQ Change	
					Amount	%
Total revenues	46,236	100.0%	49,949	100.0%	-3,713	-7.4%
EBITDA	8,188	17.7%	8,625	17.3%	-437	-5.1%
EBIT	6,200	13.4%	6,707	13.4%	-507	-7.6%

As already highlighted, Informatics was consolidated only as from 2Q05.

REVENUE TRENDS AND KEY FACTORS AFFECTING OPERATIONS IN THE FIRST 9 MONTHS

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) and MC (mobile computers).

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 Inc.).

Primary segment results as up to 30/09/2005 (9M05), compared with those as up to 30/09/2004 (9M04) were as follows:

€ '000	Data Capture		Business Development		Adjustments		Consolidated Total	
	9M05	9M04	9M05	9M04	9M05	9M04	9M05	9M04
Revenues:								
External sales	90,959	87,517	41,844	14,908			132,803	102,425
Intersegment sales	35	1	28	98	(63)	(99)	-	-
TOTAL REVENUES	<u>90,994</u>	<u>87,518</u>	<u>41,872</u>	<u>15,006</u>	<u>(63)</u>	<u>(99)</u>	<u>132,803</u>	<u>102,425</u>
Cost of goods sold	44,960	42,588	20,960	7,070	(32)		65,888	49,658
Intersegment cost of goods sold	7	-	26	45	(33)	(45)	0	(0)
GROSS PROFIT	<u>46,027</u>	<u>44,930</u>	<u>20,886</u>	<u>7,891</u>	<u>2</u>	<u>(54)</u>	<u>66,915</u>	<u>52,767</u>
Other attributable revenues	1,636	1,473	152	23			1,788	1,496
Other intersegment revenues	222	477	-	-	(222)	(477)	-	-
Operating costs:								
R&D expenses	7,642	6,253	2,484	1,786			10,126	8,039
Distribution expenses	15,070	15,263	8,196	2,974	(215)	(271)	23,051	17,966
Allocable G&A costs	10,216	10,287	3,999	985	(181)	(205)	14,034	11,067
Other allocable operating costs	604	829	374	14			978	843
SEGMENT RESULT	14,353	14,248	5,985	2,155	176	(55)	20,513	16,348
Unallocable G&A costs							3,260	2,984
OPERATING PROFIT	<u>14,353</u>	<u>14,248</u>	<u>5,985</u>	<u>2,155</u>	<u>176</u>	<u>(55)</u>	<u>17,254</u>	<u>13,364</u>
Allocable net non-recurrent costs	(311)	(90)					(311)	(90)
Unallocable net non-recurrent income/(costs)							(1,677)	-
Net finance income/ (expense)							500	(173)
Share of associates' profit	57	65	223	157			280	222
Income tax							6,931	5,505
NET PROFIT	<u>14,099</u>	<u>14,223</u>	<u>6,208</u>	<u>2,312</u>	<u>176</u>	<u>(55)</u>	<u>9,115</u>	<u>7,818</u>
OTHER INFORMATION								
Segment assets	101,401	115,453	49,694	18,680		(89)	151,095	134,044
Interests in associates booked at equity	554	384	662	380			1,216	764
Unallocable assets							66,283	55,021
<u>Total assets</u>	<u>101,955</u>	<u>115,837</u>	<u>50,356</u>	<u>19,060</u>	<u>-</u>	<u>(89)</u>	<u>218,594</u>	<u>189,829</u>
Segment liabilities	36,793	45,005	6,133	5,133	(228)	(373)	42,698	49,765
Unallocable liabilities							37,899	30,459
Equity							137,997	109,605
<u>Total liabilities</u>	<u>36,793</u>	<u>45,005</u>	<u>6,133</u>	<u>5,133</u>	<u>(228)</u>	<u>(373)</u>	<u>218,594</u>	<u>189,829</u>
Deprec. & amort.n (D&A)	4,053	3,430	1,524	695			5,577	4,125
Unallocable D&A							105	174

As regards sales performance, later on we show some charts providing further information (by business division and geographical segment) about the results achieved.

The **Data Capture Division's** sales as up to 30 September 2005 (9M05) totalled € 90,959 thousand, growing by some 4% over 9M04.

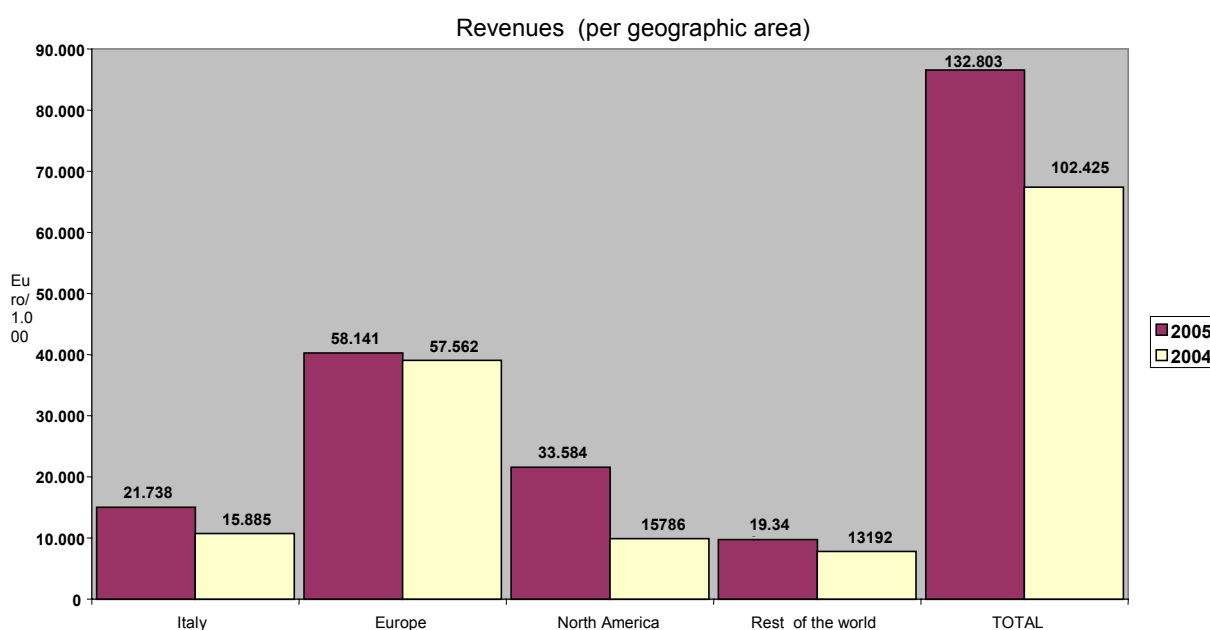
In terms of sales performance 3Q05 was the best quarter of the year to date for the Data Capture Division, with growth of over 12% vs. 3Q04.

In assessing these results, it is in any case necessary to take reorganisation of the company's two business areas into account. This reorganisation – implemented at the beginning of the year – undoubtedly (as already highlighted in the Midyear Interim Report) slowed commercial development activities in the first half. The latter emerged as being more brilliant in terms of orders won than of actual sales revenue achieved. During 3Q05 the Division started to reap the benefits of the strategic and operating activities initiated at the beginning of the year.

All product lines (hand-held readers, mobile computers, and unattended scanner) contributed in the quarter to the Division's growth, with mobile computers making a particularly significant contribution.

As regards geographical segments, the Italian home market's good performance continued (with sales in 3Q05 up by +24% vs. 3Q04), as did that of North America (+11%) and the Rest of the World (+67%). Conversely, sales performance continued to be less brilliant in the Rest of Europe where, once again in 3Q05, there was confirmation of a general slowdown of business in our market.

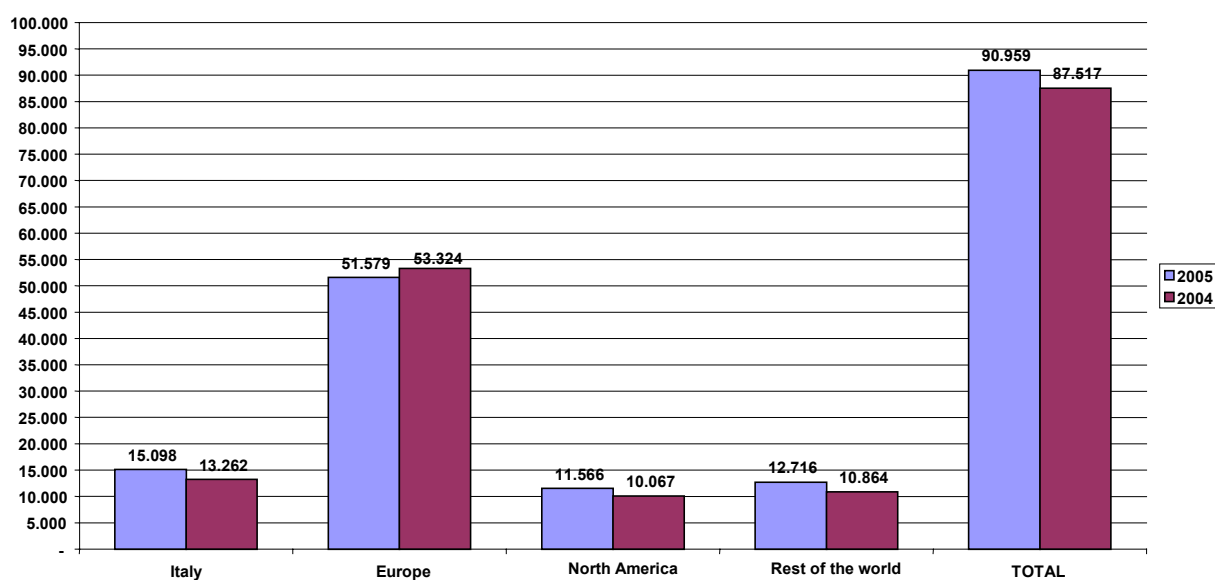
Revenues of the **Business Development Division** amounted to € 41,844 thousand in 9M05 (32% of the total), growing by over 181% vs. € 14,908 thousand reported in 9M04. As already highlighted several times, the new acquisitions (Laservall and Informatics) made a significant contribution to this result.



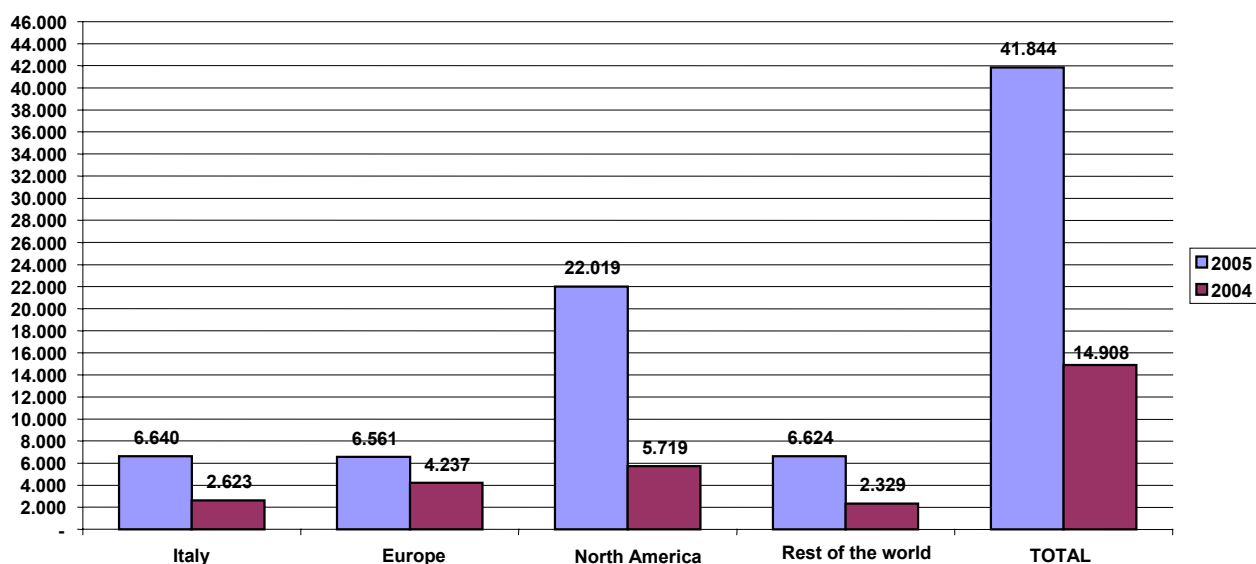
Going into greater detail, in 9M05 the various geographical areas' contribution to sales was as follows:

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

Data Capture revenues per geographic area



Business Development revenues per geographic area



Gross profit rose from € 52,767 thousand (in 9M04) to € 66,915 thousand in 9M05 (+27%). A significant contribution was made to this result by both the Data Capture Division (+2.5% YoY) and, above all, the Business Development Division (+164%).

Operating costs attributable to the Divisions amounted to € 48,189 thousand as at September 30 2005 (+27% vs. € 37,915 thousand reported in 9M04). Of this total, € 33,532 thousand of costs related to the Data Capture Division (+3% vs. 2004) and € 15,053 thousand to the Business Development Division (+161%), gross of € 396 thousand of “interdivisional” operating costs. Going into greater detail:

Going into greater detail, the **Data Capture Division** featured an increase in R&D costs, which, as up to 30 September 2005, totalled € 7,642 thousand (equivalent to 8.4% of total sales and up by 22% vs. 9M04). Its allocable G&A costs were substantially unchanged at € 10,216 thousand vs. 9M04 (€ 10,287 thousand). Conversely, distribution costs shrank slightly (-1%) and amounted to € 15,070 thousand in 9M05. This saving was largely due to the fact that we did not hold a company convention in the first quarter of 2005 (whereas it had been held in February 2004).

The Division’s other operating costs (€ 604 thousand) were 27% lower than in 9M04, mainly because of taxes relating to previous periods (€ 303 thousand).

The **Business Development Division** featured significant growth of all operating cost categories, mainly because of the change in consolidation area.

The Data Capture Division’s segment result (i.e. before non-allocable G&A expenses) amounted to € 14,353 thousand – substantially unchanged compared with 9Q04. The Business Development Division’s segment result totalled € 5,985 thousand, with strong growth (+178%) vs. the € 2,155 thousand reported in 9M04. Once again in this case the result was almost entirely due to the change in the scope of consolidation.

As at September 30 2005, our net financial position was positive by € 38,898 thousand and featured the following breakdown:

Datalogic Group	30/09/05	31/12/04	30/09/04
	€ '000	€ '000	€ '000
Non-current financial assets	4,493	2,979	2,972
M-/L-term bank borrowing	-13,036	-5,500	-6,811
M-/L-term net financial position	-8,543	-2,521	-3,839
Short-term bank borrowing and amounts payable to other financial institutions	-2,565	-2,660	-2,543
Financial receivables	3,000	3,407	500
Hedging transactions	-70	239	75
Commercial paper	0	0	0
Cash and cash equivalents	47,076	37,413	40,071
Short-term net financial position	47,441	38,399	38,103
Total net financial position	38,898	35,878	34,264

NFP structure for the three periods shown has been restated following adoption of IAS/IFRS.

The positive net financial position as at 30 September 2005 increased versus both 31 December 2004 (by € 3,200 thousand) and 30 September 2004 (by € 4,634 thousand). It should be noted that, during 9M05, we:

- Paid out dividends totalling € 2,690 thousand
- Acquired the equity interest in Informatics Inc., which caused a cash outlay of € 10,975 thousand
- Paid € 3,711 thousand relating to the acquisition of Laservall SpA.

As regards cash-in, we would like to highlight the fact that the parent company collected, in the period up to 30 September 2005:

- € 2,772 thousand for a VAT rebate
- € 3,703 thousand for the exercise of stock options.

It should also be noted that, as at 30 September 2005 the company Informatics Inc. had net financial debt of € -8,035 thousand, which is included in the Group's net financial debt as at the end of 3Q05.

Net working capital totalled € 32,978 thousand and decreased by € 1,745 thousand vs. 31 December 2004.

FINANCE INCOME/EXPENSE

There was net finance income of € 500 thousand. The drivers of this result were as follows:

Finance income in the strict sense of the term	428
Net foreign exchange gains	410
Banking expenses	(163)
Financial component of accrued post-employment benefit provision	(176)
Others	1
Net finance income	500

We also note that earnings of € 280 thousand made by companies consolidated at equity were also reported.

PERFORMANCE OF GROUP COMPANIES

The business performance of group companies as up to September 30, 2005 – inclusive of intercompany transactions – is summarised in the following table (the result for the period, shown before 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 30/09/05	30/09/2005	30/09/2004	CHANGES
Datalogic SpA (direct parent company) *		77,501	101,200	-23.4%
Laservall SpA **	100%	14,866	4,417	236.6%
Datalogic AB	100%	6,619	7,602	
Minec System Holding (2)	100%	0	0	
Datalogic Holding AB (2)	100%	0	0	0.0%
EMS, Inc.	100%	6,608	8,235	-19.8%
Datalogic France SA (1)	100%	97	3,428	-97.2%
Datalogic Optik Elektronik GmbH	100%	25,841	26,705	-3.2%
Datalogic Optic Electronics BV (1)	100%	0	0	0.0%
Datalogic Handelsgesellschaft mbH (1)	100%	0	0	0.0%
Datalogic Pty. Ltd.	100%	4,307	4,257	1.2%
Datalogic UK Ltd. (1)	100%	3,437	6,331	-45.7%
Datalogic Inc.	100%	11,580	10,184	13.7%
Informatics Inc.	90%	18,039	0	
Datalogic Asia (1)	100%	0		
Datalogic Iberia (1)	100%	188	400	-53.0%

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

** The figure as at 30/09/2004 relates solely to 3Q04 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".

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

NET PROFIT (€ '000)

COMPANY NAME	% OWNERSHIP as at 30/09/05	30/09/2005	30/09/2004	CHANGES
Datalogic SpA (direct parent company) *		7,171	8,248	- 1,077
Laservall SpA **	100%	2,709	734	1,975
Datalogic AB	100%	-128	-205	77
Minec System Holding	100%	0	-9	9
Datalogic Holding AB	100%	-73	6	- 79
EMS, Inc.	100%	-229	481	- 710
Datalogic France SA	100%	166	78	88
Datalogic Optik Elektronik GmbH	100%	1,059	1,104	- 45
Datalogic Optic Electronics BV	100%	-101	-46	- 55
Datalogic Handelsgesellschaft mbH	100%	111	294	- 183
Datalogic Pty. Ltd.	100%	-98	12	- 110
Datalogic UK Ltd.	100%	48	166	- 118
Datalogic Inc.	100%	295	-75	370
Informatics Inc.	90%	1,577	0	1,577
Datalogic Asia	100%	29	0	29
Datalogic Iberia	100%	122	154	- 32

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

** The figure as at 30/09/2004 relates solely to 3Q04 because the company was consolidated during the second half of 2004

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

Transactions with Datalogic Group companies

Izumi 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 9M05 the ultimate parent company sold Izumi products and components totalling about € 2,111 thousand. As at September 30 2005, trade accounts receivable from Izumi totalled € 536 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 (€ 1,160 thousand), financial charges (€ -58 thousand), and contributions to interest payments (€ 140 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 September 30 2005 trade accounts payable to Datasensor totalled € 389 thousand and receivables € 132 thousand.

Transactions with the indirect parent company (Hydra SpA) during 9M05 were marginal and limited to reciprocal debiting of rents.

FORESEEABLE BUSINESS PROGRESS FOR THE CURRENT YEAR AND EVENTS AFTER QUARTER-END

During October 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 2004 PSC reported consolidated sales of USD 228 million (mn) and EBITDA of USD 21.5 mn.

Acquisition cost is USD 195 mn (enterprise value). Of this USD 100 mn will be equity financed (an Extraordinary Shareholder Meeting has already been summoned for December 2 and will be called upon to approved a capital increase of a maximum of 3,496,000 shares, at a per-share price of between € 22 and € 23) whilst the remaining USD 95 mn will be debt financed via bank borrowing.

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 9M05). 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 balance in terms of both user markets served and geographical coverage (in North America, which accounts for roughly half of the global market, the group will generate over 40% of its total sales).

B) ACCOUNTING STANDARDS AND POLICIES

Datalogic SpA is a company incorporated in Italy. Quarterly interim financial statements as at September 30 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.

Consolidated quarterly interim financial statements as at September 30 2005 were approved by the Board of Directors during the meeting held today (November 11, 2005).

(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 (IAS/IFRS) endorsed by the European Commission. Our consolidated quarterly interim report as at September 30 2005 has been prepared in accordance with international accounting standards (hereinafter also “IAS”, “IFRS”, or “IAS/IFRS”) for interim reports. Financial statements have been prepared in accordance with IAS 1. The consolidated quarterly interim report as at September 30 2005 has been prepared according to IFRS. This quarterly interim report has thus also been prepared in compliance with the IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations issued and effective at the time of its preparation. The IFRS and IFRIC interpretations that will be applicable as at December 31 2005 – including those that will be optionally applicable – were not known with any certainty at the time of preparation of this consolidated quarterly interim report as at September 30 2005. If new IFRS versions or interpretations or future orientations of the European Commission concerning endorsement of international accounting standards were to be issued prior to publication of the first IFRS-compliant annual report and accounts, possibly with retrospective effect, consequent effects could emerge on the data presented in this quarterly interim report prepared, for the first time, in accordance with IFRS.

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) until December 31 2004. As is known there are differences, sometimes significant, between such standards (Italian GAAP) and IFRS. In preparing the present quarterly interim report, 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 requirements. Comparative figures relating to 2004 have been restated to take these adjustments into account, with the exception of what is described in accounting standards and policies.

The reconciliations of equity, profit and cash flow between Italian GAAP and IFRS, required by IFRS 1, and the transition approach are shown in the appendix called “Illustration of IAS/IFRS Transition”.

(b) Presentation and basic approach

Our consolidated 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.

Preparation of a quarterly interim report in accordance with IAS 34 (Interim Financial Reporting) requires judgements, estimates, and assumptions that have an effect on assets, liabilities, costs, and revenues. Actual results could be different from those obtained by means of such estimates.

Preparation of the consolidated quarterly interim report in accordance with IAS 34 has involved a change in accounting standards compared with the last year-end financial statements prepared according to Italian GAAP. The accounting standards adopted in the consolidated quarterly interim report as at September 30 2005 have been uniformly applied to all periods presented for comparison, including the standards IAS 32 and IAS 39 concerning the recognition, measurement and presentation of financial instruments and derivatives. The accounting standards described hereunder have been applied, as required by IFRS 1, to the comparative periods, i.e. to the:

- Opening balance sheet as at January 1 2004, the IFRS transition date, as required by IFRS 1
- Balance sheet and income statement as at December 31 2004
- The balance sheet and income statement as at September 30 2004.

Accounting standards 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 it was not yet operational.

Subsidiaries acquired by the Group are recognised using the acquisition cost method. The 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. Identifiable assets and contingent liabilities acquired as part of the deal are initially identified at their fair value, irrespective of any minority interests.

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 quarterly report as at September 30 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 not recognised 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 are recorded in the income statement. Non-monetary assets and liabilities 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 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 30/09/2005	End-of-period exchange rate	Average exchange rate
US dollar (USD)	1,2042	1,2618
British pound sterling (GBP)	0,6820	0,6851
Australian dollar (AUD)	1,5828	1,6426
Japanese yen (JPY)	136,2500	135,1351
Swedish krona (SEK)	9,3267	9,2166
Chinese renminbi yuan (CNY)	9,7444	10,1626
Swiss franc (CHF)	1,5561	1,5485
Hong Kong dollar (HKD)	9,3412	9,6339

(e) Derivative financial instruments

The Datalogic Group uses derivative financial risks to hedge its exposure to foreign exchange risks. The Group does not hold speculative derivative financial instruments. Nevertheless, in cases when financial derivatives do not meet all conditions required for hedge accounting, they are accounted for as if they were speculative contracts.

Derivative financial instruments are initially measured at cost. On subsequent reporting dates they are remeasured to fair value. Gains and losses arising from fair-value adjustment are recognised in profit or loss, except when financial derivatives qualify for hedge accounting. In this case the accounting treatment of such foreign exchange gains and losses depends on the nature of the underlying element hedged (see accounting policy (f) below).

(f) Hedging and hedge accounting of foreign exchange risk*(i) Cash flow hedges*

When a financial derivative is intended to hedge cash flow changes originated by an asset or liability or by a future, highly probable transaction, the gain or loss generated by the financial derivative's fair-value adjustment is classified directly in an equity reserve. When the underlying element hedged (of a non-financial nature) materialises, this amount is removed from equity and is included in the initial cost or other carrying value of the underlying item. If hedging of a forecast future transaction subsequently results in recognition of a financial asset or liability, the related gains and losses, previously classified directly in equity, are recognised in the income statement in the same period when the relevant assets and liabilities impact profit and loss (for example: when interest items are recognised in the income statement).

Gains and losses concerning cash flow hedges not forming part of the two categories described above are removed from equity and are recognised in the income statement in the same periods when the forecast transaction hedged causes impact on profit or loss. The portion of gain or loss that is ineffective because it did not qualify for hedge accounting is immediately recognised in the income statement.

When a hedging instrument matures, is sold or is exercised and the forecast transaction originally hedged, even although it has not materialised, is still considered probable, the relevant gains and losses stemming from fair-value adjustment of the financial instrument concerned remain in equity and are then posted in profit or loss when the transaction materialises, as described previously. If the underlying transaction is no longer likely to occur, the derivative contract's relevant gains and losses, originally recorded in equity, are immediately recognised in profit or loss.

(ii) Hedging of monetary assets and liabilities

When a financial derivative instrument used to hedge a monetary asset or liability that has already been recognised in accounts, gains and losses relating to the financial derivative are posted in profit or loss and therefore hedge accounting is not applied.

(iii) Hedging of a net investment in a foreign operation

Gains and losses relating to fair-value adjustment of a financial derivative used to hedge a net investment in a foreign operation and that meets effectiveness criteria are classified directly in equity. The part not meeting effectiveness requirements is immediately recognised in profit or loss.

(g) 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 (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
<u>Property:</u>	
Buildings	2%
Land	0%
<u>Plant & equipment:</u>	
Automatic operating machines	20% - 14.29%
Furnaces and appurtenances	14.29%
Generic/specific production plant	20% - 10%
<u>Other assets:</u>	
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

If, regardless of depreciation already entered in accounts, long-lasting impairment of value occurs, the fixed 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 annual reporting date and, if deemed necessary, appropriate adjustments are made.

Proceeds and losses on asset disposals are determined by comparing the agreed selling price and carrying value. The figure so determined is recognised in profit or loss. 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.

(h) Intangible assets

(i) Goodwill

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

For acquisitions completed prior to that date, goodwill is posted on the basis of cost determined according to accounting standards adopted in the various financial statements at the time of acquisition, i.e. those determined by legal regulations, supplemented and interpreted by the accounting standards adopted by the Italian National Councils of Chartered & Registered Accountants and, when lacking, by the International Accounting Standards Board (IASB).

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. 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 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 their 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.

(vi) 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:

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

(i) Investments in associates

Investments in associate companies are classified in non-current assets 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.

(j) Other equity investments and financial assets available for sale

Investments in other companies are classified among available-for-sale 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 discounted cash flow analysis adjusted to reflect the issuer's specific circumstances.

(k) 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.

(l) Receivables

Receivables, with due dates consistent with normal terms of trade or that earn interest at market rates, are not discounted 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 presumed realisable value. Receivables whose due date exceeds normal terms of trade are initially recognised at fair value and subsequently at amortised cost – using the effective interest rate method – net of related impairment losses.

(m) Cash and 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.

(n) 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), and non-current assets held for sale, governed by IFRS 5 – must be 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 September 30 2005 was subjected to impairment testing as at January 1 2004 – the IFRS transition date – and December 31 2004. No impairment losses emerged from such tests.

(i) Calculation of presumed recoverable value

The presumed recoverable value of held-to-maturity securities and financial receivables recorded according to amortised cost is the present value of estimated future cash flows: The discount rate used is the interest rate envisaged when the security was issued or the receivable originated. The present value of short-term receivables is not calculated.

The presumed recoverable value of other assets 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 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

An impairment loss relating to held-to-maturity securities and financial receivables recorded according to amortised cost is reversed when the subsequent increase of presumed recoverable value is objectively due to an event occurring in a period subsequent to the one when the impairment loss was recorded.

Impairment loss of other assets is reversed when there is a change in the estimate used to determine presumed recoverable value. Goodwill impairment losses are never reversed.

Impairment loss is reversed within the limits of the carrying value that would have emerged, net of depreciation and amortisation, if no impairment loss had ever been recognised.

(o) Share capital

In the case of repurchase of own equity instruments ("treasury shares"), the price paid, inclusive of any directly attributable accessory costs, are 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.

(p) 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 2002 had been assigned.

The following table summarises the plan's status as at September 30, 2005.

	Number of shares	Average exercise price (€)	Market price (€)	% of share capital
Rights existing as at 1/01/2005	449,350	11.5	17.91	3.73%
Of which exercisable as at 1/01/2005				
New rights granted in the period	-	-	-	-
(Rights exercised in period)	321,950	11.5	22.15	2.6%
(Rights lapsing in period) (1)	-	-	-	-
Total rights existing as at 30/09/2005	127,400	11.5	24.77	1.03%
Of which exercisable as at September 30 2005	127,400	11.5	24.77	1.03%

(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 (First-Time Adoption of IFRS)

(q) 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. The difference between this value and discharge value is posted in the income statement over the duration of the loan based on its amortisation plan. Loans are classified as current liabilities unless the Group has an unconditional right to defer payment for at least 12 months after balance sheet date.

(r) 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 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.

(s) 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 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.

(t) Trade and other payables

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

(u) 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 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.

(v) 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 according to interest accruing on the net value of relevant financial assets and liabilities using the effective tax rate.

Finance income and expenses include: dividends received from unconsolidated subsidiaries and from associate companies, foreign exchange gains and losses, and gains and losses on derivative instruments that have to be put through profit or loss (see IAS 32 and 39).

(w) 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.

(x) 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, the Pacific Area (including China and Oceania), and the Rest of the World.

(y) 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.

(z) Exemptions and exceptions envisaged by IFRS 1

For the purposes of preparation of the present interim 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 (First-Time Adoption of IFRS) 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 ("Business Combinations") for aggregations of companies 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 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 <u>not</u> 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 <u>not</u> have any compound financial instruments
Transition of subsidiary, associated and JV companies	<u>Not</u> 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 <u>early</u> , as from the transition date.
Designation of financial instruments already recognised	The Group has decided to apply IAS 32 and IAS 39 <u>as</u> 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 up to September 30 2005 (9M05) and to comparative 2004 figures, including those concerning recognition, classification and measurement of financial assets and liabilities (IAS 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) IFRS 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 as follows:

IFRS/IFRIC Interpretation	Effects for Datalogic Group
IAS 39 - Amendment of fair value option	None
IAS 39 – Amendment of cash flow hedge accounting of forecast intragroup transactions	None
IFRS 6 - Exploration for and evaluation of mineral assets	None: the Group does not perform exploration of mineral assets and does not possess any such assets
IFRIC 2 - Members' shares in co-operative entities and similar instruments	None
IFRIC 3 – Emission rights	None: the Group does not participate in emission rights schemes
IFRIC 4 – Determining whether an arrangement contains a lease	The Group does not envisage any change in the accounting treatment of existing arrangements
IFRIC 5 - Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	None: the Group owns no interest in decommissioning, restoration, and environmental rehabilitation funds

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 September 30 2005 were the following:

Company name	Registered location	Share capital	Total equity (€ '000)	9M05 result (€ '000)	% ownership
Datalogic SpA (direct parent company)	Lippo di Calderara di Reno (BO) – Italy	EUR 86,045,524	131,234	7,171	
Laservall SpA	Donnas (AO) – Italy	EUR 900,000	5,849	2,709	100%
Datalogic Holding AB	Malmö –Sweden	SEK 1,400,000	1,373	-73	100%
EMS Inc.	Scotts Valley (California) – USA	USD 1,949,084	1,624	-229	100%
Datalogic France SA	Villebon Sur Yvette (Paris) – France	EUR 2,227,588	3,581	166	100%
Datalogic Optik Elektronik Gmbh	Erkenbrechtsweiler (Stuttgart) – Germany	EUR 1,025,000	4,868	1,059	100%
Datalogic Optic Electronics BV	Maarsse – The Netherlands	EUR 17,800	-39	-101	100%
Datalogic Handelsgesellschaft mbH	Wiener Neudorf (Vienna) – Austria	EUR 72,673	653	111	100%
Datalogic Pty. Ltd.	Mount Waverley (Melbourne)- Australia	AUD 2,300,000	910	-98	100%
Datalogic UK Ltd.	Redbourn (London) – UK	GBP 3,500,000	4,311	48	100%
Datalogic Inc.	Hebron (Kentucky) – USA	USD 1,847,000	1,751	295	100%
Datalogic Iberia	Madrid – Spain	EUR 60,500	790	122	100%
Datalogic AB	Stockholm – Sweden	SEK 200,000	1,349	-128	100%
Datalogic Asia Limited	Hong Kong - China	HKD 100,000	41	29	100%
Informatics Holding Inc.	Plano (Texas) – USA	USD 15,100,000	14,192	1,577	90%

The companies booked at equity as at September 30 2005 were as follows:

Company name	Registered location	Share capital	Total net equity (€ '0000)	9M05 result (€ '000)	% direct and indirect ownership
Izumi Datalogic Co. Ltd.	Osaka– Japan	JPY 300,000	992	114	50%
Laservall Asia Co. Ltd.	Hong Kong - China	HKD 460,000	262	145	50%
Laservall China Co. Ltd	Shenzhen - China	USD 400,000	698	39	45%

Ixla SA	Avry - Switzerland	CHF	100,000	229	140	97%
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We note that, as at September 30 2005, preliminary agreements had been signed for sale of the companies Laservall China Co. Ltd. and Ixla SA, from which no losses will emerge.

Associate/subsidiary companies measured at cost as at September 30 2005 were the following:

Company name	Registered location	Share capital	% ownership
Datalogic Private Ltd.	Shankarapuram (Bangalore) – India	INR 1,000,000	20%
Datalogic Slovakia s.r.o.	Bratislava - Slovakia	SKK 2,000,000	100%

Datalogic Slovakia s.r.o. was founded on September 23 2005 and has been valued at cost since it was not yet operational as at September 30 2005.

Changes in consolidation area

On March 2 2005 Datalogic 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 September 30 2005 was consolidated on a 100% line-by-line basis and the net profit considered (€ 1,577 thousand) relates to the period March 1-September 30 2005.

In the following table we show the acquiree company's net assets as at acquisition date and calculation of goodwill pertaining to Datalogic SpA. 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			0	0
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
Trade and other payables	-1,502		-1,502	-1,132
NET ASSETS AT FAIR VALUE			-2,280	-1,720
% pertaining to Group				90%
GROUP NET ASSETS AT FAIR VALUE				-1,548
Price paid				10,636
Accessory expenses				369
ACQUISITION COST				11,005
GOODWILL AS AT ACQUISITION DATE				12,553
Revaluation of goodwill due to change in exchange rate				1,266
GOODWILL AS AT SEPTEMBER 30 2005				13,819

The company Datalogic Asia Ltd., based in Hong Kong, which, as from July, markets our products in the Asian market, has been fully consolidated on a 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 earlier, on 23/09/05 Datalogic SpA founded the company Datalogic Slovakia s.r.o., based in Bratislava, which, as from 2006, will handle production and sale of a line of Datalogic Group products.

C) BALANCE SHEET INFORMATION

NON-CURRENT ASSETS

1. Property, plant, and equipment

	30/09/2005	31/12/2004	Change
Land	6,550	5,833	717
Buildings	18,993	17,232	1,761
Plant & equipment	2,545	2,590	(45)
Other tangible assets	12,084	11,469	615
Assets in progress and down payments	337	199	138
Total	40,509	37,323	3,186

The "Land" item of € 6,550 thousand was attributable to the direct parent company (€ 3,738 thousand), Datalogic UK (€ 1,269 thousand), Informatics (€ 664 thousand), Datalogic France (€ 514 thousand), Datalogic Optik Elektronik Gmbh (€ 227 thousand), and Datalogic Holding AB (€ 138 thousand).

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

The "Buildings" item of € 18,993 thousand was attributable to the direct parent company (€ 11,429 thousand), Informatics Inc. (€ 1,957 thousand), Datalogic UK (€ 1,591 thousand), Datalogic Optik Elektronik Gmbh (€ 1,590 thousand), Datalogic France (€ 1,144 thousand), and Datalogic Holding AB (€ 1,282 thousand).

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

The "Plant & equipment" item was mainly attributable to the direct parent company (€ 2,023 thousand), Laservall SpA (€ 307 thousand), and Informatics (€ 119 thousand).

This item increased by € 218 thousand. This was mainly attributable to the direct parent company (€ 57 thousand) and Laservall SpA (€ 94 thousand).

The "Other tangible assets" item featured an increase of € 2,574 thousand, mainly attributable to:

- The direct parent company: € 1,405 thousand, consisting mainly of the purchase of:
 - Equipment and electronic instruments = € 353 thousand
 - Moulds = € 783 thousand
 - Electronic office equipment = € 145 thousand
 - Generic plant = € 85 thousand

- Laservall SpA: € 343 thousand, consisting mainly of:
 - Expenditure for enhancement of 3rd-party buildings = € 106 thousand
 - Purchase of office furniture and electronic equipment = € 93 thousand.

The increase due to acquisition of Informatics Inc., i.e. € 485 thousand, consisted of office furniture (€208 thousand) and electronic office equipment (€ 277 thousand).

As at September 30 2005 the main components of the "Other tangible assets" item were:

- Industrial & commercial equipment = € 4,342 thousand
- Office furniture & fittings = € 3,784 thousand
- Generic building plant = € 1,689 thousand
- Cars = € 297 thousand
- Maintenance of 3rd-party assets = € 1,305 thousand

The balance of the item "Assets in progress and down payments" was mainly attributable to the direct parent company (€ 322 thousand) and consisted off:

- € 179 thousand = down payments for moulds
- € 143 thousand = down payments for assets in progress.

Depreciation and amortisation of tangible and intangible assets in the period – totalling € 5,682 thousand – was split as follows in the income statement:

- Cost of goods sold: € 926 thousand (€ 674 thousand in September 2004)
- R&D: € 1,579 thousand (€ 1,474 thousand in September 2004)
- Distribution expenses: € 243 thousand (€ 233 thousand in September 2004)
- General & administrative expenses: € 2,934 thousand (€ 1,927 thousand in September 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 (€ 970 thousand as at September 30 2005 vs. € 323 thousand as at September 30 2004).

Contractual commitments

On June 30 2005 Datalogic SpA signed a rental contract for a building in Slovakia, which will be the registered place of business of a new group company (Datalogic Slovakia), which, as from 2006, will manage one of the Datalogic product lines. The contract provides for penalties payable by Datalogic and by the counterparty in the eventuality of contractual non-performance. The maximum risk for Datalogic amounts to € 900 thousand.

2. Intangible assets

	30/09/2005	31/12/2004	Change
Goodwill	23,712	9,893	13,819
Development costs	3,571	4,032	(461)
Other intangible assets	13,242	14,348	(1,106)
Total	40,525	28,273	12,252

“Goodwill”, totalling € 23,712 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 the Laservall company, 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.
- € 13,819 thousand caused by consolidation of Informatics Inc., as already detailed in the section of “Change in consolidation area”.

These items of goodwill have been allocated to the CGUs (cash generating units) and have no longer been amortised since 1 January 2004.

Goodwill relating to the acquisitions listed above has been subjected to impairment testing. For the most recent acquisitions – Informatics and Laservall – we have used the valuation performed at the time of acquisition, because no significant events had occurred between acquisition date and September 30 2005, such as to suggest any significant impairment loss. For the acquisition of Minec and for IdWare we performed impairment testing upon transition to IFRS and as at 31 December 2004.

Goodwill 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 € 3,571 thousand, pertained to the direct parent company and consisted of development projects capitalised because they met IAS 38 requirements.

“Other intangible assets”, totalling € 13,242 thousand, mainly consisted of the following sub-items:

- Know-how amounting to € 4,903 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 € 3,865 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.
- € 4,4,474 thousand for other intangible assets, of which € 4,101 thousand ascribable to the direct parent company and mainly relating to software licenses (€ 3,001 thousand) and third-party licenses and patents (€ 590 thousand).

3. Investments in associate companies

	Balance 31/12/04	Increases	Forex differences	Share of profit	Dividends	Changes	Balance 30/09/05
a) Subsidiary companies							
Datalogic Slovakia s.r.o.	0	50				0	50
Total subsidiaries	0	50	0	0		0	50
b) Associate companies							
Izumi Datalogic Co. Ltd	429		10	57			496
Laservall Asia Co. Ltd	85			79			164
Laservall China Co. Ltd	228		29	18			275
Ixla SA	101		(4)	135	(9)		223
Datalogic Private Ltd. - India	8						8
Total associate companies	851	0	35	289	(9)	0	1.166

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 Bratislava, which, as from 2006, will handle production and sale of a Datalogic Group product line.

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

Other equity investments

	Balance 31/12/04	Increases	Forex difference s	Share of profit	Dividends	Changes	Balance 30/09/05
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 long-lasting in nature.

Securities

	31/12/2004	30/09/2005	Change
Securities as surety	2,979	4,493	(1,514)
Total	2,979	4,493	(1,514)

The item consists mainly of securities kept as guarantee of the secured medium-term loan in place with San Paolo IMI SpA obtained by the direct parent company to finance applied research. The securities owned by the direct parent company amounted to € 4,493 thousand, of which € 3,218 thousand in Italian medium- and long-term treasury notes (BTP and CCT), € 427 thousand in bank bonds, and € 848 thousand in shares in bond funds.

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.

In the following tables we summarise the direct parent company's "Securities" item as at 30/09/05:

LISTED SECURITIES (in euro)

Type of security	Total purchase price	Unitary price of fund share	Par value	Unitary price of fund share as at 30/9/2005	Total market value as at 30/9/2005
Investment fund	443,045.30	5.931		6.769	505,729.12
Investment fund	134,950.19	5.284		5.551	171,937.17
Investment fund	132,936.01	5.762		7.227	169,917.18
	710,931.50				847,583.47

Type of security	Total purchase price	Unitary purchase price	Par value	Unitary market price as at 30/9/2005	Total market value as at 30/9/2005
Government bonds	39,986.86	100.52	39,780.00	100.26	39,883.43
Corporate bonds	144,644.68	97.09	148,980.00	104.17	155,192.47
Government bonds	808,654.36	100.36	805,740.00	100.13	806,801.13
Government bonds	506,500.18	100.52	503,880.00	100.13	504,535.04
Government bonds	362,808.00	100.78	360,000.00	100.13	360,468.00
Government bonds	1,509,300.00	100.62	1,500,000.00	100.38	1,505,700.00
	3,371,894.07		3,358,380.00		3,372,580.07

UNLISTED SECURITIES (in euro)

Type of security	Total purchase price	Unitary purchase price	Par value	Unitary market price as at 30/9/2005	Total market value as at 30/9/2005
Banca Intesa bonds	272,220.00	100		100	272,220.00

CURRENT ASSETS**5. Inventories**

	30/09/2005	31/12/2004	Change
1) Raw & auxiliary materials, plus consumables	13,429	12,147	1,282
2) Work in progress and semiprocessed goods	5,039	3,498	1,541
4) Finished products and goods for resale	10,331	7,109	3,222
Total	28,799	22,754	6,045

As at September 30 2005 inventories had increased by 26.5 vs. 31/12/04 (€ +6,045 thousand). Of this increase € 2,682 thousand was due to acquisition of Informatics. Net of this, the increase amounted to € 3,363 thousand (+14.8%), mainly due (€ 3,286 thousand) to the direct parent company and to the EMS company (€ 517 thousand).

Inventories are shown net of obsolescence provision that, as at September 30 2005, amounted to €4,515 thousand. Changes in the latter during 9M05 are shown below:

	30/09/2005
Cumulative inventory write-down provision as at 31/12/04	3,961
Foreign exchange difference	23
Change due to acquisition	199
Provisions made in 9M05	504
Use of surplus during the period	-172
Use during the period due to losses	-
Cumulative inventory write-down provision as at 30/09/05	4,515

6. Trade and other receivables

	30/09/2005	31/12/2004	Change
Trade and other receivables	41,145	44,546	(3,401)
Trade receivables:	39,180	42,845	(3,667)
Trade receivables due within 12 months	38,048	40,742	(2,694)
Trade receivables due after 12 months	-	47	(47)
Associate receivables:	998	1,930	(932)
- Izumi Datalogic	609	1,353	(744)
- Ixla SA	294	1	293
- Laservall Asia	95	576	(481)
Receivable from parent companies:	2	-	2
- Hydra SpA	2	-	2
Related-party receivables	132	126	6
Other current receivables	958	900	58
Accrued income and prepaid expenses	1,007	801	206

Trade receivables

Net trade receivables as at September 30 2005 totalled € 39,180 thousand (doubtful-debt provision as at 30/09/05 totalled € 1,057 thousand vs. € 791 thousand as at 31/12/04), with a decrease of 8.5% vs. the comparable figure in December 2004. Net trade receivables of the Informatics company totalled € 3,499 thousand (with doubtful-debt provision of € 121 thousand). Without this acquisition trade receivables would have been down by –16.7% vs. 31/12/04.

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

Related-party receivables consisted of:

- Hydra (ultimate parent company) = € 2 thousand
- Datasensor = € 132 thousand.

Other current receivables

The item "Other current receivables" 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; € 452 thousand for advance payments to suppliers; and € 106 thousand claimed by the subsidiary Laservall SpA from the Valle d'Aosta regional authorities for excess rent paid.

Accrued income and prepaid expenses

	30/09/2005	31/12/2004	Change
a) Accrued income			
Miscellaneous interest income	83	23	60
Foreign exchange differences	-	-	-
Others	2	7	(5)
Total accrued income	85	30	55
b) Prepaid expenses			
Insurance	194	82	112
Association membership dues	14	27	(13)
Rentals and maintenance fees	164	54	110
Lease contracts	-	12	(12)
Surety costs	42	107	(65)
Tradeshows and sponsorships	54	44	10
Substitute tax	235	313	(78)
Others	219	132	87
Total prepaid expenses	922	771	151
Total accrued income and prepaid expenses	1.007	801	206

7. Tax receivables

	30/09/2005	31/12/2004	Change
Short-term tax receivables	6,253	7,818	(1,565)
Tax authorities for VAT	2,423	3,869	(1,446)
Tax authorities for other tax credits	3,830	3,949	(119)
Long-term tax receivables	67	-	67
Tax authorities for other tax credits	67	-	67
Total	6,320	7,818	(1,498)

Amounts receivable from the tax authorities for VAT mainly related to the direct parent company (€ 1,138 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 (€ 2,151 thousand), Laservall SpA (€ 755 thousand), and Datalogic GmbH (€ 633 thousand), with the remainder (€ 291 thousand) relating to other group companies.

8. Available-for-sale financial assets

	30/09/2005	31/12/2004	Change
Other securities	3,000	3,407	407
Loans to subsidiaries	-	-	0
Total	3,000	3,407	407

Below we show the table summarising “Other securities” as at 30/06/05 – pertaining wholly to the direct parent company.

Type of security	Total purchase price	Unitary purchase price	Par value	Unitary market price as at 30/9/2005	Total market value as at 30/9/2005
BNL (bank) bonds	3,000,000.00	100	-	100	3,000,000.00
Total	3,000,000.00				3,000,000.00

9. Financial assets – derivative instruments

The item “Derivative instruments” included a negative amount of € -66 thousand due to alignment of financial transactions to the end-of-period exchange rate and a negative amount of € -4 thousand caused by calculation of the premium relating to the period ending on 30/09/2005.

In the following table we summarise all derivative instruments extant as at September 30 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 30/09/05 (currency/euro)	Total value at exchange rate as at 30/09/05
Forward forex sale	15/04/2005	USD 1,000,000	1.3012	768,500	1.2042	830,400
Forward forex sale	08/09/2005	USD 500,000	1.2557	398,200	1.2042	415,200

10. Cash and cash equivalents

	30/09/2005	31/12/2004	Change
Bank and post-office deposits	46,836	37,201	9,635
Cash and valuables in hand	240	212	28
Total cash and cash equivalents	47,076	37,413	9,663

The item includes € 1,660 thousand stemming from consolidation of Informatics Inc.

11. Equity

Changes in equity as up to 30/09/05 were as follows:

	Balance as at 31/12/04	Profit Allocation	Capital Increases	Other Changes	Profit/(loss) in period	Balance as at 31/09/05
1) Total share capital:	76,875	0	3,703	9,907	0	90,485
Share capital	25,073		670			25,743
Treasury shares	(8,480)			9,907		1,427
Share premium reserve	55,843		3,033			58,876
Demerger capital reserve	4,439					4,439
2) Total reserves:	83	0	0	3	0	86
Fair-value reserve	83			3		86
3) Total retained earnings:	28,020	8,521	0	1,959	0	38,500
Legal reserve	862	537				1,399
Treasury share reserve	9,673			(9,260)		413
Gain on Datasud cancellation	4,432					4,432
Untaxed capital grant reserve	256					256
IFRS transition reserve	9,045			93		9,138
Previous years' earnings	3,752	7,984		11,126		22,862
4) Profit/(loss) for period	11,211	(11,211)			8,957	8,957
Total (1+2+3+4)	116,189	(2,690)	3,703	11,869	8,957	138,028
Minority interest earnings	0				158	158
Minority interest equity	0			(189)		(189)
Total	116,189	(2,690)	3,703	11,680	9,115	137,997

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).

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
30/06/2004	11,436,738	11,909,000	- 472,262
31/12/2004	11,464,220	12,054,150	- 589,930
30/09/2005	12,357,934	12,376,100	- 18,166

The increase of € 9,907 thousand in “Other changes” in total share capital (net of treasury shares) was due to:

- Sale of treasury shares (held as at December 31 2004, € 10,320 thousand) completed in the early months of 2005, of which € 647 thousand consisting of the capital gain (net of the tax effect and expenses) made on the transaction and, reversed from the income statement as required under IAS 32
- Reversal of € 413 thousand of treasury stock as at 30/09/05.

The balance of the “Treasury shares” item included in total share capital and amounting to € 1,427 thousand consisted of the capital gains (net of the tax effect) made, during 2004 and in the first nine months of 2005, on the sale of treasury shares net of the balance of treasury shares as at 30/09/05.

Ordinary shares

As at September 30 2005 total ordinary shares numbered 12,376,100 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 € 670 thousand and the “Share premium reserve” by € 3,033 thousand, was 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. During 9M05 the Group reacquired own equity instruments for a total of € 413 thousand and, at the same time, restricted, in compliance with legal requirements, a specific unavailable reserve of the same amount and decreased the "Treasury shares" item classified as part of share capital.

Treasury shares sold

During 9M05 the Group sold 595,592 treasury shares, making a total capital gain of € 1,106 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).

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.

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 January 1st 2004 (consolidated year-end accounts as at 31/12/2003) as per IFRS 1.

The increase of € 93 thousand was due to a correction made to cumulative depreciation & amortisation relating to Datalogic Inc. and to leased assets.

Previous years' earnings

This item includes equity changes occurring in consolidated companies after acquisition date and absorbs the translation reserve (€ 652 thousand) generated by consolidation of foreign companies.

Dividends

In 9M05 we paid dividends totalling € 2,690 thousand (€ 2,114 thousand in 9M04) corresponding to a per-share dividend of € 22 cents (€ 18 cents in 9M04). In addition, the ordinary shareholder meeting held on April 28 2005 approved payout of an extraordinary dividend of € 1 per share on October 17 2005.

Minority interest

Minority interest amounted to € -31 thousand and related to 10% of Informatics Inc. The portion of the period's profit amounted to € 158 thousand.

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	131,234	7,171
Differences between consolidated companies' net equity and their carrying value in the parent co.'s statement and effect of the equity-based valuation	9,243	5,609
Reversal of dividends	0	(3,677)
Laservall acquisition	(1,617)	(970)
Amortisation of new Datalogic AB consolidation difference	(239)	
Elimination of capital gain on sale of company division	(201)	
Effect on elimination of intercompany transactions	(1,593)	740
Elimination of intercompany profits	(54)	7
Effect of posting of finance leases	(38)	(15)
Deferred taxes	1,293	92
Group equity and profit	138,028	8,957
Minority interest	(31)	158
Net equity	137,997	9,115

NON-CURRENT LIABILITIES**12. Short-/long-term borrowing**

The breakdown of borrowing was as follows:

30/09/2005	Within 12 months	After 12 months	After 5 years	Total
Bank borrowing				
Current account overdrafts				-
Bank loans & mortgages and other financial institutions	2.565	8.422	4.614	15.601
Total	2.565	8.422	4.614	15.601

31/12/2004	Within 12 months	After 12 months	After 5 years	Total
Bank borrowing				
Current account overdrafts	355			355
Bank loans & mortgages and other financial institutions	2.305	3.671	1.829	7.805
Total	2.660	3.671	1.829	8.160

This item includes a secured loan of USD 12 million, signed by Informatics Inc., to finance the acquisition described earlier.

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).

13. Deferred tax assets

The detail of deferred tax assets was as shown below:

Deferred tax assets	30/09/2005	31/12/2004	Change
Datalogic SpA	2,322	1,609	713
Laservall SpA	120	39	81
Datalogic Holding AB	201	203	(2)
Datalogic AB	49	74	(25)
Datalogic Inc.	167	162	5
EMS Inc.	-	2	(2)
Datalogic France	-	-	-
Datalogic Iberia	24		24
Total short-term deferred tax assets	2,883	2,089	794
Datalogic Handelsgesellschaft mbH	441	469	(28)
Datalogic Pty. Ltd.	98	51	47
Datalogic UK Ltd.	337	320	17
Total long-term deferred tax assets	876	840	36
Deferred tax assets posted due to effect of consolidation adjustments	593	873	(280)
Total deferred tax assets	4,352	3,802	550

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

The detail of deferred tax liabilities was as follows:

Deferred tax liabilities	30/09/2005	31/12/2004	Change
Laservall SpA	42	-	42
Datalogic France	25	-	25
Total short-term deferred tax liabilities	67	-	67
Datalogic SpA	1,701	1,042	659
Datalogic AB	112	117	(5)
Datalogic Optik Elektronik GmbH	77	50	27
Laservall SpA		41	(41)
Datalogic Pty. Ltd.		9	-9
EMS Inc.		3	(3)
Total long-term deferred tax liabilities	1,890	1,262	628
Deferred tax liabilities posted due to effect of IFRS transition	5,765	5,746	19
Deferred tax liabilities due to effect of Laservall consolidation adjustments	3,265	3,627	(362)
Total deferred tax liabilities	10,987	10,635	352

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 (IAS/IFRS).

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.

14. Post-employment benefit organisations

As at 30/09/05 the only defined-benefit plans of the Group were the mandatory employee severance indemnity and retirement obligations of the Italian companies Datalogic SpA and Laservall SpA.

Changes in this liability during the period were as follows

	9M05
31/12/2004	5,697
Amount provisioned in period	885
Utilisation	-393
Financial component	176
Actuarial impact	0
30/09/2005	6,365

Utilisation was mainly attributable to the direct parent company, i.e. € 354 thousand, of which € 143 thousand for advances and € 211 thousand for resignations.

15. Provisions

The breakdown of the total “provisions” item was as follows:

	30/09/2005	31/12/2004	Change
Short-term provisions	258	-	258
Long-term provisions	1,355	2,775	(1,420)
Total provisions	1,613	2,775	(1,162)

Below we show the changes occurring in the item:

	31/12/2004	Increases	(Use)	Unused amounts	Foreign exchange diff.	30/06/2005
Product warranty provision	906	148				1,054
Litigation provision	154	263	(101)			316
Restructuring provision	1,153		(1,153)			-
Other provisions	562	244	(536)	(27)		243
Total provisions	2,775	655	(1,790)	(27)	-	1,613

Product warranty provision represents estimated costs to be borne for service work on products sold under a periodical warranty. It totals € 1,054 thousand and is deemed sufficient to meet the specific risk concerned. It is mainly attributable to the direct parent company (€ 830 thousand) and to Laservall SpA (€ 168 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) and was cleared as at 30/09/05.

The "Other provisions" item consisted of:

- € 96 thousand = return sales provision of Informatics Inc.
- € 116 thousand = provision for coverage of investee losses pertaining to Laservall SpA
- € 31 thousand = provision for employee grievances relating to Datalogic GmbH.

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 which should be paid in the early months of 2007. 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:

	30/09/2005	31/12/2004	Change
Trade and other payables	34,241	34,209	32
Trade payables:	18,836	19,999	(1,163)
Trade payables due within 12 months	18,447	19,593	(1,146)
Trade payables due after 12 months	-	-	-
Associate payables:	-	7	(7)
<i>Izumi Datalogic</i>		7	(7)
<i>Ixla SA</i>			-
<i>Laservall Asia</i>	-		-
<i>Alitec</i>			-
<i>Datalex SA</i>			
Related-party payables	389	399	(10)
Other current payables	12,874	12,186	688
Accrued liabilities and deferred income	2,531	2,024	507

Trade payables

Trade payables included € 788 thousand coming from consolidation of Informatics.

Related-party payables referred to the Datasensor company.

Other current payables

The detailed breakdown of other current payables was as follows:

Other current payables	30/09/2005	31/12/2004	Change
Acquisition of equity interest in Laservall SpA	2,000	3,711	(1,711)
Pension and social security agencies	1,829	2,282	(453)
Employees	6,271	5,028	1,243
Cautionary deposits	15	22	(7)
Directors' remuneration	2,049	411	1,638
Insurance	-	104	(104)
Royalty costs yet to be paid	84	189	(105)
Sundry current payables	626	439	187
Total	12,874	12,186	688

Employee payables represent amounts due for salaries and holidays accrued by staff as at balance sheet date (Informatics accounted for € 310 thousand. The increase was due to higher accruals for holidays and “13th-month” salaries in the 9-month period concerned.

The sub-item “Sundry current payables” included € 140 thousand received from Laservall SpA from the associate company Laservall China, against sale of this latter investment, as highlighted earlier.

Accrued liabilities and deferred income

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

	30/09/2005	31/12/2004	Change
a) Accrued liabilities			
Interest payable for long-term loans	208	32	176
Consulting services	31	74	(43)
Sundry items	350	115	235
Total accrued liabilities	589	221	368
b) Deferred income			
Maintenance contracts	295	174	121
Intercompany transactions	263	287	(24)
Warranty extension	577	514	63
Capital grants	683	684	(1)
Other items	125	144	(19)
Total deferred income	1,943	1,803	140
Total accrued liabilities and deferred income	2,531	2,024	507

The increase in the deferred-income item “Maintenance contracts” was mainly attributable to Datalogic UK 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 Izumi (€ 212 thousand), Laservall China (€ 40 thousand), and Laservall Asia (€ 11 thousand), which are booked at equity.

The “Capital grants” item of € 683 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.

18. Taxes payable

	30/09/2005	31/12/2004	Change
Short-term taxes payable	10,720	9,897	823
Long-term taxes payable	32	-	32
Total	10,752	9,897	855

As at September 30 2005 taxes payable amounted to € 10,752 thousand (of which € 1,927 thousand payable for VAT and € 8,793 thousand for income tax), of which € 5,237 thousand was ascribable to the direct parent company.

D) INFORMATION ON THE INCOME STATEMENT**19. Revenues**

	9M05	9M04	Change
Revenues from sale of products	127,889	97,656	30,233
Revenues for services	4,914	4,769	145
Total revenues	132,803	102,425	30,378

Total revenues increased by 29.7% YoY (+12%% YoY net of Informatics Inc.).

For greater detail, reference should be made to the comments contained in the earlier section "Revenue trends and key factors affecting operations in the first 9 months".

The percent geographical breakdown of revenues was as follows:

	9M05	9M04	Change
Revenues - Italy	16%	16%	0% pts.
Foreign revenues – Rest of EU	44%	56%	-12% pts
Foreign revenues – Rest of World	40%	28%	12% pts

20. Cost of goods sold and operating costs

	9M05	9M04	Change
TOTAL COST OF GOODS SOLD (1)	65,888	49,723	16,165
TOTAL OPERATING COSTS (2)	53,437	40,924	12,513
R&D expenses	10,126	8,039	2,087
Distribution expenses	23,086	17,966	5,120
General & administrative expenses	18,971	14,051	4,920
Other operating costs	1,254	868	386
TOTAL (1+2)	119,325	90,647	28,678

Total cost of goods sold (1)

This item increased by 33% YoY (without Informatics it would have increased by 13%).

Total operating costs (2)

R&D expenses, which totalled € 10,126 thousand as at 30/09/05, were equivalent to 7.6% of revenues and grew by 26% vs. 9M04.

Reported distribution expenses amounted to € 23,086 thousand. Net of Informatics the amount decreases to € 18,614 thousand. The increase of € 648 thousand was mainly due to the increase in travel & accommodation and tradeshow expenses.

G&A expenses amounted to € 18,971 thousand (€ 18,123 thousand net of Informatics) and included non-recurrent remuneration to the CEO of € 1,677 thousand (i.e. 70% of the total bonus authorised). The increase of G&A was due to Laservall's different consolidation period (€ 1,733 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:

	9M05	9M04	Change
Capital losses on asset disposals	11	-	11
Incidental costs and cancellation of income items	138	273	(135)
Previous years' taxes	-	303	(303)
Doubtful-debt provision	263	77	186
Other provisions	379	25	354
Non-income taxes	309	145	164
Sundry operating costs	154	45	109
TOTAL OTHER OPERATING COSTS	1.254	868	386

"Other provisions" consisted of:

- € 263 thousand = litigation provision made by the direct parent company (€ 250 thousand) and Datalogic France (€ 13 thousand)
- € 116 thousand = provision by Laservall SpA for losses on equity investments.

Non-income taxes were attributable mainly to the direct parent company (€ 64 thousand), Datalogic UK (€ 69 thousand), Datalogic France (€ 58 thousand), and to Informatics (€ 42 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:

	9M05	9M04	Change
Payroll & employee benefits	37,790	30,643	7,147
Depreciation & amortisation	5,682	4,299	1,383
Inventory change	-2,745	-1,868	(877)
Materials and goods	52,181	38,103	14,078
Outsourced processing	2,206	1,817	389
Repairs	1,525	1,206	319
Marketing	2,996	1,565	1,431
Directors' remuneration	3,079	947	2,132
Travel & accommodation	1,960	1,325	635
Technical, legal, and tax advisory services	1,644	1,483	161
Goods receipt & shipment	1,903	1,319	584
Other costs	11,104	9,808	1,296
Total (COGS + operating costs)	119,325	90,647	28,678

Cost of goods sold – which is the sum of the items “Materials and goods” and “Inventory change” – amounted, net of Informatics Inc., to € 39,491 thousand and increased by about 9% vs. 9M04.

The increase in the cost of outsourced processing was due to (a) Laservall SpA (€ 180 thousand) which in 9M05 was consolidated only for three months and (b) greater use of outsourcing by the direct parent company for certain phases of production activity.

The increase in “Repairs” was due to the increase in outsourced repair work.

Marketing expenses (€ 1,890 thousand net of Informatics) amounted to € 2,996 thousand. They consisted of advertising spending and sponsorships (€ 1,948 thousand), tradeshow (€ 631 thousand), and co-marketing participation in commercial partners' marketing spending (€ 417 thousand).

The increase in the item “Directors' remuneration” was due to Laservall SpA (€ 414 thousand) and to payment of non-recurrent remuneration to the direct parent company's CEO (€ 1,677 thousand).

Of total travel & accommodation expenses – which net of Informatics Inc. amounted to € 1,837 thousand - € 664 thousand was attributable to the direct parent company (€ 429 thousand in 9M04) and € 223 thousand to Laservall (vs. € 46 thousand for the three months of consolidation in 9M04).

€ 795 thousand of expenses for advisory services – which net of Informatics Inc. amounted to € 1,391 thousand – were attributable to the direct parent company (vs. € 788 thousand in 9M04).

Expenses for goods shipment and receipt – which net of Informatics Inc. amounted to € 1,524 thousand – related mainly to the direct parent company (€ 688 thousand vs. € 488 thousand in 9M04) and to Datalogic Inc. (€ 277 thousand vs. € 196 thousand in 9M04).

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

	9M05	9M04	Change
Wages and salaries	28,916	22,707	6,209
Social security charges	6,237	5,824	413
Severance indemnities	885	547	338
Retirement and similar benefits	195	102	93
Other payroll costs	1,557	1,463	94
Total	37,790	30,643	7,147

The increase in payroll costs was mainly due to:

- Consolidation of Informatics Inc. (€ 2,886 thousand, 93 employees)
- Greater use of temporary working by the direct parent company (€ 1,385 thousand in 9M05 vs. €999 thousand in 9M04)
- Lower capitalisation of staff costs for new-product development (€ 389 thousand in 9M05 vs. € 999 thousand in 9M04)
- Increase in Group employee headcount.

21. Other operating revenues

The detailed breakdown of this item was as follows:

	9M05	9M04	Change
Miscellaneous income and revenue	176	172	4
Release of restructuring provision	1,128	217	911
Rent income	163	227	(64)
Charge-back of miscellaneous costs	140	162	(22)
Capital gains on asset disposals	82	58	24
Operating grants	25	228	(203)
Incidental income and cost cancellation	68	165	(97)
Reversal of provisions	-	135	(135)
Tax recovery	-	21	(21)
Other items	6	111	(105)
TOTAL OTHER OPERATING REVENUES	1,788	1,496	292

22. Finance income

	9M05	9M04	Change
Interest expenses for bank overdrafts/loans	261	171	90
Foreign exchange losses	1,278	916	362
Banking expenses	163	121	42
Financial component of post-employment benefits	176	158	18
Other finance expenses	118	194	(76)
TOTAL FINANCE EXPENSES	1,996	1,560	436
Interest income on bank current accounts	469	529	(60)
Foreign exchange gains	1,688	725	963
Other financial income	339	134	205
TOTAL FINANCE INCOME	2,496	1,388	1,108
NET FINANCE INCOME/EXPENSE)	500	(172)	672

Total finance income

“Foreign exchange gains” totalling € 1,688 thousand were mainly attributable to the direct parent company (€ 1,361 thousand) and Datalogic AB (€ 261 thousand).

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

- € 744 thousand = foreign exchange gains relating to commercial transactions, of which € 133 thousand for alignment with the end-of-period exchange rate
- € 616 thousand = foreign exchange gains relating to foreign currency loans and current accounts of which € 309 thousand due to alignment with the end-of-period exchange rate
- € 1 thousand = financial transactions.

Total finance expenses

“Foreign exchange losses” totalling € 1,278 thousand were mainly attributable to the direct parent company (€ 941 thousand), Datalogic Holding AB for end-of-period alignment of the loan in euro (€ 103 thousand), and to Datalogic AB (€ 203 thousand).

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

- € 379 thousand = foreign exchange losses relating to commercial transactions, of which € 130 thousand for alignment with the end-of-period exchange rate
- € 279 thousand = foreign exchange losses relating to foreign currency loans and current accounts of which € 9 thousand for alignment with the end-of-period exchange rate
- € 283 thousand = financial transactions, of which € 70 thousand caused by alignment with end-of-period exchange rates of forward hedging transactions.

“Banking expenses” included € 51 thousand for surety fees attributable to the direct parent company.

“Other finance income” included:

- € 64 thousand attributable to the direct parent company for income on securities held as non-current assets (of which € 13 thousand for interest accruing as up to 30/09/05) and for income on securities held as current assets (€ 162 thousand, of which € 11 thousand for interest accruing as up to 30/09/05)
- € 76 thousand relating to Laservall SpA.

23. Income tax

	9M05
Income tax	7,236
Deferred income tax	-305
	6.,31

The average tax rate applied was 43.20%, slightly higher than the average tax rate applied as up to the end of September 2004 (41.32%).

Romano Volta

Chairman of the Board of Directors

DATALOGIC S.p.A.
CONSOLIDATED BALANCE SHEET

	Note	30-09-05 Euro/000	31-12-04 Euro/000	30-09-04 Euro/000
ASSETS				
A) NON-CURRENT ASSETS (1+2+3+4+5+6+7+8)		92.391	74.443	75.556
1) Tangible non-current assets		40.509	37.323	38.031
Land	1	6.550	5.833	5.889
Buildings	1	18.993	17.232	17.334
Plant & machinery	1	2.545	2.590	2.647
Other tangible assets	1	12.084	11.469	11.869
Assets in progress and payments on account	1	337	199	292
2) Investment property		0	0	0
3) Intangible non-current assets		40.525	28.273	28.593
Goodwill	2	23.712	9.893	9.838
Development costs	2	3.571	4.032	3.861
Other intangible assets	2	13.242	14.348	14.894
4) Equity interests in associate companies	3	1.216	851	764
5) Available-for-sale financial assets (non-current)		5.605	4.091	4.076
Equity investments	4	1.112	1.112	1.104
Treasury stock			0	
Securities	4	4.493	2.979	2.972
6) Trade and other receivables		117	103	120
7) Deferred tax credits	13	4.352	3.802	3.972
8) Tax credits	7	67		
B) CURRENT ASSETS (8+9+10+11+12+13+14+15)		126.203	116.177	114.273
9) Inventories	5	28.799	22.754	27.321
Raw & auxiliary materials plus consumables	5	13.429	12.147	14.585
Work in progress and semiprocessed goods	5	5.039	3.498	3.005
Finished products and goods for resale	5	10.331	7.109	9.731
10) Job-order work in progress		0	0	0
11) Trade and other receivables	6	41.145	44.546	39.979
Trade receivables	6	39.180	42.845	37.482
Within 12 months		38.048	40.742	36.421
After 12 months			47	0
Amounts receivable from associates		1.000	1.930	1.061
Amounts receivable from related parties		132	126	0
Other receivables	6	958	900	1.327
Accrued income and prepaid expenses	6	1.007	801	1.170
12) Tax credits	7	6.253	7.818	6.327
13) Available-for-sale financial assets (current)	8	3.000	3.407	500
Securities		3.000	3.407	500
Loans to subsidiaries				
14) Hedging instruments	9	-70	239	75
15) Cash & cash equivalents	10	47.076	37.413	40.071
TOTAL ASSETS (A+B)		218.594	190.620	189.829

DATALOGIC S.p.A.
CONSOLIDATED BALANCE SHEET

LIABILITIES	Note	30-09-05 Euro/000	31-12-04 Euro/000	30-09-04 Euro/000
A) TOTAL NET EQUITY (1+2+3+4+5)	11	137.997 0	116.189 0	109.605
1) Share capital		90.485	76.875	73.239
Share capital		25.743	25.073	24.793
Treasury stock		1.427	-8.480	-10.570
Share premium reserve		58.876	55.843	54.577
Demerger capital reserve		4.439	4.439	4.439
2) Reserves		86	83	1.952
Revaluation reserves			0	
Consolidation reserve			0	1878
Translation reserve/(loss)			0	
Cash-flow hedge reserve			0	
Fair-value reserve from available-for-sale financial assets		86	83	74
3) Retained earnings/(losses carried forward)		38.500	28.020	26.596
Previous years' earnings/(losses)		22.862	3.752	5.055
Reserve for gain on Datasud cancellation		4.432	4.432	
Untaxed capital grant reserve		256	256	
Legal reserve		1.399	862	862
Treasury stock reserve		413	9.673	11.637
IAS transition reserve		9.138	9.045	9.042
4) Profit/(loss) for period		8.957	11.211	7.818
5) Minority interests		-31	0	
B) NON-CURRENT LIABILITIES (6+7+8+9+10+11)		32.813	27.665	27.930
6) Borrowing	12	13.036	5.500	6.811
7) Tax payables	18	32	0	
8) Deferred tax liabilities	13	10.987	10.635	10142
9) Employee severance indemnity and retirement provision	14	6.365	5.697	5415
10) Long-term provisions for risks and expenses	15	1.355	2.775	2475
11) Other non-current liabilities	16	1.038	3.058	3.087
C) CURRENT LIABILITIES (12+13+14+15)		47.784	46.766	52.294
12) Trade and other payables	17	34.241	34.209	40.418
Trade payables		18.836	19.999	20.248
Within 12 months		18.447	19.593	20.033
After 12 months			0	
Amounts payable to associates		0	7	
Amounts payable to related parties		389	399	215
Accrued liabilities and deferred income		2.531	2.024	2.256
Other current payables		12.874	12.186	17.914
13) Taxes payable	18	10.720	9.897	9.333
14) Short-term provisions for risks and expenses	15	258		
15) Short-term borrowing	12	2.565	2.660	2.543
TOTAL LIABILITIES (A+B+C)		218.594	190.620	189.829

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

	Note	30-09-05 Euro/000	30-09-04 Euro/000	31-12-04 Euro/000
1) TOTAL REVENUES	19	132.803	102.425	146.267
Revenues from sale of products		127.889	97.656	139.589
Revenues from services		4.914	4.769	6.678
2) Cost of goods sold	20	65.888	49.723	72.759
GROSS PROFIT (1-2)		66.915	52.702	73.508
3) Other operating revenues	21	1.788	1.496	2.705
4) R&D expenses	20	10.126	8.039	11.395
5) Distribution expenses	20	23.086	17.966	23.432
6) General & administrative expenses	20	18.971	14.051	20.839
7) Other operating expenses	20	1.254	868	2.316
8) Total operating costs (4+5+6+7)		53.437	40.924	57.982
B) OPERATING PROFIT (A-8)		15.266	13.274	18.231
8) Financial income	22	500	-173	95
9) Share of associate companies' profits	3	280	222	351
C) PRE-TAX PROFIT/(LOSS) (B+9+10)		16.046	13.323	18.677
11) Taxes	23	6.931	5.505	7.466
D) NET PROFIT FOR PERIOD (C-11)		9.115	7.818	11.211
12) Minority interests' share of net profit		158		0
E) GROUP NET PROFIT (D-12)		8.957	7.818	11.211
Earning per share (Euro)		0,7437	0,6780	0,9769
Diluted earning per share (Euro)		0,7399	0,6688	0,9658

DATALOGIC S.p.A.
CONSOLIDATED CASH FLOW STATEMENT

	Note	30-09-05 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		7.538	10.400
Depreciation & amortisation		5.560	5.242
Employee severance indemnity provision		1.061	1.399
Write-down of financial assets		-280	-125
Current cash flow		13.879	16.916
Effect of changes in operating assets and liabilities:			
Trade receivables		7.164	-6.423
Inventories		-3.363	3.256
Other current assets		1.365	5.018
Other medium-/long-term assets		-626	-484
Trade payables		-1.951	-2.080
Taxes payable		562	5.659
Other current liabilities		682	1.271
Other medium-/long-term liabilities		-2.020	-7
Deferred taxes		352	
Provisions for risks and expenses		-1.258	1.873
Other changes in employees' severance indemnity			290
Employee severance indemnities paid out		-393	-724
Net change in operating assets and liabilities		514	7.649
Operating cash flow/(absorption)		14.393	24.565
Cash flow/(absorption) from investment activities:			
(Increase)/decrease in intangible non-current assets		-710	-5.269
(Increase)/decrease in tangible non-current assets		-2.966	-5.340
(Increase)/decrease in unconsolidated equity investments		-85	24
Laservall S.p.a.			-7.325
Short financial position Laservall S.p.a.			768
Informatics		-11.080	
Short financial position Informatics		414	
Investment cash flow/(absorption)		-14.427	-17.142
Cash flow/(absorption) from financing activities:			
Medium-/long-term loans taken out net of portions repaid in the period		-1.183	-1.451
Minority interests' net equity		0	0
Effect of exchange-rate changes on consolidation of foreign companies			
Other changes in net equity		14.463	-1.692
Dividend distribution		-2.690	-2.114
(Increase)/decrease in non-current financial assets		-1.514	-1.010
Finance cash flow/(absorption)		9.076	-6.267
Change in net financial position		9.042	1.156
Short-term net financial position at end of period		47.441	38.399

DATALOGIC SpA **STATEMENT OF CHANGES IN NET EQUITY**

Description	Share capital	Consolid. Reserve	Fair value reserve for AFS assets	Retained earnings	Merger surplus	Capital grant reserve	Legal reserve	Treasury share reserve	IFRS reserve	Net profit for period	Net equity
31.12.03	78.241	1.878	71	6.375	-	-	617	5.381	9.042	7.180	108.785
Profit allocation				4.821			245			- 7.180	-2.114
Capital increase	187										187
Treasury shares	5.189		3	6.256				6.256			-5.186
Datasud merger											-
Fair value adjustment											-
Translation reserve				107							107
Other changes				8							8
Net profit as at 30.06.04										7.818	7.818
30/09/04	73.239	1.878	74	5.055	-	-	862	11.637	9.042	7.818	109.605
Profit allocation											-
Capital increase	1.546										1.546
Treasury shares	2.090			1.964				-1.964			2.090
Datasud merger		-1.878		-2.810	4.432	256					-
Fair value adjustment			9								9
Translation reserve				-408							-408
Other changes				-49					3		-46
Net profit as at 31.12.04										3.393	3.393
31.12.04	76.875	-	83	3.752	4.432	256	862	9.673	9.045	11.211	116.189
Profit allocation				7.984			537			-11.211	-2.690
Capital increase	3.703										3.703
Translation reserve				1.894							1.894
Increase in IFRS reserve									93		93
Sale of treasury shares	9.907			9.260				-9.260			9.907
Fair value adjustment			3								3
Other changes				-28							-28
Net profit as at 30.06.05										8.957	8.957
30.09.2005	90.485		86	22.862	4.432	256	1.399	413	9.138	8.957	138.028
Minority interests										158	158
Minority interests' equity											-189
Net equity	90.485		86	22.862	4.432	256	1.399	413	9.138	9.115	137.997

DATALOGIC GROUP
ILLUSTRATION OF IAS/IFRS TRANSITION
QUARTERLY INTERIM FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2004

RECONCILIATIONS BETWEEN ITALIAN GAAP AND IFRS:
FINANCIAL STATEMENTS AND NOTES

DATALOGIC SpA
BALANCE SHEET

		30 Sept. 2004			
	Notes	Italian GAAP-compliant accounts	Reclassifications	Adjustments	IAS-compliant accounts
ASSETS					
Non-current assets		67.097	0	8.459	75.556
Property, plant, and equipment		26.383	2.262	9.386	38.031
Land	a	0	3.614	2.275	5.889
Buildings	b	18.721	-5.111	3.724	17.334
Plant & equipment	c	2.178		469	2.647
Other tangible assets	c	5.192	3.759	2.918	11.869
Assets in progress and payments on account		292			292
Investment property		0			0
Intangible assets		20.676	-2.262	10.179	28.593
Goodwill	d	15.157		-5.319	9.838
Development costs	e	0		3.861	3.861
Other intangible assets	f	5.519	-2.262	11.637	14.894
Investments in associate companies		764			764
Available-for-sale financial assets (non-current)		15.597	0	-11.521	4.076
Equity investments		1.104			1.104
Own shares	J	11.637		-11.637	0
Securities	g	2.856		113	2.972
Trade and other receivables		120			120
Deferred tax assets		3.557		415	3.972
Current assets		114.273	0	0	114.273
Inventories		27.321	0	0	27.321
Raw & auxiliary materials plus consumables		14.585			14.585
Work in progress and semiprocessed goods		3.005			3.005
Finished products and goods for resale		9.731			9.731
Job-order work in progress		0			0
Trade and other receivables		42.050	-2.071	0	39.979
Trade receivables		37.482			37.482
Within 12 months		36.421			36.421
After 12 months		0			0
Associate receivables		1.061			1.061
Related-party receivables		0			0
Other receivables		3.323	-1.996		1.327
Accrued income and prepaid expenses	h	1.245	-75		1.170
Tax receivables		6.327			6.327
Available-for-sale financial assets (current)		500	0		500
Derivative financial instruments	i	0	75	0	75
Cash & cash equivalents		38.075	1.996		40.071
TOTAL ASSETS		181.370	0	8.459	189.829

DATALOGIC SpA
BALANCE SHEET

30 Sept. 2004

	Notes	Italian GAAP-compliant accounts	Reclassifications	Adjustments	IAS-compliant accounts
NET EQUITY AND LIABILITIES					
Share capital		83.809	0	-10.570	73.239
Share capital		24.793			24.793
Share premium reserve		54.577			54.577
Demerger capital reserve		4.439			4.439
Own shares	j	0		-10.570	-10.570
Reserves		1.284	852	-184	1.952
Revaluation reserves	k	258		-258	0
Consolidation reserve		1.878			1.878
Translation reserve	l	-852	852		0
Cash-flow hedge reserve		0			0
Fair-value reserve for AFS financial assets	m	0		74	74
Cumulative retained earnings		31.275	-852	3.991	34.414
Previous years' earnings/(losses)	n	6.593	-852	-686	5.055
Legal reserve		862			862
Own share reserve		11.637			11.637
IFRS transition reserve	o	0		9.042	9.042
Profit/(loss) for period	p	12.183	0	-4.365	7.818
TOTAL NET EQUITY		116.368	0	-6.763	109.605
Non-current liabilities		18.762	0	9.168	27.930
Borrowing		6.811			6.811
Taxes payable		0			0
Deferred tax liabilities	q	214		9.928	10.142
Post-employment benefit obligation	r	6.175		-760	5.415
Provisions (non-current)		2.475			2.475
Other non-current liabilities		3.087			3.087
Current liabilities		46.240		6.054	52.294
Trade and other payables		39.716		702	40.418
Trade payables		20.248			20.248
Within 12 months		20.033			20.033
After 12 months		0			0
Associate payables		0			0
Related-party payables		215			215
Deferred income		1.554		702	2.256
Other current payables		17.914			17.914
Taxes payable		3.981		5.352	9.333
Short-term borrowing		2.543			2.543
Provisions (current)		0			0
TOTAL LIABILITIES		181.370	0	8.459	189.829

DATALOGIC SpA

PROFIT & LOSS ACCOUNT

	Notes	Italian GAAP-compliant accounts	Adjustments	IAS-compliant accounts 30/09/04 Euro/000
1) Total revenues		102.425	0	102.425
Revenues from sale of products		97.656		97.656
Revenues from services		4.769		4.769
2) Cost of goods sold	A	50.165	-442	49.723
GROSS PROFIT (1-2)		52.260	442	52.702
3) Other operating revenues		1.496		1.496
4) R&D expenses	B	8.586	-547	8.039
5) Distribution expenses	C	18.028	-62	17.966
6) General & administrative expenses	D	15.448	-1.397	14.051
7) Other operating expenses		868		868
Total operating costs (4+5+6+7)		42.930	-2.006	40.924
OPERATING PROFIT		10.826	2.448	13.274
8) Financial income/(expenses)	E	1135	-1308	-173
9) Share of associate companies' profits		222		222
PRE-TAX PROFIT/(LOSS)		12.183	1.140	13.323
Taxes	F	4937	568	5.505
NET PROFIT/(LOSS) FOR PERIOD		7.246	572	7.818
Minority interests' share of net profit		0	0	0
GROUP NET PROFIT		7.246	572	7.818

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Italian GAAP-compliant accounts 30/09/04 (€'000)	Adjustments	IFRS-compliant accounts 30/09/04 (€'000)
Short-term net financial position at beginning of period	42.022	4.779	37.243
Net profit/(loss) for period	6.748	-451	7.199
Current cash flow	12.745	1.023	11.722
Changes in operating assets and liabilities	2.787	-190	2.977
Changes in cash flow from operations	15.532	833	14.699
Changes in cash flow from investment activities	-15.977	-10.857	-5.120
Changes in cash flow/(absorption) from financing activities	-3.549	5.170	-8.719
Change in net financial position	-3.994	-4.854	860
Short-term net financial position at end of period	38.028	-75	38.103

Information concerning effects of transition to IAS/IFRS - September 30 2004

The following comments concern adjustments to the balance sheet and income statement following transition to IAS/IFRS.

BALANCE SHEET

a. Land

Reclassification from Buildings	3,614
Reclassification from Buildings	<u>2,275</u>
Total	5,889

Land was reclassified from Buildings (€ 3,614 thousand) so as to separate the value of land from that of buildings, since land must no longer be subjected to depreciation.

During 2004 top management commissioned expert technical appraisals in all Group companies in order to determine the fair value of land and of buildings (for which reference should be made to the next point) as at transition date and use this value as deemed cost (i.e. cost substitute), taking advantage of the exemption envisaged by IFRS 1. The detail of these revaluations was given in the comments on reconciliation of accounts as at January 1st 2004, to which reference should be made.

b. Buildings

The detailed breakdown of the amount shown in the reclassification column is as follows:

Reclassification to Land	(3,614)
Reclassification to Other Tangible Assets (lightweight constructions and generic plant for buildings)	<u>(1,497)</u>
Total	(5,111)

As regards reclassification of Land, reference should be made to the comment in point a. above. Reclassification of € 1,497 thousand consisted of:

Generic plant for buildings	1,466
Lightweight constructions	<u>31</u>
Total	1.497

Total adjustments of € 3,724 thousand instead consisted of:

Revaluation of buildings	3,728
Foreign exchange difference	10
Elimination of revaluation reserve	(258)
Depreciation of buildings	<u>244</u>
Total	3,724

Revaluation of buildings and elimination of the revaluation reserve have already been discussed in IAS/IFRS reconciliation as at January 1 2004, to which reference should be made.

As regards depreciation of € 244 thousand in the first 9 months of 2004 (9M04), we point out that residual useful life was defined as being 50 years by the technical appraisals mentioned in the IAS/IFRS reconciliation as at January 1 2004. Buildings' value is depreciated net of the asset's presumed realisable value at the end of its useful life, discounted to present value as at calculation date.

c. Other tangible assets

The breakdown of reclassification totalling € 3,759 thousand is as detailed below:

Generic plant for buildings	1,466
Lightweight constructions	31
Enhancement of rented/leased assets	918
Enhancement of rented/leased assets underway	<u>1,328</u>
Total	3,759

Enhancements to rented/leased assets, totalling € 2,262 thousand and relating to the parent company, to the US subsidiary EMS, and to Laservall SpA, have been reclassified among tangible fixed assets as per IAS 16 rules.

The detailed origin of the total adjustment of € 2,918 thousand was as follows:

2003 asset revaluation	3,077
Reclassification in plant & equipment category	(236)
Foreign exchange difference	15
Depreciation for the period	<u>68</u>
Total	2,918

The 2003 asset revaluation has already been highlighted in the reconciliation as at January 1, 2004. It suffered an adverse foreign exchange difference due to alignment of foreign affiliates' assets as at September 30 2004. There is also depreciation for 2004 stemming from newly defined useful life. Depreciation rates have been applied to assets' historical cost, as established by IAS 16.

There is also a reclassification in the plant & equipment category of € 236 thousand, already present in initial transition as at January 1 2004, increased by € 233 thousand by virtue of positive depreciation caused by redefinition of the useful life of the assets concerned.

d. Goodwill

The breakdown of the positive adjustment of € 5,139 thousand is as follows:

Reinstatement of IdWare goodwill	783
Reinstatement of Minec goodwill	123
Laservall good will	<u>(6,225)</u>
Total	5,139

The acquisitions of IdWare and Datalogic AB (ex-Minec), which took place before the transition date, have been treated applying the exemption to IFRS 3 envisaged by IFRS 1. We have there retained the goodwill value present in accounts under Italian GAAP as at December 31 2003. Following application of IFRS 3, this goodwill value has not been amortised since January 1 2004 and therefore amortisation posted under Italian GAAP has been reversed. The goodwill value concerned was subjected to impairment testing as at transition date. This did not reveal any need for write-downs, since recoverable value based on future cash flows associated with such goodwill was higher than carrying value as at transition date.

As regards Laservall SpA, we recall the fact that this company was acquired in the second half of 2004 (2H04). This acquisition, contrary to what was done in accounts drawn up according to Italian GAAP, was booked in compliance with IFRS 3. The breakdown of the figure concerned is as follows:

Reversal of Laservall goodwill (Italian accounts)	(11,581)	1)
Reinstatement of amortisation (Italian accounts)	292	2)
New goodwill	5,064	3)
Total	(6,225)	

1. This is the adjustment made as per IFRS 3 to eliminate the consolidation difference emerging upon booking of the Laservall acquisition in Italian accounts as the difference between the price paid and book equity value as at acquisition date.
2. This is the adjustment made to reinstate amortisation of the aforesaid consolidation difference in 2H04.
3. This is the difference between acquisition cost and the portion belonging to the Group of net assets acquired at fair value, determined as established by IFRS 3.

e. Development costs

The item concerns capitalisation of development costs borne by the company for projects aiming to create new products set to generate future economic benefits. These costs have been capitalised because they are identifiable and controllable as required by IAS 38.

The detail of the adjustment is as follows:

Capitalisation as at 1/01/04	3,394
Capitalisation in 9M04	999
Amortisation in 9M04	<u>(532)</u>
Total	3,861

Capitalisation of development costs has involved only projects with a value in excess of €20 thousand and that represent breakthroughs in terms of creation of a new business segment and/or product line.

Amortisation has been calculated over a 5year time span, since we believe this to be the average life cycle of products obtained from the development activities concerned.

f. Other intangible assets

The adjustment of € 2,262 thousand for enhancement of rented/leased assets has already been discussed earlier in point c.

The detail of the adjustment € 11,637 thousand is as follows:

Amortisation of other intangible assets	2,192
Reversal of deferred costs	(617)
Laservall intangible assets	10,385
Amortisation	<u>(323)</u>
Total	11,637

The figure of € 2,192 thousand originates from recalculation of amortisation - as discussed in initial IAS/IFRS reconciliation as at January 1 2004 – totalling € 1,957 thousand. The latter increased by € 235 thousand due to the difference between amortisation as per Italian GAAP and that calculated in compliance with IAS.

The decrease relating to deferred costs not capitalisable under IAS 38 is mainly due to reversal of €260 thousand of costs borne for patents and of € 245 thousand of intangible assets relating to the EMS company.

The new intangible assets totalling € 10,385 pertain to the Laservall company, acquired in 2H04. These assets stem from reallocation of good in compliance with IFRS 3.

These are the intangible assets identified and valued upon booking of the Laservall SpA acquisition (see earlier description). Specifically:

- Know-how concerning technological expertise in laser marking = € 5,968 thousand (€ 213 thousand of amortisation)
- The so-called Far East Window = € 4,417 thousand (€ 110 thousand of amortisation) concerning the well established sales network and global customers directly present in Far Eastern areas.

The useful business life of these intangible assets has been defined as being 7 years for Know-How and 10 years for the Far East Window. Amortisation impact concerns only 2H04, i.e. the period from when the Laservall acquisition was booked.

Available-for-sale (AFS) financial assets

g. Securities

The adjustment of € 116 thousand refers to alignment with market value as at September 30 2004 of securities posted, as established by IAS 39. The securities are mainly Italian government bonds retained as surety for the medium-term loan in place with San Paolo IMI SpA, obtained by the direct parent company to finance applied research.

h. Accrued income and prepaid expenses

Reclassification of € 75 thousand refers to the fair value of forward forex sale transactions not qualifying for application of hedge accounting. This figure has in fact been reclassified in the item "Derivative financial instruments" as specifically required by IAS 1 and IAS 39.

i. Financial assets – derivative instruments

This is the reclassification concerning valuation at fair value of forward forex sale transactions highlighted in note h. – accrued income and prepaid expenses.

j. Share capital

The adjustment of € 10,570 thousand refers to reclassification of treasury shares present as at September 30 2004, which, based on IAS 32, must be directly deducted from share capital. In application of IAS 32 and SIC 16 we have also adjusted financial proceeds from sale of treasury shares during 9M04.

The adjustment is as follows:

Treasury shares as at September 30 2004	(11,637)
Cash-in from sale	<u>1.067</u>
Total	(10,570)

k. Revaluation reserve

The decrease of € 258 thousand regards cancellation of revaluation of buildings undertaken by the direct parent company, as this is not envisaged by IAS 16 (see the earlier comment in note b).

l. Translation reserve

Based on the specific exemption envisaged by IFRS 1, the translation reserve created on the basis of Italian GAAP as up to transition date has been cleared, transferring the relevant amount to Previous years' earnings.

m. Fair value reserve (reserve for valuation of AFS financial assets)

The adjustment consists of revaluation to fair value of securities posted both in non-current and current assets, net of the tax effect, as discussed earlier. The breakdown is as follows:

Revaluation to fair value of securities in non-current assets	116
Tax effect	<u>(42)</u>
Total reserve	74

n. Retained earnings

The adjustment made consists of:

1. Use of € 852 thousand following clearance of the translation reserve, as envisaged by IFRS 1
2. A reduction of € 686 thousand relating to government capital grants for assets (€ 702 thousand), obtained in the past by the subsidiary Datasud Srl, merged by incorporation in the direct parent company effective January 1 2004. 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.
3. An increase of € 16 thousand for the foreign exchange difference on adjustments made as at 31/12/03.

o. IFRS transition reserve

As envisaged by IFRS 1, this reserve comprises the arithmetical total of all adjustments, net of related tax effect.

p. Profit (loss) for period

Reference should be made to our subsequent comments on adjustments to the income statement.

q. Deferred tax liabilities

The adjustment – totalling €9,373 thousand – relates to:

- The tax effect on all adjustments made, considering the tax rate applicable according to the type of adjustment and the country to which it refers
- Deferred tax provision of € 3,868 thousand relating to the Laservall subsidiary's intangible assets (Know-How and Far East Window), which was released (€ 121 thousand) in parallel with the amortisation process.

r. Post-employment benefit obligations

This item refers to Italian employee severance provision, which was accounted for according to specific Italian legal regulations. With adoption of IFRS, severance indemnity provision is considered to be a defined-benefit obligation to be treated according to IAS 19. Consequently, it has to be recalculated applying the projected unit credit method, which consists of estimating the amount payable to the 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. An independent actuary performs the estimate. As at September 30 2004 the application of this standard led to an € 760-thousand decrease in severance indemnity provision. There was a positive impact of € 175 thousand on the income statement.

s. Capital grants

As described earlier in note n., the increase of € 702 thousand in deferred income is due to posting of government grants for plant, obtained in the past by the subsidiary Datasud Srl. As per the requirements of IAS 20 these grants have been reversed from equity reserves – where they had been classified previously as allowed by Italian GAAP - 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.

INCOME STATEMENT

A. Cost of goods sold

Of the € 442-thousand decrease in the cost of goods sold, € 66 thousand is due to allocation of part of the new valuation of accrued post-employment benefit provision based on application of IAS 19 and € 60 thousand to reclassification of the financial component of such provision. The remainder consists of the economic benefit stemming from different application of depreciation based on the new useful life of asset categories involved in the production process.

B. Development costs

The detailed breakdown of this item's decrease of € 547 thousand is as follows:

- A positive effect of capitalisation of development expenses qualifying for IAS 38, net of amortisation for the period
- A positive effect of € 45 thousand due to redefinition of intangible assets' useful life
- A positive effect of € 42 thousand due to attribution of part of revaluation of post-employment benefit provision based on application of IAS 19 and to reclassification of the financial component of such provision.

C. Distribution expenses

The € 62-thousand decrease in this item is mainly due to allocation of part of the new valuation of post-employment benefit provision based on application of IAS 19 and to reclassification of the financial component of such provision.

D. General and administrative expenses

The € 1,397-thousand decrease in these costs mainly consists of reversal of goodwill amortisation for IdWare (€ 783 thousand) and Datalogic AB (formerly Minec - € 123 thousand), lower depreciation for other tangible assets (totalling € 261 thousand) and lower amortisation for other intangible assets (€ 159 thousand).

E. Finance income

The adjustment is ascribable to adjustment of finance income stemming from sale of treasury shares during 2004, by virtue of application of IAS 32.

F. Income tax

This is the tax effect on the various economic adjustments made, considering the tax rate applicable according to the type of adjustment and to the country to which it refers.

Taxes also include a positive effect relating to downward adjustment of taxable financial earnings on the sale, during the period, of treasury shares.

CASH FLOW STATEMENT

The increase of € 75 thousand in net financial position is due to reclassification from Accrued income and prepaid expenses for fair-value valuation of forward forex sale transactions.