EUROTECH

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Annual Report 2011

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for the convenience of readers outside Italy.
The original Italian document should be considered
the authoritative version.

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Letter to shareholders

Dear Shareholders,

we began 2011 with great enthusiasm and the prospect of finally seeing Eurotech turn its potential into numbers. We ended 2010 with momentum and we counted on maintaining the pace.

We knew there were uncertainties and possible obstacles on our path. In my letter last year I highlighted how prudence was a must because there were indicators of economic uncertainty and this could adversely affect our business.

We didn't expect all of these fears to be proven justified and that everything that could have happened, would have actually happened: the financial and monetary crisis in Europe, the debt crisis in the United States, the budget crisis in Italy. To all of these events, the tsunami in Japan was added, devastating and unexpected, followed in autumn by flooding in Thailand, which delayed the supply of electronic components and therefore impacted year-end deliveries.

The optimism that we felt due to January and February orders gradually gave way to a largely adverse situation that, starting from the summer, increasingly hindered the business. We repeatedly encountered hurdles along the way that inevitably slowed our pace beyond our initial predictions.

While hoping for the best, it is equally true that we were prepared to cut operating costs in order to lower our breakeven point and throughout the quarters we executed pre-planned defensive actions. Moreover, as the year went one we looked at additional measures, some of which are already partially implemented and will continue to bear fruit throughout 2012.

At the same time we continued to build for tomorrow by advancing new initiatives and investments, a testament to our desire to maintain the momentum and innovation that characterizes us and embodies our competitive advantage.

A first important success I would like to recall is the use of our Everyware Software Framework middleware in Intel®'s reference design of Machine-to-Machine (M2M) gateways based on the Atom™ processor. Our middleware was chosen because it allows a significant reduction in the development cycle of applications and services based on the interconnection between devices. This confirms the importance of our vision that the software to simplify interconnections will be more and more the defining differentiator also in the Embedded Computer sector.

Regarding our products, we are following a clear trend towards ready-to-use and cloud-ready devices. We continue to invest in our traditional product lines, like high-integration and low-power consumption boards, which still represent nearly half of our turnover. However we have pushed the throttle in the direction of ready-to-use products that are simpler for customers to deploy as well as easier to sell along indirect distribution channels.

In particular, we have developed a line of products for security and surveillance applications, such as smart cameras, which allow, among other applications, the facial biometric identification, license plate reading and tracking of objects. Everything is always based on the concept of distributed intelligence and so the devices are easily integrated into remote controlled solutions, allowing us to propose innovative architectures of surveillance and security technology in Cloud Computing.

Regarding High Performance Computing (HPC) for demanding applications, we were one of the founders of the European Technology Platform (ETP) for High Performance Computing, which saw the main European suppliers of HPC technology join BSC, CEA Cineca, Fraunhofer, Forschungszentrum Juelich and LRZ research centres to promote the development of a European supercomputing technology.

In other words, even Europe - after the US, Japan and China – has become aware of the strategic importance of HPC technology for the future of the region. Eurotech has long championed the crucial role of supercomputing in the development and competitiveness of a country or region. The ETP's main goal is to coordinate all European entities involved in the HPC sector and to submit an ambitious research plan to the European Commission. The initiative has a time frame from the medium to the long term, but promises to reinvigorate a European HPC sector able to generate added value in terms of both research and business.

In terms of acquisitions, we acted with the aim of strengthening links between the United States and Japan, and in doing so accelerate cross-selling of high performance boards for real-time applications. With this in mind California-based Dynatem Inc. was acquired and was included in the consolidation perimeter of the Group from June 1st 2011. Dynatem boasts 30 years of experience in the embedded computer market and in particular in the VME, VPX and CPCI board segment and therefore has a natural affinity with the products produced by our Japanese subsidiary, Advanet.

Throughout the course of 2011 we have sown many seeds, and we are confident we have done the right things for our future when investments to renew infrastructures and production processes will regain momentum.

I would now like to briefly comment on the economic and financial results of 2011.

The year ended with a consolidated turnover of 93.8 million euros; below the threshold of 100 million beyond which the leverage effect on primarily fixed operating costs becomes visible.

Gross margin came in just under 50%, not substantially out of line with our target that we fix each year as a litmus test to stay in line with our business model, which is based on the proposition we make to customers providing higher added value with respect to the competition.

Group EBITDA was 3.1 million euros, a figure that rises to 4 million euros if we exclude the non-recurring costs. As Eurotech's second-largest shareholder I am certainly not satisfied with this performance which is not sufficient to generate profits and is far from shareholders' expectations. But as President and CEO of Eurotech I know that over the years the hard work of all our employees, at all levels and in all geographies, has created an ever-more-efficient industrial machine that is ready to translate its potential into profits. In 2011 alone we reduced operating costs by 1.7 million euros, without affecting our ability to innovate and sustain rapid sales growth as soon as opportunity calls. And now that we have learned to safely streamline operations we will continue to do so until the operating leverage shows its effect.

Let's take a quick look at what lies ahead for 2012.

Maintaining caution is still a must. Economic uncertainties, above all in Europe, require us to maintain control of costs and also serve as an additional stimulus to extend our market coverage. In doing so we rely on our Device Data Management and Asset Monitoring via Cloud solutions, both of which can be made available to customers also “as-a-Service”.

This new proposition lowers customers' initial investments and allows us to have a competitive product offering that we can sell to our traditional customers (OEM and SI) through the direct sales channel. Moreover, the new proposition will allow us to broaden the customer base, thanks to the possibility of increasing the use of indirect sales channels, because these new products, thanks to software, are much easier to use and install.

Although order book level is still low, the pipeline of ongoing negotiations that should become orders during the year is higher, in absolute value, than in this same period one year ago. This, combined with a pickup in the North American area, which represents nearly half of Group turnover, gives us reason for optimism.

In particular last March one of our low-power and high-performance modules belonging to the Catalyst family of products was selected for the US Positive Train Control (PTC) programme. The PTC programme is designed to enhance rail safety through a monitoring system and train movement control, with an estimated total investment of $12 billion by 2015. We expected the first orders from this programme to come in at the end of 2011, but the stalled US economy between summer and autumn led to delays in investment. Therefore we expect the first fruits of PTC certification this year, with the bigger part of orders starting from 2013.

The US debt crisis had a huge impact on investment in infrastructure and government programs, most of all in defence. While the cuts in this sector had a negative impact on 2011 turnover, due to the stopping of many programmes, budget movements between programmes has reopened opportunities. Consequently in 2012 we will seek those programs with funding and pursue the new business opportunities that every radical change introduces. Parvus has repeatedly demonstrated from 2004 to 2010 its ability to exploit growth opportunities. Despite the setback in 2011, its positive track record gives us confidence this year and for years to come.

Regarding Japan, the post-tsunami reconstruction is under way and, as we saw after the Kobe earthquake of 1995, the growth of Japanese GDP in 2012 should more than compensate for the lack of growth in 2011. In early February we announced on behalf of Advanet a major design-win for embedded computers that will be used in control and automation systems to be installed on certain highway sections, and we expect that this first sign will be followed by a good order intake over the coming months.

In closing I would like to say a few words about the future that awaits us.

The Cloud is definitively emerging as a paradigm shift of Cambrian proportions. Every day it is increasingly evident how the availability of on-demand and pay-per-use computing power and data storage, comparable to the availability of electric power, will transform the way companies do business and provide services.

The Cloud’s scalable ICT infrastructure is what was missing for us to realise our vision of pervasive computers. We have long since understood that it was necessary to transition from just Embedded Computing to Pervasive Computing, giving our products an inherent ability to integrate themselves into an ICT infrastructure and thus broadening our potential market. The point that remained unresolved was who would provide this ICT infrastructure and how. We could not do it ourselves because it is not our business and neither could the final customers or system integrators, unless significant technical and financial resources became available. The evidence showed inertia in the development of the pervasive computing scenario. On paper it seemed logical but in practice only a few companies could afford it. Something was missing, but it was not clear what.

With the advent of the Cloud it all became clear: with this radical innovation a completely new way of imagining the ICT infrastructure had emerged. It became a utility.

But in order for the pervasive computing scenario that Eurotech envisages to become reality, including the advent of the Internet of Things, an interface connection between the world of intelligent devices and the Cloud infrastructure is necessary. In other words, a scalable, inter-functional software platform is needed to quickly and efficiently build distributed systems, in which thousands or tens of thousands of intelligent devices are able to collaborate with each other as well as with business applications. Such a platform must be able to connect devices in a way that is simple and reliable, but also natively make use of the Cloud’s ICT infrastructure.

Everyware Device Cloud (EDC) is our software platform designed to be the universal interface between intelligent devices and the Cloud's ICT infrastructure. The EDC platform has been conceived to provide the missing link that allows the creation of next generation Machine-to-Machine (M2M) solutions. With EDC we not only move bits between devices: we are able to move "actionable data", i.e. data ready to be used, from intelligent devices spread throughout an operating environment to the business application within the Cloud. Like express couriers transport packages of goods from production sites to the entities that use those goods, our EDC platform allows us to transport packages of digital data from the devices that generate them to the applications that use them.

Application possibilities are limitless because any intelligent object connected by the Internet to the rest of the world, digital or real, can become a "visible" asset monitored through the Web. This can be a vending machine or a stack of banknotes, farm vehicles or railroad switches. Mark Weiser's vision that twenty years ago inspired us to create Eurotech is finally becoming a reality. Invisible and pervasive computers are granting us a "digital ubiquity", which I like to summarize with the sentence: invisible computers for a visible planet.

Our hunger for success is more alive than ever and, as always, we count on your support as we continue along our path.

15 March 2012

Roberto Siagri
Chairman and Chief Executive Officer

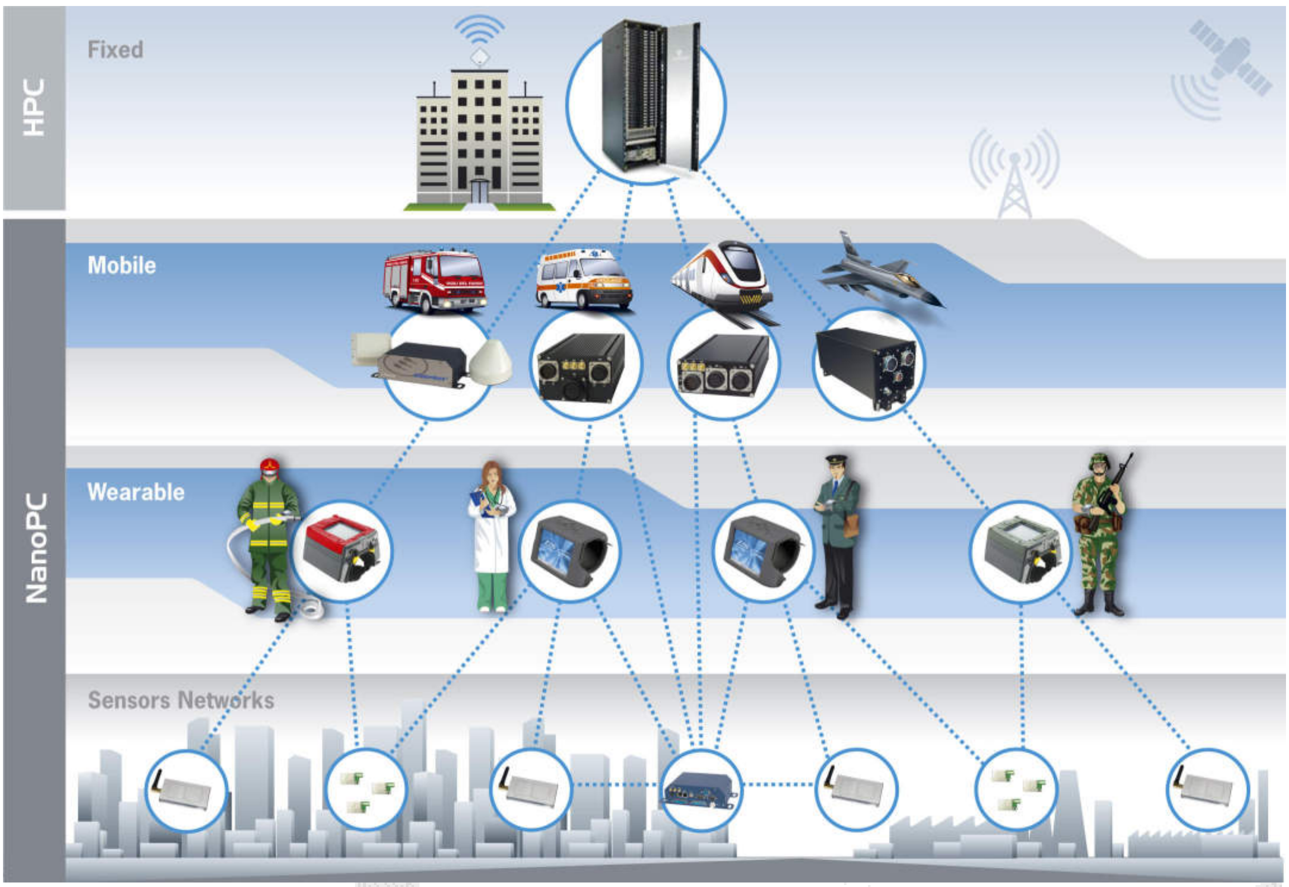
Profile of the Eurotech Group

Introduction to Eurotech

Eurotech is a global company with a strong international focus that generates turnover on three continents. The Group has operational sites in Europe, North America and Asia, guided and coordinated by its central office in Italy.

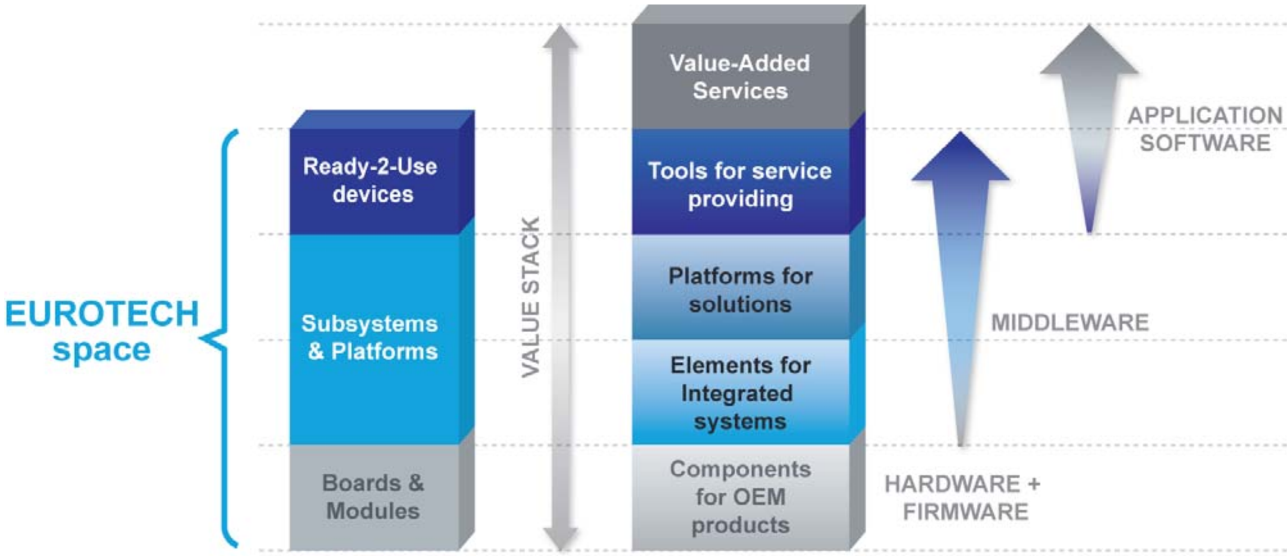
The technological paradigm followed by Eurotech is ‘pervasive computing’ or ‘ubiquitous computing’. The pervasive concept combines three key factors: miniaturisation of ‘smart’ devices, i.e. devices capable of processing information; their spread in the real world – inside buildings and equipment, on board vehicles, worn by people, and disseminated in the environment; and the ability of connecting with each other in a network and communicating.

In this perspective, Eurotech engages in research and development and sells miniaturised computers for special uses (NanoPCs) and supercomputers, or high performance computers (HPCs). NanoPCs and HPCs are the two major classes of devices that, by connecting to and co-operating with each other, form the pervasive computing infrastructure commonly known as the 'pervasive GRID' or 'cloud'.



In the NanoPC segment, the Group’s offering varies according to the positions of the various products in the value stack. The NanoPC is typically a miniature computer that can take the form of:

- an embedded board, often used as component in OEM products
- an application-ready subsystem or platform, used as element of integrated systems
- a ready-to-use device employed in a great variety of application settings, often as support for the provision of value-added services.



All these NanoPCs have wireline or wireless communication channels to ensure their interconnection. It is this combination of computing and communication capabilities that makes Eurotech's NanoPCs key elements of the pervasive scenario that the company wants to create.

The Group's NanoPC offering is used in several application fields, both conventional and emerging. Eurotech is most active in the transport, defence, industrial, medical and logistics sectors. The feature common to many of our customers in all these sectors is they are seeking not only a supplier but also a centre of technological competence – and they often see in Eurotech a partner for innovating their products and their way of doing business. They want to reduce their time-to-market and focus on their core businesses. They often need solutions for harsh operating conditions and for mission-critical applications, or supplies assured for long periods.

In the HPC sector, Eurotech designs and builds supercomputers with very large computing capacity and high energy efficiency, created via the massive and parallel connection of high-performance miniaturised computers. These supercomputers – historically aimed at advanced research centres, computing centres, and universities – are turning out to be vital in advanced sectors such as nanotechnology, biotechnology and cyber security. We also expect to see a significant effect on the medical and industrial fields in the near future.

From the time of its foundation in 1992, Eurotech has focused its business model on four guiding principles, which, like four pillars, have underpinned its growth and development and continue to do so. These are:

- excellence within standards
- a fabless production model
- development of its business model towards ready-to-use products (closer to the application scenario of the purchaser or end-customer)
- strong interaction with the academic and research worlds.

Above all, Eurotech aimed to excel within sector standards right from the start. In other words it understood that, to supply its customers with solutions that both performed well and were open to the future, excellence could not be achieved only with proprietary solutions, but as far as possible with state-of-the-art solutions remaining compliant to the standards, which are themselves evolving.

Eurotech's second strength is the adoption of a fabless production model, i.e. featuring the almost total absence of production facilities. Within the value chain, Eurotech performs research, development, engineering, prototyping, quality control and logistics. The great majority of NanoPC manufacturing is outsourced to third parties. Only HPCs are assembled in-house, as this is considered to be a strategically important activity.

The third key element of the business model is constant attention to ongoing changes in systems integration, i.e. from simply boards (or hardware) to systems (hardware with a specific enclosure), to application-ready platforms (a combination of boards, systems and middleware, i.e. a layer of software that speeds up application development and permits disconnection of application software development from the hardware), and even to ready-to-use devices (products already able to perform a specific function and which do not require any software programming in order to be ready to operate).

The last – but not least important – component of the business model is the network of external relations with universities and research centres. This 'knowledge network' fuels innovation and helps to keep Eurotech solutions at the state-of-the-art level of technologies and standards available.

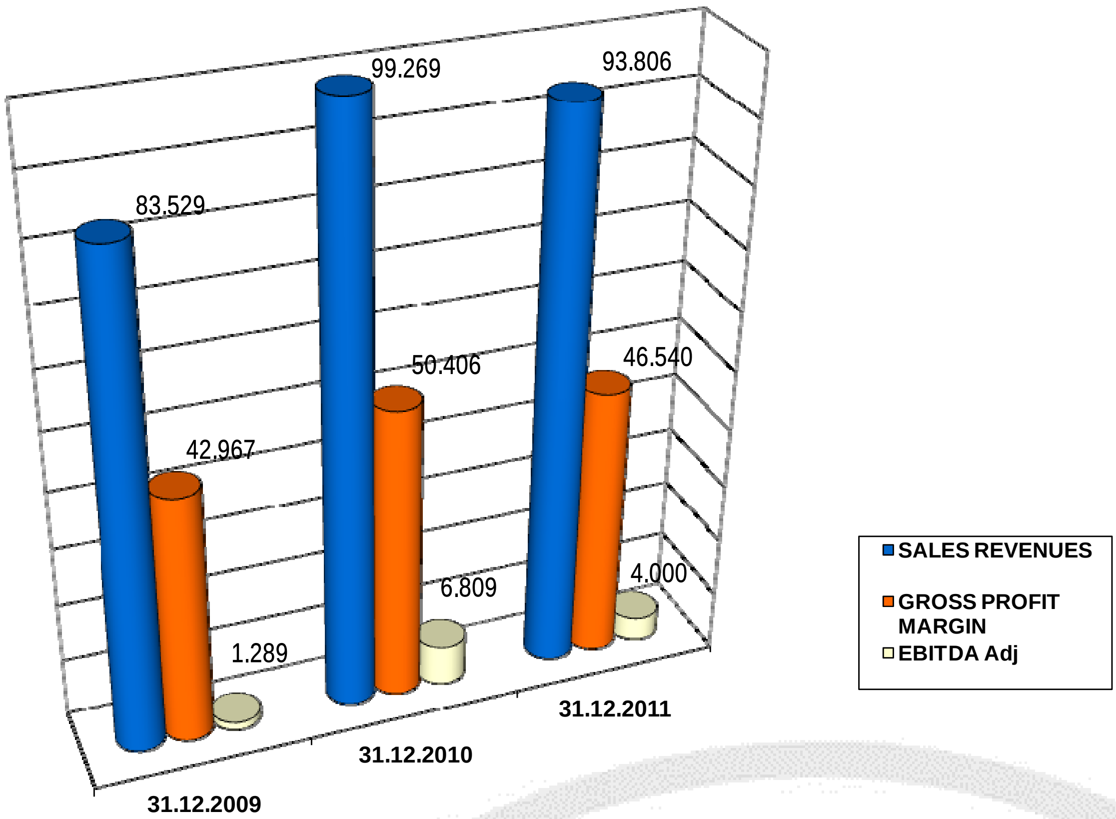
The Eurotech Group in figures

Introduction

The Eurotech Group's operating and financial results for financial year 2011 and comparative periods were drawn up according to the international accounting and financial reporting standards (IASs/IFRSs) issued by the International Accounting Standards Board and approved by the European Union. Unless otherwise stated, data are expressed in thousands of euro (€ '000).

Group operating and financial results

(€'000)	FY 2011	%	FY 2010	%	FY 2009	%
OPERATING RESULTS						
SALES REVENUES	93,806	100.0%	99,269	100.0%	83,529	100.0%
GROSS PROFIT MARGIN	46,540	49.6%	50,406	50.8%	42,967	51.4%
EBITDA ADJ	4,000	4.3%	6,809	6.9%	1,289	1.5%
Non recurring costs	(910)	-1.0%	585	0.6%	0	0.0%
EBITDA	3,090	3.3%	7,394	7.4%	1,289	1.5%
EBIT	(4,875)	-5.2%	(741)	-0.7%	(6,632)	-7.9%
PROFIT (LOSS) BEFORE TAXES	(6,613)	-7.0%	(3,813)	-3.8%	(8,991)	-10.8%
GROUP NET PROFIT (LOSS) FOR THE PERIOD	(7,246)	-7.7%	(6,079)	-6.1%	(9,601)	-11.5%



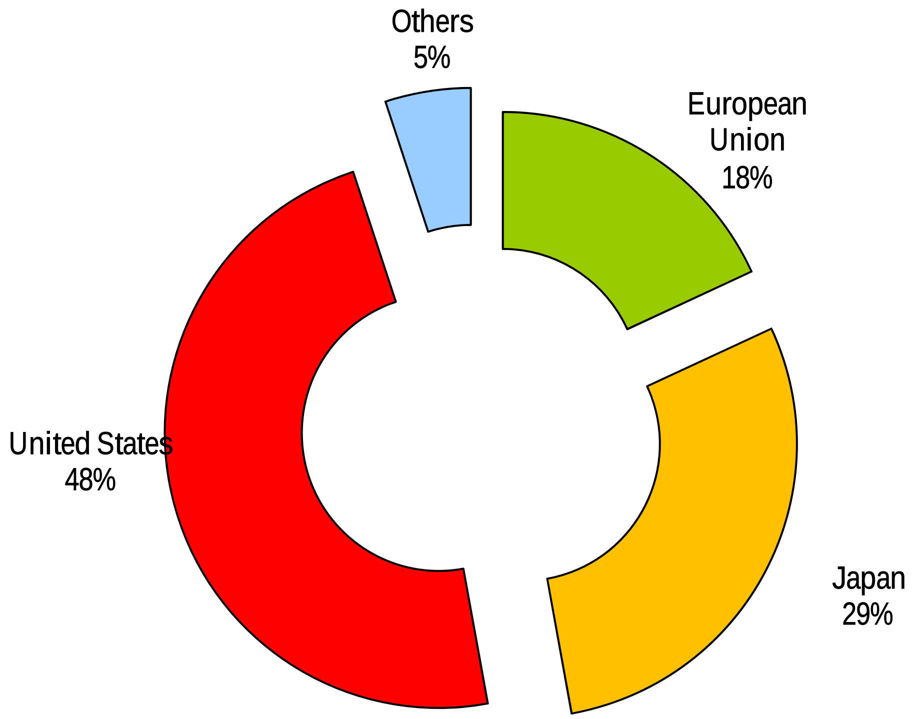
Revenues by business segment

(€'000)	NanoPC			High Performance Computer			Total		
	FY 2011	FY 2010	% YoY Change	FY 2011	FY 2010	% YoY Change	FY 2011	FY 2010	% YoY Change
Sales revenues	90,971	98,073	-7.2%	2,835	1,196	137.0%	93,806	99,269	-5.5%

SALES BY BUSINESS SEGMENT	FY 2011	%	FY 2010	%	FY 2009	%	FY2008	%
NanoPC	90,971	97.0%	98,073	98.8%	82,682	99.0%	91,413	99.7%
High Perf. Computer	2,835	3.0%	1,196	1.2%	847	1.0%	318	0.3%
TOTALE SALES AND SERVICE REVENUE	93,806	100.0%	99,269	100.0%	83,529	100.0%	91,731	100.0%

Volumes in the HPC business line have been affected in recent years by the purchasing behaviour of our customers, which is historically highly cyclical. Eurotech's current offering of an innovative supercomputing architecture based on standard processors enables us to broaden our potential client base substantially, thus breaking free of this cyclicity and improving turnover stability. HPC turnover as a percentage of the Group total remained limited in 2011, although it has been growing by comparison with the recent past.

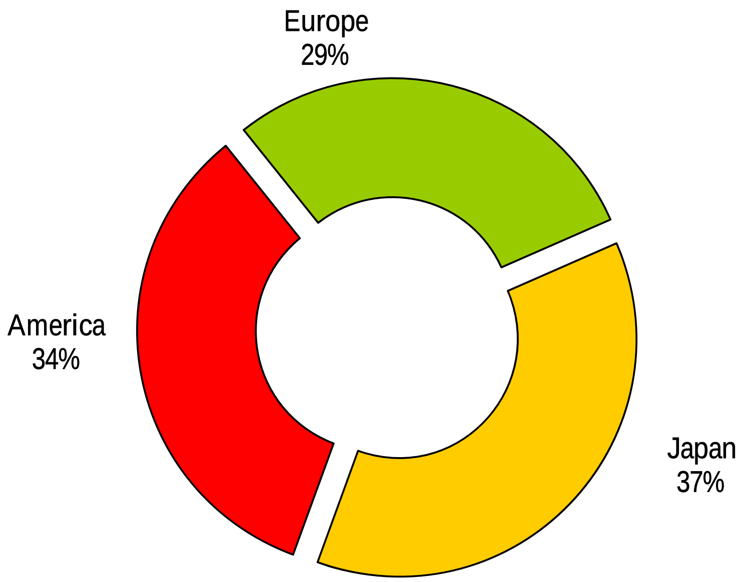
2011 sales revenues by region



Group employees

	at December 31, 2011	at December 31, 2010	at December 31, 2009	at December 31, 2008
NUMBER OF EMPLOYEES	463	455	530	586

Breakdown of employees by region in 2011



Milestones in our history

1992-1994: the 'ideas factory'

1992 A group of young technicians found EuroTech Srl, based on the idea of miniaturising the PC and using it in as yet unexplored application fields. It is an 'ideas factory' and 'fabless' model, open to Europe – and to the world – (*Euro*) and to new technologies (*Tech*).

1993 The first products based on the PC/104 standard for embedded PCs are developed.

1994 Friulia SpA, a development finance company owned by the Friuli-Venezia-Giulia regional authorities, buys into the company by subscribing to a capital increase.

1995-2000: from laboratory to industry

1995 Eurotech becomes the first producer in the world to launch on the market a PC/104 module based on the Intel 32-bit 486DX processor.

1997 Start of the internationalisation strategy's implementation via the first partnerships with European distributors.

Eurotech creates one of the world's first 3U boards based on the Intel Pentium processor and compactPCI form factor.

The HQ is moved to Amaro (province of Udine in North-East Italy) and the company becomes a joint-stock company (Italian acronym = SpA).

1998 Eurotech completes the range of products based on the compactPCI standard and starts production of a new line based on the PC/104Plus standard.

The company Neuricam SpA is set up, a spin-off of the Trento institute for scientific and technological research (IRST). The aim is to design and produce integrated circuits capable of complex image elaboration directly on chips, thus providing neural processors, CMOS digital cameras, and intelligent sensors.

The internationalisation strategy continues with the start of sales in the US, Asia and Australia.

1999 Activity of the HPC (High Performance Computers) Strategic Business Unit (SBU) starts with creation of APEmille supercomputers. Designed by the INFN (the Italian national institute of nuclear physics), this was the result of the APE (Array Processor Experiment) project, which aimed to develop a computer capable of processing 1,000 billion operations per second (1 TeraOps).

2000 The US commercial branch is set up.

Launch on the HPC market of clusters based on compactPCI systems.

2001-2007: external growth and internationalisation

2001 The venture capital fund First Gen-e of Meliorbanca SpA and Friulia, as merchant bank, become shareholders of Eurotech following a capital increase.

Eurotech inaugurates a new production site in Amaro (province of Udine).

Development starts of the new generation of APEnext HPCs

2002 Activities start in China and a commercial office is opened in Shanghai.

Acquisition of IPS Srl of Varese, permitting extension of the product offering to the industrial sector.

2003 Acquisition of Parvus of Salt Lake City (Utah) is completed in order to consolidate and expand the presence in the US.

2004 Eurotech first acquires Finnish company Vikerkaar, renamed Eurotech Finland, to cover the northern European and Chinese markets, and then French company Erim (Lyon), thus entering what is a strategic market for the Group.

2005 Eurotech presents APENext, the generation of supercomputers following APEmille, able to provide computing capacity 10 times higher than that of the previous model.

A research centre is launched in China at the NJUT (Nanjing University of Technology) together with sponsorship at the same university of a new course on design of embedded systems.

The Scientific Committee is set up, dedicated to the study and identification of trends in future technological scenarios. Its members are prominent figures of major universities and research institutes. Co-ordinated from inside Eurotech by the CTO Giampietro Tecchili, their task is to cover, manage and develop the Eurotech Group's 'knowledge network'.

Eurotech is chosen as technological partner for supercomputing architectures and systems for the 5-year period 2005-2010 by the LITBIO (Laboratory for Interdisciplinary Technologies in Bioinformatics) consortium, founded by the Italian University & Research Ministry.

On 30 November, Eurotech SpA, the Parent Company of the Eurotech Group, is listed in the STAR (Segment for High Requirement Stocks) of the Milan stock market. The total number of shares on offer was 8,652,000; of these 7,450,000 were new shares, while 1,202,000 were existing shares put up for sale by the venture capital fund First Gen-e, which ceased to be a shareholder at the time of listing. The remaining 1,297,992 shares owned by First Gen-e prior to the IPO go to form the green shoe, wholly exercised in view of the very high subscription rate of investors. At the end of the IPO, the total number of shares rose to 18,625,296 and the net proceeds of the capital increase came to €25.3 million.

2006 Eurotech launches the project for development in the Trento area of ETH Lab, the Group's research centre. As part of the project a co-operation agreement is signed between Trento University, ITC-IRST, and Eurotech to activate a series of research activities in the pervasive and ubiquitous computing sector.

Acquisition is completed of the Arcom Group, consisting of 100% of the share capital of the companies Arcom Control Systems Ltd. based in the UK (Cambridge) and Arcom Control Systems Inc. based in the US (Kansas City).

French subsidiary Erim changes its name to Eurotech France.

In June, Eurotech's Board of Directors decides to increase share capital by issuing ordinary shares for a total value of €109.24 million.

Presentation of the first prototype of the Zypad, a revolutionary wrist-worn computer that is the result of a technological effort combining circuit miniaturisation, integration of various hardware functions, consumption optimisation, and ergonomic requirements.

Zypad wins the prize for the most innovative product presented at the 2006 Soldier Technologies Conference in London.

Eurotech signs a partnership agreement with Finmeccanica SpA, with the aim of exploiting Eurotech's ability to innovate and to develop new-frontier technologies and Finmeccanica's international leadership as a supplier of complex solutions and systems to the aerospace, defence, security, transport, and energy sectors.

In September, Eurotech attempts to acquire Radstone Technology PLC, launching a public tender offer for 100% of the UK company's shares. The Group's action attracts the attention of its competitor GE Fanuc, which launches a higher counterbid and purchases Radstone. Eurotech nevertheless profits from this transaction, making a capital gain of €1.3 million net of purchase costs, due to the sale to GE Fanuc of the Radstone shares already purchased.

Eurotech inaugurates the new base in Amaro (province of Udine) on 31 October. The facility, of an area of over 2,000 sq m, has been designed paying the utmost attention to the environment. Due to installation of a system of photovoltaic modules, the new Eurotech site is also an example of sustainable building.

Eurotech invests in the UGV (Unmanned Ground Vehicles) sector, subscribing to some 20% of the share capital of US company Kairos Autonomi. The company, active in the research and development of integrated systems for driverless vehicles, is headed by George (Troy) A. Takach Jr., who founded Parvus.

The wearable PC wins the prestigious Frost & Sullivan award for the most innovative product at the 2006 edition of 'Ambient Intelligence'.

Eurotech reaches an agreement with IBM to integrate IBM Lotus Mobile Connect software inside NanoPC devices.

2007 Eurotech completes the acquisition of Applied Data Systems, Inc. (ADS), based in Maryland (US). Through this acquisition, Eurotech also receives 65% of the equity of Chengdu Vantron Technology Ltd, a Chinese R&D company operating in the NanoPC sector.

Eurotech and Selex Communications, a Finmeccanica Group company, signs a commercial agreement for the international sale of wearable computers. Selex Communications becomes Eurotech's exclusive partner for sales of the Zypad wearable computer to Finmeccanica Group companies and, in Italy, to customers in the defence sector and the police, fire-fighting, quasi-military police, finance police and penitentiary police forces. This agreement is a first important result of the partnership agreement signed by Eurotech and Finmeccanica in July 2006.

Eurotech unveils Janus, the world's first computing platform capable of achieving the astounding number of 8 PetaOps, i.e. 8 million billion operations per second. It does so by consuming just 10kWh and occupying a volume of just 2 cubic metres. Janus is the result of a collaboration between Italy and Spain involving, from the second half of 2005, the following prestigious research centres: the physics departments of the University of Ferrara and the University of Rome (*La Sapienza*), the Institute for Biocomputation and Physics of Complex Systems (BIFI) in Saragozza, the University of Saragozza, the Engineering Investigation Institute of Argon, the Complutense University of Madrid and the University of Extremadura in Badajoz.

Eighteen months after joining the Eurotech Group, Arcom UK changes its name to Eurotech Ltd..

Eurotech announces completion of the acquisition of 65% of the shares of Advanet, a Japanese company based in Okayama, and its subsidiaries Spirit 21, Vantec and Advanet R&D (together, the 'Advanet Group'). The purchase agreement also provides for a put & call mechanism for the remaining 35% of the shares of Advanet.

The Civil Protection & Rescue Service (Protezione Civile) of the Friuli-Venezia-Giulia Region chooses Eurotech as its partner for development and testing of a fully wearable and non-invasive computerised visualisation, computing, and communication system for operators working in extreme conditions. The aim is to combine the field experience of the Protezione Civile with Eurotech's technologies to equip operators in future with a sort of 'personal mini-operations centre', enabling them to receive real-time information (maps, data, etc.) useful for rescue work and also optimising mission coordination and management.

Eurotech invests in mini- and micro-UAVs (Unmanned Aerial Vehicles), by acquiring a 21% equity interest in the company UTRI SpA. In consequence, Eurotech has further strengthened its presence in the emerging market for unmanned vehicles.

2008-today: integration and synergies

2008 The MBTA (Massachusetts Bay Transport Authority) chooses the RiderNet Wi-Fi platform for the pilot "Wi-Fi Commuter Rail Connect Program", the first US project aiming to provide wireless internet access on trains.
The Zypad wrist computer is chosen by US company ProCat Management Service as the basis for PickRight, the solution developed by ProCat to streamline product picking processes in large distribution centres.

Janus, the new supercomputer designed by a pool of Italian and Spanish researchers and built by Eurotech in laboratories at its Ethlab research centre in Trento, is officially unveiled at the headquarters of the European Centre for Theoretical Studies in Nuclear Physics and Related Areas (ECT) in Trento. Giorgio Parisi, one of the most important figures in the international scientific community, also participates in presenting the Janus project. At the time of its launch, JANUS is the smallest, fastest and most energy efficient supercomputer in performing the specific computing functions for which it was designed.

The innovative Catalyst Module is created, based on the brand new Intel® Atom™ processor. The size of a playing card, the Catalyst Module sets a record in the segment of embedded boards based on the Intel® Atom™ processor, with a typical power consumption of about 3W and peak consumption of less than 5W.

Eurotech announces, at the Embedded System Conference in April, that its US subsidiaries Applied Data Systems and Arcom will be merged into a single company, Eurotech Inc.. This is a key step in the process of integration of the Eurotech Group after the major acquisitions carried out in the previous two years. On 1 July, the merger between ADS and Arcom is completed and Eurotech Inc. is officially created.

In May, the Board of Directors of Finmeccanica approves the acquisition of about 11.1% of Eurotech share capital from some of its founding shareholders (Dino Feragotto, Roberto Chiandussi and Giorgio Pezzulli) at a price of €4.6 per share. The aim of buying the shareholding is to strengthen the strategic partnership forged in July 2006. In November, Finmeccanica completes the purchase of 11.1% of the share capital of Eurotech and the Board of Directors approves the cooption of three new directors representing Finmeccanica.

Eurotech and Intel initiate a joint venture to develop HPC systems. Under the multi-year technological co-operation agreement, signed during the visit to Italy of Pat Gelsinger, Vice President and General Manager of the Intel Digital Enterprise Group, the two companies are going to work together to develop HPC (high-performance computing) systems based on Intel processors that will satisfy the computing requirements of medical, industrial and scientific users.

Eurotech's wearable technology brings to fruition the first applications for remote assistance for senior citizens: the Zypad wrist computer and the innovative ZTag pendant becomes key components of the innovative remote care solution for senior citizens implemented in the Region of Abruzzo by Selex Service Management, a Finmeccanica Group company.

At the ceremony held for the Business Connections Award given by Intel's Embedded Communications Alliance (ECA), Eurotech receives the 2008 Prize for Excellence for the best 'Growth in Co-selling of the Intel® Atom™ Processor'. This prestigious prize reflects the quantity and variety of opportunities pursued by Eurotech in many diverse sectors throughout the United States, including the medical, military, industrial and biometric applications sectors.

2009 Eurotech wins the Platinum Award 2008 from VDC Research Group in the Embedded Board Vendor category. End-users placed Eurotech at the highest level (platinum), based on more than 45 assessment criteria. The award highlights Eurotech's excellent capability in providing a complete service to users of its solutions in terms of technical support, experience, reliability and other factors.

Eurotech joins PROSPECT e.V. (PROmotion of Supercomputing and PEtaComputing Technologies), a leading European consortium for the development and use of next-generation supercomputers, headed by three institutions that are also among the biggest European supercomputer 'consumers': the Jülich Supercomputing Centre, the Barcelona Supercomputing Centre and the Leibniz-Rechenzentrum Garching.

At the International Supercomputer Conference (ISC) 2009 in Hamburg, Eurotech unveils Aurora, a revolutionary HPC system for installations of any size, up to several PetaFlops. The developed technology on which it is based provides unprecedented levels of operating performance, sets a record in footprint reduction and dramatically cuts TCO (Total Cost of Ownership) for installations of every size, with an energy saving of up to 60% due to an innovative direct liquid cooling system, which eliminates the additional costs associated with conventional cooling systems whilst using every available watt to the maximum.

Military Embedded Systems magazine, which specialises in analysis of COTS technologies for various military programmes, names the DuraCOR 820 for the Editor's Choice Award, due to this subsystem's particularly high levels of resistance in hostile environments.

Advanet receives official recognition from the JAEA (Japanese Atomic Energy Agency) and from KEK (High Energy Accelerator Research Association) for its contribution to the creation of the J-PARC particle accelerator complex in Ibaraki, Japan, which is one of the world's most important particle accelerator centres.

Eurotech announces an agreement with DynaVox Mayer-Johnson to produce DynaVox Xpress™, the world's first portable assisted communication device, which can help people affected by pathologies such as autism, motor neuron disease, cerebral lesions, stroke or Down's Syndrome to communicate with their friends and families and to study and work.

Eurotech joins the United Nations Global Compact, a strategic policy initiative for businesses that are committed to ensuring that markets, trade, business and finance produce economic and social benefits everywhere in the world. The initiative involves a commitment to align operations and strategies with ten fundamental principles in the areas of human rights, work, environment and the fight against corruption. The Global Compact involves both the public and private sectors, and is the world's most important initiative focusing on sustainability and corporate citizenship. Once again, Eurotech has shown itself to be a frontline defender and promoter of the fundamental principles in which it strongly believes and that it has always applied, such as respect for human rights and human dignity and full respect for the law and environmental protection.

2010 Eurotech announces an agreement with a leading electricity provider with more than 2 million customers to supply the ZyWAN cellular router in support of Smart Grid initiatives: the project involves installation of ZyWAN units in base stations throughout the network, to monitor power supply and to connect industrial and domestic smart meters wirelessly. This Smart Grid application of the Eurotech ZyWAN enables close to real-time management of energy usage and optimises customer service, maintaining the operational efficiency of the supplier utility.

Eurotech announces the launch of the Aurora AU-5600, the 'green' supercomputer based on the very latest Intel® Xeon® 5600 processor. The launch comes right after Intel's introduction of the Intel Xeon 5600 processor and makes Eurotech one of the very first market leaders to offer an HPC platform for it. Like the other products in the Aurora class, the Aurora AU-5600 benefits from the liquid cooling system designed by Eurotech for its HPC products, and thus achieves the highest level of computing density and reliability.

Eurotech and the AuroraScience Collaboration announce their joint programme to install an Aurora AU-5600 system at LISC (Interdisciplinary Laboratory for Computational Science), a joint initiative of the Bruno Kessler Foundation and the University of Trento that is currently being created. AuroraScience is a research project funded by the Autonomous Province of Trento (PAT) and by the INFN (the Italian national institute of nuclear physics), in which numerous scientific partners take a comprehensive approach to the challenge of defining the new generation of high-performance computers for scientific and technological applications. The installation is also one of the 'greenest', due to Aurora's liquid cooling system: the heat produced by the computer will be reused to heat the data processing centre, dramatically reducing operating costs and environmental impact.

Eurotech signs a contract worth $7.5 million in the US with King County Metro Transit to install DuraMAR Mobile Access Routers in more than 1,000 buses in the Seattle area. The installation will enable King County to activate wireless communication with a range of onboard systems, including vehicle diagnostics, GPS positioning and fare payment, using a single router on board the bus. The Eurotech DuraMAR will specifically be used to transfer operational data to and from the buses in transit and to show bus departure information on electronic signage on selected routes, as well as to enhance passenger safety by extensive use of onboard digital video cameras.

Eurotech wins a contract worth $10 million to supply embedded computers for electronic ticketing systems to Cubic Transportation, one of the world's leading turnkey solution providers of automated fare collection systems on public transport. The contract involves the use of Eurotech computers in the smart card ticketing system on the public transport system of a major European capital, and will see more than 20,000 Eurotech computers installed in buses and station access gates throughout the network. Each unit will interface directly with a smart card reader and will relay both passenger and journey information to the central fare collection system.

Eurotech and Wind River announce a strategic partnership to accelerate embedded application development: special Development Kits will enable software developers to begin application development in less than one hour, compared with conventional systems requiring days or even weeks. The two companies thus aim to bring the ready-to-use PC experience to the embedded market. As part of the Wind River On-Board Program, of which Eurotech is a founder member, Eurotech will offer Embedded Development Kits with Board Support Packages of the Wind River Linux embedded operating system, specifically validated for Eurotech hardware based on the Intel® Atom™ processor, to help equipment and device manufacturers to save time and money on application integration for faster, more efficient time-to-market.

Eurotech completes the exercise of the planned option to acquire another 25% of the capital of Advanet Inc., thus increasing its shareholding in the Japanese subsidiary to 90%. The transaction, which takes place in three tranches, costs ¥1,114,809,631, equal to about €10 million.

Eurotech launches a new family of rugged handheld mobile computers, the HRC-4200 and the HRC-3100. These devices are natively able to make use of the Eurotech cloud platform, enabling customers to create end-to-end solutions that provide immediate data visibility throughout their organisation without the need to purchase, configure and maintain a proprietary IT infrastructure.

Eurotech becomes a Cisco Solution Technology Integrator, hence obtaining access to the technological and commercial resources of the US giant to offer its own customers products that take full advantage of Cisco's mobile connectivity technology, which represents a de facto standard in the sector.

The Eurotech Everyware™ Device Cloud wins the 2010 Best Electronic Design award in the Embedded – Cloud Computing category, as reported in the 9 December issue of *Electronic Design*. With the 2010 Best Electronic Design award for the Everyware Device Cloud, Eurotech builds on its Everyware Software Framework (ESF) platform, joint winner in 2009 of the prize for best software with Google's Android platform.

Parvus obtains AS9100 aerospace quality certification with an extremely rare score of 100%.

Significant events in 2011

JANUARY

Eurotech and Nomad Innovations deliver LiveEdge, a portable LTE video broadcast device

The Eurotech embedded CPU platform is the computing foundation of the LiveEdge solution from Nomad Innovations. LiveEdge, a small, lightweight, low power video router, delivers real-time connectivity over 4G LTE mobile broadband technology from Verizon Wireless.

For the first time in live news, LiveEdge allows high-quality live interaction with two-way audio/video/data communication without the need for satellite or microwaves trucks. It gives operating teams in the field unprecedented mobility, flexibility and speed of action. While important for news casters, LiveEdge can also be used in other application fields, such as medical, military and first responders.

FEBRUARY

Parvus rugged subsystems deployed in Boeing 737 business jets

ARINC Engineering Services chooses DuraCOR 820 Mission Computers and DuraMAR 3230 Mobile Routers for Boeing 737 satellite systems and communications equipment upgrades. The contract also represents the first practical result of the AS9100 certification achieved by Parvus with flying colours at the end of 2010.

MARCH

Everyware™ Software Framework used by new M2M Wireless Aggregation Gateway

Eurotech's ESF platform is supplied on Intel® Atom™ processor-based machine-to-machine (M2M) gateway reference design to significantly shorten the development cycle for M2M applications and services.

Based on the technologies of Intel® Atom™ processors, Wind River Linux and Eurotech's Everyware Software Framework, this new class of M2M platform incorporates the features of a complete appliance with the flexibility of an embedded industrial computer to enable mission-critical applications. Service innovators want to create and rapidly implement revenue-generating solutions for their specific applications. The Intel® Atom™ processor-based M2M gateway reference platform with Wind River Linux and Eurotech Everyware Software Framework enables developers to deploy new services quicker, easier and more cost efficiently.

ISIS XL embedded board is deployed in US Positive Train Control programme

The ISIS XL embedded board is selected as one of two hardware reference designs for Positive Train Control (PTC) applications by Meteorcomm, LLC.

The US PTC programme aims to increase rail safety through a system of monitoring and controlling train movements. The widespread installation of interoperable PTC systems in the United States is mandated by the Rail Safety Improvement Act of 2008. PTC technology will be installed on 160,000 miles of rail track and on board 30,000 rail vehicles by 2015 at an estimated investment of $12 billion.

All PTC Wayside Messaging Servers (WMSs) must incorporate an embedded computer certified to run Red Hat Enterprise Linux (RHEL) and the Meteorcomm communications stack, such as the ISIS XL. As an approved hardware reference design, the ISIS XL can connect Wayside Interface Units (WIUs) to the PTC network to communicate vital data such as wayside status, locomotive location and speed. As a PTC hardware reference design, ISIS XL provides rail sector customers with the best starting point for establishing PTC-compliant applications. In addition, the DuraCOR system and the DuraMAR Mobile IP router are packaged, off-the-shelf platforms that incorporate the ISIS XL embedded computer and offer PTC integrators an even greater level of integration and flexibility for rapid implementation of PTC solutions.

MAY

Launch of the new family of Zypad BR2000 wearable rugged computers

The Zypad BR2000 is ideal for rugged environments such as those often seen in the oil and gas, first response, industrial plant maintenance and transport sectors. Compact, lightweight and low-power, the Zypad BR2000 also has a range of high-speed I/O, multi-media and communications capabilities that make it a fully functional wearable or vehicle-mounted device. Because it is low-power, compact and can be battery operated, the unit can be worn on a belt, in a pocket, in a backpack or on a utility vest. The Zypad BR2000 can also be mounted on a vehicle, such as a truck or other service vehicle. The Zypad BR2000 was also designed to be compliant with military standards, so that users can be assured of a reliable and durable product regardless of the situation in which they operate.

The Zypad BR2000 family is the latest testament to Eurotech's expertise in small, low-power and high-performance wearable devices; since it is cloud-enabled, users can quickly start to incorporate the device within business processes to manage, acquire and share business-related information.

Roberto Siagri confirmed as Group CEO
The Board of Directors, meeting on 13 May, following the Annual General Meeting of 28 April that re-elected the Directors and the Statutory Auditors, confirms Roberto Siagri as Chief Executive Officer of Eurotech SpA.

Eurotech acquires Advanet shares and obtains 100% of the share capital
Eurotech acquires the residual 10% of the share capital of Advanet owned by the Japanese shareholder to add to the 90% already held, for ¥257,375,000 (about €2.2 million) paid in cash. The transaction increases Group shareholders' equity by €3.6 million, an amount previously entered in the financial statements under "equity attributable to minority interests".

Acquisition of Californian company Dynatem Inc.
Dynatem Inc., based at Mission Vejo in California, enters the Group's scope of consolidation from June 1st. The company has been active in the embedded computer market since 1981, with a particular focus on VME, VPX and CPCI boards, and recorded turnover of around $3.6 million in 2010.
Eurotech acquires 100% of the share capital of Dynatem Inc. for an enterprise value of about $1.9 million (about €1.3 million). The transaction is settled in cash.
With the acquisition of Dynatem, the Group consolidates its US presence, adding the West Coast to its regional coverage, and gains experience and know-how of the emerging VPX standard. The company's long history in VME and CPCI platforms also makes further synergies between the US and Japan likely.

JUNE

Agreement signed with Mondialpol for first cloud computing tracking application in cash transport
Mondialpol Service SpA, the national operator in Italy of cash transport and counting services for Intesa Sanpaolo, will monitor activities in real time through cloud-ready equipment from Eurotech with cloud computing data management.
This is the first Italian application to use this technology in the security sector, and Eurotech’s partnership with the Mondialpol group aims to transform the cash transport sector, until now managed in the conventional way. Another innovation is the Device-as-a-Service (DaaS) supply model, which allows Mondialpol to purchase the Eurotech solution by paying a monthly fee for a period of three years for each device put into service.
The solution consists of providing the crews of the armoured trucks of all the 130 cash transport companies involved in the contract with a portable Eurotech HRC4200 device, which enables the barcodes on the money bundles to be read at the time of delivery, identifying the time, type of operation (withdrawal/delivery), the branch at which the operation is taking place, the GPS position that can be viewed on a map, and the security guard and the contact at the bank conducting the operation, with an option for the contact to provide a digital signature directly on the Eurotech device.
Thanks to Eurotech’s device-to-cloud technology, value-added data generated by all the different portable devices is collected and conveyed securely in real time to the Cloud infrastructure. The Cloud provides controlled access to data, enabling everyone to see or manage the data for which they are responsible; data of interest can then be downloaded from the Cloud to Mondialpol Service’s management system, for incorporation with the information produced by the rest of the process.
Eurotech has again shown that it can anticipate the needs of the market with technology that is always cutting edge and applicable in a wide range of sectors. The Device Data Management via Cloud solution relieves companies of the need to manage and protect with their own IT infrastructure growing quantities of heterogeneous data arriving from devices in different geographical locations, and the Device-as-a-Service supply model relieves them of the burden of the initial investment, which often slows companies’ adoption of new technologies.

JULY

€4 million order from Selex Elsag for AURORA HPC for cyber security applications
Selex Elsag, a strategic unit of the Finmeccanica Group in defence and security electronics, decides to employ Eurotech's supercomputer in the emerging field of cyber security.
For some years now, use of HPCs outside the academic and scientific world has been growing, and the ever-increasing digitalisation of information also requires the security segment to process millions of data in a matter of seconds. One of the most important requirements in the segment – but also one of the hardest to meet – is minimisation of the impact of checking times on activity execution times, particularly in the case of financial transactions, or if it is necessary to

conceal the fact that a certain transaction has been subject to very extensive cross-checking. This is where the need arises for supercomputers, which can perform the large number of necessary checks in a very short time.
In addition, modern methods of identifying cyber crime increasingly involve techniques featuring cross-analysis of data from several different sources, and these techniques further increase the computing power required.
From the start, Aurora's architecture was designed to be used efficiently not only in scientific research, but also in industry and services, and this cyber security application validates the initial vision.

Agreement signed with DRS Defense Solutions for ultra-low-power embedded computing platform
The Catalyst TC module is chosen as the processing platform for communication devices used in security applications. "We selected Eurotech for this programme for various reasons, including their ability to deliver products based on the latest technology in time to meet our development commitments. In addition, we have consistently found Eurotech to offer the most efficient products when it comes to power management and low heat dissipation," said Aaron Jenkins, Vice President, Tactical Terminals for DRS ICAS, a DRS Defense Solutions business units.

OCTOBER
Connected World Magazine names Eurotech to CW 100 for leadership in M2M technology and connected devices
The CW 100 represents the top companies that are demonstrating significant market traction and pursuing game-changing technologies in connectivity. The list represents a guide of the companies making a difference in connected devices and M2M, as chosen by the editors of *Connected World* magazine.
"Eurotech helps companies reduce the complexity of connecting purpose-built devices to the cloud with offerings such as their Everyware Device Cloud," said Peggy Smedley, Editorial Director of *Connected World*. "The CW 100 shows which M2M companies are pushing the envelope in this market, and Eurotech fits the bill. Customers want useful data from the field, and Eurotech is making it simpler and more cost-effective to capture, access and use that vital information to run their businesses."

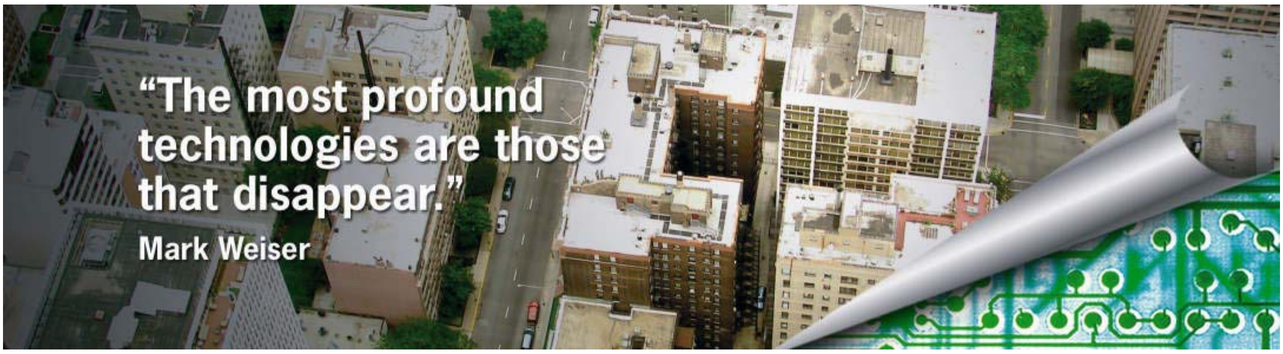
NOVEMBER
Eurotech and IBM contribute software to connect next generation of wireless and mobile devices
The contribution, which will be made to the Eclipse Foundation open source community, aims to create a new standard for the connectivity of the Internet of Things. Originally developed by IBM and Eurotech, the Message Queuing Telemetry Transport (MQTT) protocol is in use today for a range of mobile, industrial and consumer applications, providing reliable device connectivity in industries including transport, energy, defence, finance, social media and medical.
Uses of MQTT range across projects as diverse as real-time monitoring of a ConocoPhillips pipeline and a new lightweight mobile messaging application for Facebook. Billions of embedded devices – from RFID tag readers, smartphones and cardiac monitors to GPS-aware systems and smart appliances – can be interconnected. Fuelled by rapid growth in mobile broadband, this number is growing rapidly. There are 9 billion interconnected devices in the world today and, according to a recent study conducted by Ericsson AB, this number is expected to reach 50 billion by 2020. Many of these devices are industry-focused and tied to proprietary technologies and platforms, making true connectivity a complex task. By connecting all of these devices with an open-source, cross-industry messaging technology, there is potential to create new systems of systems that can operate with each other like never before.
The architecture that the MQTT technology enables can adapt easily to existing systems and provide a new level of connectivity across a wide range of systems, without requiring significant programming or reconfiguration of legacy monitoring systems. Just as HyperText Transfer Protocol (HTTP) enabled open communication over the internet, the creation of an open protocol for messaging can do the same for smarter systems. From this point of view, MQTT technology could provide the missing piece needed to usher in this new level of accessibility and connectivity between systems, and enable the creation of next-generation machine-to-machine (M2M) solutions.
To further accelerate the development of these next-generation products, Eurotech and IBM also announce that they will join, as founding members with Sierra Wireless, the new Machine-to-Machine Industry Working Group at the Eclipse Foundation. The group aims to create an open development environment that will make it easier to integrate and connect systems of systems.

European Technology Platform for HPC is launched
Major European suppliers of HPC technologies Allinea, ARM, Bull, Caps Entreprise, Eurotech, ParTec, ST Microelectronics and Xyratex, together with HPC research centres BSC, CEA, Cineca, Fraunhofer, Forschungszentrum Juelich and LRZ, join forces to create a European Technology Platform (ETP), building on previous work by PROSPECT and Teratec.

The objective of the ETP is to define Europe's research priorities to develop European technology on all the segments of the HPC supply chain. It will strengthen European competitiveness in HPC, a key capability for future research and innovation in fields including modelling natural phenomena (weather, climate change or epidemics), optimisation of energy resources, new materials and highly complex engineering activities. The main aim of the ETP is to bring together all the HPC research forces in Europe, including the R&D activities of SMEs, European and international corporations and research centres, proposing an ambitious research plan to the European Commission.
This initiative is an important step to encourage and strengthen the position of the European industry in the HPC sector. The impressive expertise contributed by those taking part shows that Europe could be at the forefront of the HPC sector in years to come if a large-scale R&D programme is carried out. The ETP will provide the catalyst for this movement, creating a European HPC sector that can create added value and a stimulus for students and university researchers across Europe. Through this improved capability and capacity, users of HPC technology will achieve new results in science and technology and design ever-more innovative products and services.

Vision

Computers will be increasingly miniaturised and interconnected. They will merge with the surroundings of everyday life until they become indistinguishable from them, to improve our sensorial and perceptive capabilities.



If we look at the progress of computing technology, it is not difficult to see a clear meta-trend; a movement from a computer for many people (the mainframe computer) to a computer for just one person (the personal computer) and, lastly, to many interconnected computers for everyone (e.g. smartphones, e-books, tablets, satellite navigators, multi-media kiosks, digital cameras, Wi-Fi routers, smart tags, ATMs etc). The computers of yesterday filled entire rooms due to their size; the computers of tomorrow will 'fill' entire rooms 'invisibly' due to their number.

We will no longer use computers as distinct devices: they will be sophisticated elements that give us the means to augment external reality and our comprehensive presence on the network and through the Cloud. Progress will be such that we will no longer see computers as computers, but as an integral part of our world, as an extension of ourselves. This is what we mean when we talk about the disappearance or invisibility of computers: they will become a part of our surroundings and will escape our attention.

All of us can see that there are computers in telephones, household appliances, machinery, cars and in a host of devices and equipment used daily. This ubiquitous presence is not, however, enough. We must not simply make our devices more intelligent or more powerful from the point of view of computation – we have to give them the ability to 'perceive' the world. The pervasive computing grid that we now call the Cloud must be fuelled by data from the real world, and the network of wireless sensors is the missing link. When this gap has been bridged, we will finally have an extension of our five senses. We will be able to virtually extend ourselves, going from a human body with good computing power but weak sensors to a 'hyperbody' with a wealth of sensors and outstanding computing power.

"This will be a time when all human beings on our planet will be able to converse meaningfully with ubiquitous and intelligent technological systems, and use them daily to solve a vast range of very real human problems." (John Smart, founder and president of the Acceleration Studies Foundation)

"We'll have augmented real reality. The computers will be watching what you watch, listening to what you're saying, and they'll be helping. So if you look at someone, little pop-ups will appear in your field of view, reminding you of who that is, giving you information about them, reminding you that it's their birthday next Tuesday." (Ray Kurzweil, US inventor and futurist)

Mission

Integrate the state of the art of computing and communication technologies to develop innovative applications, able provide a competitive advantage to our customers.
Improve everyday life, making it simpler, safer and more pleasant through the ubiquitous and pervasive use of technology.

"The purpose of a computer is to help you do something else". This memorable quote from Mark Weiser sums up the essence of the usefulness for human beings of the spread of miniaturised and interconnected computers throughout our surroundings.
We see this as a means of relieving man from risky, tiring, distasteful or simply boring activities. We like to give our work an aim that preserves and encapsulates a natural attention to the human and social dimension.

"Ubiquitous computing just might help to free our minds from unnecessary work, and connect us to the fundamental challenge that humans have always had: to understand the patterns in the universe and our place within them."
(Mark Weiser, former Chief Researcher at Xerox PARC)

"It is not about computers any more. It is about living."
(Nicholas Negroponte, co-founder of the MediaLab at MIT and of WIRED magazine)

The pervasiveness and ubiquity of miniaturised and interconnected computers means that it is no longer a matter of computers – in terms or objects or tools – but is increasingly a matter relating to everyday life.
The opportunity that computers provide to amplify our senses and reality lets us look at the world from a new angle.
Currently existing technologies can really change the man/computer relationship, making their co-existence increasingly symbiotic. Thanks to digital technologies, humans will be able to increase their potential without sacrificing their security and quality of life. The more integrated digital technologies are in everyday life, the more effective digital technologies will be.

Values

"On a group of theories you can found a school - but on a group of values you can found a culture, a civilisation, a new way for men to live together."
(Ignazio Silone, Italian writer and politician)

Social responsibility is essential for the entire Eurotech Group.
Our objective has always been to combine competitiveness and honesty. In pursuing growth, innovation and business results, we also dedicate the utmost attention to promoting quality of life, employment standards and human rights. We are also very attentive to the environment in which we operate and we work on the basis of objectives indicated by international conventions on sustainable development. For this reason we have joined the United Nations Global Compact, the world's largest sustainability and corporate citizenship initiative.

Besides aiming for ongoing reinforcement of structural capital, we work very hard on developing human, relational and social capital. We do so because we consider it an investment fundamental for assuring competitiveness, stability and longevity for the entire Group.

This commitment is reflected in the policies and attitudes of our management, which encourages creativity and innovation and adopts operating approaches based on the ethics of relations.
We place great importance on the quality of our management team, with the aim of aiding communication, the exchange of ideas and creation of a strong group identity.

We invest in people, in enhancement of their 'key' skills, and in their continuous training and development. We cultivate and champion creation of a work environment based on reciprocal respect and trust and on the safeguarding of health and safety in the workplace.

We believe our tasks include that of assuring all workers the same job and professional opportunities, and equitable treatment based on merit.
In Eurotech, we also want to give the right space to all those people who have ideas, passion, and determination.
We recognise and encourage development of each employee's ability together with teamwork, so that the energy and creativity of individuals is fully expressed in achievement of shared, group-wide successes.

"A man without ideals is like a ship without a rudder"
(Mahatma Gandhi)

Business model

The four key elements of the Eurotech model

Even before creating Eurotech, its founders had it clear in their minds that – to compete successfully in such an effervescent market as that of embedded computers in the 1990s – it was vitally important to manage to emerge. To be able to embark on a growth course, Eurotech had to get out of the scrum very fast indeed. And it had to do so without needing huge initial capital. This was why, right from the start, focusing on excellence seemed to be the key to standing out from the crowd, disposing of great intellectual capital but of little economic capital.

For Eurotech this term – excellence – meant a combination of innovation and quality. But that combination as such was not enough. What was needed was an even more distinctive connotation of excellence, one that, above all, worked as well as possible for achievement of sound growth. Because of this, it was immediately clear to everyone that excellence had to be sought remaining within sector standards.

Given this, instead of investing in proprietary or totally customised solutions, Eurotech immediately believed in the standards' strength as a launch pad to project the entire company into the future. The founders had understood from the very outset that it was not enough to give customers high-performance products. Those products also had to be open to the future evolution of technology – which looks set to be overwhelming – whilst also saving on investments in software, which are the largest part of any implementation. Standards could therefore permit innovation based on continuity, endowing products with the prospect of relative compatibility with future discoveries without having to rewrite the software application from scratch. Although retaining the ability and skills to develop customised solutions for special uses or customers, Eurotech chose right from the start to seek excellence with solutions representing the state of the art of the most universally recognised standards.

Today, Eurotech, partly due to its policy of acquiring complementary companies, not only covers all the main electrical and mechanical standards of reference for the embedded market (PC/104, PC/104plus, cPCI, cPCI Express, VME, VPX, EPIC, EBX, COM Express and PMC), but also has a multi-platform offering, as it is able to supply modules and processor boards with x86, PowerPC and ARM architecture.

The second important choice immediately made – and one which has turned out be a winner – was to be an 'ideas factory' without a 'machinery factory'. This is an approach called 'fabless'. This means that Eurotech has no mass production plants or facilities. Within the value chain, the Eurotech Group carries out research, development, engineering and prototyping, quality control and logistics. In NanoPCs, therefore, the production divisions produce only prototypes, small series and takes care of some product testing when volumes mean that outsourcing is not financially expedient. For HPCs, production of boards anf mechanical partsis carried out externally, while final assembly, testing and burn-in are carried out in-house.

After the acquisition of Advanet, the Group also has a small amount of production capacity, which, however, does not exceed 20% of total capacity and is focused on high-end products. The Group thus continues to keep limited in-house production capacity for low-volume production, prototypes and any strategic works. Mass production is nearly all outsourced to outside producers, who then send the products to Group's various companies for final functional testing and quality control.

The third key element of Eurotech's model is constant monitoring of systems integration and the dynamics of the value chain.

In the 1980s, the value chain for products based on digital technologies was very long: creating a complete system required numerous and individually specialised parts, and every section of the value chain required specific, specialist players. In practice, those who worked on boards were very far removed from the final customer. But there was already a clear trend towards integration of the various components (as described by Moore's Law concerning the exponential increase in the number of transistors that it is possible to place in an integrated circuit) and a consequent reduction in the number of players in the value chain. Consequently, the distance from the end-user was also decreasing and this meant that the business approach had to adapt accordingly.

Boards changed from being finished products to become increasingly often system components. Given the increase in system complexity and the increasing standardisation of functions, hardware and operating system have increasingly become an inseparable combination. Today, from mere hardware we have progressed to application-ready platforms (ARPs), consisting of enclosures that encapsulate hardware, the operating system and middleware, an essential element today for those who want to transfer XML, SOAP, web service, and SOA applications to platforms with different architectures. In future, with the increase in function standardisation, the move will increasingly be towards addition to such platforms of even more software and of possible accessories, to create ready-to-use (R2U) devices.

A further effect of the progressive integration of systems is the changing prospects for man/machine interaction: while in the beginning, the low degree of integration put the focus on machines, it has now shifted to human needs and necessities. Thanks to advances in miniaturisation, the computer is becoming increasingly integrated with man and the real world: from the desk-bound PC we have moved to increasingly portable computers, including wearable computers and networks of miniaturised sensors able to make our surroundings 'intelligent'. There is now therefore a need to create systems and interfaces enabling man not to notice interaction with machines (seamless interface): the computer thus becomes invisible, in the sense that man does not perceive its presence. Eurotech's idea for the future is therefore increasingly to create R2U products that fully integrate with the user's surroundings and personal space, but which, at the same time, do not monopolise his attention and do not force him to interrupt what he is doing. The use of new products and processes based on this concept of invisibility is still in the very early stages in many sectors, and there is scope for providing incentives to create major growth opportunities.

Another trend shaping the way in which computers interact with each other and with people relates to the success of digital information and communication technologies, which are leading an irreversible revolution that will lead to profound changes both in society and in individuals. In the coming years we will see a change in the paradigm: everything around us will have to become more 'intelligent' and 'interconnected' so that it can be better managed and better used, increasing efficiency and reducing waste.

With some seven billion people on the planet we will have to do a lot more with a lot less. This shift will rely increasingly on technology and on ever-smaller, interconnected, high-performance computers. Eurotech already has the solutions and skills to gather data from the real world and put it on the world wide web: from onboard parameters of vehicles on the move to the operating data of equipment; and from the environmental conditions of specific monitored areas to information on individuals' physiological parameters. We can build technology platforms that enable a full range of value-added services and functions in the transport, logistics, security, industrial and medical sectors.

Increasingly powerful, small and closely-interconnected computers will generate a 'computer exoskeleton', where computers, hidden from view, will acquire the ability to be anywhere there is a wireless connection. These ubiquitous and interconnected computers will increase the world's visibility, making it more pleasant and sustainable as a result.

The fourth key pillar of Eurotech's business approach springs from an awareness that technologies and products are like human beings: they struggle to grow at first, then grow very rapidly, then adjust and settle down before finally declining. For this reason both products and the technologies on which they are based have to be periodically refreshed, and this is the purpose of constant innovation.

There is, however, intrinsic difficulty in understanding which will be the next driving technology or the next winning product. To do so it is necessary to try, test, and explore. It also has to be said that this exploration of virgin paths may not even produce any type of result at all. Some paths may in fact turn out not to be feasible or, more simply, not economically viable. If the life cycle tells us that sooner or later our products will decline, then the question is: of the many alternative technologies, not all of which are successful, which is the right one? Some technologies are doomed to die before they even get to market; others instead will enter the market and will determine its development. In order to maintain our technological leadership, we have to explore as many evolutionary scenarios as possible. In order to do this effectively and cost efficiently, we use external partnerships with universities and research institutes, on the basis of two fundamental assumptions: sharing the development model and sharing the evolutionary scenarios. This is a win/win relationship: the university researches topics that will not be consigned to the drawer because they are already 'sponsored' by a company, and the company can draw upon a network of researchers capable of parallel exploration of different scenarios that it would otherwise be impossible to create.

Strategic approach to innovation

Generally speaking, innovation means two approaches: technology-push and market-pull. The first approach starts from what technology is able to give, and the second from what the market demands or is able to absorb. They are two opposing approaches – but they can be effectively combined. And that is what we have chosen to do in Eurotech.

For a company like ours, which very much bases its success on technological innovation and on anticipating demand, it is essential that research be driven by a technology-push approach. Only with this approach is it possible to maintain technological leadership and continue developing state-of-the-art solutions. To make the technology-push approach more efficient and effective, the complex of external relations with the 'network of knowledge' is vitally important. This is how we can explore several alternative routes simultaneously and cost-effectively. The centre of gravity of technology-push research is therefore very much skewed towards the outside world, with a target outside/inside ratio of 80-20. Given this, in order to maintain an effective hold over research, it is important that control be centralised at corporate level.

The development part is a different matter. To bring the results of research efficiently to market, it is important to focus on an approach that starts with what the market itself wants or might appreciate: in other words, the right approach for development is market-pull. Moreover, whilst research benefits from the simultaneous existence of several open fronts, development has to converge towards a product or product family, and it is therefore advisable to limit dispersion of energy and outside interference. Another particular feature of development is that it implies specificity in sectors and geographical regions, and centralised control would not allow for all these specificities to be gathered together: development is therefore decentralised and distributed between the Group's various companies. This means that each company can conjugate a given product idea in the best way, understand/exploit local specific needs, and turn research results into commercial success.

Strategic approach to growth

At Eurotech we quickly initiated an external growth strategy, with the aim of achieving critical mass (the so-called “tipping point”) on a fast-track basis. To grow rapidly, we had to enter markets that were new to us – such as the US and Japan – equally rapidly. Starting from zero in these markets, with no customer base and no brand reputation, meant increased risk and longer timescales. This is why we used the leverage of acquisitions: we wanted to grow at a rate of 50% year on year, and to maintain that pace we needed acceleration factors that could only be found beyond the original company’s boundaries.

In the period from 2002 to 2007 we made significant acquisitions and achieved a CAGR of 55.9%.

Today we can rely on our size, which positions us as one of the top 10 embedded computer companies. Scaling up has meant, among other things, that we can look at growth from a new and stronger perspective.

Today our approach is based on three strategic guidelines.

The first of these is combined growth:

- First of all organic, leveraging Group synergies and looking at new types of customers, new sectors and new regions. On the internal front, we have accumulated, by virtue of the acquisitions completed, organic growth potential that has only partly been expressed, and which must now be expressed in full.
- In a tactical way for external lines, still giving space for acquisitions, which are seen as catalysts for organic growth. There are still many acquisition opportunities, and it is therefore important to continue to monitor them so that we can be ready to take advantage of them.

The second guideline is constant enhancement of the Eurotech brand’s reputation. To do this we are working on three fronts:

1. consolidation of corporate identity and promotion of the Eurotech brand
2. corporate visibility due to innovative products
3. partnerships with major industrial and commercial partners.

The third guideline is to maintain technological leadership, which is essential to keep to our aim of creating innovative solutions combining state-of-the-art computing and communication technologies. The levers we use are: investments in R&D, co-operation with research centres and universities, and acquisition of minority interests in start-ups active in technologies and sectors with high potential.

Strategic approach to the market

The Eurotech Group’s sales model has historically featured clear predominance of the direct channel. This choice was justified, on the one hand, by the desire to maintain a direct relationship with the market and, on the other, by the need to build a strong brand before approaching the market via indirect channels.

Today the growth of our brand recognition is spurring increased use of indirect channels to approach the market. This combination of the direct and indirect sales models goes well with the evolution of our product offering. A kind of virtuous circle is being created: the superior strength of the Eurotech brand attracts resellers and intermediaries that find in our offering increasing availability of ready-to-use products: i.e., devices that benefit from the particular features of the indirect channel more than boards or systems and that pave the way to commercial partnerships in which Eurotech provides computing and communication platforms that can enable and support the applications or services of the partner.

Our strategic approach to the market therefore includes strengthening indirect sales alongside direct sales.

Products

The essence of Eurotech products

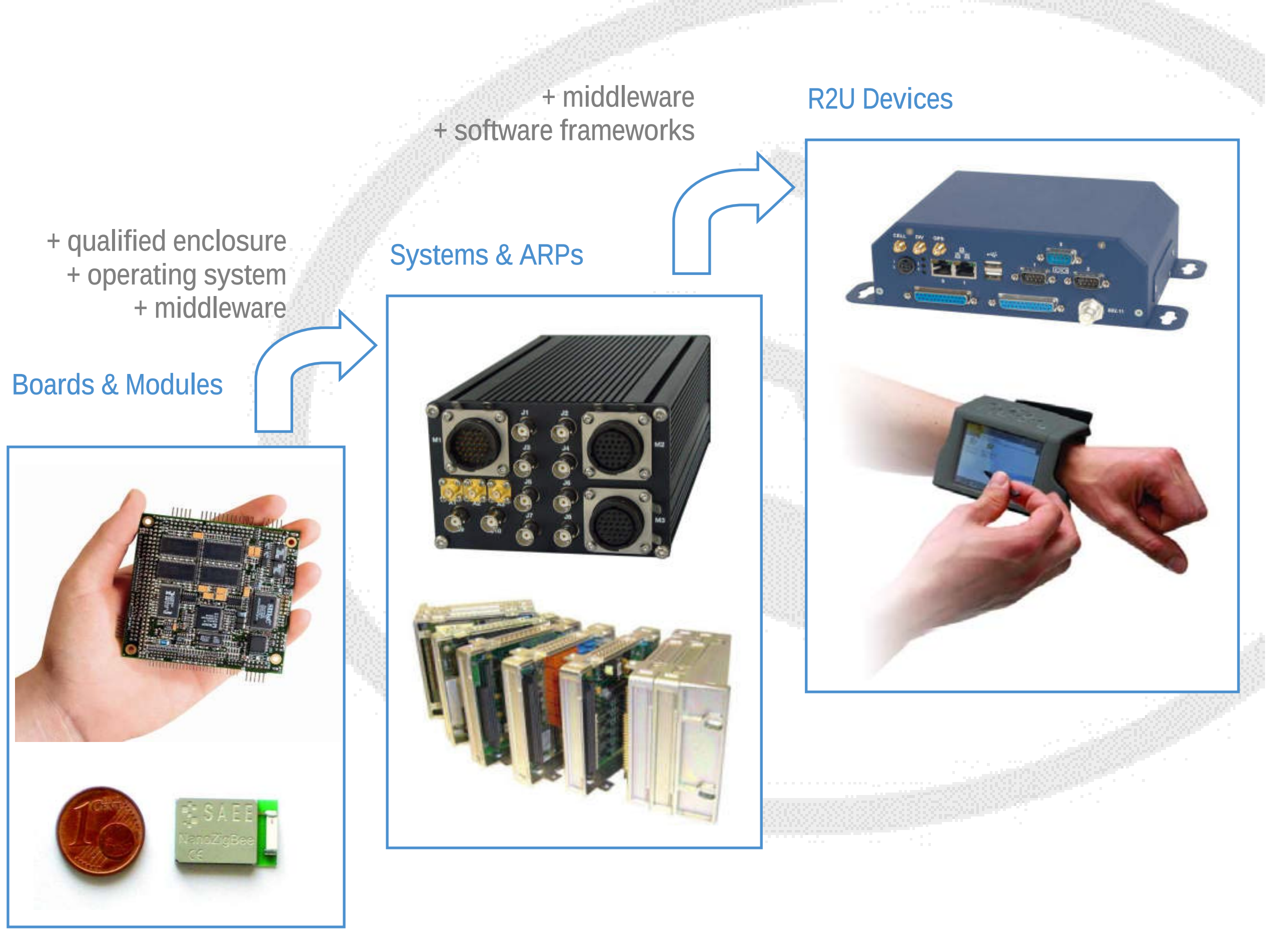
Embedded technology is the basic technology of Eurotech products. It is an enabling technology, in that it permits miniaturisation. It is the technology on which Eurotech based its foundation and that continues to be in the Group's DNA.

Over the years, there have been two key changes in the embedded computer scenario. First, software has increasingly been added to hardware, becoming incorporated with it and creating a symbiosis that is now indissoluble. Secondly, the dimension of communication has been added to that of computing.

In each phase of our history we have constantly explored new ways of using computers. In more recent years it is their growing pervasiveness that has stimulated our creativity. Computers interconnected on a large and small scale enable us to amplify reality, not only to visualise or virtualise it. Today the possibility offered by computers to generate enhanced-reality situations enables us to look at the world from a different angle.

Today the technological paradigm followed by Eurotech is "Pervasive Computing". Compared to the concept of embedded, the concept of pervasive involves not only miniaturization, but also the spread in the environment of the devices and their ability to communicate, thus creating an infrastructure in which computers of various sizes (i.e.: laptop computers, wearable computers and sensors incorporated into everyday objects and the environment) and high performance computers (HPCs) are interconnected by a modular and easily expandable communication infrastructure (BAN, PAN, LAN, WAN).

In this perspective, the Eurotech Group develops and markets Pervasive Computing Devices. These are devices whose key components include the embedded boards on which Eurotech was founded, even though they are more and more often concealed inside application-ready platforms (ARPs) or ready-to-use (R2U) systems.



Eurotech products have always stood out because they are specifically capable of operating in particularly demanding environments: extreme temperatures, humidity, vibrations and shocks are all normal working conditions for our solutions. This is why we have a long tradition of application in harsh environments such as the military, aerospace, and transport sectors.

The durability and reliability of Eurotech products makes them suitable for all uses where malfunctioning is not an option and must not happen, that is to say where anomalous operation or breakdowns may cause major economic damage. This is why our customers include companies that make extremely high-precision industrial machinery or plants required to ensure extremely high levels of productivity without sacrificing product quality and without machine outages.

All Eurotech products draw on our continuous research and on the experience that we have built up over the years in the technological fundamentals of miniaturisation, low consumption and durability. They all meet the strictest standards of reference.

Markets

Our typical customer

The Eurotech Group distributes and markets its solutions globally, both directly and via qualified partners. The Group's customers operate in a variety of sectors, both conventional and emerging, and therefore have different needs. The majority of our customers nevertheless choose us because they see in our Group the ideal supplier or partner to meet some recurrent specific needs.

More specifically, our customers feature increasingly demanding requirements in terms of:

- Low consumption, for devices able to operate for long periods powered by a battery
- Minimum heat generation
- Compact formats and sizes
- Wireless connections (e.g. Wi-Fi, GPS, 3G, Bluetooth and ZigBee)
- Ease of integration within distributed ICT infrastructures
- Durability, for solutions able to withstand harsh environments from all points of view: temperature, humidity, vibrations, shocks etc.
- Superior reliability
- Compliance with specific certification standards, e.g.: MIL, EN, DIN, IPxx, NEMAxx.

Besides these functional requirements, our customers also seek in Eurotech a centre of technological competence. They want to reduce their time-to-market and focus on their core businesses. They often need solutions for mission-critical applications, supply of which must be assured for long periods. Because of this, they appreciate our long life cycle, which we achieve also via a Form-Fit-Function approach.

Applications

The Eurotech Group's NanoPC offering is structured in lines of products and solutions dedicated to specific market segments:

- Transport
- Logistics
- Industrial
- Medical
- Health
- First response
- Security
- Surveillance
- Defence
- Aerospace

Although they all employ the same basic technologies, Eurotech products and solutions are used in many specific application environments, both conventional and emerging. Here are some examples:

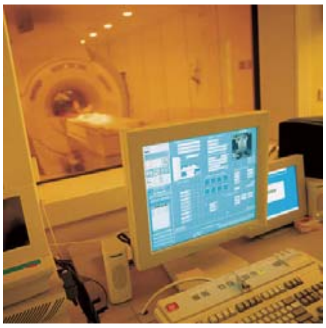
PUBLIC
TRANSPORT

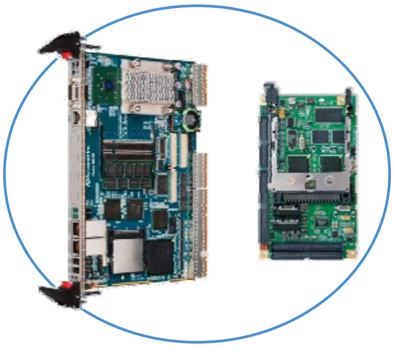
LOGISTICS

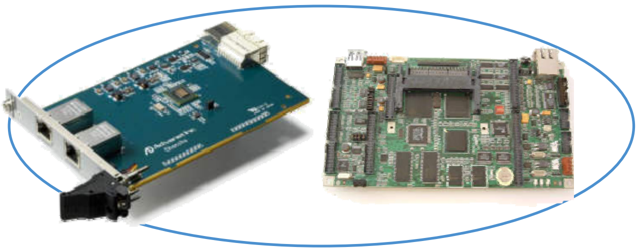
MACHINE
AUTOMATION

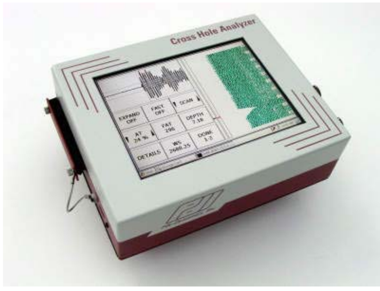
PROCESS
CONTROL

MEDICAL AND HEALTHCARE









MEASURING AND TESTING INSTRUMENTS

DEFENCE AND AEROSPACE

Our HPC offering targets research centres, computing centres, and universities requiring extremely high processing capacity, occupying limited space and with minimum power consumption. Our compact, low-power HPCs are proving useful also in advanced industrial and services sectors, such as nanotechnology, biotechnology and cyber security.

COMPUTING CENTRES

(pictures of Eurotech HPCs)

Corporate information

Board of Directors	
Chairman	Roberto Siagri
Vice Chairman	Giampietro Tecchiolli
Director	Sandro Barazza [1] [2]
Director	Giovanni Bertolone [2]
Director	Giancarlo Grasso [2]
Director	Chiara Mio [2] [3] [4]
Director	Maria Cristin Pedicchio [2] [3] [4]
Director	Cesare Pizzul [2] [3] [4] [5]
Director	Giovanni Soccodato [2]

The Board of Directors currently in office was appointed by the Ordinary Shareholders' Meeting of 28 April 2011, and will remain in office until approval of the financial statements for the year ending 31 December 2013.

Board of Statutory Auditors	
Chairman	Claudio Siciliotti
Statutory Auditor	Michela Cignolini
Statutory Auditor	Giuseppe Pingaro
Substitute Auditor	Lorenzo Ginisio
Substitute Auditor	Michele Testa

The Board of Statutory Auditors currently in office was appointed by the Ordinary Shareholders' Meeting of 28 April 2011, and will remain in office until the approval of the financial statements for the year ending 31 December 2013.

Independent Auditor	
	Reconta Ernst & Young SpA

The Independent Auditor was appointed for the three-year period 2005-2007 by the Ordinary Shareholders' Meeting of 21 July 2005. This term was extended for the period 2008-2013 at the Ordinary Shareholders' Meeting of 7 May 2007.

Corporate name and registered offices of the Parent Company	
	Eurotech SpA Via Fratelli Solari 3/A 33020 Amaro (UD), Italy Udine Companies Register number 01791330309

[1] Corporate Financial Reporting Manager as from 29 May 2008.
[2] Non-executive directors.
[3] Member of the Remuneration Committee, the Internal Control Committee and the Committee for Related Party Transactions.
[4] Independent Directors pursuant to the Corporate Governance Code issued by the Italian Corporate Governance Committee for Listed Companies.

Information for shareholders

The ordinary shares of Eurotech SpA, the Parent Company of the Eurotech Group, have been listed in the STAR segment of the Milan stock market since 30 November 2005.

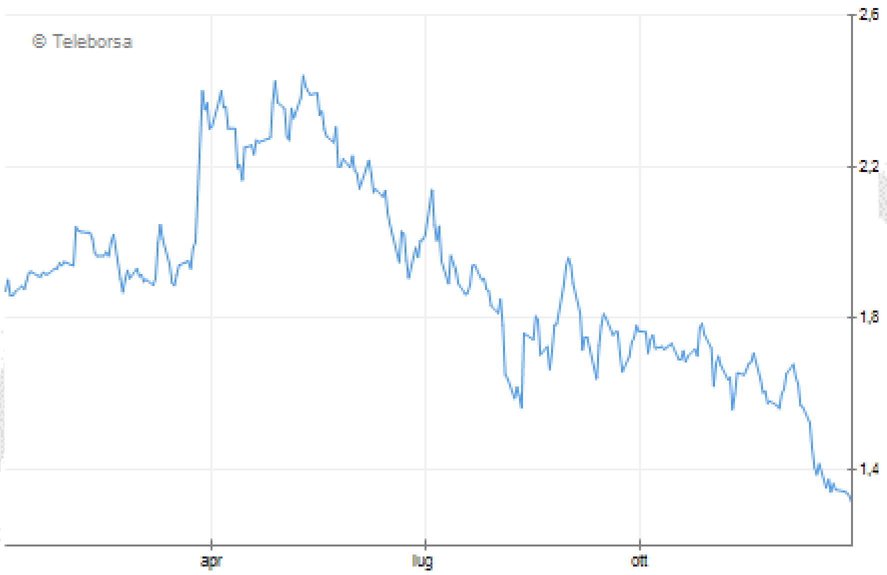
Share capital of Eurotech SpA at 31.12.11

Share capital	€8,878,946.00
Number of ordinary shares (without nominal unit value)	35,515,784
Number of savings shares	-
Number of Eurotech SpA treasury shares	420,140
Stock market capitalisation (based on average share price in December 2011)	€46 million
Stock market capitalisation (based on reference share price at 31.12.11)	€47 million

Performance of Eurotech SpA shares

Absolute performance of EUROTECH SpA shares
01.01.2011 – 31.12.2011

The line graph shows the share's performance based on daily reference prices



The candle chart shows the share's daily maximum and minimum prices

Management report

Introduction

The Eurotech Group's results in the 2011 financial year and the comparative period were drawn up according to the IASs/IFRSs issued by the International Accounting Standards Board and endorsed by the European Union. Unless otherwise stated, data are expressed in thousands of euro (€ '000).

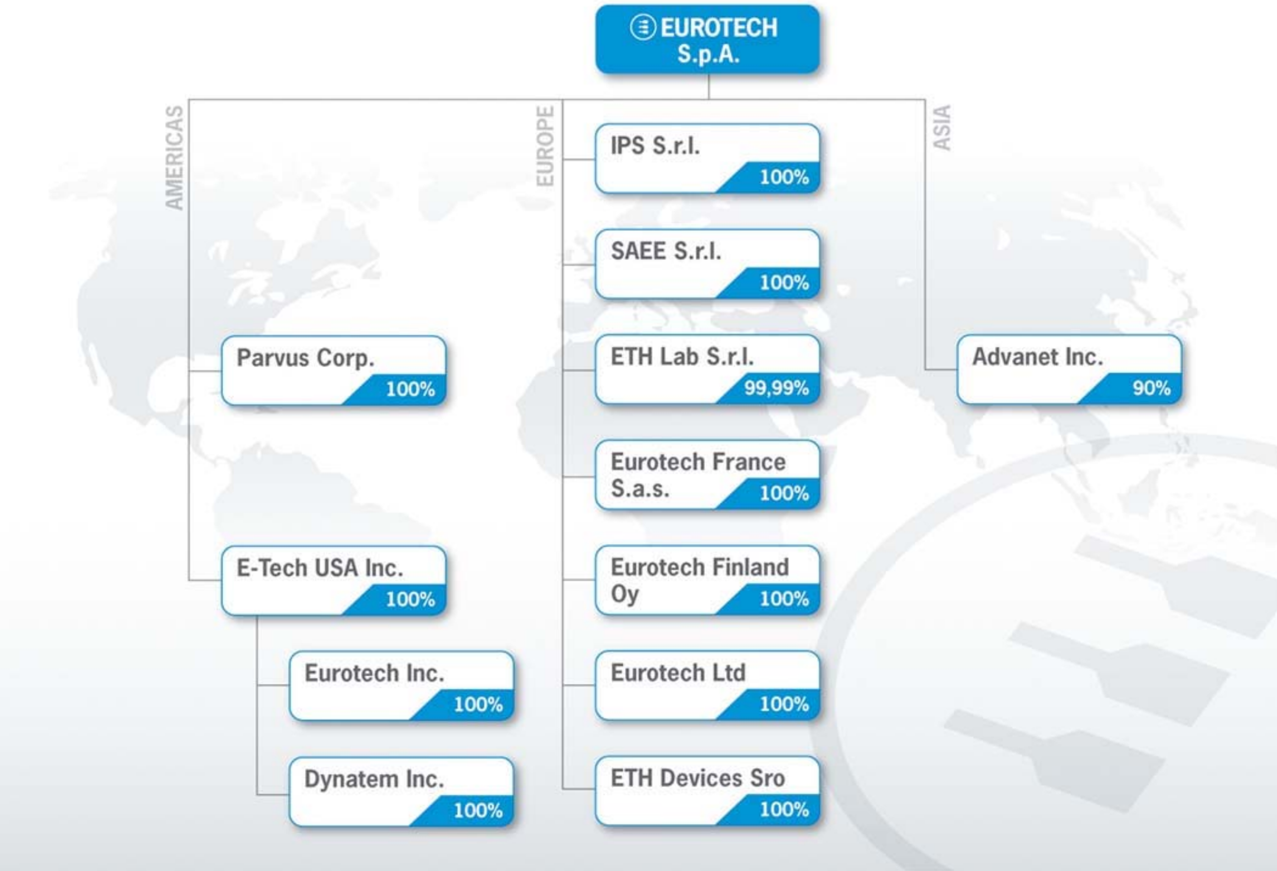
The Eurotech Group

The Eurotech Group operates in the sector of research, development, production and marketing of miniaturised computers for special uses (NanoPCs) and high-performance computers (HPC).
'NanoPCs' and 'HPCs' are therefore the business segments identified. In the NanoPC segment, the Group's product offering consists of miniaturised electronic modules and systems currently targeting the transport, logistics, defence, security, medical and industrial sectors.
In the HPC segment, the Group's product offering consists of highly energy-efficient supercomputers which currently target universities, research institutes and computing centres.

At 31 December 2011 the Eurotech Group consisted of the following companies:

Company name	Business	Share capital	Group % ownership
Parent Company			
Eurotech SpA	Operates in the NanoPC segment with its main focus on the Italian market and in the HPC market at global level. In terms of organisation, it performs the role of coordinating holding company at corporate level	EUR 8,878,946	
Subsidiaries and companies consolidated on a line-by-line basis			
Eurotech Inc.	Operates in the US market in the NanoPC segment with a focus on the industrial, medical and transport sectors	USD 26,500,000	100.00%
Eurotech Ltd.	Operates in the NanoPC segment and is active primarily in the UK	GBP 33,333	100.00%
E-Tech USA Inc.	Holding company that controls 100% of Eurotech Inc. and Dynatem Inc.	USD 8,000,000	100.00%
Eurotech Finland Oy in liquidation	Marketed Group products in the Scandinavian countries	EUR 508,431	100.00%
Eurotech France S.A.S.	Operates in the French NanoPC market	EUR 795,522	100.00%
Saee S.r.l.	Active in technological solutions in the field of sensor networks and wireless applications	EUR 15,500	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Operates in the NanoPC sector with the IPS brand and in the high-tech security sector with the ETH Security brand	EUR 51,480	100.00%
Parvus Corp.	Operates in the US NanoPC market, mainly in the defence sector	USD 119,243	100.00%
ETH Devices S.r.o.	Operates in the Eastern European NanoPC sector, mainly in the handheld devices segment	EUR 10,000	100.00%
Dynatem Inc.	Operates in the US NanoPC market	USD 1,000	100.00%
EthLab S.r.l.	Handles research on the Group's behalf (since 2005)	EUR 115,000	99.99%
Advanet Inc.	Operates in the Japanese NanoPC market	JPY 72,440,000	90.00% (1)

(1) For the purposes of consolidation 100% is taken into account, since the company holds the remaining 10% in the form of treasury shares.


EUROTECH
S.p.A.
AMERICAS
EUROPE
ASIA
IPS S.r.l.
100%
SAEE S.r.l.
100%
Parvus Corp.
100%
ETH Lab S.r.l.
99,99%
Advanet Inc.
90%
Eurotech France S.a.s.
100%
E-Tech USA Inc.
100%
Eurotech Finland Oy
100%
Eurotech Inc.
100%
Eurotech Ltd
100%
Dynatem Inc.
100%
ETH Devices Sro
100%

Operating performance

(€'000)		FY 2011	%	FY 2010	%
OPERATING RESULTS					
SALES REVENUES		93,806	100.0%	99,269	100.0%
GROSS PROFIT MARGIN	(*)	46,540	49.6%	50,406	50.8%
EBITDA ADJ	(**)	4,000	4.3%	6,809	6.9%
Non recurring costs		(910)	-1.0%	585	0.6%
EBITDA	(***)	3,090	3.3%	7,394	7.4%
EBIT	(****)	(4,875)	-5.2%	(741)	-0.7%
PROFIT (LOSS) BEFORE TAXES		(6,613)	-7.0%	(3,813)	-3.8%
GROUP NET PROFIT (LOSS) FOR THE PERIOD		(7,246)	-7.7%	(6,079)	-6.1%

(*) Gross profit is the difference between revenues from sales of goods and services and use of raw materials.
(**) Result before depreciation, amortisation and impairment of assets, valuation of equity interests in associates using the equity method, financial income, one-off costs and charges and income tax for the year (EBITDA ADJ).
(***) Result before depreciation, amortisation and impairment of assets, valuation of equity interests in associates using the equity method, financial income and charges and income tax for the year (EBITDA).
(****) Operating result (EBIT) before valuation of equity interests in associates using the equity method, financial income and charges and income tax for the year.

Group revenues decreased by 5.5% (€5.46 million), from €99.27 million in 2010 to €93.81 million in 2011.
The decrease reflected a combination of factors and events attributable to the unfavourable economic climate. These are briefly described below.

Geographical coverage of three continents continues to be an advantage for Eurotech in both absolute terms and for the Group's outlook, maximising its ability to seize business opportunities wherever these occur and mitigating the effects of any stagnation in a specific region. In 2011, however, all the regions in which we have a substantial presence, without exception, were affected by adverse events: the near-default in the US, the sovereign debt and euro crises in Europe and the earthquake and subsequent devastating tsunami in Japan. Our forecasts did not include such a combination of negative circumstances, and from March onwards Eurotech's management therefore faced an increasingly global adverse situation, different from the scenario that had been initially anticipated and then confirmed by the strong order intake seen in the first two months of the year.
We were nevertheless prepared to cut costs to lower our break-even point where this was effective, and as the quarters went on we implemented all the defensive measures we had planned. We also considered additional measures, some of which have already been activated and which will continue to provide benefits during 2012.
Meanwhile, however, the overall negative situation in the global economy substantially restricted our ability to generate sales and this inevitably led to a contraction, albeit limited to 5.5%, in our sales revenues.
In particular, the fourth quarter was not as strong as it had been in the previous year. The final quarter has traditionally been one of robust sales revenues, especially in December. In 2011, turnover was strongest in the last quarter as usual, but not to the extent seen in 2010. The recovery in the global macroeconomic situation seen at the end of 2010 did not continue through 2011, and in fact came to a halt in the third and fourth quarter. This had the effect of eroding turnover in the final quarter due to the Group's business performance.

With respect to the relative weightings of the half-years within the financial year, the second six months of 2011 represented about 56% of full-year turnover, compared with 58% in 2010.

The North American region registered a decline in both turnover and orders; this was particularly marked from July onwards as tensions peaked over a possible default by the US. The lengthy political debate and the last-minute application of the necessary corrective measures placed a deadlock on both public and private investment that lasted until late autumn, and this negatively affected our ability to increase turnover to the levels expected for the second half of the year. The situation now appears to have returned to normal, and we expect to confirm this after observing the trend over the next few months. The defence sector was the most affected by default risk. In our business we were more seriously affected by movements of budgets between programmes than overall spending cuts, which mainly impacted on-field operations and major new projects. Certain orders planned for the second half of the year were therefore disrupted, effectively requiring us to go back to pipeline construction, with further effects on Parvus's ability to generate the turnover initially forecast in the fourth quarter.

The European region continues to be negatively affected by the financial crisis and the pressures on the single currency, which have curbed the capacity and will of businesses and governments to invest in new development programmes. In principle, we believe that Europe is still a market with a good potential, although during this historic period this is difficult to see and there are inevitable effects on the overall turnover generated in this region.

The Japanese market suffered the effects of the Fukushima disaster on the country. The black-out on the Japanese economic system in the spring caused orders to be deferred, some to beyond 2011. This meant that the Japanese region did not make the contribution to total turnover that had been anticipated.

In July, the HPC business unit won a major order for our Aurora solution for cyber security applications. As well as its value (about €4 million, for delivery between 2011 and 2012), the order is significant because it demonstrates that the Aurora platform can also be used in industrial and services environments. The order also increased the HPC Strategic Business Unit's contribution to total turnover to €2.83 million in 2011, from €1.20 million in 2010.

To sum up, turnover performance in 2011 cannot be attributed to one single factor or event, but rather to multiple factors and events as part of a complex and unfavourable scenario throughout the year.

Before commenting in detail on income statement figures, we highlight that some figures are affected by purchase price allocation accounting[A] in relation to the business combinations of the Arcom Group, Applied Data Systems Inc., Dynatem Inc. and the Advanet Group, and by one-off costs arising mainly from the recall of a customised product.
Actual results with and without the effect of purchase price allocation and extraordinary one-off costs are summarised below:
- EBITDA would be €4.00 million rather than €3.09 million
- EBIT would be €-0.52 million rather than €-4.87 million
- the pre-tax result would be €2.26 million rather than €-6.61 million
- the net loss would be €5.50 million rather than €7.25 million.

One-off costs totalling €910 thousand mainly refer to material, transport and reworking costs for a customised product, recalled after delivery for modification. This was an absolute exception for the Group and completely unprecedented.

[A] Specifically, the effects of purchase price allocation accounting relating to the business combinations of the Arcom Group, Applied Data systems Inc. and the Advanet Group may be summarised as follows:

- Depreciation, amortisation and impairment: €3,445 thousand (€3,368 thousand in 2010), for increased amortisation of values assigned to intangible assets (particularly to customer relationships);
- Financial income and expenses: only in relation to 31.12.10, €80 thousand in financial income due to recalculation of the discounting of the option and €1,278 thousand in financial expenses arising from foreign exchange differences, mostly deriving from payment of the liability for the purchase of 25% of the shares of Advanet Inc. after exercise of the put option.
- Lower income taxes: €2,364 thousand (€1,387 thousand for 2010) resulting from the tax effect on adjustments made.
- Higher net profit attributable to minorities: only in relation to 31.12.10, €148 thousand deriving from the effect of PPA attributed to minorities.

The gross profit margin came in at 49.6% due to the mix of products sold in the final quarter, only a few fractions of a point under 50%, the benchmark set by management. The change by comparison with the previous year, when the margin came in at 50.8%, is due to the different mix of products sold, which have diverse margins according to their type, sectors of application and markets.
Given the current macroeconomic situation, the general stability of the margin on existing orders also confirms the value proposition of Eurotech's offering and validates the adequacy of the measures taken to contain materials costs.

In the reporting period, operating costs, gross of adjustments for capitalizations, decreased by €1.7 million, specifically from €47.25 million (47.6% of revenues) to €45.55 million (48.6% of revenues) excluding one-off costs and to €46.46 million including one-off costs. This performance had a positive effect on Group EBITDA.
Not all the effects of measures taken to rationalise operational structure in 2011 have yet been felt, and these measures will continue to provide benefits in 2012.
Meanwhile, investments have continued in activities expected to provide a return in the coming years. Although it has been reduced in recent years, the overall current structure can still sustain higher turnover than present levels.

EBITDA before one-off costs decreased from €6.81 million in 2010 to €4.00 million (before adjustments for extraordinary one-off costs). As a proportion of revenues, adjusted EBITDA came in at 4.3% in 2011, compared with a ratio of 6.9% for EBITDA in 2010. Non-adjusted EBITDA in 2011 represented 3.3% of revenues (2010: 7.4%).
The year-on-year difference mainly reflects lower turnover and a capital gain on equity investment disposal not recurrent of €0.6 million and grants totalling €0.2 million, which was only partly offset by reduced operating costs.

EBIT totalled €-4.87 million in 2011, compared with €-0.74 million in 2010. EBIT as a proportion of revenues was therefore -5.2% compared with -0.7% in 2010.

2011 EBIT was affected by both the EBITDA performance described above and from depreciation and amortisation in the 2011 income statement. The depreciation and amortisation derived from operating assets that became subject to amortization in 2011 and from the non-monetary effects of PPA relating to the acquisitions of Eurotech Inc. (formerly Applied Data Systems Inc. and Arcom Control Systems Inc.), Dynatem Inc. and the Advanet Group. The effect on EBIT of the higher values attributed as a result of PPA in 2011 was €3.45 million, compared with €3.37 million for 2010.

The financial result was affected by the trend in net financial position, as well as by foreign exchange differences caused by the trend in foreign currencies. The amount of significant foreign exchange losses and gains booked in the period was influenced by purchases and sales in US dollars by UK subsidiary Eurotech Ltd., which largely cancelled each other out. Overall, foreign exchange differences had an effect on costs of €0.64 million in the period, while the financial result related to interest had an effect of €0.96 million.

The pre-tax loss was €6.61 million in 2011 (compared with a loss of €3.81 million in 2010). This performance was influenced by the factors outlined above. The effects on the pre-tax loss due to PPA and valuation of the put option (only relative to 2010) totalled €3.45 million in 2011 and €4.57 million in 2010.

The group net loss came to €7.25 million in 2011, compared with a net loss of €6.08 million in 2010. This performance not only reflects the change in the pre-tax result, but is mainly due to a reduced tax burden on the Group's various units (see Note 33 for further details).
Due to the acquisition by Advanet at the start of the year of treasury shares amounting to 10% of its capital, the minority interest in the Japanese group is no longer represented.
PPA had a €1.08 million effect on the Group net result in 2011 (compared with €3.03 million in 2010).

As indicated in the explanatory notes to the consolidated financial statements (Note F), the Group discloses sector information based on the product sector in which it develops its business activities (NanoPCs and HPCs) and, exclusively for the NanoPCs, based on the regions in which the various Group companies operate and are currently monitored. These are defined by the location of goods and operations carried out by individual Group companies. The regions identified within the Group are: Europe, North America and Asia.

Changes in revenues and margins for individual business segments and the relative changes in the periods under review are set out below.

(€'000)	NanoPC			High Performance Computer			Total		
	FY 2011	FY 2010	% YoY Change	FY 2011	FY 2010	% YoY Change	FY 2011	FY 2010	% YoY Change
Sales revenues	90,971	98,073	-7.2%	2,835	1,196	137.0%	93,806	99,269	-5.5%
Gross profit	45,758	50,214	-8.9%	782	192	307.3%	46,540	50,406	-7.7%
EBITDA	3,279	7,786	-57.9%	(189)	(392)	-51.8%	3,090	7,394	-58.2%
EBITDA margin - %	3.6%	7.9%		-6.7%	-32.8%		3.3%	7.4%	
EBIT	(4,170)	38	n.s.	(705)	(779)	-9.5%	(4,875)	(741)	557.9%
EBIT margin - %	-4.6%	0.0%		-24.9%	-65.1%		-5.2%	-0.7%	

In the breakdown of revenues by key business line, revenues from the HPC line are not yet significant in the years under review, although they rose by comparison with the previous year. Business in this sector is still characterised by substantial orders and a limited number of customers, traditionally in the scientific and research arenas and now, following development of the Aurora line, also in industry and services.
NanoPC revenues were €90.97 million in 2011 compared with €98.07 million in 2010, decreasing by 7.2%. This decrease reflects the factors described above in the comments on overall turnover performance.

The NanoPC line breakdown by region is as follows:

(€' 000)	North America			Europe			Asia			Correction, reversal and elimination			Total		
	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change
Third party Sales	39,440	47,608		24,211	21,307		27,320	29,158		0	0		90,971	98,073	
Infra-sector Sales	1,368	1,986		8,078	10,436		718	267		(10,164)	(12,689)		0	0	
Total Sales revenues	40,808	49,594	-17.7%	32,289	31,743	17%	28,038	29,425	-4.7%	(10,164)	(12,689)	19.9%	90,971	98,073	-7.2%
Gross profit	17,421	22,565	-22.8%	11,215	11,916	-5.9%	17,373	16,184	7.3%	(251)	(451)	-44.4%	45,758	50,214	-8.9%
Gross profit margin - %	42.7%	45.5%		34.7%	37.5%		62.0%	55.0%					50.3%	512%	
EBITDA													3,279	7,786	-57.9%
EBITDA margin - %													3.6%	7.9%	
EBIT													(4,170)	38	n.s.

Revenues in the North American region decreased by 17.1%, from €47.6 million in 2010 to €39.4 million in 2011. As previously mentioned, this decrease reflects a halt in US defence orders in the second half of 2011 and the decline in turnover generated by the subsidiary operating in the industrial, transport and medical sectors.
This reduction in the North American region is not consistent with the figure deriving from the subdivision of revenues based on customer region, which is shown below. However, it is explained by the fact that the UK subsidiary billed a substantial amount for an order to a customer, Cubic Transportation, which has its registered office in the US (the order related to a project for electronic ticketing systems implemented in the European region: see the news article of 12 July 2010).
The European region also registered growth: revenues rose from €21.3 million in 2010 to €24.2 million in 2011, an increase of 13.6%. This performance was also influenced by the substantial order mentioned above.
Lastly, the Asian region registered a slight reduction in revenues of 6.3%, from €29.2 million to €27.3 million.

The breakdown of revenues by type shows broad stability in revenues from services, while industrial revenues decreased in line with the trend in overall revenues.

SALES BY TIPE	FY 2011	%	FY 2010	%
Industrial revenues	91,215	97.2%	96,602	97.3%
Services revenues	2,591	2.8%	2,667	2.7%
TOTALE SALES AND SERVICE REVENUES	93,806	100.0%	99,269	100.0%

The regional breakdown of revenues by customer location is shown below:

BREAKDOWN BY GEOGRAPHIC AREA	FY 2011	%	FY 2010	%
European Union	16,965	18.1%	19,411	19.6%
United States	44,842	47.8%	46,577	46.9%
Japan	27,265	29.1%	28,344	28.6%
Other	4,734	5.0%	4,937	5.0%
TOTAL SALES AND SERVICE REVENUES	93,806	100.0%	99,269	100.0%

The breakdown of turnover by customer region shows a decrease of 12.6% (€2.45 million) in the European Union, due to general stagnation of the economy in this region and, specifically for our business, lack of recovery in the transport market.
US revenues decreased by 3.7% (€1.73 million), reflecting the contraction in orders, particularly in the defense market.
There was also slight decrease in the Japanese region, which as previously mentioned was due to order deferrals by customers after the earthquake and tsunami of last March.

(€'000)	FY 2011	%of sales	FY 2010	%of sales	var. %
Purchases of raw materials, semi-finished and finished products	49,786	53.1%	49,872	50.2%	-0.2%
Changes in inventories of raw materials	5,037	5.4%	5,197	5.2%	-3.1%
Change in inventories of semi-finished and finished products	(7,557)	-8.1%	(6,206)	-6.3%	21.8%
TOTAL COST OF MATERIALS	47,266	50.4%	48,863	49.2%	-3.3%

As set out in the table above, there was a decreasing trend in costs of raw and auxiliary materials and consumables used in the period under review that was consistent with turnover performance, from €48.86 million in 2010 to €47.27 million in 2011. In the period under review there was a decrease of 3.3% in this item, less than proportionate to the turnover decrease of 5.5%. The fact that the respective decreases are not proportionate is a direct result of the sales mix. Costs of raw and auxiliary materials and consumables used as a percentage of sales therefore rose from 49.2% in 2010 to 50.4% in 2011.

(€'000)	FY 2011	%of sales	FY 2010	%of sales	var. %
Service costs	16,483	17.6%	17,042	17.2%	-3.3%
Rent and leases	2,464	2.6%	2,377	2.4%	3.7%
Payroll	25,378	27.1%	26,447	26.6%	-4.0%
Accruals and other costs	1,229	1.3%	1,385	1.4%	-11.3%
Cost adjustments for in-house generation of non-current assets	(2,632)	-2.8%	(2,790)	-2.8%	-5.7%
Operating costs net of non recurrent costs and of cost adjustments	42,922	45.8%	44,461	44.8%	-3.5%
Non recurrent costs	910	1.0%	0	0.0%	n.a.
Operating costs net of cost adjustments	43,832	46.7%	44,461	44.8%	-1.4%

Other operating costs as a percentage of revenues, net of one-off costs and cost adjustments for in-house generation of non-current assets, switch from 44.8% in 2010 to 45.8% in 2011.
In absolute terms, these net operating costs decreased from €44.46 million in 2010 to €42.92 million in 2011 (by 3.5%). The reduction in absolute value would have been more substantial if the comparison had been made in the currency of the individual Group companies and is in part influenced by the business combination of Dynatem Inc.. Cost containment during the year led to rationalisation of both personnel and service costs.
Other operating costs as a percentage of revenues, however, net only of cost adjustments for in-house generation of non-current assets, decreased from 44.8% in 2010 to 46.7% in 2011. One-off costs refer to extraordinary costs incurred due to the recall of a customised product after delivery for modification.

The trend in service costs is shown below.

(€'000)	FY 2011	%	FY 2010	%	var. %
Industrial services	5,329	32.3%	4,864	28.5%	9.6%
Commercial services	4,513	27.4%	4,582	26.9%	-1.5%
General and administrative costs	6,641	40.3%	7,596	44.6%	-12.6%
Total costs of services	16,483	100.0%	17,042	100.0%	-3.3%
% impact on sales	17.6%		17.2%		

Service costs fell from €17.04 million in 2010 to €16.48 million in 2011 (3.3%). As a percentage of revenues, this item was largely unchanged in 2011 compared with 2010, at about 17%.

Industrial costs rose from €4,864 thousand in 2010 to €5,329 thousand in 2011, mainly reflecting external costs for industrial services.

Commercial service costs decreased slightly, from €4.58 million in 2010 to €4.51 million in 2011.

Finally, general costs suffer a substantial reduction of 12.6%, from €7.60 million in 2010 to €6.64 million in 2011. This reduction reflects the containment of fixed costs related to operations.

Lease and hire costs were largely unchanged, at about 2.6% of revenues.
In absolute terms, these costs increased from €2.38 million in 2010 to €2.46 million in 2011 arising from the business combination of US company Dynatem Inc..

(€'000)	FY 2011	%	FY 2010	%	var. %
Wages, salaries, and Social Security	24,917	98.2%	26,093	98.7%	-4.5%
Severance indemnities	325	1.3%	353	1.3%	-7.9%
Retirement benefit and similar obligations	7	0.0%	0	0.0%	n/a
Other costs	129	0.5%	1	0.0%	n.s.
Total cost of personnel	25,378	100.0%	26,447	100.0%	-4.0%
% impact on sales	27.1%		26.6%		

Payroll costs in the period under review fell by 4.0%, despite a rise in costs due to integration of new subsidiary Dynatem, which had an effect of about €0.6 million on the year's figures.

Payroll costs as a percentage of revenues was 27.1% in 2011, compared with 26.6% in 2010.

As the schedule below shows, the Group's workforce at the end of the periods under review rose from 455 in 2010 to 463 in 2011. This net increase of 8 employees reflects the combined effect of 18 new employees due to the addition of US company Dynatem Inc. to the scope of consolidation, and a reduction of 10 employees as part of ongoing reorganisation of existing Group resources. The extent of the reorganisation can be more clearly seen in the comparison between average employee numbers in the periods in question: 475.1 in 2011 compared with 476.8 in 2010.

Staff on the management team and who head management teams at the individual subsidiaries have been extrapolated from the "office staff" item.

Employees	Average 2011	at December 31, 2011	Average 2010	at December 31, 2010
Manager	21.4	20	20.0	23
Clerical w orkers	370.4	367	374.4	346
Line w orkers	83.3	76	82.4	86
TOTAL	475.1	463	476.8	455

(€'000)	FY 2011	%	FY 2010	%	var. %
Doubful debt provision	353	28.7%	509	36.8%	-30.6%
Other Provisions	72	5.9%	0	0.0%	n/a
Other costs	804	65.4%	876	63.2%	-8.2%
Total accruals and other costs	1,229	100.0%	1,385	100.0%	-11.3%
% impact on sales	1.3%		1.4%		

The "doubtful debt provision" item refers to provisions made during the years under review to cover any trade receivables that cannot be collected.
The "miscellaneous operating charges" item includes losses on receivables for €35 thousand (€44 thousand at 31.12.10).
As a percentage of revenues, other provisions and other costs fell from 1.4% in 2010 to 1.3% in 2011.

(€'000)	FY 2011	%	FY 2010	%	var. %
Government grants	27	7.1%	233	16.1%	-88.4%
Sundry revenues	355	92.9%	1,216	83.9%	-70.8%
Total other revenues	382	100.0%	1,449	100.0%	-73.6%
% impact on sales	0.4%		1.5%		

The "other income" item decreased by 73.6% in the reporting period, from €1,449 thousand to €382 thousand in 2011; this decrease was mainly due to the disappearance of grants and non-recurring income of €585 thousand in 2010 deriving from the sale of the entire equity interest of 40% held in Japanese company Union Arrow Technologies Inc..

Other revenues as a percentage of total revenues decreased from 1.5% in 2010 to 0.4% in 2011.

(€'000)	FY 2011	%	FY 2010	%	var. %
Amortisation of intangile assets	5,895	74.0%	5,964	73.3%	-1.2%
Amortisation of property, plant and equipment	1,813	22.8%	1,887	23.2%	-3.9%
Write-down of fixed assets	257	3.2%	284	3.5%	-9.5%
Total amortisation and depreciation	7,965	100.0%	8,135	100.0%	-2.1%
% impact on sales	8.5%		8.2%		

Depreciation and amortisation decreased from €7.85 million in 2010 to €7.71 million in 2011. This change reflects a reduction in some amortisation arising from PPA.
As in 2010, asset write-downs in 2011 refer to some projects posted to the “development costs” item for products that did not achieve the market success initially forecast.

Depreciation, amortisation and write-downs of assets as a percentage of revenues rose from 8.2% in 2010 to 8.5% in 2011.

The valuation of equity investments in associates entailed revenue of €123 thousand in 2011 compared with a cost of €1,630 thousand in 2010.
Most of the change in 2011 reflects the revaluation of the equity investment in associate Isidorey Inc., which has been put in liquidation. This revaluation is based on valuation of the company according to recoverable values at the time of liquidation.
The change in 2010 was due to adjustment to the presumed realisable value of the equity interests in associate UTRI SpA, which had presented a debt restructuring plan pursuant to article 182-*bis* of the Budget Law.

(€'000)	FY 2011	FY 2010	change %
Exchange-rate losses	6,489	2,451	164.7%
Exchange-rate losses from PUT option	0	1,278	-100.0%
Interest expenses	1,076	744	44.6%
Expenses on derivatives	210	305	-31.1%
Other finance expenses	65	44	47.7%
Financial charges	7,840	4,822	62.6%

(€'000)	FY 2011	FY 2010	change %
Exchange-rate gains	5,853	3,034	92.9%
Interest income due to the discounting	0	80	-100.0%
Interest income	117	262	-55.3%
Other finance income	9	4	125.0%
Financial incomes	5,979	3,380	76.9%
Net financial income	(1,861)	(1,442)	29.1%
% impact on sales	-2.0%	-1.5%	

The increase in financial charges from €4.82 million in 2010 to €7.84 million in 2011 mainly reflects foreign exchange liabilities related to the performance of the US dollar and the UK sterling.

Financial income also rose, from €3.38 million in 2010 to €5.98 million in 2011. The change was due to both the foreign exchange rate effect and reduced interest income due to fewer cash resources.

Net charges for financial operations as a percentage of revenues were 2.0% in 2011, compared with 1.5% in 2010.

(€'000)	FY 2011	%of sales	FY 2010	%of sales	var. %
Pre-tax result	(6,613)	-7.0%	(3,813)	-3.8%	73.4%
Income taxes	(633)	-0.7%	(2,200)	-2.2%	-71.2%
Income taxes as a percentage of profit before taxes (effective tax rate)	-9.6%		-57.7%		

The pre-tax loss increased from €3.81 in 2010 to €6.61 million in 2011. As already mentioned, this performance was due to the reduction in turnover and consequent cutback of gross profit. The pre-tax result as a percentage of revenues changed from to -3.8% in 2010 to -7.0% in 2011. Income tax as a percentage of the pre-tax result in the period under review reflects tax trends at the consolidated companies, as well as the lack of recognition of deferred tax assets on the accrued reportable losses of each company, since to date the conditions for recognition do not exist.

The schedule below breaks down the income tax sustained by Group companies for both years under review, distinguishing between current tax and deferred tax assets and liabilities, and between taxes due under Italian law and those due under foreign law.

(€'000)	FY 2011	%of sales	FY 2010	%of sales	var. %
IRES (Italian corporate income tax)	85	0.1%	43	0.0%	97.7%
IRAP (Italian Regional business tax)	21	0.0%	168	0.2%	-87.5%
Foreign current income taxes	1,720	1.8%	3,020	3.0%	-43.0%
Total current income tax	1,826	1.9%	3,231	3.3%	-43.5%
Net (prepaid) deferred taxes: Italy	(14)	0.0%	2	0.0%	-800.0%
Net (prepaid) deferred taxes: Non-italian	(1,281)	-1.4%	(1,033)	-1.0%	24.0%
Net (prepaid) deferred taxes	(1,295)	-1.4%	(1,031)	-1.0%	25.6%
Previous years taxes	102	0.1%	0	0.0%	n.a.
Previous years taxes	102	0.1%	0	0.0%	n.a.
TOTAL INCOME TAXES	633	0.7%	2,200	2.2%	-71.2%

Statement of financial position

Non-current assets

(€'000)	at December 31, 2011	at December 31, 2010	Changes
Intangible assets	125,922	120,328	5,594
Property, Plant and equipment	5,897	6,582	(685)
Investments in affiliate companies	278	308	(30)
Investments in other companies	270	230	40
Deferred tax assets	1,439	1,658	(219)
Other non current financial assets	226	236	(10)
Medium/long term borrowing allowed to affiliates companies and other Group companies	0	636	(636)
Other non-current assets	843	1,018	(175)
Total non-current assets	**134,875**	**130,996**	**3,879**

Non-current assets increased from €131.00 million in 2010 to €134.88 million in 2011.
Most of this increase is due to an increase in intangible assets resulting from the different exchange rate applied in translating the assets of the foreign companies. For more details, see section H1 of the notes to the consolidated financial statements.

The Group's main investments break down as follows:

(€'000)	at December 31, 2011	at December 31, 2010	Chg.
Intangible assets	2,881	3,089	(208)
Property, plant and equipment	820	1,056	(236)
Investments	33	0	33
TOTAL MAIN INVESTMENTS	3,734	4,145	(411)

Current assets

(€'000)	at December 31, 2011	at December 31, 2010	Changes
Inventories	23,734	21,587	2,147
Contracts in progress	2,356	257	2,099
Trade receivables	26,724	28,962	(2,238)
Income tax receivables	938	1,879	(941)
Other current assets	2,569	3,305	(736)
Receivables from affiliates companies	1,163	9	1,154
Short term borrowing allowed to affiliates companies and other Group companies	178	0	178
Cash & cash equivalents	13,596	23,751	(10,155)
Total current assets	**71,258**	**79,750**	**(8,492)**

Current assets decreased from €79.75 million in 2010 to €71.26 million in 2011.

The marked decrease in current assets particularly reflects the decrease in cash and cash equivalents used to repay loans and for investments including acquisitions and to assist with ordinary operations. The reduction in customer receivables, income tax receivables and other current assets partially offset the increase in inventories, work in progress and receivables from associates.

Working capital

Working capital, which comprises current assets net of cash and cash equivalents and non-financial current liabilities, underwent the following changes in the reporting period:

(€'000)	at December 31, 2011 (b)	at December 31, 2010 (a)	Changes (b-a)
Inventories	23,734	21,587	2,147
Contracts in progress	2,356	257	2,099
Trade receivables	26,724	28,962	(2,238)
Receivables from affiliates companies	1,163	9	1,154
Income tax receivables	938	1,879	(941)
Other current assets	2,569	3,305	(736)
Current assets	*57,484*	*55,999*	*1,485*
Trade payables	(18,388)	(18,824)	436
Income tax liabilities	(1,731)	(1,214)	(517)
Other current liabilities	(7,229)	(5,748)	(1,481)
Current liabilities	*(27,348)*	*(25,786)*	*(1,562)*
Net working capital	**30,136**	**30,213**	**(77)**

Working capital decreased by €77 thousand due to an increase in inventories, work in progress and receivables from associates, only partly offset by a reduction in customer receivables and other current assets and by an overall increase in current liabilities. Working capital as a percentage of turnover was 32.1% in 2011, compared with 30.4% in 2010.

Net financial position

The Group had net debt of €14.33 million at 30 December 2011, compared with net debt of €8.64 million at 31 December 2010.

The net financial position at the end of both periods is broken down in the schedule below.

(€'000)		at December 31, 2011	at December 31, 2010
Cash & cash equivalents	A	(13,596)	(23,751)
Cash equivalent	**B=A**	**(13,596)**	**(23,751)**
Short term borrowing allowed to affiliates companies	C	(178)	0
Derivative instruments	D	376	339
Short-term borrowing	E	17,253	8,985
Business aggregation liabilities	F	216	1,066
Short-term financial position	**G=C+D+E+F**	**17,667**	**10,390**
Short-term net financial position	**H=B+G**	**4,071**	**(13,361)**
Medium/long term borrowing allowed to affiliates companies	I	0	(636)
Business aggregation liabilities	J	0	0
Other non current financial assets	K	(226)	(236)
Medium/long term borrowing	L	10,482	22,873
Medium-/long-term net financial position	**M=I+J+K+L**	**10,256**	**22,001**
(NET FINANCIAL POSITION) NET DEBT	**N=H+M**	**14,327**	**8,640**

The "short-term financial liabilities" item includes the medium-to-long-term portion (€6.00 million) of an existing loan for which one of the covenants set out in the relative loan agreement was not met, according to summary consolidated figures at 31 December 2011.
Pursuant to IAS 1.65, therefore, although a waiver was requested from the bank concerned and the bank informally communicated that it did not wish to request immediate payment of the loan as a result of the failure to comply with the covenant, Eurotech classified the medium-to-long-term portion of the loan as current. This portion, according to the original due date, falls due over 12 months after 31 December 2011.
At 31 December 2011, covenants on two other existing loans were met by the Group in accordance with the definitions set out in the loan agreement.

Medium/long-term net debt was reduced from €22.00 million in 2010 to €10.26 million in 2011, reflecting the restatement of part of the medium-to-long-term loan falling due after 12 months (€6.00 million) for which the covenant was not met, as well as the reduction in medium-to-long-term financing due to repayment of principal.

Existing financial liabilities of €22,86 million, together with current account overdrafts at the end of 2011 of €4.88 million, add up to total bank borrowings of €27.74 million, of which €17.25 million is short term, also taking into account the short-term portion of €6.00 million in application of IAS 1.65.

Cash flow

(€'000)	at December 31, 2011	at December 31, 2010
Cash flow generated (used) in operations	1,063	3,185
Cash flow generated (used) in investment activities	(8,420)	(14,377)
Cash flow generated (used) in financial activities	(4,123)	4,953
Change in the conversion difference	1,325	2,066
Increase (decrease) in cash & cash equivalents	(10,155)	(4,173)
Opening amount in cash & cash equivalents	23,751	27,924
End of period in cash & cash equivalents	13,596	23,751

Despite a decrease in turnover compared with the previous year, business operations generated positive cash flow of around €1.1 million (compared with a positive flow of €3.2 million in 2010).
Investments included the acquisition of 10% of Advanet's capital and the acquisition of US company Dynatem Inc., as well as investments in the development of new products in the field of embedded modules and systems and internal investments in industrial and commercial equipment and hardware.

Finally, cash flow from financial operations was mainly due to the repayment of short-term portions of medium-term loans.

Infragroup relations and transactions with related parties

Within the scope of transactions aimed at routine management of the business of the Eurotech Group and the search for new production and commercial synergies, the Group companies maintain reciprocal commercial relations whereby they sell products and services to some Group companies and buy products and services from the same companies. Relations between Group companies are governed by market conditions, taking into account the quality of the goods and services provided. The outstanding balances at the reporting date are not supported by guarantees, do not generate interest (except loans) and are settled in cash. No guarantees, whether given or received, exist in relation to related party receivables and payables. For the period ended 31 December 2011 the Group made no provision to a doubtful debt reserve for sums owed by related parties, except for the €539-thousand write-down already made in 2010 on the receivable from associate UTRI SpA. This valuation is performed every year by examining the financial position of the related parties and the market in which they operate.
Some of the Group companies also have service relations with the Parent Company, which provides administrative, tax, corporate, business and strategic services for Eurotech Group subsidiaries. The reciprocal services and obligations between the subsidiaries and the Parent Company are governed by a specific master service contract.

Relations with related parties include transactions arising in the course of normal business and financial relationships with companies in which the Directors of the Company or its subsidiaries have senior positions, and in relations with the Finmeccanica Group, which owns 11.08% of the capital of Eurotech SpA. These transactions are regulated under market conditions.

Information on related party transactions, as required by Consob Resolution 6064293 of 28 July 2006, are described in Note 34 of the consolidated financial statements.

Based on the information received from Group companies, no unusual or atypical transactions took place as defined by Consob in its notice 6064293 of 28 July 2006.

The schedule below shows information on equity interests held in the Company and its subsidiaries by members of the management and supervisory bodies, general managers and managers with strategic responsibilities as well as spouses not legally separated and underage children, directly or through subsidiaries, trust companies or third parties, taken from the shareholders' register, notifications received and other information acquired by the members of the management and supervisory bodies, general managers and managers with strategic responsibilities, pursuant to article 79 of Consob Regulation 11971/99 as subsequently amended.

				at December 31, 2011				
Name		Company	Possessory title	Share at January 1,	Share acquired in the period	Share disposed in the period	Share at the end of the period	of which shares at the end of the period
Siagri Roberto	President	Eurotech	Ownership	2,500,531	-	-	2,500,531	1,040,371
Tecchiolli Giampietro	Director	Eurotech	Ownership	191,015	-	-	191,015	-
Barazza Sandro	Director	Eurotech	Ownership	-	2,000		2,000	-
Bertolone Giovanni	Director	Eurotech	Ownership	-	-	-	-	-
De Toni Alberto Felice	Director up to April 28, 2011	Eurotech	Ownership	6,003	-	-	-	-
Grasso Giancarlo	Director from April 28, 2011	Eurotech	Ownership	-	-	-	-	-
Mio Chiara	Director	Eurotech	Ownership	-	-	-	-	-
Pedicchio Maria Cristina	Director from April 28, 2011	Eurotech	Ownership	-	-	-	-	-
Pizzul Cesare	Director	Eurotech	Ownership	-	-	-	-	-
Soccodato Giovanni	Director	Eurotech	Ownership	-	-	-	-	-
Tucci Maurizio	Director up to April 28, 2011	Eurotech	Ownership	-	-	-	-	-
Siciliotti Claudio	President of Board of Auditors	Eurotech	Ownership	20,000		-	20,000	10,000 (*)
Cignolini Michela	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-
Pingaro Giuseppe	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-

(*) Shares owned indirectly by Pronet S.r.l.

Reconciliation statement of results for the year and shareholders' equity

The schedule below shows the reconciliation of net income and consolidated shareholders' equity of the Issuer at 31 December 2011 and 31 December 2010:

(€'000)	Profit (Loss) 12/31/2011	Shareholders' Equity 12/31/2011	Profit (Loss) 12/31/2010	Shareholders' Equity 12/31/2010
Financial report of the Parent Company	(18,486)	89,188	(523)	107,711
Group share of shareholders' equity and pro-quota value in consolidated companies	382	(39,162)	4,590	(51,091)
Minority purchase	-	-	-	22
Differential arising from consolidation	-	67,559	-	62,946
Customer relationship	(2,879)	18,520	(2,774)	18,701
Trademark	-	10,569	-	9,747
Reversal of Impairment of equity transactions	13,545	-	(5,109)	-
Effect of valuing equity investments using th enet equity method	115	(510)	(179)	(589)
Elimination of unrealised internal profit on inventories	30	-	(5)	(30)
Exchange differences on equity investments in foreign companies	(653)	-	(1,449)	-
Offset dividends	(1,426)	-	(1,724)	-
Tax effects on consolidation adjustments listed above	2,126	(11,121)	1,160	(11,933)
Consolidated financial statements	(7,246)	135,043	(6,013)	135,484

Treasury shares of the Parent Company owned by the Parent Company or subsidiaries

The Parent Company Eurotech SpA held 420,140 treasury shares at the end of the reporting period. There was no change in this figure in 2011.

Investments and research and development

At 31 December 2011, technical investments (tangible assets) in equipment and instruments totalled €483 thousand, investments in other assets totalled €304 thousand and investments to purchase user and software licences came to €180 thousand.
During the period, the Group invested in industrial research and development and technological innovation for new products and improving current processes.
Research resulted in the development of new products/applications in the field of computers and embedded systems, high-integration and low-power computers, network appliances and supercomputers. Research also led to improvements in the quality of products, the creation of new products, reduced manufacturing costs and a resulting increase in company competitiveness. New product development costs of €2.7 million were capitalised in the period. About 18% of these costs relate to new technology development in the HPC field and about 22% were generated by the development of the Wearable PC product line (wrist-worn or belt-worn computers), particularly the 'rugged' versions, made specifically for deployment in hostile conditions. Some 19% related to development of new products based on Intel's new ultra low-power architectures and the remainder of about 42% was employed on several fronts in both hardware and software and in implementing projects launched in previous years.

Main risks and uncertainties to which the Group is exposed

Risks connected to general economic conditions

The global macroeconomic situation affects the financial position, business performance and financial status of the Group.
The Group's presence in various regions of the world enables it to spread risk and to benefit from any positive situations arising in some regions in relation to or before other regions.
The Group’s presence in anticyclical sectors such as healthcare, defence and transport also supports Group business in periods when general economic circumstances are less than positive and when sectors such as industry and trade are more affected by reduced consumption.
Furthermore, leaving aside slow economic growth or recession, other economic conditions such as fluctuating commodities prices or reduced spending on infrastructure may negatively affect the markets in which the Group operates, and may, in combination with other factors, have a significant impact on the Group's business outlook, operating performance and/or financial situation.

Risks connected to exchange rate and interest rate fluctuations

The Eurotech Group operates at global level and has invested in countries such as the US, Japan and the UK, deriving cash flows from these countries that are not consistent. In addition, the individual foreign subsidiaries tend to operate on their respective core markets with the respective functional currencies. Owing to these considerations, exchange rate hedging operations are not carried out, despite the fact that the consolidated financial statements are affected by exchange rate fluctuations when the financial statements of companies outside the eurozone are translated.
The Group is exposed via medium-term, variable-rate loans, particularly in Europe and to a lesser extent in Japan. The Group uses hedging instruments to mitigate the effects of interest rate variations.
Steep exchange rate or interest rate fluctuations may have an impact on the Group’s business performance and financial results.

Risks connected to liquidity and required financial resources

In view of its current net financial position, the Group plans to meet requirements for expiring financial payables with available cash and cash flows from operations.
The Group believes that in order to generate positive cash flow it must maintain its turnover at at least the current level and focus on the cost containment strategy implemented in previous years.
The Group has to comply with legal financial parameters, and particularly the net debt/EBITDA and debt/equity ratios. Failure to achieve the figures set out in loan agreements exposes the company to the risk of repayment or increased financial costs.
Group strategy is to maintain the available cash invested in at-sight or very short-term bank deposits, dividing the deposits between a sufficient number of selected banking counterparties operating in various regions.
Since the Group has implemented measures designed to maintain adequate levels of working capital and cash, any contraction in sales volumes may have a negative effect on the cash-generating capacity of the Group’s operational units. The Group may therefore find it necessary to arrange further loans and/or refinancing of existing debt, including in unfavourable market conditions, with a general reduction in available financing sources and higher costs. Any difficulties in raising such financing could have a negative effect on the Group’s business outlook, as well as on its operational results and/or its financial position.

Risks connected to management

The Group’s success largely depends on the ability of certain Executive Directors and other members of management to run the Group and the individual local entities efficiently. Loss of the services of an Executive Director or other key resources without adequate replacement, and any inability to attract and retain new and qualified resources, could have negative effects on the Group's outlook, business performance and operating and financial results.

Risks connected to competitiveness in the sectors in which the Group operates

With some exceptions, the Group's markets are competitive in terms of product quality, innovation, reliability and customer support.
The Group's success will depend on its ability to maintain and build on its share of the markets in which it operates and/or to expand into new markets with innovative products and high quality standards ensuring profit levels similar to those on its current markets.
In recent years competition has become more intense, particularly in terms of price, especially in the embedded screens and modules segment and to a lesser extent in ready-to-use systems and devices.
If the Group were not able to offer more competitive and innovative products than its competitors, the Group's market share could decline, with a negative effect on the profitability and operating and financial results of the Eurotech Group.

Risks connected to customers

In some regions, the Group operates with a limited number of customers. Due to this dependency on certain customers, the loss of these large customers or a significant reduction in the turnover generated from them could have a negative impact on the Group's sales revenues and profitability.
Generally speaking, these customers are not the end-users of our products. Any lack of success of products into which our products are incorporated, and any difficulty experienced by our customers in selling the products that we design or produce for them, could have a negative effect on sales and margins.
Adverse economic conditions in markets where our customers may sell or use our products would lead to a reduction in supplies to these customers. Some of these markets are characterised by intense competition, rapid technological change and economic uncertainty. The Group's exposure to economic cycles and related fluctuations in demand from these customers could have a negative effect on revenues and therefore on the Group's financial situation.
In addition, a decision by some customers to make the products supplied by us in-house would reduce supplies to these customers and therefore sales revenues and profitability.

Risks connected to environmental policy

The Group's businesses and products have to comply with national, community and international environmental legislation. This legislation is becoming increasingly stringent in the countries where the Group operates.
The potential risk to which the Group is subject relates to the processing of electric and/or electronic parts that, pursuant to new legislation, could become unusable in production or separately saleable.
The consequent disposal of such products, or of others that have become obsolete due to technological advances, incurs increasingly high costs.
In order to comply with legislation in force, the Eurotech Group envisages having to continue to sustain costs that may rise in future years.

Risks connected to relations with employees and suppliers

In some of the countries in which the Group operates, employees are subject to various laws and/or collective employment agreements that guarantee them – including by means of local and national representation – the right to be consulted on certain questions, such as workforce reductions. Such laws and/or collective employment agreements applicable by the Group could affect Group flexibility in the redefinition and/or strategic repositioning of its operations. Any unagreed decisions could lead to problems in workforce management.
In addition, the Group acquires raw materials and parts from numerous suppliers and depends on the services and products supplied by other companies external to the Group. Collaboration between producers and suppliers is normal in the segments in which the Group operates, and while this leads to economic benefits in the forms of reduced costs, it also means that the Group has to rely on these suppliers, with the consequent possibility that difficulties they experience

(whether due to external or internal factors), including financial difficulties, could have negative repercussions on the Group's business outlook, as well as its operating results and/or its financial situation.

Risks connected to development activity

The Group conducts major research and development projects that can last for more than 24 months. Development activities believed to be capable of producing future benefits in terms of revenues are posted as intangible fixed assets. Not all development activities may lead to production at a level that allows for complete recoverability of the posted asset. When products related to capitalised development activities do not achieve the success expected, the impact on expected Group revenues and profits is determined, as well as whether the asset has to be written down.

Risks connected to the capacity to offer innovative products

The success of the Group's businesses depends on its ability to maintain or increase its share of the markets in which it operates, and/or to expand into new markets with innovative products of a high standard of quality ensuring adequate levels of profitability. More specifically, if the Group were unable to develop and offer more innovative and competitive products than its main competitors, including in terms of price, quality and functionality, or if there were delays in the development of new innovative products, the Group's market share could contract, with a negative impact on the Group's business outlook as well as its operating results and/or financial situation.

Risks and uncertainties connected to goodwill and assets with an indefinite life

The Group carries out impairment tests on goodwill and other intangible assets with an indefinite useful life, at least annually and during the course of the year if there are indications of loss in value. The test requires an estimate of the value in use of the cash generating unit to which the goodwill and other intangible assets with an indefinite useful life are attributed, based in turn on the estimated expected cash flows of the unit and on the discounting of these flows at an appropriate rate.
In view of the general macroeconomic picture and the key sectors in which the Group operates, there is intrinsic uncertainty in estimating the cash flows used to test the assets for impairment. This uncertainty could give rise to the risk of failure to write down goodwill and intangible assets with an indefinite useful life, due to possible overestimation of future cash flows.

Disclosure on the environment and on personnel

Although the Group does not carry out activities that could impact local areas or the environment, it has always tried to operate in line with national and international best practice, in accordance with the rationale of risk prevention and reducing and minimising environmental impacts.

The Eurotech Group has always paid close attention and been highly committed to questions of employee safety, spreading a culture of safety within the organisation, minimising risk exposure in every activity and conducting activities to control, prevent and protect against risk exposure.
There have been no major work-related accidents at the Eurotech Group, and there is currently no risk of work-related illness.

Disclosure on sovereign exposure

Pursuant to Consob Communication DEM/11070007 of 5 August 2011 (a continuation of ESMA document 2011/266 of 28 July 2011) relating to disclosure in financial reports of the exposure of listed companies to sovereign debt, note that the Group does not hold sovereign debt securities

Events after the reporting period

No significant events took place after the reporting date.

Report on corporate governance and ownership structure

The information required by article 123-*bis*, paragraphs 1 and 2 of Legislative Decree 58 of 24 February 1998 as amended and supplemented can be found in Annex 1 of this report.

Subsidiaries created and regulated according to the laws of states outside the European Union

The Board of Directors hereby declares that conditions for listing exist pursuant to article 36 of Consob Regulation 16191/2007 (the "Stock Market Regulation"). In this regard, note that at 31 December 2011 the subsidiaries created and regulated under the laws of countries outside the European Union, pursuant to article 36, paragraph 2 of the above Regulation, are US companies Eurotech Inc., Parvus Corp. and E-Tech USA Inc. and Japanese company Advanet Inc., and that the requirements set out in paragraph 1 of said article are met for these subsidiaries.

Competitive scenario, outlook and future growth strategy

Due to the integration and strengthened relations between the Group's various companies, the global positioning of individual subsidiaries, as well as the Group's financial position, the outlook for 2012 is positive, even though market conditions in some sectors remain uncertain.

The Group will pursue strategic development in 2012, along guidelines similar to those adopted in the last few years. The implementation of the strategic plan specifically includes the following actions:

- in the field of NanoPCs, the development and offering of new products/solutions with greater added value, with a particular focus on the creation of application-ready platforms (systems) and ready-to-use products
- in the field of both NanoPCs and HPCs, a focus on products/solutions increasingly closer to the paradigm of pervasive computing or ubiquitous computing
- strengthening of commercial activities, particularly with regard to indirect as well as direct sales channels
- heightened integration between individual Group companies, to (a) achieve greater operational effectiveness, (b) benefit from achievable economies of scale and (c) consolidate the Eurotech brand image
- continuous monitoring of new acquisition opportunities to expand the Group's presence in specific markets or as a catalyst for cross-selling between subsidiaries (such as Dynatem Inc.).

Annex 1

EUROTECH SpA

Report on corporate governance and ownership structure

pursuant to article 123*bis* of the Consolidated Finance Act (TUR)

Issuer: EUROTECH SpA

Website: www.eurotech.com

Reporting period: financial year 2011

Report approval date: 15 March 2012

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** * **

GLOSSARY

Code/Corporate Governance Code: the Corporate Governance Code for listed companies, approved in March 2006 (and revised in March 2010) by the Corporate Governance Committee and promoted by Borsa Italiana SpA; available online at www.borsaitaliana.it, under Borsa Italiana – Regulations *Corporate Governance.*

Civ. Code/ C.C.: the Italian Civil Code.

Board/ Board of Directors: the Board of Directors of the Issuer.

Eurotech, Issuer or Company: the issuer of listed shares to which the Report refers.

Financial year: the financial year to which the Report refers.

Stock Market Regulation Instructions: instructions for the regulation of the markets organised and managed by Borsa Italiana SpA.

MTA: the Mercato Telematico Azionario (screen-based equities market) organised and managed by Borsa Italiana SpA.

Stock Market Regulation: regulations for the markets organised and managed by Borsa Italiana SpA. (as subsequently revised).

Issuer Regulation: regulations issued by CONSOB with resolution 11971 in 1999, relating to issuers (as subsequently revised).

CONSOB Related-Parties Regulation: Regulation issued by CONSOB with resolution 17221 of 12 March 2010 (as subsequently revised) concerning related-party transactions.

Report: the Corporate Governance Report that companies are required to prepare pursuant to article 123-*bis of the TUF.*

TUF: Legislative Decree 58 of 24 February 1998 (Consolidated Finance Act).

To our Shareholders,

As Chairman of the Board of Directors of Eurotech and on behalf of the Board, pursuant to article 123-*bis* of the TUF I wish to provide you with the following information on the corporate governance system adopted by the Company in compliance with the principles set out in the Corporate Governance Code.

The following Annual Report will provide you with mandatory information regarding concrete implementation of the Corporate Governance Code for the financial year ended 31 December 2011.

The information and data set out in this document will be updated annually by the Board of Directors, in future reports on compliance with the Corporate Governance Code.

1. ISSUER PROFILE

Eurotech is a global company based in Italy with operating locations in Europe, North America, and Asia. The group is active in the research, development, construction and marketing of miniaturised computers (NanoPCs) and high-performance computers featuring high computing capacity (HPCs). The technological paradigm used by Eurotech is pervasive computing, which combines three key elements: (1) miniaturisation of ‘intelligent’ devices, i.e. devices capable of processing information; (2) their spread in the real world (inside buildings and equipment, on board vehicles, worn by people, and disseminated in the environment); and (3) their ability to connect with each other in a network and communicate. NanoPCs and HPCs are the two major classes of devices that, by connecting to and cooperating with each other, form the pervasive computing infrastructure commonly known as the ‘pervasive GRID’ or ‘pervasive cloud’. Eurotech is most active in the transport, defence, industrial and medical sectors. A common feature of many of our customers is that they are seeking a centre of technological expertise – and they often see in Eurotech a partner for innovating their products and their way of doing business. They want to reduce their time-to-market and focus on their core businesses. They often need solutions for harsh operating conditions and for mission-critical applications, or supplies assured for long periods. In the HPC sector, Eurotech develops supercomputers aimed at advanced research institutes, computing centres and universities. These supercomputers are proving indispensable in advanced sectors such as nanotechnology, biotechnology and subatomic physics. We also expect to see a significant effect on the medical and industrial fields in the near future.

Eurotech is organised according to the traditional model of corporate governance, with a Shareholders’ Meeting, Board of Directors and Board of Statutory Auditors.

The Company’s accounts are audited by a specialised firm specifically retained by the Shareholders’ Meeting.

2. INFORMATION ON OWNERSHIP STRUCTURE (*PURSUANT TO* ARTICLE 123-*BIS, PAR. 1,* OF THE TUF) AT 31 DECEMBER 2011

a) Share capital

At 31 December 2011, the share capital amounts to €8,878,946.00, fully subscribed and paid up, divided into 35,515,784 ordinary shares with no nominal value. At the date of this Report, share capital had not changed.

At the date of this Report, the company held 420,140 treasury shares equal to 1.184% of current share capital (equal to €8,878,946.00 divided into 35,515,784 ordinary shares).

The shares are indivisible and dematerialised.

The classes of stock comprising the share capital are summarised in Table 1 attached to this Report.

At the date of this Report there were no share-based incentive plans.

b) Restrictions on the transfer of shares

There are no restrictions on transferring shares, limitations on ownership or acceptance clauses of the Issuer or other owners.

c) Significant shareholdings

The significant direct or indirect shareholdings existing at the date on which this Report was approved, according to the shareholder register, information provided pursuant to article 120 of the TUF and other information available to the Company, are summarised in Table 1 attached to this Report.

d) Shares granting special rights

There are no shares granting special control rights, nor are there any special powers assigned to shares.

e) Employee shareholdings: voting mechanism

No system of employee shareholdings exists.

f) Restrictions on voting rights

There are no restrictions on voting rights.

g) Shareholder agreements

On 26 May 2008, Finmeccanica SpA and Roberto Siagri and Giampietro Tecchiolli signed an agreement (which went into effect on 5 November 2008) containing provisions relating to article 122 of the TUF that govern their dealings as shareholders in the Issuer, including provisions relating to the governance of the Company and the rules relating to the sale and purchase of shareholdings in the Company owned by the same.

This agreement loss all force and effect due to its natural expiration on 5 November 2011.

The Issuer is not aware of any other shareholder agreements.

h) Change of control clauses and bylaw provisions concerning PTOs

On 19 December 2007, a loan agreement was signed with Unicredit Banca d'Impresa SpA for €15,000,000. One of the agreement's covenants imposes a limit on "change of control/ownership", obliging the Company to notify the bank of any changes in the legal or ownership structure (e.g. form, capital, Directors, Statutory Auditors and shareholders, mergers (including by incorporation), demergers, disposals and transfers), administration, assets and liabilities or financial position (e.g. bond issues), or change in the operating and technical situation, as indicated in the figures, items and documents provided when the loan was requested, and of any facts that might change the current structure and organisation of the Company in any way. This covenant will be verified annually and certified by the Company. Failure to comply with this covenant will allow the bank to increase the interest spread by 50 bp if it does not exercise its right to terminate the agreement.

The Issuer's subsidiaries have not entered into significant agreements that become effective, are revised or are terminated in the event of a change of control of the contracting company.

The Issuer's bylaws are in compliance with the passivity rules specified by article 104, par. 1 and 2 of the TUF, and do not call for the application of the neutralisation rules covered by article 104-*bis*, par. 1 and 2 of the TUF.

i) Delegations of authority to increase the share capital and authorisations for the purchase of treasury shares

During the financial year the Board of Directors was not granted powers to increase the share capital, pursuant to article 2443 of the Civil Code, or to issue equity instruments.

The Ordinary Shareholders' Meeting of 28 April 2011, pursuant to articles 2357 and 2357-*ter* of the Civil Code, article 132 of the TUF and the related implementation provisions, resolved:

(A) to authorise the purchase and sale of treasury shares for the purposes envisaged in market practice relating to the purchase of treasury shares to create a "bank of shares" permitted by CONSOB pursuant to article 180, paragraph 1, letter c) of the TUF with resolution 16839 of 19 March 2009, in accordance with the operating conditions established for this market practice, and by EC Regulation 2273/2003 of 22 December 2003, where applicable, and thus:

1. to authorise, pursuant to article 2357 of the Civil Code, the purchase, in one or more tranches, during a period of 18 months from the date of approval by the Ordinary Shareholders' Meeting, of ordinary Eurotech shares up to a maximum number that, taking into account the ordinary Eurotech shares held at any time by the Company and its subsidiaries, does not in total exceed the upper limit set out under applicable laws in force, for a consideration that is not greater than the higher of the price of the last independent transaction and the highest current independent offer price in trading locations where the purchase is carried out, provided that the unit price is no lower than 15% less and no higher than 15% more than the official price recorded by the Eurotech share on the stock market trading day preceding each purchase transaction; in cases where purchases are carried out through public purchase or exchange offers, the unit purchase price may not be lower than 15% less and no higher than 15% more than the official price recorded by the Eurotech share on the stock market trading day preceding the public announcement;
2. to mandate the Board of Directors to identify the respective quantities of shares to purchase in relation to each of the purposes listed above, before launching the individual purchase programmes and to carry out the purchase of shares under the conditions, and for the purposes referenced, conferring the broadest powers to carry out share purchase transactions pursuant to this resolution, as well as any other formality related to these purchases, including the delegation of tasks to intermediaries authorised pursuant to the law and with the power to appoint special attorneys, at the pace deemed most advantageous for the Company, in compliance with the legislation in force and using the methods set out in article 144-*bis, paragraph 1, letters a) and b) of the CONSOB Issuer Regulation, as subsequently revised.*
3. to authorise the Board of Directors to sell, pursuant to article 2357-*ter* of the Civil Code, in one or more tranches, at any time, all or a part of the treasury shares purchased on the basis of this resolution or in the Company portfolio, by selling these shares on- or off-market, including, as necessary, through the sale of real and/or personal rights, including but not limited to securities lending, in compliance with the legal and regulatory provisions currently in force and for the purposes set out in this resolution, using the terms, methods and conditions of disposal of the treasury shares deemed most advantageous for the Company, conferring the broadest possible powers to perform share sale transactions pursuant to this resolution, as well as any other formality related to these sales, including the delegation of tasks to intermediaries authorised pursuant to law and with the power to appoint special

attorneys, provided that (a) disposals carried out as part of extraordinary transactions, including equity exchanges with other parties, may take place at the price or value that is congruous and in keeping with the transaction, according to the characteristics and nature of the transaction and also taking account of market performance; and that (b) disposals of treasury shares to service programmes to distribute, for consideration or free of charge, options on shares or shares to Directors, employees and partners of the Company or its subsidiaries, as well as programmes to assign free shares to shareholders, may take place at a price established by the competent corporate bodies as part of these programmes, taking account of market performance and applicable legislation, including tax law; all such disposals must be carried out in compliance with the terms and methods, also operational, established under the applicable provisions of CONSOB resolution 16839 of 19 March 2009 and EC Regulation 2273/2003 of 22 December 2003 where applicable. Authorisation pursuant to this point is granted without time limits;

(B) to ensure, in accordance with the law, that the purchases covered by this authorisation do not exceed the limits of distributable earnings and available reserves as recorded in the most recent annual (or interim) report approved at the time the transaction is carried out, and that, at the time of the purchase and sale of treasury shares, the necessary accounting information has been recorded, in compliance with the applicable laws and accounting standards.

At the date of this Report, the Company held 420,140 treasury shares equal to 1.184% of share capital (equal to €8,878,946.00 divided into 35,515,784 ordinary shares) recorded in the financial statements at a value of €1,045,350.33.

I) Management and Co-ordination

Eurotech is not subject to management and coordination pursuant to article 2497 et seq. of the Civil Code.

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With regard to the additional information indicated in article 123-*bis* of the TUF, note that:

- the information required by article 123-*bis*, paragraph 1, letter i) concerning agreements between the Company and directors that call for compensation in the event of resignations or termination without just cause, or if their employment relationship is terminated following a public tender offer, is described in paragraph 9 below of the Report and in the remuneration report prepared pursuant to article 84-*quater* of the CONSOB Issuer Regulation within the periods set by law on the Company's website at www.eurotech.com under the section “Investors”;
- information required under article 123-*bis*, paragraph 1, letter l) relating to the appointment and replacement of Directors and amendments to the Company bylaws, where these differ from the applicable laws and regulations as supplemented, is provided in Section 4.1 of the Report;
- information required under article 123-*bis*, paragraph 2, letter b) relating to the main features of the risk management and internal control systems is provided in Sections 10 and 11 of the Report;
- information required by article 123-*bis*, paragraph 2, letter c) relating to information on the operational mechanisms of the Shareholders' Meeting, its main powers, shareholder rights and how these are exercised, is provided in Section 16 of the Report;
- information required by article 123-*bis*, paragraph 2, letter d) relating to information on the composition and functioning of the management and supervisory bodies and their committees is provided in Sections 4, 6, 7, 8, 10, 13 and 14 of the Report.

3. COMPLIANCE

Eurotech has adopted the principles contained in the Corporate Governance Code, which is available on the website of Borsa Italiana at www.borsaitaliana.it.

Eurotech and its subsidiaries are not subject to non-Italian legal provisions that influence the Company's corporate governance structure.

The Company will assess the amendments required by the revision of the Code, which was approved in December 2011 (the "**New Code**"), taking into account the temporary regulations contained therein.

4. BOARD OF DIRECTORS

4.1. *Appointment and replacement of Directors*

Pursuant to Article 14 of the Bylaws, the Board of Directors has no less than five and no more than eleven members. The Ordinary Shareholders' Meeting determines their number at the time of appointment. If the number of Directors has been set at a level lower than the maximum limit, the Shareholders' Meeting may increase this number during the Board's term. Directors must satisfy the requirements envisaged by law and other applicable measures, and a minimum number of Directors, corresponding to the legal minimum, must satisfy the independence requirements envisaged in article 148, paragraph 3 of the TUF.

Note that, since it is listed on the STAR Segment of the MTA, the Issuer is obliged to have a sufficient number of Independent Directors on its Board of Directors in order to maintain the STAR qualification, and therefore to fulfil the criteria established by article IA.2.10.6 of Instructions to the Stock Market Regulation, which make provision for: at least two Independent Directors for Boards of Directors with fewer than eight members; at least three Independent Directors for Boards of Directors with nine to 14 members; and at least four Independent Directors for Boards of Directors with more than 14 members.

The Directors serve for a term of three years, expiring on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their term. They may be re-elected at the end of their mandate.

Article 14 of the Company bylaws in force stipulates a list voting system for the appointment of Directors. The lists must be presented by shareholders following the procedures specified below, in which the candidates are listed in numerical order.

The lists that are submitted and signed by the shareholders must be lodged with the registered office of the Company and made available to anyone who requests them, at least 25 days before the first call of the Shareholders' Meeting, and will be subject to other forms of notice in accordance with the laws in force. In particular, at least 21 days before the date of the aforementioned shareholders' meeting, lists are made available to the public at the registered office of the Company, on the Company's website and in the other ways specified by CONSOB in its regulations.

Shareholders, including those party to shareholders' agreements pursuant to article 122 of the TUF, the Parent Company, subsidiaries, and companies subject to joint control pursuant to article 93 of the TUF, must not, directly, or through an intermediary or a trust company, submit more than one list or participate in the preparation of more than one list, and must not vote for different lists. Candidates are restricted to one list only, on penalty of disqualification. Acceptances and votes cast in breach of this rule will not be assigned to any list.

Only those shareholders who, either alone or together with other shareholders submitting lists, own a total of voting shares that represent at least 2.5% of the voting capital at the Ordinary Shareholders' Meeting, or representing any other percentage established by legal and regulatory provisions, may submit lists. With resolution 18083 of 25 January 2012, CONSOB set the minimum shareholding for submitting lists of candidates for the election of the Issuer's Board of Directors at 4.5% of the share capital, for the year ended 31 December 2011.

Each list must be filed by the above deadlines, together with the following documentation:

(i) statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that there are no grounds for their ineligibility or incompatibility, and that they satisfy the requirements for the respective positions;

(ii) curricula vitae setting out the personal details and professional qualifications of each candidate, indicating any reasons why the candidate qualifies as independent.

Proof of ownership of the equity interest required for submission of the list, declared according to the terms and methods provided for in the laws and regulations currently in force.

Lists not submitted according to the above rules shall be considered null and void.

The Board of Directors shall be elected as follows:

a) all Directors to be elected but one shall be taken from the list receiving the highest number of votes, and they shall be elected in the numerical order of listing;

b) the remaining Director is taken from the minority list with no direct or indirect links with the shareholders submitting or voting for the list described in point a) above and receiving the second highest number of votes. If the minority list referred to in point b) does not receive a percentage of votes that is at least equal to one half of those required for submitting the lists, pursuant to article 14.3 of the bylaws, all the Directors to be elected shall be taken from the list referred to in point a).

If the candidates elected using the methods described above do not ensure the appointment of the minimum number of Directors fulfilling the independence requirements established for Statutory Auditors by article 148, paragraph 3 of the TUF prescribed by law in relation to the total number of Directors, the non-independent candidate elected last in numerical order on the list receiving the greatest number of votes, pursuant to point a) above, will be replaced by the first independent unelected candidate in numerical order on the same list, or, failing this, by the first independent unelected candidate in numerical order on the other lists, according to the number of votes obtained by each list. This procedure shall be applied until the Board of Directors comprises a number of members that complies with the requirements set out in article 148, paragraph 3 of the TUF, equal to at least the minimum prescribed by law. Finally, if this procedure does not ensure the final result indicated above, the vacant position shall be filled by shareholders' resolution passed with a relative majority, following the submission of candidates satisfying the aforementioned requirements.

If a single list is submitted or if no list is submitted, the Shareholders' Meeting passes a resolution by legal majority, without complying with the procedure described above.

If one or more Directors' positions become vacant during the year, and providing that the majority of the remaining Directors were elected by the Shareholders' Meeting, the following provisions of article 2386 of the Civil Code apply:

a) the Board of Directors shall fill the vacant positions with individuals on the list from which the departing Director was elected, and the Shareholders' Meeting shall pass a resolution with a legal majority, in compliance with the same criterion;

b) if the aforementioned list does not contain any more candidates who have not been previously elected or candidates satisfying the envisaged prerequisites, or if it is not possible for any reason to comply with the provisions of point a) above, the Board of Directors shall fill the vacancy as the Shareholders' Meeting shall subsequently decide, by legal majority without a voting list. In any event, the Board of Directors and the Shareholders' Meeting shall appoint replacements in order to ensure the presence of as many Independent Directors as necessary to comply with current legal minimums. If the majority of Directors appointed by the Shareholders' Meeting resign or leave office for other reasons, the remaining Directors must call a Shareholders' Meeting to fill the vacant positions.

If one or more Directors' positions are vacated during the year, the provisions of law shall apply to their replacement if the Shareholders' Meeting does not resolve to reduce the number of Directors set in accordance with the aforementioned procedures. If the majority of Directors appointed by the Shareholders' Meeting resign or leave office for other reasons, the remaining Directors must call a Shareholders' Meeting to fill the vacant positions.

In accordance with the provisions of article 14.2 of the Company bylaws, the current Directors satisfy the applicable regulations or legislation.

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Amendments to the Company bylaws

Amendments to the Company bylaws must be made by resolution of the Extraordinary Shareholders' Meeting through a legal majority vote.

Pursuant to article 19 of the bylaws, the Board of Directors is responsible for passing resolutions on the following matters, in compliance with article 2436 of the Civil Code: (i) simplified mergers and demergers, pursuant to articles 2505, 2505-*bis*, 2506-*ter*, final paragraph of the Civil Code; (ii) relocation of the Company's registered office within Italy; (iii) capital reductions in the event of redemption; and (iv) updating the Company bylaws to comply with regulatory provisions, without prejudice to the fact that these resolutions may also be adopted by the Extraordinary Shareholders' Meeting.

4.2. *Composition*

The Issuer's Board in office on the date of this Report consists of nine members appointed by the ordinary Shareholders' Meeting held on 28 April 2011 based on a single majority list presented by shareholder Roberto Siagri pursuant to the bylaws in force.

The Board will remain in office until the date of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2013.

The curricula vitae of the Directors are held at the Issuer's registered office and can be viewed in the Investors section of its website www.eurotech.com

Table 2 attached to this Report lists the members of the Board of Directors in post at the date of this Report, and provides information on the position held and the date this position was assumed; it also indicates whether the Director is non-executive or independent, the Director's percentage attendance of Board meetings and the number of director/auditor positions held by each Director in other companies listed on regulated markets (including abroad), in financial companies, banks, insurance companies or large companies.

Maximum number of positions allowed in other companies

All members of the Board of Directors are required to take decisions in an informed, independent manner with the aim of creating value for shareholders, and are committed to dedicating the time necessary to discharge their functions diligently. Accordingly, each candidate for a Director's position shall first determine whether he/she can discharge the assigned duties with due care and effectiveness when accepting a position at the Company, particularly in view of the number of director/statutory auditor positions held at other companies listed on regulated markets in and outside Italy, in financial companies, banks, insurance companies, or large companies, and the overall commitment required by these other positions. Each member of the Board of Directors must also inform the Board of Directors if he/she has accepted positions as director or statutory auditor in such companies, so that full disclosure thereof may be provided in the annual report on operations.

With regard to positions held by Eurotech Directors in management and supervisory bodies of other companies, at this time the Board of Directors does not believe it is appropriate to set fixed limits. However, all Directors are required to assess the compatibility of positions of Director and Statutory Auditor held in other companies listed in regulated markets, financial companies, banks, insurance companies or large companies, and endeavour to diligently perform the duties assigned as Director of Eurotech. At its meeting of 2March 2012, the Board, after reviewing the positions currently held by board members in other companies, decided that the number and nature of these positions do not interfere and are compatible with the effective performance of their roles as Directors of the Issuer.

With regard to the positions held by Eurotech Directors (including Directors whose mandates expired during the year) in other listed companies and in financial, banking, insurance or large-scale companies, the following table shows the main activities carried out by members of the Board of Directors outside the company, in accordance with application criterion 1.C.2. of the Corporate Governance Code:

Name and surname	Company	Management and supervisory positions
Roberto Siagri	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Chairman of the Board of Directors
	E -TechInc. (USA) (Eurotech Group)	Chairman of the Board of Directors
	Eth Devices SO (SK) (Eurotech Group)	Executive Director
	Advanet Inc. (Japan) (Eurotech Group)	Director
	ETHLab Srl (Eurotech Group)	Director
	Parvus Corp. (USA) (Eurotech Group)	Director
	Eurotech France SA (Eurotech Group)	Director
	Nextra Gen Srl	Sole Director
Giampietro Tecchiolli	ETHLab Srl (Eurotech Group)	Chairman of the Board of Directors
	Eurotech France SA (Eurotech Group)	Chairman of the Board of Directors
	Eth Devices S.o. (Eurotech Group)	Executive Director
	Assisted Living Consortium (ALC)	Vice Chairman and Director
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Vice Chairman and Director
	E-Tech USA Inc. (Eurotech Group)	Director
	Advanet Inc. (Japan) (Eurotech Group)	Director
	Eurotech Ltd (Eurotech Group)	Director
	EVS – Embedded Vision Systems	Director
Sandro Barazza	IPS - Sistemi Programmabili Srl (Eurotech Group)	Executive Director
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
	Eurotech Inc. (USA) (Eurotech Group)	Director
	Parvus Corp. (USA) (Eurotech Group)	Director
	Eurotech Ltd (UK) (Eurotech Group)	Director
	Advanet Inc. (Japan) (Eurotech Group)	Executive Director
	Eurotech France SA (Eurotech Group)	Director
	Colorprint SpA	Substitute Auditor
Chiara Mio	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
	MCZ SpA	Statutory Auditor
Alberto Felice De Toni (in post until 27 April 2011)	The Business Games Srl	Chairman of the Board of Directors
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
	Vicino/Lontano Association	Member of the Executive Board
Giovanni Soccodato	Alenia Aermacchi SpA	Director
	Ansaldo Energia SpA	Director
	Selex Sistemi Integrati SpA	Director
	Fondazione Ricerca & Imprenditorialità	Member of the Management Board
	Telespazio Holding Srl	Director
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
	BOD DRS Technologies, Inc.	Director
	MB MBDA BV	Director

	Thales Alenia Space SAS	Chairman
Maurizio Tucci (in post until 27 April 2011)	Lazio BancaImpresa	Chairman
	Alitalia Maintenance Systems SpA	Chairman and CEO
	Finmeccanica SpA	Senior Advisor to the Chairman and Chief Executive Officer
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
	Fondazione Musica per Roma	Director
	Investimenti SpA	Director
	Professor of Corporate Organisation at LUMSA University, Rome	Director
Cesare Pizzul	FORT Srl (Italy - Sossano (VI))	Chairman
	SUNSHINE SpA (Italy - Sossano (VI))	Executive Director
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
	Syrion BVBA (Belgium - Hoogstraaten Meer)	Director
	WULFENIA BUSINESS CONSULTING GmbH (Austria - Klagenfurt)	Sole Director
	WULFENIA CONFIDA DOO (Croatia - Rijeka)	Executive Director
	MULTIKOMP DOO (Croatia - Rijeka)	Executive Director
	Antwerp Corporate Management BVBA (Belgium - Hoogstraaten Meer)	Executive Director
	WULFENIA CONSULTING BELGIUM (Belgium - Hoogstraaten Meer)	Executive Director
Giovanni Bertolone	AIAD	Chairman of Research Committee
	CIRA ScpA	Director
	ASD Bruxelles	Chairman of R&T Commission
	Iveco – Oto Melara Societa` Consortile rl	Director
	Unione Industriale Torino	Director
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
Giancarlo Grasso	Centro Sviluppo Materiali SpA	Director
	Ansaldo STS SpA	Vice Chairman
	Selex Elsag SpA	Director - Vice Chairman
	Selex Galileo SpA	Director
	Thales Alena Space SAS	Supervisory Board member
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director
Maria Cristina Pedicchio	Agenzia Nazionale per la Promozione della Ricerca Europea (APRE)	Chairman of the Technical and Scientific Committee
	United World College of the Adriatic	Director
	International School of Trieste	Director
	Centro Nazionale per le Risorse Biologiche (CNRB)	Director
	Advisory Council of the Ambassador of Canada	Director
	Technical and Scientific Committee of Centro di Riferimento Oncologico, Istituto Nazionale	Director
	EUROTECH SpA (Italy - Amaro (UD)) (Eurotech SpA Group)	Director

4.3. *Role of Board of Directors*

The Board of Directors plays a key role in the Company organisation. It develops and is responsible for strategic and organisational policies, and verifies the existence of the controls necessary for monitoring performance of the Company and the companies of the Eurotech Group.

The Board of Directors is vested with full authority for Company management and may accordingly resolve or carry out all those acts deemed necessary or useful for implementation of the corporate purpose, with the exception of what is reserved by law or the Company bylaws for the Shareholders' Meeting.

The Board of Directors is also responsible for resolving on the following matters, in compliance with Section 2436 of the Civil Code:

(i) simplified mergers and demergers, pursuant to articles 2505, 2505-*bis*, 2506-*ter*, last paragraph, of the Civil Code;

(ii) establishment or closure of branch locations;

(iii) relocation of the registered office within Italy;

(iv) indicating which Directors have been made legal representatives;

(v) reducing the share capital following redemption;

(vi) amending the Company bylaws in line with regulatory provisions,

without prejudice to the fact that these resolutions may also be taken by the Extraordinary Shareholders' Meeting.

On 13 May 2011, the Company's Board of Directors assumed exclusive responsibility for the following matters, in addition to the resolutions indicated above and without prejudice to matters that cannot be delegated by law:

(i) examining and approving the strategic, business and financial plans of the Company and the corporate structure of the group that it heads; specifically, this includes examination and approval of the business plan and annual investment budget, as well as additions and/or changes to the same documents in an amount exceeding 20% of what was originally envisaged;

(ii) monitoring general operating performance; while carrying out this function, the Board of Directors carefully assesses potential conflicts of interest, considers the information received from the Chief Executive Officers and periodically compares the results achieved with budget targets;

(iii) monitoring the adequacy of the general organisational and administrative structure of the Company and Group put in place by the Chief Executive Officers;

(iv) approving and modifying the Company's and Group's fundamental organisational structure;

(v) planning and proposing new investments in amounts greater than:

- €500,000.00 (five hundred thousand/00) per individual investment in capital equipment;
- €1,000,000.00 (one million/00) per individual multi-year investment in research and development.

(vi) selling and purchasing know-how;

(vii) examining and approving transactions having a specific impact on operating results, equity and the financial position pursuant to the CONSOB regulations governing listed companies;

(viii) purchasing or selling equity investments; entering into mergers, transformations, disposals and/or sales of a company and business units. The above provision does not include the participation for operating reasons in consortiums or consortium companies. Capital increases are excluded on companies already owned that call for an investment of less than €100,000 (one hundred thousand) and do not result in an increase in the stake held;

(ix) entering into capital-related transactions, transformations, market listings, mergers, splits, liquidations, and entering into shareholder agreements related to direct subsidiaries;

(x) hiring, appointing or dismissing executives and determination of their salaries;

(xi) purchasing and selling real estate;

(xii) entering into medium- or long-term loan agreements as lender and borrower, including with direct subsidiaries, associates and other companies and obtaining credit facilities with any type of utilisation in amounts greater than €3,000,000.00 (three million/00) per single transaction;

(xiii) issuance of guarantees and/or collateral to third parties in amounts greater than €3,000,000.00 (three million/00) per single transaction.

In 2010, the Board, in line with the recommendations of the Code:

- examined and approved the strategic, business and financial plans of the Issuer and the Group that the Issuer heads;
- examined and approved the corporate governance system of the Issuer and the structure of the Group that the Issuer heads, drafting and adopting the Company's corporate governance rules and the Group's governance guidelines;
- assessed, on at least a quarterly basis, the adequacy of the organisational, administrative and general accounting structure of the Issuer and the strategically important subsidiaries put in place by the Chief Executive Officer, with a particular focus on the internal control system and the management of conflicts of interest according to the procedures adopted by the Issuer in this regard. In carrying out this activity the Board received, according to individual cases, the support of the Internal Control Committee, the Compliance Officer and the Financial Reporting Manager, and made use of procedures and audits, including those set out in Italian Law 262/2005. During its meeting of 02 March 2012, the Board, on the basis of the calculations of the Internal Control Committee, assessed the Company's organisational, administrative and general accounting structure and expressed a positive opinion on the internal control system and, more generally, on the corporate governance system of the Company and the Group that the Issuer heads;
- after examining the proposals of the Remuneration Committee and consulting the Board of Statutory Auditors, determined the compensation of the Chief Executive Officers and other Directors holding specific positions, and subdivided the total remuneration for individual Directors, where the Shareholders' Meeting had not done so;
- evaluated, on at least a quarterly basis, overall operation performance, taking into account, in particular, the information received by the delegated bodies, and comparing the results achieved with projections on a regular basis;
- examined and approved in advance, in accordance with current regulations: (*i*) transactions of the Issuer and its subsidiaries with strategic, business, asset or financial importance for the Issuer; (*ii*) transactions in which one or more Directors have an interest on their own behalf or on behalf of third parties, and (*iii*) more generally, related party transactions; for more information on the management of conflicts of interest and related party transactions of the Issuer, see Section 12 below.

The Shareholders' Meeting has not authorised any exemptions from the provisions relating to competitors laid down in article 2390 of the Civil Code.

Pursuant to article 17 of the Company bylaws, a majority of current Directors must be in attendance for resolutions to be valid. Resolutions are passed by a majority of the voting members, with the abstaining members not being included in the calculation.

Pursuant to article 19.2 of the Company bylaws, the Board of Directors – within the limits imposed by law or the bylaws – may delegate its own authority and powers to the Executive Committee and may also appoint one or more Chief Executive Officers to whom to delegate authority and powers.

The same article envisages that the Executive Committee, the Chief Executive Officer or the Chief Executive Officers if appointed, must adequately and promptly report to the Board of Directors and the Board of Statutory Auditors at least once every quarter on the exercise of the delegated authority and activities performed, the general operating performance and business outlook, and the most significant transactions in terms of scale and characteristics carried out by the Company and its subsidiaries. Pursuant to article 21 of the Company bylaws, the Board of Directors may appoint an Executive Committee, setting its term and number of members in advance. The Chairman and Vice Chairman or Vice Chairmen (if more than one and if appointed) are ex-officio members of the Committee.

Pursuant to Article 22 of the Bylaws, the terms and conditions for calling and operating the Executive Committee, without prejudice to the provisions of applicable laws or regulations or the Bylaws – are defined by the specific Regulation approved by the Board of Directors.

Board meetings

Board meetings are chaired by the Chairman or, if he/she is absent or prevented from attending, by the sole Vice Chairman or, if there are several Vice Chairmen, the one with the greatest seniority in that position who is in attendance and, if they have the same seniority, the oldest in age. The Chairman – or the person acting for him/her in the cases set out above – calls the Board meetings, sets their agenda and moderates their proceedings, ensuring that the Directors are promptly provided with the necessary documents and information pursuant to article 16 of the Company bylaws. The Chairman also chairs the Shareholders' Meeting, performing the roles and functions set out in article 10.2 of the Company bylaws.

The Board of Directors meets regularly, and whenever the Chairman deems necessary, or when it is requested by the Chief Executive Officer or at least three board members. Board meetings may also be called by two Statutory Auditors, upon notification to the Chairman of the Board of Statutory Auditors.

The Board of Directors held 5 (five) meetings during 2011, on: 15 March, two on 13 May, 29 August and 14 November 2011.

The meetings were duly minuted.

The average meeting duration was one hour.

The members of the Board of Directors and the Board of Statutory Auditors regularly attended these meetings.

At least 6 (six) Board of Directors meetings are planned for the current year, according to the calendar of Board meetings (four dates for which were previously communicated to the market and Borsa Italiana S.p.A. in accordance with regulatory provisions). In addition to the meetings held on 2 March and 15 March to approve the draft financial statements and the Group's consolidated financial statements, the Board of Directors is scheduled to meet on the following dates:

- 14 May (approval of the first-quarter results to 31 March 2012);
- 29 August (approval of the first-half results to 30 June 2012);
- 14 November (approval of the third-quarter results to 30 September 2012);

The financial calendar is available in Italian and English in the Investors section of the Company website at www.eurotech.com.

4.4. *Delegated bodies*

a) Chairman of the Board of Directors

Pursuant to article 25 of the Company bylaws, the Chairman is the legal representative of the Company and has power of signature for it. If the Chairman is absent or prevented from attending, these powers are exercised by the Vice Chairman or Vice Chairmen, according to the provisions of the bylaws. The Chief Executive Officer(s), if appointed, is/are also legal representatives of the Company, within the limits of the delegated authority.

The Board meeting held on 13 May 2011 granted Roberto Siagri, Chairman of the Board of Directors, full powers of representation and ordinary management with free power of signature, including those in the following (non-exhaustive) list, to carry out and supervise the organisation and management of the Company and its subsidiaries:

Legal representative:

- representation of the Company before any third party;
- representation of the Company, either actively or passively, before the administrative and financial, civil and penal authorities, at every order and level of jurisdiction, including for judgements of revision and appeal, appointing and terminating as necessary lawyers, attorneys and experts, filing complaints and making applications to take part in proceedings as a civil party. Settling and reconciling judgements and withdrawing from proceedings; submitting disputes for arbitration and carrying out all formalities related to arbitration judgments;
- filing of all reports or declarations that the Company must submit pursuant to law;
- delegating authority and conferring special and/or general powers of attorney to establish acts or categories of acts within the scope of the powers conferred;
- as the Company's representative, discussion and settlement of all administrative matters before any authority and agency, ministry or state entity, signing petitions and appeals, requesting and collecting refunds;
- representation of the Company before all authorities, agencies or entities with jurisdiction over tax matters;
- filing of all reports or declarations that the Company must submit pursuant to law;
- signing and filing tax returns and declarations.

Administrative and tax representative:

- signing and submitting petitions, appeals, objections and reservations against tax assessments, arranging and defining practice in all tax matters, requesting and collecting refunds;
- participate in inspections by the tax police and all other authorities, signing the relevant reports;
- filing of all reports or declarations that the Company must submit pursuant to law;
- request any authority with jurisdiction for administrative and public safety licenses, particularly trade licenses, including registration thereof in his own name as the Company's legal representative.

Representative to CONSOB and Borsa Italiana SpA

- Represent the Company before Consob and at the market management companies, including in any proceedings that might have been filed with them, with the authority to draft notices and/or any other document pursuant to law and regulations;
- filing of all reports or declarations that the Company must submit pursuant to law.

Trademarks and patents:

- Deposit, abandon, limit and expand patents for inventions of ornamental, utility and industrial models, for factory and trade marks in Italy and at the international level, protect them in administrative venues, carrying out all acts as necessary pursuant to current law, appointing correspondents for this purpose and granting them authority as necessary;
- represent the company for all matters regarding the deposit, registration, and cancellation of patent, trademark and utility model rights.

Representation in associated companies:

- the exercising of voting rights and representation of the Company at Shareholders' Meetings, in consortia or other entities in which the Company has equity interests, and the exercising of all the

Company's other rights in relation to its interest in these other companies, consortia or other entities, delegating authority to third parties as necessary;

- representation of the Company to subsidiaries or foreign affiliates, as well as representatives and customers outside Italy in general, and before foreign bodies and authorities in general.

Employees:

- recruitment, suspension and termination of employees, with the exception of executives, executing the relevant agreements, defining remuneration, duties and any bonds, and satisfying all relevant obligations consequent upon administration of employment relationships;
- execution, amendment and termination of agreements with external consultants and freelance employees;
- represent the Company before trade unions, with the power to settle disputes;
- represent the company before all authorities, entities and institutes in regard to labour matters;
- representation of the Company before all social security and insurance institutions, satisfying the obligations imposed by applicable labour laws and regulations.

Contracts of sale and exchange:

- participation in tenders held by state agencies and public and private entities in Italy and abroad, for the supply of goods and services in general, submitting bids and, if the contract is awarded, granting authority for signing the contracts for each individual tender or bid for amounts up to € 5,000,000.00 (five million/00);
- execution and approval of all documents and agreements relating to the transfer of goods and provision of services, with the exception of capital assets, connected with the Company's activity, for a value of up to € 5,000,000.00 (five million/00) and/or with a duration of three years or more;
- examination, amendment, approval, execution and cancellation of contracts of sale and exchange, including those that envisage the receipt of commissions, finished and semi-finished products, raw materials and goods for performing corporate activities for a value of up to Euro 5,000,000.00 (five million/00).

Agency agreements:

- examination, amendment, approval and cancellation of agency, commercial licensing or sub-licensing, commission and bailment agreements.

Company management agreements:

- examination, amendment, approval, execution and cancellation of new investment programmes and proposals in amounts up to:
  - €500,000.00 (five hundred thousand/00) per individual investment in capital equipment;
  - €1,000,000.00 (one million/00) per individual multi-year investment in research and development.
- examination, amendment, approval, execution and termination of any document and agreement necessary for management of the Company whose individual value is less than € 1,500,000 and whose duration is less than three years;
- examination, amendment, approval, execution and termination of partnership agreements with universities and research institutes and joint venture agreements, except, in the latter case, where the Board of Directors is exclusively responsible for transactions with a specific impact on the

operating results, equity and financial position pursuant to CONSOB regulations for listed companies;

- examination, amendment, approval, execution and termination of lease agreements, including finance leases and commercial leases and subleases for the use of assets in the amount of up to € 500,000.00 and with a duration of up to nine years;
- requesting all forms of new loans and credit lines from banks, amending, approving and cancelling loans in euro and/or foreign currency, with the power to sign the related documentation for amounts of up to € 3,000,000.00 for each loan and/or credit line, with a total annual limit of € 5,000,000.00, excluding financial transactions in countries on the blacklist kept by the Ministry of Economic Affairs;
- execute all transactions with factoring companies, including the execution of agreements, sale of receivables and/or acceptance of sales by suppliers, the establishment of guarantees, collection orders, discounting and whatever else connected with factoring relationships;
- examination, amendment, approval and cancellation of supply contracts in general, including service agreements, work agreements and similar provision of goods and all relevant and consequent acts for an amount equal to or less than € 1,500,000.00 per single agreement, other than the sale of goods, provision of services and participation in tenders as described in the previous two points;
- definition of guidelines for, and execution of, cash pooling operations, such as, but not limited to, opening and closing of deposit accounts, swaps, negotiation of interest rates, the commencement and termination of operating mandates and, in general, all similar transactions;
- Capital increases in subsidiaries, associates and other companies that are already owned that call for an investment of less than €100,000 (one hundred thousand) and do not result in an increase in the stake held.

Vehicles:

- represent the Company before all authorities and entities, signing all documents regarding the legal status of the transport vehicles and grant authorisations to drive Company owned vehicles to employees or third parties.
- the purchase, sale and exchange, up to a limit of € 100,000, of any land transport vehicle, executing the related formalities with the competent public automotive registers, including the arrangement and cancellation of mortgages.

Financial transactions and relations with banks:

- within the limits of the granted credit lines, execution of any debit or credit transaction on the Company’s current accounts at banks and post offices in Italy and abroad, excluding countries on the blacklist published by the Ministry of Economic Affairs; issuing, endorsing and collecting bank cheques and having issued, endorsing and collecting banker’s drafts;
- issue, receipt and endorse bills of exchange; have issued, accept and endorse merchandise notes;
- execution or release of security deposits in cash or securities;
- depositing public or private securities with banks, in custodian, trust or pledge accounts; withdrawing them by issuing a receipt in release thereof;
- rental and cancellation of the rental of safe deposit boxes, with the power to open them and remove their contents;
- issuing bills of exchange and endorsements only to suppliers and for legal transactions, accepting bills only from suppliers and only if issued on legally compliant orders.

Administrative matters:

- collection of postal and telegraph money orders and issuance of the related receipts;
- collection of postal packets, registered and insured letters from any post office and issuance of the related receipts;
- giving and accepting security deposits;
- executing all customs clearance transactions, making and withdrawing the required deposits and all other matters with the Customs Offices, signing all documents as necessary.

Endorsement and collection of negotiable instruments

- negotiate, sign and collect bills (paper and IOUs), promissory notes, cheques and any other trade instrument or bills, signing the relevant documents, endorsements and receipts;
- endorsement of bills, cheques and all other negotiable instruments for collection;
- filing protests, issuing orders to pay, taking preventive and enforcement measures and handling their revocation if necessary.

Correspondence and other documents:

- signing all Company correspondence;
- issuing, signing and issuing receipts for invoices, debit and credit memoranda, and receiving them;
- signing and issuing waybills and transport bills, and receiving them.

Collection of receivables:

- demands for receivables, collection and withdrawal of cash and cash equivalents for any reason from any bank, entity or person, issuance of receipts and releases;
- issuance of bills to customers and other debtors;
- serving notices of placement in default and having bank protests issued;
- taking enforcement and preventive measures, obtaining injunctions, orders, attachments and seizures, registration of court mortgages and claims on merchandise, including the merchandise held at third party locations, and revoking those acts;
- filing bankruptcy petitions, representing the mandating Company in bankruptcy proceedings, filing the relevant credit claims, certifying their effective existence, voting in arrangements with creditors, collecting final and partial distributions, participating in procedures for arrangements with creditors and receivership and carrying out all acts involved in those procedures.

Special mandates:

- Within the limits of his own powers, grant mandates and special powers of attorney to Company employees and third parties that authorise them to execute specific transactions and classes of actions in the name and on behalf of the Company, using the power of Company signature to do so and revoking these mandates as necessary;
- even if not expressly specified here, do whatever else is appropriate and necessary on behalf of the principal, with no exceptions except for those specified, with the foregoing list of powers having to be considered examples but not mandatory. All of the foregoing authority is granted with promise of full ratification and approval and full exemption from liability for any party.

Specific activities:

- execution, amendment and termination of agreements for the purchase of spaces and/or systems for advertising services and advertising, promotion and experimentation materials; agreements for the Company's advertising activity and market research.
- perform all supervisory duties and implement statutory and regulatory provisions concerning listed companies and established by authorities with jurisdiction;
- perform all actions deemed necessary to carry out the function of relations with investors, the domestic and international press and market;
- supervise the organisation of communication programmes, including through participation in events, trade fairs and any other initiatives to promote the Company's image.

* * *

In addition to the powers listed above, which are representative and not exhaustive, all the operating powers of the Board of Directors, with the exception of those that cannot be legally delegated or those for which the Board of Directors has exclusive responsibility, and those assigned to the Company's Executive Committee, with the power of legal representation and free power of signature.

b) Vice Chairman and Executive Director

The Board meeting held on 13 May 2011 granted Giampietro Tecchiolli, Vice Chairman of the Board of Directors, full powers of representation and ordinary management with free power of signature, including those in the following (non-exhaustive) list, to carry out and supervise the organisation and management of the Company and its subsidiaries:

Legal representative:

- representation of the Company before any third party;
- represent the company before any Italian or foreign judicial or administrative authority, at any level of jurisdiction, in disputes of any nature and vis-à-vis anyone;
- deciding on and pursuing actions in any judicial, civil, criminal and administrative venue, at any level of jurisdiction, whether as a plaintiff or as a defendant;
- delegation of authority and conferring special and/or general powers of attorney to establish acts or categories of acts within the scope of the powers conferred.

Shareholders' Meetings:

- as the Company's representative, discussion and settlement of all administrative matters before any authority and agency, ministry or state entity, signing petitions and appeals, requesting and collecting refunds;
- representation of the Company before all authorities, agencies or entities with jurisdiction over tax matters;
- filing of all reports or declarations that the Company must submit pursuant to law;
- signing and filing tax returns and declarations.

Trademarks and patents:

depositing, abandoning, limiting and expanding invention patents for ornamental, utility and industrial models for factory and commercial trademarks in Italy and internationally, protecting them in administrative venues, carrying out all necessary acts pursuant to the laws in force, appointing correspondents for this purpose and granting them all necessary powers;

- represent the company for all matters regarding the deposit, registration, and cancellation of patent, trademark and utility model rights.

Representation in associated companies:

- the exercising of voting rights and representation of the Company at Shareholders' Meetings, in consortia or other entities in which the Company has equity interests, and the exercising of all the Company's other rights in relation to its interest in these other companies, consortia or other entities, delegating authority to third parties as necessary;
- representation of the Company to subsidiaries or foreign affiliates, as well as representatives and customers outside Italy in general, and before foreign bodies and authorities in general.

Employees:

- represent the Company before trade unions, with the power to settle disputes;
- represent the company before all authorities, entities and institutes in regard to labour matters;
- representation of the Company before all social security and insurance institutions, satisfying the obligations imposed by applicable labour laws and regulations.

Contracts of sale and exchange:

- participation in tenders held by state agencies, public and private entities in Italy and abroad, for the supply of goods and services in general, submitting bids and, if the contract is awarded, signing the contracts for each individual tender or bid for an amount up to €2,000,000.00 (one million [sic]/00);
- execution of all documents and agreements relating to the sale of goods, with the exclusion of capital goods, and the provision of services related to the Company's activity whose value is less than €1,000,000.00 and whose duration is less than three years;
- execution and cancellation of contracts of sale and exchange, including those providing for the receipt of commissions, finished and semi-finished products, raw materials and goods for performing corporate activities for a value of up to €1,000,000.00;
- execution, amendment and termination of agency agreements, commercial licensing or sub-licensing agreements, commission agreements and bailment agreements when the value of each individual agreement is less than €50,000.00.

Company management agreements:

- execute all documents and agreements necessary for management of the company whose individual value is less than €250,000 and for a term of less than three years;
- execute and terminate partnership agreements with universities and research institutes.

Vehicles:

- represent the Company before all authorities and entities, signing all documents regarding the legal status of the transport vehicles and grant authorisations to drive Company owned vehicles to employees or third parties;
- purchase, sell and exchange all land transport vehicles, with a limit of €50,000.00.

Financial transactions and relations with banks:

- issuing, receiving and endorsing bills of exchange; having issued, accepting and endorsing merchandise notes.

Administrative matters:

- collection of postal and telegraph money orders and issuance of the related receipts;
- collection of postal packets, registered and insured letters from any post office and issuance of the related receipts;
- giving and accepting security deposits;
- executing all customs clearance transactions, making and withdrawing the required deposits and all other matters with the Customs Offices, signing all documents as necessary.

Endorsement and collection of negotiable instruments

- negotiate, sign and collect bills (paper and IOUs), promissory notes, cheques and any other trade instrument or bills, signing the relevant documents, endorsements and receipts;
- endorsement of bills, cheques and all other negotiable instruments for collection;
- filing protests, issuing orders to pay, taking preventive and enforcement measures and handling their revocation if necessary.

Correspondence and other documents:

- signing all Company correspondence;
- issuing, signing and issuing receipts for invoices, debit and credit memoranda, and receiving them;
- signing and issuing waybills and transport bills, and receiving them.

Collection of receivables:

- demands for receivables, collection and withdrawal of cash and cash equivalents for any reason from any bank, entity or person, issuance of receipts and releases;
- issuance of bills to customers and other debtors;
- serving notices of placement in default and having bank protests issued;
- taking enforcement and preventive measures, obtaining injunctions, orders, attachments and seizures, registration of court mortgages and claims on merchandise, including the merchandise held at third party locations, and revoking those acts;
- filing bankruptcy petitions, representing the mandating Company in bankruptcy proceedings, filing the relevant credit claims, certifying their effective existence, voting in arrangements with creditors, collecting final and partial distributions, participating in procedures for arrangements with creditors and receivership and carrying out all acts involved in those procedures.

Special mandates:

- Within the limits of his own powers, grant mandates and special powers of attorney to Company employees and third parties that authorise them to execute specific transactions and classes of actions in the name and on behalf of the Company, using the power of Company signature to do so and revoking these mandates as necessary;
- even if not expressly specified here, do whatever else is appropriate and necessary on behalf of the principal, with no exceptions except for those specified, with the foregoing list of powers having to be considered examples but not mandatory. All of the foregoing authority is granted with promise of full ratification and approval and full exemption from liability for any party.

Specific activities:

- Within the scope of the strategic guidelines issued by the Board of Directors and/or the Chairman, the coordination of Company research and development, specifically:
- take those initiatives as necessary to realise corporate and group research and development programmes;
- take all measures as necessary to promote the study, design and completion of new products, exploiting the assistance of all members of the Company and Group organisation as defined in the Company and Group organisational chart, and using the creative talents and experience of all personnel;
- coordinating Group research and development activities, reporting periodically on these to the Board of Directors;
- chairing and coordinating the activities of the Scientific Committee;
- within the scope of the strategic guidelines issued by the Board of Directors, co-ordinate Company research and development, and in particular:
- take those initiatives as necessary to realise corporate and group research and development programmes;
- monitor public/publicly funded research projects, including international projects, and take part in those of interest to the Company and the Group in accordance with the strategic guidelines set out by the Board of Directors and/or Chairman;
- take all measures as necessary to promote the study, design and completion of new products, exploiting the assistance of all members of the Company and Group organisation as defined in the Company and Group organisational chart, and using the creative talents and experience of all personnel.

During the year, the delegated bodies reported to the Board of Directors on the activities carried out while exercising the powers conferred on at least a quarterly basis and in such as way as to allow the Board to express an informed opinion on the matters submitted for examination.

c) Executive Committee

The Issuer’s Board of Directors has not created an Executive Committee.

4.5. *Other Executive Directors*

With regard to article 2.C.1. of the Code, there are no other Executive Directors.

Pursuant to article 2.C.2. of the Code, the Chairman encourages the attendance of the Directors at meetings of the Board of Directors and Shareholders’ Meetings, as well as their participation in other initiatives designed to enhance their knowledge of the situation and dynamics of the business, such as face-to-face meetings with key Group managers.

4.6. Independent Directors

Pursuant to the combined provisions of articles 147-*ter* (4) and 148 (3) of the TUF, in accordance with article 2.2.3(3)(k) of the Stock Market Regulation and article IA.2.10.6 of the Stock Market Regulation

Instructions – both of which are applicable to STAR-qualified issuers – and in accordance with Principle 3 of the Corporate Governance Code, the Board of Directors currently contains three Independent Directors – Cesare Pizzul, Chiara Mio and Maria Cristina Pedicchio – who:

(i) do not control the Company directly or indirectly, through subsidiaries, trust companies, or intermediaries, and cannot exercise significant influence over it;

(ii) are not, directly or indirectly, party to any shareholders' agreement through which one or more persons can exercise control or significant influence over the Company;

(iii) are not and have not during the past three financial years been key executives (i.e. the legal representative, the Chairman of the Board of Directors, an Executive Director or executive with strategic responsibilities) of the Company, one of its strategic subsidiaries, a company subject to joint control with it or a company or entity that, either separately or jointly with others through a shareholders' agreement, controls the Company or can exercise significant influence over it;

(iv) do not have and have not had during the previous year, directly or indirectly (e.g. through subsidiaries or companies in which they are key executives, in the sense set out in point (iii) above, or as the partner in a professional or consulting firm), a significant commercial, financial or professional relationship, or employment, with: (*a*) the Company, one of its subsidiaries or a key executive, in the sense set out in point (iii) above, at these companies; (*b*) a party that, either separately or jointly with others through a shareholders' agreement, controls the Company or – in the case of a company or entity – a key executive, in the sense set out in point (iii) above, at these companies;

(v) without prejudice to point (iv) above, do not have freelance or employee working relationships, or other financial or professional relationships that could compromise their independence: (*a*) with the Company, its subsidiaries or parent companies, or with companies subject to joint control; (*b*) with Directors of the Company; (*c*) with spouses or relatives to the fourth degree of the Directors of the companies referred to in point (a) above;

(vi) do not receive and have not received during the last three financial years from the Company or a subsidiary or parent company, significant remuneration in addition to the fixed compensation as a Non-Executive Director of the Company, including participation in incentive plans linked to Company performance, including stock option plans;

(vii) have not been Directors of the Company for more than nine of the last 12 years;

(viii) are not Executive Directors at any other company where an Executive Director of the Company serves as Director;

(ix) are not shareholders or Directors of any company or entity within the network of the company responsible for auditing the accounts of the Company;

(x) are not close relatives of a person who is in one of the situations described in the preceding points, and are not spouses or relatives to the fourth degree of Directors of the Company, its subsidiaries, companies that control it and those subject to joint control with it.

At the time of the submission of the list from which the Ordinary Shareholders' Meeting appointed the current Board of Directors, declarations attesting to the fulfilment of the requirements set out in the Corporate Governance Code for Independent Directors were deposited at the registered office of the Company.

The Board of Directors assesses compliance with these requirements using information that the interested parties are required to provide under their own responsibility and any other information available to it.

On 02 March 2012, the Board of Directors of Eurotech carried out the annual assessment pursuant to article 1.C.1(g) of the Corporate Governance Code, finding that the composition and functions of the Board of Directors are appropriate for the operating and organisational requirements of the Company. The presence of five non-executive directors, including three Independent non-executive Directors, out of a total of nine Directors, ensures that Board of Directors committees have the right balance of members.

Satisfaction of the pre-requisites for independence set out in Principle 3 of the Corporate Governance Code and Article 148(3)(b, c) of the TUF of the current Independent Directors was verified by the Board of Directors at its meeting on 02 March 2012. The Board used the criteria set out in the Corporate Governance Code to carry out this assessment

The Board of Statutory Auditors, pursuant to article 3.C.5 of the Corporate Governance Code, has verified the correct application of the criteria and procedures used by the Board of Directors to assess the independence of its members; the results of this audit will be included in the Statutory Auditors' Report to the Shareholders' Meeting, pursuant to article 2429 of the Civil Code.

During the year, the Independent Directors worked together to maintain and promote an ongoing active dialogue with Directors with delegated powers and with the Director responsible for monitoring the Company's performance and the approach to its future results.

A meeting of the Independent Directors took place on 11 November 2011, during which operating performance was measured against planned performance.

4.7. *Lead independent director*

On 13 May 2011 the Board of Directors appointed Cesare Pizzul, an Independent Director, as Lead Independent Director, in order to enhance further the role of the Independent Directors in accordance with best practice in corporate governance. The Lead Independent Director is the contact for coordinating the requests and contributions of Independent Directors and may also call Independent Directors' meetings (i.e. Independent Directors executive sessions), either independently or at the request of the other Directors.

During the year, Lead Independent Director Cesare Pizzul coordinated dialogue between the Independent Directors and the other members of the Board of Directors, particularly the Directors with delegated powers and the Financial Reporting Manager. This role was performed by activating discussion where necessary, monitoring the frequency of communication and encouraging information sharing, including outside formal meetings.

5. HANDLING OF CORPORATE INFORMATION

5.1. *Inside information*

At its meeting of 12 November 2010, the Company's Board of Directors approved the "Procedure for managing inside information" which updates the previous internal regulations on inside information adopted in 2005. The new procedure also governs methods and procedures for the external communication of documents and information relating to Eurotech, and specifically inside information, pursuant to articles 114 and 181 of the TUF, in accordance with recommendations made by CONSOB and Borsa Italiana SpA.

The procedure is designed to maintain the secrecy of inside information, while simultaneously ensuring that market disclosures of Company information are accurate, complete, appropriate, timely and non-selective.

The procedure generally confers responsibility for the management of inside information to the Company's delegated bodies, setting out specific procedures to be followed for the external communication of Company documents and information, with a particular focus on the disclosure of inside information, and meticulously governs the terms and conditions by which Company officers manage contacts with the press and other channels of mass communication (i.e. with financial analysts and institutional investors).

Specifically, pursuant to this procedure, the Chief Executive Officer, the Director of Administration, Finance and Control and the Issuer's Investor Relations department ensure the correct management of the diffusion of inside information to the market, overseeing compliance with the procedure.

The Investor Relations department, provided with information by Group senior management or aware of the salient facts concerning the Company or its subsidiaries, meets with the Director of Administration, Finance and Control and with the Business Affairs department to verify the obligations set out in law and in particular whether the information in question should be regarded as privileged.

In the event that information is deemed privileged or legislation in force stipulates that it must be communicated externally, the Investor Relations department prepares a press release with the assistance of the Corporate Communication department. Working with the Director of Administration, Finance and Control and with the assistance of the Business Affairs department, the Investor Relations department ensures that the press release complies with the relevant legislation in force.

The text of the press release must be submitted to the Chief Executive Officer and, if necessary, to the Board of Directors, for final approval before external release, following a declaration, if the information relates to the accounts, of the Financial Reporting Officer pursuant to article 154-*bis* of the TUF.

The press release is diffused according to the methods stipulated for the diffusion of regulated information. The Issuer also ensures that the press release is made available on the Company website (www.eurotech.com) before the market opens on the day following its diffusion, and that it is available for a minimum period of five years.

To ensure management of inside information within the Group, the regional Directors are notified of the above procedure and the Directors of operating activities at the Group's various facilities are also informed; these are, according to the case, Chief Executive Officers, Managing Directors or General Managers of the main subsidiaries, i.e. companies controlled by the Issuer that fall within its scope of consolidation.

The management of inside information relating to the subsidiaries is the responsibility of the regional Directors, who must promptly provide the Company’s Investor Relations department with any information that, based on their assessment, could qualify as privileged pursuant to the above procedure.

Once notified about the inside information by the Group's regional Directors, the Investor Relations department meets with the Director of Administration, Finance and Control and with the Business Affairs department to verify the obligations set out in law and in particular whether the information should be regarded as privileged.

5.2. *Code of Conduct – Internal Dealing*

With regard to the management of the disclosure obligations set out in the Internal Dealing regulations, pursuant to article 114, paragraph 7 of the TUF and articles 152-*sexies*, 152-*septies* and 152-*octies* of the CONSOB Issuer regulation, in force for listed companies since 1 April 2006, the Company’s Board of Directors resolved on 28 March 2006 to adopt the procedure for compliance with internal dealing obligations (the “Internal Dealing Procedure”), which is designed to ensure maximum transparency and consistency of information disclosed to the market. At the meeting of 29 March 2007, the Eurotech Board of Directors amended the Internal Dealing Procedure by prohibiting certain persons from executing Eurotech security-related transactions during the 15 days prior to the Board meeting called to approve period accounts (“black-out period”), pursuant to article 2.2.3, paragraph 3, letter o) of the Stock Market Regulation, applicable to issuers with the STAR qualification, as recently amended.

No communications were made during the reporting period as there were no relevant transactions pursuant to the Internal Dealing regulations to communicate. However, all relevant information is available in the Investors section of the Company website at www.eurotech.com.

5.3. *Register of persons possessing inside information*

Specifically, regarding the obligation of listed issuers, the parties that control them and the persons that act in their name or on their behalf to set up and maintain a register of persons with access to inside information, pursuant to article 115-*bis* of the TUF and articles 152-*bis et seq.* of the Issuer regulation (the

"**Register**"), the Company's Board of Directors resolved to establish the Register and approved the "Procedure for managing the register of persons with access to inside information," in effect since 1 April 2006. The Board of Directors then established the Group Register of persons who have access to inside information ("**Group Register**") which replaces the Register maintained at Eurotech on behalf of all Eurotech Group companies by Andrea Barbaro as manager in charge of maintaining the Group Register.

6. COMMITTEES WITHIN THE BOARD OF DIRECTORS

The Remuneration Committee, the Internal Control Committee and the Committee for Related-Party Transactions were set up within the Board of Directors. The Company has not set up either a committee to perform the functions of two or more committees as provided for in the Corporate Governance Code, or committees other than those provided for in the Corporate Governance Code.

7. APPOINTMENTS COMMITTEE

Considering the Issuer's size and organisational structure, the Board of Directors does not currently find it necessary to set up an Appointments Committee. Furthermore, following amendments to the bylaws in accordance with Law 262/2005, as subsequently amended, and the associated implementing regulations, the members of the Board of Directors are appointed by means of the voting list mechanism described above, and thus on the basis of candidate lists submitted by the shareholders in possession of the equity interests indicated in article 14 of the bylaws.

8. REMUNERATION COMMITTEE

The Company Board of Directors has set up a Remuneration Committee pursuant to article 2.2.3(3)(m) of the Stock Market Regulation, applicable to STAR-qualified issuers, and in accordance with the Corporate Governance Code. This Committee was set up pursuant to a resolution by the Board of Directors on 2 September 2005 and will hold office as long as the Board of Directors that appointed it is in office.

In accordance with the Corporate Governance Code, this Committee may only make proposals. In particular, the Chief Executive Officers remain responsible for defining the policies and remuneration levels for senior management.

In accordance with article 2.2.3(3)(m) of the Stock Market Regulation and Principles of the Corporate Governance Code, the Committee exclusively comprises Non-executive Directors, most of whom are independent, and makes proposals to the Board of Directors in the absence of those directly affected by the proposals (*i*) for the remuneration, including any stock option plans, of the Chief Executive Officers and those with special duties, as well as (*ii*) on recommendation by the Chief Executive Officers, for determination of the principles governing the remuneration of Company senior management, without prejudice to the prerogative of the Board of Directors, pursuant to article 2389(2) of the Civil Code, to determine the remuneration of Directors with special duties.

The Committee also periodically reviews the criteria used to determine the remuneration of Company senior management and supervises their application on the basis of the information provided by the Chief Executive Officers, making general recommendations to the Board of Directors in this regard.

The Remuneration Committee held three meetings during the year on 3 February, 13 May and 11 November which were duly minuted. The aim of the first meeting was to propose remuneration for Directors assigned special executive duties and managers, and the performance-related remuneration of key figures at the Company and the determination of principles for allocating variable components of compensation of the Group's affiliates for 2001; the aim of the second was to propose remuneration for Directors with special executive duties and to propose performance-related remuneration for key figures of

Eurotech SpA; and the third meeting was aimed at accepting the assessment of the compensation of an Executive acting as Manager of Sales.

The average meeting duration was one hour.

At least two meetings are scheduled for the current financial year: one was held on 19 February 2012 and the other is scheduled for May 2012.

In performing its functions, the Internal Control Committee was able to access the information and company departments necessary to carry out its duties and to make use of external consultants, under the terms established by the Board of Directors.

No financial resources were allocated to the Remuneration Committee since it makes use of the business resources and structures of the Issuer in carrying out its duties.

On 13 May 2011, the Board of Directors appointed the following Committee members: Cesare Pizzul (Chairman), Chiara Mio and Maria Cristina Pedicchio, all of whom are Independent Non-executive Directors.

Directors Cesare Pizzul and Chiara Mio have experience in accounting and financial matters that was deemed appropriate by the Board at the time of their nomination.

Directors may not attend meetings of the Remuneration Committee at which proposals concerning their remuneration are being made to the Board of Directors.

9. DIRECTORS' REMUNERATION

As prescribed by article 20 of the Company bylaws, the members of the Board of Directors are entitled to annual compensation, determined by the Shareholders' Meeting for the entire period of their term, and reimbursement of the expenses they incur on official business. After receiving the opinion of the Board of Statutory Auditors, the Board of Directors determines the remuneration of the Chairman, Vice Chairmen, Chief Executive Officers and members of the Executive Committee. Alternatively, the Shareholders' Meeting may determine a total amount for remuneration of all Directors, including those assigned special duties, with the allocation of that aggregate amount being determined by the Board of Directors upon consultation with the Board of Statutory Auditors.

A significant portion of the remuneration of the Executive Directors and Directors with strategic responsibility is linked to the operating results obtained by the Company and/or the achievement of specific targets set previously by the Board of Directors.

The remuneration of non-executive Directors is based on the commitment required from each one, taking into account the participation of each on one or more committees. Their remuneration is not related to the operating results of the Company. The Non-executive Directors are not beneficiaries of share-based incentive plans.

The Shareholders' Meeting of 28 April 2011 resolved to set the total remuneration for the Board of Directors at € 900,000.00, to be divided according to subsequent resolution by the Board, including non-proportionally, and including the remuneration of Board members assigned special duties in the financial years 2011-2013.

The total remuneration paid to the members of the Board of Directors during the year is detailed in the section of the report on remuneration prepared in accordance with article 84-*quater* of the CONSOB Rules for Issuers, which is available in the "Investors" section of the Company's web site at www.eurotech.com as required by law.

General remuneration policies

Based on the recommendations of the Remuneration Committee, the Board of Directors establishes the general remuneration policies for executive directors and other directors with particular responsibilities and for members of senior management with strategic responsibilities (the "**Remuneration Policies**"). These policies establish the guidelines to be used when actually establishing the fees to be paid to the various corporate bodies.

For more information on these Remuneration Policies, see the report on remuneration prepared in accordance with article 84-*quater* of the CONSOB Rules for Issuers, which is available in the "Investors" section of the Company's web site at www.eurotech.com as required by law.

9.1. *Compensation for Directors in the event of resignation, termination or cessation of the employment relationship following a public purchase offer (pursuant to article 123-bis, paragraph 1, letter i) of the TUF)*

There are no agreements between Eurotech and the Directors providing for the payment of indemnities in the event of resignation or termination/dismissal without just cause or cessation of the employment relationship following a public purchase offer.

10. INTERNAL CONTROL COMMITTEE

On 2 September 2005, the Board of Directors set up an Internal Control Committee with the functions prescribed by the Corporate Governance Code. It mandated the Chairman of the Board of Directors to define and adopt internal operating and administrative procedures that would ensure healthy and efficient company management.

In accordance with article 2.2.3(3)(n) of the Stock Market Regulation, applicable to STAR-qualified issuers, and article 8.C.3 of the Corporate Governance Code, the Internal Control Committee provides advice and proposals to the Board of Directors on the internal control system. It has the following specific duties:

(i) assisting the Board of Directors in defining the guidelines for the internal control system;

(ii) assisting the Board of Directors in conducting periodic audits of the adequacy and effective functioning of the internal control system;

(iii) assessing the work plan prepared by the Compliance Officer and the periodic half-year reports submitted by him/her;

(iv) in collaboration with the administrative officers of the Company and the Auditors, assessing the adequacy of the accounting principles used and their uniformity in the preparation of the consolidated financial statements;

(v) assessing the proposals made by the independent Auditor for the auditing engagement, the work plan it prepared for the auditing task and the results set out in its report and letter of suggestions;

(vi) reporting to the Board of Directors on Committee activities and the adequacy of the internal control system at least once every six months, upon approval of the financial statements for the full-year and the half-year report;

(vii) carrying out the additional duties that the Board of Directors assigns to the Committee, particularly with regard to relations with the Independent Auditor.

During the meeting held on 13 May 2011, the Board of Directors appointed the members of the Internal Control Committee, which are now as follows: [Chiara Mio (chairman), Cesare Pizzul and Maria Cristina Pedicchio, all of whom are independent, non-executive directors].

The Internal Control Committee reported to the Board of Directors on Committee activities and the adequacy of the internal control system at least once every six months, upon approval of the financial statements for the full-year and the half-year report;

All the members of the Internal Control Committee have appropriate accounting and financial experience. During the year, the Internal Control Committee met seven (7) times as follows: 3 February; 31 March; 24 June; 29 July; 29 August; 21 October; and 11 November. The minutes of each of these meetings are on file.

During the financial year, changes to internal procedures and processes for monitoring risk in the current and successive reporting periods were analysed, as well as the situation regarding negotiations for equity interests in affiliates. A favourable opinion was given on the procedure for related party transactions, and on the periodical exchange of information with the Board of Statutory Auditors and with the planned Oversight Committee to allow any critical issues in the respective areas of responsibility to be brought up.

At least four meetings are planned for the current financial year; the dates of these will be set according to the requirements of the Company and the Internal Control Committee.

Parties who are not members of the Internal Control Committee may attend meetings at the invitation of the Committee Chairman.

In performing its functions, the Internal Control Committee has the power to access the information and business operations necessary to carry out its duties and to make use of external consultants, under the terms established by the Board of Directors.

No financial resources were allocated to the Internal Control Committee since it makes use of the business resources and structures of the Issuer in carrying out its duties.

11. INTERNAL CONTROL SYSTEM

The Board of Directors has set up an internal control system for auditing effective compliance with the internal operating and administrative procedures adopted to ensure healthy and efficient management and – where possible – identification, prevention and management of financial and operating risks and fraud against the Company.

Therefore, throughout the year, the internal control system was organised and managed by the following: the Board of Directors, the Executive Director responsible for overseeing the operation of the internal control system (the "**Delegated Director**"), the Compliance Officer and the Internal Control Committee (see Section 10).

The Board of Directors defines the guidelines for the internal control system, construed as a set of processes designed to monitor the efficiency of corporate operations, the reliability of financial information, compliance with laws and regulations, and the protection of Company assets.

Accordingly, the Board of Directors:

(i) handles the prevention and management of Company and Group risks by defining internal control system guidelines that can ensure that these risks are properly identified and adequately measured, monitored, managed and assessed, in view of protecting corporate assets and healthy and fair corporate management, *inter alia*;

(ii) assesses the adequacy, effectiveness and effective functioning of the internal control system on a periodic basis, and at least once annually.

On 02 April 2012, the Board of Directors will review the adequacy, efficiency and effective operation of the internal control system.

11.1. *Executive Director responsible for the internal control system*

The Delegated Director is responsible for:

(i) identifying typical corporate risks, according to the characteristics of Company activity and the activity of its subsidiaries and the sector in which they operate;

(ii) through the design, management and monitoring of the internal control system, implementing the guidelines established by the Board of Directors, reporting on its operations to the Board of Directors when requested. In order to carry out these functions, the Delegated Director relies on the assistance of the Compliance Officer.

The Board of Directors designated Vice Chairman and CEO Roberto Siagri as Delegated Director on 13.05.11.

11.2. *Compliance Officer*

The Compliance Officer (who is not in charge of any operating area and does not report hierarchically to the heads of operating areas) is assigned the following duties:

(a) assisting the Delegated Director in carrying out internal control functions;

(b) reporting on his/her activities at least quarterly to the Delegated Director and at least once every six months to the Internal Control Committee and the Board of Statutory Auditors;

(c) attending meetings of the Board of Directors and the Internal Control Committee which he/she is invited to attend;

(d) immediately informing the Delegated Director, the Board of Directors and the Internal Control Committee if risks for the Company or potential prejudice to it are revealed by the aforementioned periodic audits;

(e) verifying that the internal control system is always adequate, fully operational and functioning. In order to carry out these duties, the Compliance Officer has direct access to all useful information relating to his/her functions and disposes of adequate resources.

The role of Compliance Officer is currently held by Stefano Bertoli, who was appointed by the Board of Directors on 13 May 2011 as recommended by the Delegated Director and based on the opinion of the Internal Control Committee.

During the year, the Compliance Officer had direct access to all information needed to perform the duties of this role.

No financial resources were allocated to the Compliance Officer, since he makes use of the business resources and structures of the Issuer in carrying out his tasks.

No remuneration was allocated to the Compliance Officer.

In 2010 the Compliance Officer reported on his activities to the Internal Control Committee, the Board of Statutory Auditors and the Delegated Director.

The principal activities carried out during 2010 related to analysis of business risk and the auditing of corporate procedures regarding those risks.

The Issuer has also established an internal auditing function. This internal auditing function is headed by the Compliance Officer.

11.3. *Organisation model pursuant to Legislative Decree 231/2001*

The Organisation, Management and Control Model (the "**Model**") was approved on 29 March 2008 pursuant to Legislative Decree 231 of 8 June 2001.

The Model is based on the principles and guidelines set out in the:

a) Stock Market Regulation;
b) Corporate Governance Code;

c) guidelines for drafting organisational, management and control models pursuant to Legislative Decree 231/01, approved by Confindustria on 7 March 2002, as subsequently amended.

The Model makes provision for the following:

1. Oversight Committee
   a. designation of an existing body or establishment of a new body;
   b. definition of the flow of information from and to the Oversight Committee.

2. Identification of the principal areas at risk of criminal offences (articles 24 and 25)
   a. historical analysis;
   b. identification of the principal corporate areas involved in possible cases of criminal offence;
   c. identification of the persons concerned.

3. Risk assessment (articles 24 and 25)
   a. identification and assessment of existing controls;
   b. identification of any defects in controls.

4. Other parts of the Model
   a. code of ethics;
   b. organisational system;
   c. delegations of authority, including power of signature;
   d. manual and IT procedures;
   e. management control system;
   f. information and training of personnel on the Model;
   g. disciplinary system;
   h. formalisation of the model summary document.

5. Model monitoring
   a. analysis of results and definition of corrective measures;
   b. assisting the Supervisory Body in:
      i. defining an audit plan;
      ii. carrying out audits on the Model.

Given that the mandate of the Oversight Committee expired with the expiration of that of the previous Board of Directors, new members of the Oversight Committee were appointed on 13 May 2011 as follows: Stefano Fruttaro (chairman), Chiara Mio, Stefano Bertoli. They all fulfil the relevant legal requirements.

11.4. Independent Auditor

The Independent Auditor responsible for auditing the accounts is Reconta Ernst & Young SpA.

The auditing engagement was conferred at the Ordinary Shareholders' Meeting of 21 July 2005 for the three-year period including the financial years 2005, 2006 and 2007, and was extended for another six financial years (2008, 2009, 2010, 2011, 2012 and 2013) via a subsequent resolution by the Ordinary Shareholders' Meeting of 7 May 2007.

11.5. ***Financial Reporting Manager***

In accordance with article 19(4) of the Company bylaws, the manager responsible for preparation of the Company's financial reports (the "**Financial Reporting Manager**") is to be appointed by the Company's Board of Directors based on the mandatory opinion of the board of statutory auditors. The Financial Reporting Manager must satisfy the professional requisites of specific expertise in the administration and accounting and must be granted adequate powers and resources to perform the above functions. He/she must be also be paid adequate compensation.

On 13 May 2011, the Board appointed Sandro Barazza to the position of Financial Reporting Manager based on the favourable opinion of the Board of Statutory Auditors. At the time of said appointment, the Board verified that Mr Barazza met all of the prerequisites establish by law and by the Company's bylaws.

The Financial Reporting Manager is delegated full powers directly and/or indirectly related to the performance of the duties assigned to him/her, including the power to access all types of information and/or documents relating to the Company and/or Group companies as deemed relevant and/or appropriate for discharging the duties legally assigned to him/her.

Main features of the current risk management and internal control systems relating to the financial disclosure process pursuant to article 123-bis, paragraph 2, letter b) of the TUF

Introduction

According to the Corporate Governance Code, the internal control system comprises all the rules, procedures and organisational structures designed to allow, through an appropriate identification process, the measurement, management and monitoring of the main risks, for the healthy and proper management of the business, in line with pre-set objectives.

The definition provided in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies the internal control system as a process designed to provide reasonable security in pursuing the objectives of efficiency and effectiveness in operating activities, reliable information in the financial statements and compliance with laws and regulations in force.

In line with the definitions described, the system for managing existing risk relating to Eurotech's financial disclosure process is one part of the Group's wider system of internal control.

Description of the main features of the current risk management and internal control system relating to the financial disclosure process

a) General operating principles of the internal control system

Eurotech's internal control system is based on the following key elements:

- Eurotech's Code of Ethics;
- clear business organisation with well-defined responsibilities;
- business policy and procedure;
- information systems (particularly relating to the objectives of a correct segregation of functions);
- management control and the directional reporting system;
- continuing training of company personnel;
- a structured and controlled external communication process.

Given the definitions of the internal control system provided above, control is intended to mean an action undertaken by a manager to increase the probability that pre-set objectives are achieved or to reduce the impact of any risks related to these objectives.

These controls may be exercised *ex-ante* (to prevent the occurrence of unwanted events), or *ex-post* (to identify and correct unwanted events that have taken place).

The company Directors and managers, within their respective areas of competence, are responsible for:

- Identifying and assessing risks to business operations;
- Defining and establishing policy, operating standards, procedures, systems and other tools to reduce the probability and/or impact of any risks to a the minimum;

- Issuing operating instructions for control processes and encouraging employees to carry out their tasks in a controllable and controlled way;
- Maintaining the adequacy and efficiency of the control processes established.

The four key objectives for control operations that every business manager is required to fulfil are:

1. Safeguarding business resources, including human and financial resources;
2. Ensuring the reliability of the data and information used internally or communicated externally;
3. Promoting efficient and effective actions;
4. Ensuring that senior management guidelines (including the budget, plans, policies and procedures) are respected and executed according to the laws and regulations under which the Company operates.

b) <u>The internal control system in the financial disclosure process</u>

Of the four objectives described in point a), the second and the fourth are closely connected to the financial disclosure process, which is mainly governed by the Chief Executive Officer and the Financial Reporting Manager pursuant to article 154-*bis* of the TUF.

In line with the operational principles of Eurotech's internal control system, the Chief Executive Officer and the Financial Reporting Manager carefully and scrupulously identify the main risks to the financial disclosure process every year. The risk identification process involves identifying the Group Companies and the operating flows that are vulnerable to material errors or fraud, with reference to the business results in Eurotech's separate and/or consolidated financial statements.

In response to the risks identified and evaluated according to the probability that they will happen and the effects of this on the financial statements, appropriate control procedures are created, which are assessed at both the design and the operational stage. Assessment of the design of the control procedures helps to guarantee that they are appropriate for the risks for which they were created. Assessment of operational effectiveness over time ensures that the procedures continue to be appropriate throughout the financial disclosure period.

c) <u>Roles and responsibilities within the internal control system</u>

Apart from the duties of each company manager as described in point a), the main players in the system for the internal control of the financial disclosure process are as follows:

- The Chief Executive Officer and the Financial Reporting Manager pursuant to 154-*bis* of the TUF, who are responsible for defining and assessing specific control procedures governing risks involved in the process of drawing up the accounting documents;
- The Internal Control Committee, which analyses the results of the audit of the internal control system and reports periodically to the Board of Directors on the action to be taken;
- The Oversight Committee pursuant to Legislative Decree 231/01, which monitors for corporate offences pursuant to Legislative Decree 231/01, identifying risk scenarios and verifying first hand that control regulations have been respected. The Oversight Committee also monitors compliance with and application of the Group's code of ethics.

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

On 19 October 2010, the Board of Directors assigned the Internal Control Committee, which comprises three Independent Directors, the task of issuing an opinion on the procedure for identifying, approving and managing related party transactions.

In its meeting of 12 November 2010, the Company’s Board of Directors, based on the favourable opinion of the Internal Control Committee, adopted the Committee Rules for related-party transactions and related **procedures for related-party transactions** (the “**Related Party Procedure**”) in accordance with Rules for Related Party Transactions. *The Related Party Procedure governs the identification, approval and management of related party transactions. Specifically, the Related Party Procedure:*

- *governs methods for identifying related parties, defining methods and schedules for the preparation and updating of the list of related parties, and identifying the business departments involved;*
- *identifies rules to identify related party transactions before completion;*
- *regulates procedures for the execution of related party transactions by the Company, including via subsidiaries pursuant to article 2359 of the Civil Code or subject to management and coordination activity;*
- *establishes methods and a schedule for fulfilling the obligations of disclosure to the corporate bodies and the market.*

The Company applies this Related Party Procedure while also taking account of CONSOB Communication no. DEM/10078683, which was published on 24 September 2010 and provides instructions and guidelines for applying the Related Party Rules.

The Related Party Procedure went into effect on 1 January 2011.

The Related Party Procedure and the related annexes can be found in the Investors section of the Issuer's website at www.eurotech.com.

Committee for Related Party Transactions

On 12 November 2010, the Board of Directors also resolved to create a Committee for Related Party Transactions, comprising Independent Directors and performing all the tasks set out in the Related Party Procedure.

The Committee for Related Party Transactions performs all the activities required by the Related Party Procedure. Specifically, the Committee for Related Party Transactions is authorised to release, before approval and/or execution of related party transactions, a non-binding reasoned opinion on the interest for the Company in performing these transactions, and the convenience and substantive correctness of the relative terms.

The Committee for Related Party Transactions meets at the registered office or in other locations mutually agreed by its members, whenever the Committee Chairman deems necessary, as frequently as required to fulfil the tasks assigned to the Committee or when a Committee member makes a reasoned request to the Chairman.

Members of the Board of Statutory Auditors may attend meetings of the Committee for Related Party Transactions; on a case-by-case basis, depending on the transaction concerned, persons authorised to approve and/or execute transactions (including persons tasked with leading discussions related to the transaction), and/or persons whose attendance is deemed useful in conducting the meeting, may also attend.

The Chairman of the Committee for Related Party Transactions is responsible for calling meetings and setting the agenda. At least three days’ notice is given for meetings of the Committee for Related Party Transactions. The meeting may be called by fax or email. If the meeting is urgent (the Chairman must assess whether this is the case), it may be called by telephone with one day's notice. The Committee for Related Party Transactions may also validly meet without notice if all its members are present.

Meetings of the Committee for Related Party Transactions are valid if the majority of its members are present, and resolutions are made by majority of those present, with abstentions not included in the result.

Meetings may also take place via teleconferencing or videoconferencing systems, provided that all the participants can be identified and that they can follow the discussion, speak in real time as agenda items are being discussed and transmit and receive documents, and provided that the context of examination and resolution can be guaranteed. If these conditions exist, the meeting is regarded as taking place at the location of the Chairman and the Secretary. In the event of emergency, the Chairman has the power to communicate with the Committee members in writing, taking minutes of the resolutions adopted.

13. APPOINTMENT OF STATUTORY AUDITORS

Pursuant to article 26 of the Company bylaws, the Board of Statutory Auditors comprises three Statutory Auditors and two Substitute Auditors, who remain in office for three financial years. This mandate expires at the date of the Shareholders' Meeting called to approve the financial statements for the last year of the mandate; auditors may be re-elected. The Statutory Auditors must satisfy the requirements, including those governing the possession of various positions at the same time, envisaged by law and other applicable provisions. Pursuant to article 1(3) of Ministry of Justice Decree 162 of 30 March 2000, research, development, production and marketing of software, systems, and devices in the IT, electronics and electro-mechanical sectors must be considered strictly related to Company activities.

The members of the Board of Statutory Auditors are appointed on the basis of lists submitted by shareholders. The candidates are listed in numerical order. The list comprises two sections: one for candidates for the post of Statutory Auditor and the other for candidates for the post of Substitute Auditor. Only those shareholders who, either individually or in combination with others, own voting shares equivalent to at least 2 (two) per cent of the voting capital at the Ordinary Shareholders' Meeting, or representing any other percentage that may be established or cited by statutory or regulatory provisions, may submit lists. With resolution 18083 of 25.01.12, CONSOB set the minimum shareholding required for submitting lists of candidates for the election of the Issuer's supervisory body at 4.5% of the share capital, for the year ended 31.12.11.

Ownership of the equity interest required, in accordance with the above, for the presentation of lists is to be certified in accordance with prevailing laws and regulations.

No shareholder, including shareholders in a relevant shareholders' agreement pursuant to article 122 of the TUF, or the controlling shareholder, subsidiaries or companies subject to joint control pursuant to article 93 of the TUF, may submit or participate in the submission of more than one list or vote for different lists, either directly or through an intermediary or trust company. No candidate may run on more than one list, on penalty of ineligibility. The lists may not include candidates who (without prejudice to any other cause of ineligibility or forfeiture) do not satisfy the requirements set out in any applicable laws or regulations are that are envisaged in article 148(2) of the TUF.

Outgoing Statutory Auditors may be re-elected. The submitted lists must be deposited at the registered office of the Company at least twenty-five days before the scheduled date of the Shareholders' Meeting on its first call, and mention thereof shall be made in the meeting notice, without prejudice to any other forms of public notice and procedures of deposit required pursuant to any applicable laws and regulations. If, when the deadline for the submission of lists has passed, only one list has been submitted, or only lists presented by shareholders with significant relationships pursuant to the applicable laws and regulations in force at the time, lists may be also be submitted within the time period stipulated by the applicable rules in force; in this case, the minimum shareholding threshold is to be halved.

The lists must contain:

a) information on the identities of the shareholders presenting the lists, indicating their total percentage shareholding;

b) a statement by shareholders other than those that individually or jointly own a controlling or relative majority equity interest in the Company, attesting to the absence of relationships with the latter pursuant to current laws and regulations;

c) complete information about the candidates' experience and qualifications, and statements from the candidates attesting to their satisfaction of legal requirements and acceptance of candidacy, as well as a list of any management and supervisory positions held at other companies.

Any list that does not comply with the foregoing requirements will be regarded as null and void.

The Statutory Auditors are elected as follows:

1) two Statutory Auditors and one Substitute Auditor are elected from the list receiving the highest number of votes at the Shareholders' Meeting, according to their numerical order of listing in the respective sections of the list;

2) one Statutory Auditor, who is appointed Chairman of the Board of Statutory Auditors, and a Substitute Auditor are elected from the list that receives the second highest number of votes at the Shareholders' Meeting and that, pursuant to applicable laws and regulations, is not directly or indirectly associated with the shareholders that submitted or voted for the list receiving the highest number of votes, according to their numerical order of listing in the respective sections of the list. In the case of a tie vote between two or more lists, the most senior candidates in terms of age shall be elected.

A Statutory Auditor forfeits his/her position in the cases envisaged by law and regulation, and when the requirements established in the bylaws for his/her candidacy are no longer satisfied. When a Statutory Auditor's seat is vacated, it is filled by the Substitute Auditor elected on the same list as that of the former Statutory Auditor. However, the Board of Statutory Auditors must always be chaired by the Statutory Auditor elected on the minority slate. When the Shareholders' Meeting is required to appoint Statutory and/or Substitute Auditors to expand the Board of Statutory Auditors, it proceeds as follows: when Auditors elected from the majority list are to be replaced, the appointment is made by relative majority vote without list restrictions; when Auditors elected from the minority list are to be replaced, the Shareholders' Meeting makes the appointment by relative majority vote, choosing between the candidates on the same list as that of the outgoing Auditor. When this procedure does not permit, for any reason, the replacement of Auditors on the minority list, the Shareholders' Meeting will vote by relative majority; however, the results of this last vote may not include the votes of the shareholders who, according to the notices served pursuant to applicable laws and regulations, own directly or indirectly or jointly with other shareholders in a relevant shareholders' agreement pursuant to article 122 of the TUF, the relative majority of exercisable votes at the Shareholders' Meeting, or the votes of the shareholders that control, are controlled or are subject to joint control with them. The preceding provisions for election of Statutory Auditors do not apply at the Shareholders' Meetings where only one list is submitted or only one list is voted. In these cases the Shareholders' Meeting resolves by relative majority.

14. STATUTORY AUDITORS

During the year, subsequent to expiration of the previous mandate, the Board of Statutory Auditors was reappointed.

On 28 April 2011, following expiration of the mandate for the previous board of auditors, the ordinary Shareholders' Meeting appointed the new Board of Statutory Auditors as follows: Claudio Siciliotti, Michela Cignolini, and Giuseppe Pingaro as standing auditors; and Lorenzo Ginisio and Michele Testa as substitute auditors. This appointment was based on the only majority shareholder list, presented by shareholder Roberto Siagri in accordance with the prevailing bylaws, and the mandate is for three financial years and until approval of the annual report for the financial year ending 31 December 2013.

The current composition of the Board of Statutory Auditors is shown in Table 3 attached to this Report.

The *curricula vitae* of the Statutory Auditors are held at the registered office and can be viewed in the Investors section of the Issuer's website at www.eurotech.com.

The following table shows the other positions held by members of the Board of Statutory Auditors at companies pursuant to Book V, Title V, Chapters v, vi and vii of the Civil Code.

Name and surname	Position at Eurotech	Company	Management and supervisory positions
Claudio Siciliotti	Chairman of the Board of Statutory Auditors	Concast Technologies Srl, Udine (UD)	Chairman of the Board of Auditors
		Eurotech SpA, Amaro (UD)	Chairman of the Board of Auditors
		FriulanaGas SpA, Campoformido (UD)	Chairman of the Board of Auditors
		Germacar Auto SpA, Zoppola (PN)	Chairman of the Board of Auditors
		Gia SpA, Trecate (NO)	Chairman of the Board of Auditors
		Lextel SpA, Rome (RM)	Chairman of the Board of Auditors
		Limacorporate S.p.A.,Villanova di San Daniele (UD);	Chairman of the Board of Auditors
		Mangiarotti S.p.A., Sedegliano (UD);	Chairman of the Board of Auditors
		Sager SpA, San Giovanni al Natisone (UD)	Chairman of the Board of Auditors
		SMS Concast Italia SpA, Udine (UD)	Chairman of the Board of Auditors
		Thermokey SpA, Teor – Rivarotta (UD)	Chairman of the Board of Auditors
		Cineca Consorzio Interuniversitario, Casalecchio di Reno (BO);	Statutory Auditor
		E.F.Fim S.p.A., Udine (UD);	Statutory Auditor
		FriulanaGas Srl, Campoformido (UD)	Statutory Auditor
		Prestitalia SpA, Rome (RM)	Statutory Auditor
		Sartogo SpA, Udine (UD)	Statutory Auditor
		Valagro SpA, Atessa (CH)	Statutory Auditor
		Finanziaria 2008 SpA, Udine (UD)	Substitute Statutory Auditor
		Germacar di Cesaro Sergio SpA, Pordenone (PN)	Substitute Statutory Auditor
		Germacar Udine SpA, Tavagnacco (UD)	Substitute Statutory Auditor
		Rizzani De Eccher SpA, Pozzuolo del Friuli (UD)	Substitute Statutory Auditor
		RTH Group SpA, Udine (UD)	Substitute Statutory Auditor
		Stark SpA, Trivignano Udinese (UD)	Substitute Statutory Auditor
		Tardivello Gregorio & C. SpA, Udine (UD)	Substitute Statutory Auditor
		FidelisTust Company S.r.l., Milan (MI);	Chairman of the Board of Directors
		Hypo Alpe-Adria-Finance Srl, Udine (UD)	Chairman of the Board of Directors
		Koinos Cooperativa Informatica Organizzazione Servizi dei Dottori Commercialisti, Milan (MI)	Director
		Cirano Srl, Udine (UD)	Sole Director
		OIC – Organismo Italiano di Contabilità, Rome (RM)	Supervisory Director
Michela Cignolini	Statutory Auditor	Germacar di Cesaro Sergio SpA, Pordenone (PN)	Chairman of the Board of Auditors
		Mia Fiduciaria S.p.A., Rome (RM).	Chairman of the Board of Auditors
		Concast Technologies Srl, Udine (UD)	Statutory Auditor
		Eurotech SpA, Amaro (UD)	Statutory Auditor
		Finanziaria 2008 SpA, Udine (UD)	Statutory Auditor
		Geber SpA, Tavagnacco (UD)	Statutory Auditor
		Germacar Auto SpA, Zoppola (PN)	Statutory Auditor
		RTH Group SpA, Udine (UD)	Statutory Auditor
		SMS Concast Italia SpA, Udine (UD)	Statutory Auditor

		Certicomm – Autorità Nazionale di Certificazione in liquidation, Rome (RM)	Substitute Statutory Auditor
		FriulanaGas SpA, Campoformido (UD)	Substitute Statutory Auditor
		FriulanaGas Srl, Campoformido (UD)	Substitute Statutory Auditor
		Germacar Udine SpA, Tavagnacco (UD)	Substitute Statutory Auditor
		Prestitalia SpA, Rome (RM)	Substitute Statutory Auditor
		Sager SpA, San Giovanni al Natisone (UD)	Substitute Statutory Auditor
		Tardivello Gregorio & C. SpA, Udine (UD)	Substitute Statutory Auditor
		Thermokey SpA, Teor – Rivarotta (UD)	Substitute Statutory Auditor
		Private Trust Company S.r.l. in Liquidation, Milan (MI).	Liquidator
		Giustidue Srl, Udine (UD)	Sole Director
		Antagone XXI Italia S.r.l., Oderzo (MI)	Consigliere di Amminsitrazione
		Invec S.r.l., Zoppola (PN)	Consigliere di Amministrazione
		Eresse Immobiliare S.r.l., Udine (UD).	Director
Giuseppe Pingaro	Statutory Auditor	Eurotech SpA (Eurotech Group)	Statutory Auditor
		Associazione per l'Assistenza Sanitaria Integrativa ai Dirigenti della Finmeccanica – ASID	Statutory Auditor
		Cassa di Previdenza per i Dirigenti del Gruppo Finmeccanica – Supplemental Pension Fund	Statutory Auditor

For information on the administrative and supervisory duties vested in the members of the Board of Statutory Auditors, see the figures published by CONSOB pursuant to article 144-*quinquiesdecies* of the CONSOB Issuer Regulation, in the Corporate Boards section of the website www.sai.consob.it.

The Board of Statutory Auditors met seven (7) times during the year as follows: 7 February, 30 March, 2 May, 1 August, 5 August, 15 November and 1 December 2011.

The average meeting duration was about two hours.

At least four (4) meeting are to be held during the year currently under way. One of these was already held on 13 February, while the other three are scheduled for the following dates: 7 May, 30 July and 29 October 2012.

The Board of Statutory Auditors has confirmed that its members still satisfy the independence requirements set out in the Corporate Governance Code provisions governing the independence of Directors. The results of this assessment will be included in the Statutory Auditors' Report to the Shareholders' Meeting, pursuant to article 2429 of the Civil Code.

Any Statutory Auditor who, on his/her own account or on behalf of third parties, has an interest in a given transaction by the Issuer, shall promptly provide the other Auditors and the Chairman of the Board of Directors with comprehensive information on the nature, terms, origin and scope of this interest. The Board of Statutory Auditors periodically monitors the independence of the Independent Auditor, verifying compliance with relevant regulatory provisions and the nature and scale of the services rendered. The results of the assessment are included annually in the report to the Shareholders' Meeting.

In carrying out its mandate, the Board of Statutory Auditors communicated regularly with both the Internal Control Committee and the Compliance Officer.

Pursuant to article 27 of the Company bylaws, the Board of Statutory Auditors performs the functions delegated to it by law and other applicable regulatory provisions. In the case of the listing of the Company's shares on an Italian regulated market, the Board of Statutory Auditors also exercises all other duties and powers envisaged by special laws. The Directors must report to it in writing on a quarterly basis pursuant to article 150 of the TUF. Meetings of the Board of Statutory Auditors may also be held by way of tele- and/or video conferencing on the condition that: a) the chairman and secretary are attending in the same location;

and b) all participants can be identified and are able to follow the discussion, receive, send and view documents, and intervene in the discussion orally and in real time. If these requirements are satisfied, the meeting of the Board of Statutory Auditors is considered to be held at the location of the Chairman and person taking the minutes.

The Company accounts are audited by a qualified Independent Auditor or firm of auditors (see point 11.4).

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The Board of Statutory Auditors is responsible for the functions of internal control committee and account auditing (the “Internal Control Committee and account auditing”) as well as, in particular, for the oversight of the following: (i) the financial reporting process; (ii) the efficacy of the internal control system, the internal auditing system (if applicable), and the risk management system; (iii) the legally required auditing of the annual separate and consolidated accounts; and (iv) the requirements of independence of the independent auditors, particularly with regard to the provision of non-auditing services to enterprises subject to independent auditing requirements.

In particular, and in relation to the provisions of article 19 of the aforementioned Legislative Decree 39/2010, it is standard practice for the Board of Statutory Auditors to attend the meetings of the Internal Control Committee in order to share information as needed to carry out the responsibilities assigned by law to each of these corporate bodies.

15. SHAREHOLDER RELATIONS

The Company believes that it has a specific interest, as well as duty to the market, in establishing a continuous dialogue based on mutual understanding of roles with shareholders and institutional investors in general. This dialogue must be conducted in compliance with the procedure governing external disclosure of corporate documents and information.

On 8 August 2008, the Company's Board of Directors appointed Andrea Barbaro as head of relations with institutional investors and other shareholders (Investor Relator), in order to ensure fair, continuous and complete communication in accordance with article 2.2.3.(3)(i) of the Stock Market Regulation, applicable to STAR-qualified issuers. Nonetheless, the disclosure of information regarding the Company in the course of these relations must be made in compliance with the internal Inside Information Regulation.

Disclosure is also provided by the prompt publication of corporate documents on the Company website. On the website investors can freely consult, in Italian and English, all press releases issued to the market, the Issuer’s periodical accounting documents, approved by the competent corporate bodies (annual financial report, half-year financial report, interim reports on operations), the Report on Corporate Governance and Ownership Structure and documentation distributed at meetings with professional investors, analysts and the financial community.

They can also find the Company bylaws, documentation provided for Shareholders' Meetings, communications related to internal dealing, this Report on corporate governance and any other document whose publication on the Issuer's website is mandatory under the applicable regulations.

16. SHAREHOLDERS’ MEETING AND SHAREHOLDERS’ RIGHTS

Pursuant to article 8 of the current Company bylaws, only shareholders with voting rights may take part in the Shareholders' Meeting. Legitimacy of participation in the Shareholders’ Meeting and the exercising of voting rights is established via communication to the Company by the intermediary legally authorised to keep the accounts, on the basis of records in the accounts as at the end of the accounting day on the seventh open market day preceding the date set for the Shareholders’ Meeting in first call, and received by the Company in accordance with the law. Shareholders with voting rights may, by law, be represented by proxy.

Ordinary and Extraordinary Shareholders' Meetings are convened, by law, at the Company's registered office or at any other location indicated in the meeting notice, provided that it is within Italy.

Pursuant to article 6 of the Company bylaws, Ordinary and Extraordinary Shareholders' Meetings may be held via videoconference or teleconference with participants in more than one location, whether adjoining or remote, provided that the principles of collective decision-making, good faith and parity of shareholder treatment are respected.

In accordance with Company bylaws and applicable laws and regulations, both the ordinary and extraordinary Shareholders' Meetings are to be called by way of a notice published on the Company's web site and, where required by law, in the *Gazzetta Ufficiale* (the Italian Official Journal) or in the newspaper *Finanza e Mercati*, along with specification of the date, time and place for the first, second and third call (as applicable) of the meeting and a list of the matters to be discussed. All other requirements established by law and the by Company bylaws must also be met.

The agenda for the Shareholders' Meeting is established by the person exercising the power to call the meeting, pursuant to law and the Company bylaws, or, if the meeting is called at the request of the shareholders, on the basis of the items to be discussed indicated in the request.

In the absence of a notice of meeting, the Shareholders' Meeting is validly convened and may make valid resolution when the entire share capital is represented and the majority of Directors in office and the majority of the Statutory Auditors are present.

Pursuant to article 9 of the Company bylaws, those with the right to participate in the Shareholders' Meeting, either on their own account or on behalf of others, may by law be represented by proxy. Electronic proxy notification may be sent, as indicated in the meeting notice, either via a message to the certified electronic mailbox at the address provided in the notice, or via the dedicated section of the Company's website.

Pursuant to article 11 of the Company bylaws, in order for the constitution and resolutions of the Shareholders' Meeting (whether Ordinary or Extraordinary) to be valid, the provisions of law and the Company bylaws must be observed. As well as the provisions of law and the Company bylaws, the Shareholders' Meetings are conducted according to the specific Shareholders' Meeting Regulation as approved by the Shareholders' Meeting.

In accordance with Principle 9.P.1 of the Corporate Governance Code, the Directors are required to encourage and facilitate the broadest possible participation of shareholders at Shareholders' Meetings. Since Company Shareholders' Meetings have always been held on an orderly basis, the Board of Directors does not currently deem it necessary to propose adoption of a specific regulation to govern the proceedings of Shareholders' Meetings.

The Directors and Statutory Auditors are also required to attend the Shareholders' Meetings, during which they are required to provide the shareholders with information regarding the Company in accordance with the rules governing price sensitive information.

As prescribed by article 10.2 of the bylaws, the Chairman of the Shareholders' Meeting is responsible for ascertaining the identity and legitimacy of those present, confirming that the Shareholders' Meeting was duly convened, and confirming the presence of a quorum of shareholders necessary for valid resolution. The Chairman is also required to moderate the proceedings, establish the voting procedures and verify the results of the votes.

At Shareholders' Meetings during the year, the Directors and Statutory Auditors, to ensure that shareholders took decisions falling within the scope of the meeting in an informed manner, provided shareholders with Company information in accordance with current regulations on price sensitive information.

Pursuant to article 3, paragraph 2 of the bylaws, in the event of a resolution to extend the term of the Company, shareholders who do not approve the resolution will not have the right of withdrawal.

According to the provisions of article 29 of the bylaws, the net profits identified in the financial statements, minus the portion allocable to the legal reserve up to the legal limit, are allocated by resolution of the Shareholders' Meeting. Specifically, the Shareholders' Meeting, at the proposal of the Board of Directors, may resolve to create and increase other reserves.

With regard to shareholders' rights that are not described in this Report, see the applicable laws and regulations currently in force.

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At its meeting of 02.03.12, pursuant to application criterion 9.C0.4 of the Code, the Board did not find it necessary to propose to the Shareholders' Meeting amendments to the bylaws relating to the percentage established for the exercising of minority rights, insofar as, pursuant to article 144-*quater* of the CONSOB Issuer Regulation, for the submission of lists for the appointment of members of the Board of Directors and the Board of Statutory Auditors, articles 14 and 26 of the Issuer's bylaws stipulate respective thresholds of 2.5% and 2% of the voting capital or any different percentage established or prescribed by legal or regulatory provisions. Note in this regard that, with resolution 18083 of 25.01.12, CONSOB set the minimum shareholding for submitting lists of candidates for the election of the Issuer's Board of Directors at 4.5% of the share capital, for the year ended 31.12.11.

17. OTHER CORPORATE GOVERNANCE PRACTICES

The Issuer does not use corporate governance structures other than those set out in the legal and regulatory standards described in this Report.

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

Eurotech has not made any changes to the corporate governance structure since the end of the reporting period.

TABLE 1 COMPANY OWNERSHIP

SHARE CAPITAL STRUCTURE

	No. of shares	% of the share capital	Listed (indicate the markets) / unlisted	Rights and obligations
Ordinary shares	35,515,784	100%	MTA/ STAR Segment	Every share entitles the shareholder to one vote. The rights and duties of shareholders are set out in articles 2346 *et seq*. of the Civil Code
Shares with restricted voting rights	0	0		
Shares with no voting rights	0	0		

SIGNIFICANT SHAREHOLDINGS

Reporting party	Direct Shareholder	% of ordinary capital	% of voting capital
Luca Vacchi	Cofiva Holding SpA	2.054 %	2.054 %
Roberto Siagri	Nextra Gen Srl	2.355 %	2.355 %
Roberto Siagri	Roberto Siagri	4.446 %	4.446 %
Finmeccanica SpA	Finmeccanica SpA	11.084 %	11.084 %

TABLE 2 THE BOARD OF DIRECTORS AND ITS COMMITTEES

BOARD OF DIRECTORS											Internal Control Committee		Remun. Committee		Eventual Appointments Committee		Eventual Executive Committee		Committee for Related party transactions	
Office	Members	In office since	In office until	List (M/m)*	Exec.	Non-exec.	Indep. re. Code	Indep. re. TUF	(%) **	Number of other positions ***	****	**	****	**	****	**	****	**	****	**
Chairman and Chief Executive Officer	Roberto Siagri	28/04/2011	Approval of financial statements at 31.12.13	M	X				100	7										
Vice Chairman and Chief Executive Officer	Giampietro Tecchiolli	28/04/2011	Approval of financial statements at 31.12.13	M	X				80	8										
Director Financial Reporting Manager	Sandro Barazza	28/04/2011	Approval of financial statements at 31.12.13	M		X			100	7										
Director and Lead Independent Director	Cesare Pizzul	28/04/2011	Approval of financial statements at 31.12.13	M		X	X	X	100	8	X	100	X	100					X	100
Director	Maria Cristina Pedicchio	28/04/2011	Approval of financial statements at 31.12.13	M		X	X	X	50	7	X	100	X	50					X	100
Director	Chiara Mio	28/04/2011	Approval of financial statements at 31.12.13	M		X	X	X	60	1	X	100	X	100					X	100
Director	Giovanni Bertolone	28/04/2011	Approval of financial statements at 31.12.13	M		X			100	5										
Director	Giancarlo Grasso	28/04/2011	Approval of financial statements at 31.12.13	M		X			100	5										
Director	Giovanni Soccodato	28/04/2011	Approval of financial statements at 31.12.13	M		X			80	8										
--------------------------------------DIRECTORS DEPARTED IN THE REPORTING PERIOD--------------------------------																				
	Name																			

	Surname																			
Director	Maurizio Tucci	27/04/2009	27/04/2011																	
Director and Lead Independent Director	Alberto Felice De Toni	05/05/2008	27/04/2011																	

NB:
*This column indicates whether the member was elected from the majority list (M) or minority list (m). See Section 4.2 of the Report.
**This column indicates the respective percentage attendance of the Directors at meetings of the Board of Directors and the committees (no. of times attended/no. of meetings held during the effective mandate of the party concerned).
***This column indicates the number of Director/Auditor positions held by the party concerned at other companies.
****In this column, the committees on which each member of the Board of Directors serves are indicated with an "X".

TABLE 3 THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors							
Office	Members	In office since	In office until	List (M/m)*	Independence re. Code	** (%)	Number of other positions ***
Chairman	Claudio Siciliotti	28/04/2011	Approval of financial statements at 31.12.13	M	X	71%	28
Statutory Auditor	Michela Cignolini	28/04/2011	Approval of financial statements at 31.12.13	M	X	100%	21
Statutory Auditor	Giuseppe Pingaro	28/04/2011	Approval of financial statements at 31.12.13	M	X	57%	2
Substitute Statutory Auditor	Ginisio Lorenzo	28/04/2011	Approval of financial statements at 31.12.13	M	X		
Substitute Statutory Auditor	Testa Michele	28/04/2011	Approval of financial statements at 31.12.13	M	X		
------------------STATUTORY AUDITORS DEPARTED IN THE REPORTING PERIOD------------------							
Indicate the quorum required for the presentation of lists for the most recent appointment: 4.5%							
Number of meetings held during the year under review: 7							

NB:
*This column indicates whether the member was elected from the majority list (M) or minority list (m). See Section 14 of the Report.
**This column indicates the percentage attendance of the Statutory Auditors at meetings of the Board of Statutory Auditors (no. of times attended/no. of meetings held during the effective mandate of the party concerned).
***This column indicates the number of director or auditor positions held by the party concerned at other companies.

Consolidated financial statements at 31.12.11 prepared according to international accounting standards

Consolidated statement of financial position

(€'000)	Notes	at December 31, 2011	at December 31, 2010
ASSETS			
Intangible assets	1	125,922	120,328
Property, Plant and equipment	2	5,897	6,582
Investments in affiliate companies	3	278	308
Investments in other companies	3	270	230
Deferred tax assets	33	1,439	1,658
Other non current financial assets	12	226	236
Medium/long term borrowing allowed to affiliates companies and other Group companies	13	0	636
Other non-current assets	4	843	1,018
Total non-current assets		**134,875**	**130,996**
Inventories	5	23,734	21,587
Contracts in progress	6	2,356	257
Trade receivables	7	26,724	28,962
Income tax receivables	9	938	1,879
Other current assets	10	2,569	3,305
Receivables from affiliates companies	8	1,163	9
Short term borrowing allowed to affiliates companies and other Group companies	13	178	0
Cash & cash equivalents	11	13,596	23,751
Total current assets		**71,258**	**79,750**
Total assets		**206,133**	**210,746**
LIABILITIES AND EQUITY			
Share capital		8,879	8,879
Share premium reserve		136,400	136,400
Other reserves		(10,236)	(13,761)
Group shareholders' equity	14	**135,043**	**131,518**
Equity attributable to minority interest	14	**0**	**3,966**
Total shareholders' equity	14	**135,043**	**135,484**
Medium-/long-term borrowing	16	10,482	22,873
Employee benefit obligations	17	1,718	1,681
Deferred tax liabilities	33	12,111	12,307
Other non-current liabilities	18	1,586	2,225
Total non-current liabilities		**25,897**	**39,086**
Trade payables	19	18,388	18,824
Short-term borrowing	16	17,253	8,985
Derivative instruments	36	376	339
Income tax liabilities	9	1,731	1,214
Other current liabilities	21	7,229	5,748
Business combination liabilities	20	216	1,066
Total current liabilities		**45,193**	**36,176**
Total liabilities		**71,090**	**75,262**
Total liabilities and equity		**206,133**	**210,746**

Consolidated income statement

INCOME STATEMENT (€'000)	Notes	FY 2011	FY 2010
Revenues from sales of products and services	F	93,806	99,269
Other revenues	28	382	1,449
Operating costs:			
Cost of materials	23	(47,266)	(48,863)
Service costs	25	(16,483)	(17,042)
Lease & hire costs	24	(2,464)	(2,377)
Payroll costs	26	(25,378)	(26,447)
Non recurrent costs	24	(910)	0
Other provisions and other costs	27	(1,229)	(1,385)
current assets	29	2,632	2,790
Depreciation & amortisation	30	(7,708)	(7,851)
Asset impairment	30	(257)	(284)
Operating profit		**(4,875)**	**(741)**
Share of associates' profit of equity	32	123	(1,630)
Finance expense	31	(7,840)	(4,822)
Finance income	31	5,979	3,380
Profit before taxes		**(6,613)**	**(3,813)**
Income tax	33	(633)	(2,200)
Net profit (loss) before minority interest		**(7,246)**	**(6,013)**
Minority interest		**0**	**66**
Group net profit (loss) for period		**(7,246)**	**(6,079)**
Base earnings (losses) per share	15	**(0.206)**	**(0.173)**
Diluted earnings (losses) per share	15	**(0.206)**	**(0.173)**

Consolidated statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME (€'000)	Notes	FY 2011	FY 2010
Net profit (loss) before minority inerest (A)		**(7,246)**	**(6,013)**
Other elements of the statement of comprehensive income			
Net profit (loss) from Cash Flow Hedge		(37)	119
Tax effect		0	0
		(37)	*119*
Foreign balance sheets conversion difference		*8,576*	*18,447*
Exchange differences on equity method		*(18)*	*(36)*
Exchange differences on equity investments in foreign companies		653	1,449
Tax effect		0	0
		653	*1,449*
After tax comprehensive profit (loss) (B)		*9,174*	*19,979*
Comprehensive net result (A+B)		**1,928**	**13,966**
Comprehensive minority interest		**0**	**788**
Comprehensive Group net profit (loss) for period		**1,928**	**13,178**

Consolidated statement of changes in shareholders' equity

(€'000)	Share capital	Legal reserve	Share premium reserve	Conversion reserve	Other reserves	Cash flow hedge reserve	Exchange rate differences reserve	Treasury shares	Profit (loss) for period	Group shareholders' equity	Minority interest capital & reserves	Profit (loss) of third parties	Equity attributable to Minority interest	Total shareholders' equity
Balance as at December 31, 2009	8,879	39	136,400	8,213	(23,010)	(458)	(2,226)	(1,340)	(9,601)	116,896	3,049	129	3,178	120,074
2009 Result allocation	-	-	-	-	(9,601)	-	-	-	9,601	-	129	(129)	-	-
Profit (loss) as at December 31, 2010	-	-	-	-	-	-	-	-	(6,079)	(6,079)	-	66	66	(6,013)
Comprehensive other profit (loss)														
- Hedge transactions	-	-	-	-	-	119	-	-	-	119	-	-	-	119
- Foreign balance sheets conversion difference	-	-	-	17,725	-	-	-	-	-	17,725	722	-	722	18,447
- Exchange differences on equity method	-	-	-	-	(36)	-	-	-	-	(36)	-	-	-	(36)
- Exchange differences on equity investments in foreign companies	-	-	-	-	-	-	1,449	-	-	1,449	-	-	-	1,449
Comprehensive result	-	-	-	*17,725*	*(36)*	*119*	*1,449*	-	*(6,079)*	*13,178*	*722*	*66*	*788*	*13,966*
Minority purchase	-	-	-	-	1,444	-	-	-	-	1,444	-	-	-	1,444
Balance as at December 31, 2010	8,879	39	136,400	25,938	(31,203)	(339)	(777)	(1,340)	(6,079)	131,518	3,900	66	3,966	135,484

(€'000)	Share capital	Legal reserve	Share premium reserve	Conversion reserve	Other reserves	Cash flow hedge reserve	Exchange rate differences reserve	Treasury shares	Profit (loss) for period	Group shareholders' equity	Minority interest capital & reserves	Profit (loss) of third parties	Equity attributable to Minority interest	Total shareholders' equity
Balance as at December 31, 2010	8,879	39	136,400	25,938	(31,203)	(339)	(777)	(1,340)	(6,079)	131,518	3,900	66	3,966	135,484
2010 Result allocation	-	-	-	-	(6,079)	-	-	-	6,079	-	66	(66)	-	-
Profit (loss) as at December 31, 2011	-	-	-	-	-	-	-	-	(7,246)	(7,246)	-	-	-	(7,246)
Comprehensive other profit (loss)														
- Hedge transactions	-	-	-	-	-	(37)	-	-	-	(37)	-	-	-	(37)
- Foreign balance sheets conversion difference	-	-	-	8,576	-		-	-	-	8,576	-	-	-	8,576
- Exchange differences on equity method	-	-	-	-	(18)	-	-	-	-	(18)	-	-	-	(18)
- Exchange differences on equity investments in foreign companies	-	-	-	-	-	-	653	-	-	653	-	-	-	653
Comprehensive result	-	-	-	*8,576*	*(18)*	*(37)*	*653*	-	*(7,246)*	*1,928*	-	-	-	*1,928*
Minority purchase	-	-	-	-	1,597	-	-	-	-	1,597	(3,966)	-	(3,966)	(2,369)
Balance as at September 30, 2011	8,879	39	136,400	34,514	(35,703)	(376)	(124)	(1,340)	(7,246)	135,043	-	-	-	135,043

Consolidated cash flow statement

CONSOLIDATED CASH FLOW STATEMENT (€'000)	at December 31, 2011	at December 31, 2010
CASH FLOWS GENERATED BY OPERATIONS:		
Group net profit	**(7,246)**	**(6,079)**
Adjustments to reconcile reported net profit with cash & cash equivalents generated (used) in operations:		
Minority interests	0	66
Depreciation & amortization intangible assets, property, plant and equipment	7,965	8,135
Write-down of receivables	353	509
Interest income	(117)	(262)
Gain on disposals investments	0	(585)
Affiliated companies booked at equity	(123)	1,630
Cost for bringing up-to-date and exchange adjustment for put option	0	1,198
Provision for (use of) long-term employee severance indemnities	37	72
Provision for (use of) risk provision	(543)	625
(Provision for) / use of deferred tax asset / Provision for (use of) deferred tax liability	(477)	967
Changes in current assets and liabilities		
Trade receivables	2,058	(6,445)
Other current assets	1,701	2,325
Inventories and contracts in process	(3,655)	(3,965)
Trade payables	(804)	4,653
Other current liabilities	1,914	341
Total adjustments and changes	**8,309**	**9,264**
Cash flow generated (used) in operations	**1,063**	**3,185**
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Disposal of intangible assets		
Sales of tangible and intangible assets	48	35
Assignment for deconsolidation	0	0
Interest income	117	262
Net profit from Radstone transaction	0	0
Purchase of intangible fixed assets	(2,872)	(3,089)
Purchase of tangible fixed assets	(821)	(1,056)
Achivement from investments in associates	0	825
Decreases (Increases) other financial assets	(686)	(663)
Net investments in long-term investments and non-current assets	164	(509)
Minority interest purchase	(2,369)	(10,182)
Pay outstanding debt for business combinations prior years	(1,066)	
Business acquisition net of cash acquired	(935)	0
Cash flow generated (used) in investment activities	**(8,420)**	**(14,377)**

CONSOLIDATED CASH FLOW STATEMENT (€'000)	at December 31, 2011	at December 31, 2010
CASH FLOW FROM FINANCING ACTIVITIES:		
Loans taken	0	9,100
Increases (decreases) short term loan	1,724	1,690
Repaid loans medium/long term	(5,847)	(5,837)
Cash flow generated (absorbed) by financial assets	**(4,123)**	**4,953**
Changes in the conversion difference	1,325	2,066
Increases (decreases) in cash & cash equivalents	**(10,155)**	**(4,173)**
Opening amount in cash & cash equivalents	**23,751**	**27,924**
Cash & cash equivalents at end of period	**13,596**	**23,751**
Interest paid	**1,351**	**1,093**
Income taxes paid (get)	**697**	**298**

Notes to the financial statements

A – Corporate information

The publication of the consolidated financial statements of Eurotech SpA for the year ended 31 December 2011 was authorised by resolution of the Board of Directors on 15 March 2012. Eurotech SpA is a joint stock company incorporated and domiciled in Italy. The Group has its registered office in Amaro, Italy.
Eurotech is a group active in the research, development, and marketing of miniaturised computers (NanoPCs) and high-performance computers featuring high computing capacity (HPCs). For further information, see Note F.

B – Reporting policies and IFRS compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and approved by the European Commission according to article 6 of EC Regulation 1606/2002 of the European Parliament and European Council of 19 July 2002 by 31.12.11, as well as with the measures enacted to implement article 9 of Legislative Decree 38/2005. IFRSs include all international accounting standards that have been revised (IAS) and all the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).
Consolidated financial statements are based on recognition at cost, except for derivative financial instruments, which are normally recognised at fair value. Despite the difficult global economic situation, Eurotech found no significant uncertainties (as defined in paragraph 25 of IAS 1) related to business continuity, also taking into account actions taken to deal with the situation, industrial flexibility, the current order portfolio and existing opportunities.

All accounting standards used are the same as those adopted for the period ended 31 December 2010, except for the following new or revised IFRSs or IFRICs, which were applied for the first time by the Group at 1 January 2009. Eurotech's adoption of the revised policies and interpretations had no effect on the Group's income or assets, partly because the cases and instances they govern are not applicable to Group business, but only affect the presentation of the financial statements and disclosure:

- *IFRIC 14 Prepayments of a Minimum Funding Requirement* – The revision removes an unintended consequence arising when an entity is subject to minimum funding requirements and plans to make a prepayment on these requirements. The revision allows an entity to account for a prepayment of a minimum funding requirement as an asset. The Group is not subject to minimum funding requirements in Europe. The revision has therefore had no effect on the Group's financial position or results.
- *IAS 24 Related Party Disclosures* – The IASB has issued a revision to IAS 24 that clarifies the definition of related parties. The new definition stresses the symmetry of identifying related parties and sets out more clearly the circumstances in which persons and managers with strategic responsibilities must be regarded as related parties. The revision also introduces an exemption from general disclosure requirements on related parties for 1) transactions with a government and 2) transactions with entities that are jointly controlled or under the significant influence of a government, when the reporting entity is also jointly controlled or under the significant influence of the same government. Adoption of the changes has had no impact on the Group's financial position or results.
- *IAS 32 Financial Instruments: Presentation* – The amendment changes the definition of a financial liability in order to classify rights issues denominated in foreign currency (and certain options and warrants) as equity instruments when these instruments are allocated on a pro-rata basis to all bearers of the same class of an instrument (not derivative) representing the capital of the entity, or for the acquisition of a fixed number of equity instruments of the entity for a fixed amount in any currency. The revision has had no effect on the financial position or results of the Group since the Group does not hold this type of instrument.
- *IFRS 3 Business Combinations* – The options available for measuring non-controlling interests (NCIs) have been revised. It is possible to measure at fair value or alternatively in relation to the proportional share of the identifiable net assets of the acquired company only those components of non-controlling interests that represent an effective equity investment that provides bearers with a proportional share of the net assets of the company in the event of liquidation. All the other components must be measured at fair value at acquisition date.
- *IFRS 7 Financial Instruments: Disclosures* – the revision aims to simplify and improve disclosure by, respectively, reducing the volume of disclosure relating to guarantees held and requiring more qualitative disclosure in order to provide a better context for the quantitative element.

- *IAS 1 Presentation of Financial Statements* – The amendment requires the reconciliation of changes in each component of shareholders' equity to be presented in the notes as well as in the financial statements.

The IASB has also issued the following standards or interpretations already adopted by the European Union, which the Group has not adopted in advance but the adoption of which is mandatory for accounting periods after 1 January 2012. The Group intends to adopt the following standards when they come into force:

- *IAS 1 Presentation of Financial Statements* – The revision of IAS 1 changes the grouping of other components of comprehensive income. The items that may be recycled to the income statement at some future point (e.g. on cancellation or liquidation) should be presented separately from items that will never be restated. The revision only applies to methods of presentation and has no effect on the Group's financial position or results. The change will come into effect for financial years beginning on or after 1 July 2012.
- *IAS 19 Employee Benefits* – The IASB has issued a number of revisions to IAS 19. These range from radical changes such as elimination of the corridor mechanism and the concept of expected plan asset yields to simple clarifications and terminology. In the current financial year (see Note 2.4), the Group voluntarily changed its accounting procedures to recognise actuarial gains and losses as other components of comprehensive income. The Group is currently assessing the impact of the other changes. The revisions apply to financial years starting on or after 1 January 2013.
- *IAS 27 Separate Financial Statements* – Due to the new IFRS 10 and IFRS 12, the remainder of IAS 27 is limited to the inclusion of subsidiaries, joint ventures and associates in the separate financial statements. The revisions apply to financial years starting on or after 1 January 2013.
- *IAS 28 Investments in Associates* – Due to the new IFRS 11 and IFRS 12, IAS 28 has been renamed Investments in Associates and Joint Ventures and describes the application of the equity method for equity investments in joint ventures as well as associates. The revisions apply to financial years starting on or after 1 January 2013.
- *IFRS 10 Consolidated Financial Statements* – IFRS 10 replaces the section of IAS 27 Consolidated and Separate Financial Statements governing the accounting of the consolidated financial statements. This also includes the problems raised by SIC-12 Consolidation – Special Purpose Entities.
  IFRS 10 establishes a single control model to be applied to all companies, including special purpose entities. The changes introduced by IFRS 10 will require management, by comparison with the requirements under IAS 27, to make substantial discretionary assessments to establish whether companies are subsidiaries and therefore have to be consolidated by the parent company. This standard applies to financial years starting on or after 1 January 2013.
- *IFRS 12 Disclosure of Interests in Other Entities* – IFRS12 includes all measures on disclosure previously included in IAS 27 in relation to the consolidated financial statements, as well as all measures on disclosure in IAS 31 and IAS 28. This disclosure relates to equity investments held by a company in subsidiaries, joint ventures, associates and structured vehicles. New disclosure instances are also provided for. This standard applies to financial years starting on or after 1 January 2013.
- *IFRS 13 Fair Value Measurement* – IFRS 13 establishes a single guideline under IFRS for all fair value measurements. IFRS 13 does not alter cases in which use of fair value is a requirement, but instead provides a guide on how to measure fair value under IFRS when the application of fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and results. This standard applies to financial years starting on 1 January 2013.

The consolidated financial statements were drafted in euro, rounding amounts to the nearest thousand unless otherwise indicated. The financial statements consist of the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement, and the following explanatory notes.

The data used for consolidation have been taken from the income statements and statements of financial position prepared by the Directors of individual subsidiaries. These figures have been appropriately amended and restated as necessary to align them with international accounting policies and with uniform group-wide classification policies.

C – Discretionary evaluations and relevant accounting estimates

The preparation of the Group's financial statements requires all directors to make subjective assessments, estimates and assumptions that may affect the value of revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. However, uncertainties about such assumptions and estimates may determine effects which will require significant adjustments to the accounting value of said assets and/or liabilities.

Discretionary evaluations

In applying Group accounting policies, directors made decisions based on the following discretionary evaluations (not including those involving estimates) with a significant effect on the values posted in the financial statements:

Recognition of revenue – Sale of components – According to directors, sales of components made by the Group to outsourcers (which use these components in their operations and subsequently resell their products to the Group) imply a continued relationship with the transferred assets and do not give rise to collection of the contracted consideration. Consequently, on the basis of IAS 18, these transactions are not recognised as sales.

Uncertainty in the estimates

The estimates at year-end are reviewed periodically and could lead to significant adjustments in the book value of the assets and liabilities within the subsequent financial period. Estimates are used to recognise:

Impairment of non-financial assets

At every reporting date, the Group tests for impairment of all non-financial assets.

Specifically, goodwill and other intangible assets with an indefinite useful life are submitted to review at least annually and during the year to check for impairment; this check requires the Group to make an estimate of the value in use of the cash generating unit to which goodwill and other intangible assets with a definite useful life are attributed, in turn based on the estimated cash flows expected from the unit, time-discounted at an appropriate rate

As at 31 December 2011, the book value of goodwill was €88,101 thousand (€82,841 thousand in 2010). Further details are provided in Note 1.

Other non-financial assets are annually tested for impairment when there is evidence that the assets may be impaired.

In preparing calculations to determine value in use, directors need to estimate expected cash flows from operations or from the cash-generating unit and choose a discount rate that can adequately calculate the present value of these cash flows. Further details and a sensitivity analysis of key assumptions are provided in Note 1.

Deferred tax assets

Deferred tax assets are recognised against all temporary differences and tax losses carried forward, to the extent that future taxable profits are likely that can absorb said temporary differences or that can use said tax losses. The Board of Directors is required to make a significant discretionary evaluation to determine the amount of deferred taxes that can be posted. Directors have to determine the most likely timing and amount of future taxable profits and a planned strategy of future taxes payable.

At 31 December 2011, unrecognised tax losses carried by the Parent Company were estimated at €31,060 thousand (€26,166 thousand in 2010). In the Group as a whole, unrecognised tax losses came to €37,764 thousand (€29,785 thousand in 2010).

Development costs

Development costs are capitalised as per the accounting standard described in Note E. Initial cost capitalisation is based on the Directors' assessment of the technical and economical feasibility of the project, normally when the project itself has reached a certain stage in the development plan and it is likely that the asset will generate future economic benefits. In order to determine capitalised amounts, Directors need to make assumptions about expected future cash flows from fixed assets, discount rates to be applied and periods in which benefits will accrue. At 31 December 2011, the best estimate of the book value of capitalised development costs was €6,340 thousand, of which €3,311 thousand in progress (€5,869 thousand in 2010, of which €1,643 thousand in progress).

Other items subject to estimates

Estimates are also used to recognise provisions for risks on receivables, for inventory obsolescence, amortisation, write-downs of assets, employee benefits, taxes, and provisions for risks and charges, to determine the total costs of jobs and the respective state of progress, in order to record deferred tax assets and allocate the purchase price of recent business acquisitions.

D – Scope of consolidation

The consolidated financial statements include the annual financial statements of the Parent Company, Eurotech SpA, and the Italian and foreign subsidiaries in which Eurotech directly or indirectly (through subsidiaries and associates) exercises control, makes financial and operating decisions and obtains the respective benefits.
The companies included in the scope of consolidation on a line-by-line basis at 31 December 2011 are as follows:

Company name	Registered office		Share capital	Group % ownership
Parent Company				
Eurotech SpA	Via Fratelli Solari, 3/A – Amaro (UD)		EUR 8,878,946	
Subsidiary companies consolidated line-by-line				
Dynatem Inc.	Mission Viejo (US)	USD	1,000	100.00%
Eth Devices S.r.o.	Bratislava (Slovakia)	EUR	10,000	100.00%
Eurotech Inc.	Columbia (USA)	USD	26,500,000	100.00%
Eurotech Ltd.	Cambridge (UK)	GBP	33,333	100.00%
E-Tech USA Inc.	Salt Lake City (US)	USD	8,000,000	100.00%
Eurotech Finland Oy in liquidation	Helsinki (Finland)	EUR	508,431	100.00%
Eurotech France S.A.S.	Venissieux Cedex (France)	EUR	795,522	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Via Piave, 54 – Caronno Varesino (VA)	EUR	51,480	100.00%
Parvus Corp.	Salt Lake City (US)	USD	119,243	100.00%
Saee S.r.l.	Via Fratelli Solari, 3/A – Amaro (UD)	EUR	15,500	100.00%
EthLab S.r.l.	Via Dante, 78 – Trento	EUR	115,000	99.99%
Advanet Inc. (2)	Okayama (Japan)	JPY	72,440,000	90.00% (1)

(1) The percentage of formal possession is 90%, but due to the possession by Advanet of 10% of the share capital in the form of treasury shares, it is fully consolidated.
(2) As of 1 April 2011, the Japanese indirect subsidiary, Spirit 21 Inc., was merged by incorporation with Advanet Inc..

The following associates are consolidated at equity:

Associates consolidated at equity		
Delos S.r.l. in liquidation	Via Roberto Cozzi, 53 - Milan	40.00%
Isidorey Llc. in liquidation	Columbia (US)	40.00%
Chengdu Vantron Technology Inc.	Chengdu (China)	38.00%
eVS embedded Vision Systems S.r.l.	Ca' Vignal2, Strada Le Grazie 15 - Verona	32.00%
Emilab S.r.l.	Via Jacopo Linussio, 1 – Amaro (UD)	24.82%
UTRI SpA	Via del Follatolo, 12 – Trieste	21.31%

The main changes with regard to subsidiaries and associates compared with 31.12.10 are as follows:
- 01/04/2011: Spirit 21 Inc. was merged by incorporation with parent company Advanet Inc. which held 100% of its capital.
- 05/05/2011: Eurotech Finland Oy was put into liquidation.
- 20/05/2011: Advanet bought back treasury shares amounting to 10% of its share capital.
- 01/06/2011: 100% of the capital of US company Dynatem Inc. was acquired through subsidiary E-Tech USA Inc., active in the NanoPC sector. For more details, see Note G.
- 26/09/2011: Isidorey LLC was placed in liquidation.
- 31/12/2011: 5.75% of the shares of Chengdu Vantron Technology Inc. were sold under an agreement in 2009 that also provides for the sale of further stakes each year, to reach 15% ownership by 31 December 2015.

In January 2012, the associate UTRI SpA was placed in liquidation.

E – Accounting standards and policies

Consolidation policies

Consolidation policies from 01 January 2011

The consolidated financial statements include the financial statements of Eurotech SpA (Parent Company) and its subsidiaries, prepared on 31 December every year. The financial statements of the subsidiaries are drawn up using the same accounting standards as for the Parent Company; any consolidation adjustments are carried out to make consistent the items affected by the application of different accounting standards. All infragroup balances and transactions, including any unrealised profits deriving from relationships between Group companies, are completely derecognised. The portion pertaining to the Group of unrealised profits and losses with associates is derecognised. Unrealised losses are derecognised, except in cases where they represent impairment.

Subsidiaries are fully consolidated from the acquisition date, i.e. the date at which the Group acquires control, and cease to be consolidated on the date at which control is transferred outside the Group.

Losses are attributed to minority interests even when this gives rise to a negative balance for minority shareholdings.

Changes in the equity interest of the Parent Company in a subsidiary that do not involve loss of control are booked as equity transactions. Specifically, in the case of acquisitions of minority interests, the difference between the price paid and the book value of the portion of the net assets purchased is posted directly to equity.

If the Parent Company loses control of a subsidiary, it:
- derecognises the subsidiary's assets (including any goodwill) and liabilities
- derecognises the carrying value of any minority interest in the former subsidiary
- derecognises cumulative exchange rate differences recognised in equity
- recognises the fair value of the payment received
- recognises the fair value of any equity interest retained in the former subsidiary
- recognises any profit or loss in the income statement
- restates the portion held by the Parent Company of the components previously posted to the statement of comprehensive income to the income statement or to retained earnings, as appropriate.

Consolidation policies from 01 January 2011

Some of the policies described above have been applied prospectively.
Furthermore, with regard to the above consolidation policies, in some circumstances the following differences are carried forward:
- Acquisitions of minority interests that took place before 1 January 2010 were booked using the entity concept method, according to which the difference between the price paid and the book value of the portion of the net assets acquired is posted directly to equity.
- Losses registered by the Group were attributed to minority interests until the balance of the latter was reduced to zero. Any further loss exceeding this value was attributed to the Group, unless the minority interests had an obligation to cover it. Losses registered before 1 January 2010 were not reallocated between the minority interests and the shareholders of the Parent Company.
- Once control has been lost, the Group books the retained portion of the equity interest according to its proportionate share of the net asset on the date at which control was lost. The carrying value of this shareholding at 1 January 2010 was not re-presented.

Conversion of foreign currency items and financial statements from non-euro currency

The consolidated financial statements are presented in euro, which is the functional and presentation currency used by the Group. Each Group entity determines its own functional currency, which is used to value the items in the individual financial statements.

Transactions in foreign currency are initially recognised at the exchange rate (in relation to the functional currency) in force at the transaction date. Monetary assets and liabilities denominated in foreign currency are converted to the functional currency at the exchange rate in force at the reporting date. All exchange rate differences are posted to the income statement, except for differences deriving from loans in foreign currency that form part of a net investment in a foreign company, which are recognised directly in equity until the net investment is disposed of, at which time it is recognised in the income statement. Taxes and tax receivables attributable to exchange rate differences on these loans are also posted directly to equity. Non-monetary items valued at historic cost in foreign currency are translated using the exchange rates in force at the date at which the transaction is initially recognised. Non-monetary items posted at fair value in foreign currency are converted using the exchange rate in force at the date of calculation of this value.

Any goodwill deriving from the acquisition of a foreign operation, and any changes in fair value that change the book values of the assets and liabilities deriving from the acquisition of this foreign operation, are booked as assets and/or liabilities of the foreign operation. These values are therefore expressed in the functional currency of the foreign operation and are translated at the exchange rate in force at the reporting date.

Before 1 January 2005, the Group chose to treat goodwill, and any changes in fair value that change the book value of the assets and liabilities at the time of acquisition, as Group assets and liabilities. Therefore, these assets and liabilities are already expressed in the presentation currency or they are non-monetary items, and there is therefore no further translation difference.

The functional currency used by US subsidiaries Parvus Corp., Eurotech Inc., Dynatem Inc. and E-Tech USA Inc. is the US dollar; the functional currency used by UK subsidiary Eurotech Ltd. is the pound sterling; and the functional currency used by Japanese subsidiary Advanet Inc. is the Japanese yen.

At the reporting date, the assets and liabilities of these subsidiaries were translated to the presentation currency of the Eurotech Group (the euro) at the exchange rate in force on this date, while the income statement was converted using the average exchange rate for the year. Exchange rate differences arising from the conversion of income statement items at a different rate from that in force at the reporting date, and those arising from the translation of opening equity at a different rate from that in force at the reporting date, are recognised directly in equity and presented separately in a dedicated reserve. When a foreign company is disposed of, the cumulative exchange rate differences recognised in equity relating to that particular foreign company are posted to the income statement.

The schedule below shows the exchange rates used, as issued by the Italian Foreign Exchange Bureau:

Currency	Average at 2011	As of December 31, 2011	Average at 2010	As of December 31, 2010
British pound sterling	0.86788	0.83530	0.85784	0.86075
Japanese Yen	110.95860	100.20000	116.23857	108.65000
USA Dollar	1.39196	1.29390	1.32572	1.33620

Accounting policies

The accounting standards and policies applied to prepare the consolidated financial statements for the year ended 31 December 2011 are shown below.

Intangible assets

Intangible assets acquired separately are initially capitalised at cost, while assets acquired through business combinations are booked at fair value. After initial posting, intangible assets are booked net of accumulated amortisation and accumulated value losses. Intangible assets produced in-house, except for development costs, are not capitalised and are reported in the income statement in the year in which they are incurred. The useful life of intangible assets is valued as definite or indefinite.
Intangible assets with a definite useful life are amortised throughout their useful life and submitted to congruence tests whenever there are indications of possible impairment. The period and method of amortisation to be applied are re-examined at the end of each financial year or more frequently as necessary. Changes in the expected useful life and the methods with which future economic benefits related to intangible assets are achieved by the Group are posted by modifying the period or method of amortisation, as adjusted, and treated as modifications of the accounting estimates. Amortisation allowances of intangible assets with finite useful life are reported in the income statement in the cost category matching the function of the intangible asset.
Intangible assets with indefinite useful life are submitted to annual impairment testing on an individual or cash generating unit basis. No amortisation is reported for these assets. The useful life of an intangible asset with indefinite useful life is annually reviewed to verify the conditions underlying this classification. Otherwise, the useful life estimated is changed from indefinite to definite.

Profits or losses arising from the sale of an intangible asset are measured as the difference between the net proceeds of the sale and the carrying value of the intangible asset and are recognised in the income statement when the asset is derecognised.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are booked using the purchase method. The purchase cost is measured as the sum of the payment made at fair value at acquisition date and the amount of any minority interest in the acquiree. For every business combination, the acquirer must value any minority interest in the acquiree at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquiree. Acquisition costs are paid and classified in administrative expenses.
When the Group acquires a business, it must classify or designate the financial assets acquired or liabilities assumed in accordance with the contractual terms and financial conditions and other pertinent conditions existing at acquisition date. This includes establishing whether an embedded derivative must be separated from the primary contract.
If the business combination is carried out in more than one stage, the acquirer must recalculate the fair value of the equity interest previously held and valued using the equity method, recognising any resulting profit or loss in the income statement.
Any potential payment must be recognised by the acquirer at fair value at acquisition date. Changes in the fair value of the potential payment classified as an asset or liability shall be recognised, pursuant to IAS 39, in the income statement or as other components of comprehensive income. If the potential payment is classified in equity, its value must not be recalculated until its extinction is booked against equity.
Goodwill is initially valued at cost, calculated as the excess between the sum of the payment made and the amount recognised for minority interests, and the identifiable assets acquired and liabilities assumed by the Group. If the payment is less than the fair value of the net assets of the acquired subsidiary, the difference is posted to the income statement.
After initial recognition, goodwill is valued at the reduced cost of the accumulated impairment losses. For the purposes of the impairment test, goodwill acquired in a business combination must, at acquisition date, be allocated to every Group cash generating unit expected to benefit from the combination, aside from the fact that the other assets or liabilities of the acquired entity are assigned to these units.
If goodwill is allocated to a CGU and the entity sells part of the assets of this unit, the goodwill associated with the asset sold must be included in the carrying value of the asset when calculating the gain or loss deriving from the disposal. The goodwill associated with the asset sold must be calculated on the basis of the relative values of the asset sold and the portion retained by the CGU.

Business combinations before 1 January 2010

Differences by comparison with the above policies are set out below.
Business combinations were booked using the purchase method. Transaction costs directly attributable to the combination were regarded as part of the purchase cost. Minority interests were calculated according to the portion of the identifiable net assets of the acquiree pertaining to minorities.
Business combinations carried out in stages were booked at separate times. Each new acquisition of shares did not affect the goodwill previously recognised.
The potential payment was recognised if, and only if, the Group had a current obligation, and cash outflows were probable and the estimate could be reliably calculated. Subsequent changes to the potential payment were booked as part of goodwill.

On first-time adoption of IFRS, the Group decided to not apply IFRS 3 – Business Combinations retroactively to acquisitions made before 1 January 2004; as a result, goodwill generated on acquisitions prior to the date of transition to IFRS was maintained at the previous value, determined according to Italian accounting standards, subject to testing and adjustment for impairment.

Research and development costs

Research costs are recognised in the income statement at the time they are incurred.

Development costs incurred with reference to a specific project are only capitalised when the Group can demonstrate (a) that it is technically practicable to complete the fixed asset so as to make it available for use or for sale; (b) that it intends to complete the fixed asset for use or for sale; (c) the way in which it will probably generate future benefits; (d) the availability of technical, financial and all other resources needed to complete the asset; and (e) its ability to reliably determine the costs attributed to the asset throughout its development.
Capitalised developed costs are amortised over the period in which all future expected revenues will occur.
During the development period, the asset is re-examined annually to verify potential impairment. After the initial posting, development costs are assessed at cost, minus any other amortisation or accumulated losses. Amortisation of the asset begins as soon as development is completed and the asset becomes available for use.
All other development costs are reported in the income statement in the period they are incurred.

Patents and trademarks

Patents have been granted by the competent body for a minimum of ten years with renewal option by the Group if the patent continues to produce utility over time.
Trademarks acquired separately are initially recognised at cost inclusive of ancillary charges. Trademarks acquired through business combinations are recognised at their fair value measured at the acquisition date.
Following initial recognition, trademarks are recorded at cost, net of goodwill provisions and any accumulated impairment losses.
Trademarks with a definite useful life recognised in the statement of financial position are amortised over a period of between 8 and 10 years and subject to impairment testing whenever a loss of value is indicated. Its useful life is reviewed on an annual basis.
Trademarks with an indefinite useful life are not amortised but are subject to impairment testing at least annually.

Registration costs in other countries of trademarks and patents developed internally are recorded in the income statement when they are incurred.

Other intangible assets

Other intangible assets purchased or produced internally are recorded as assets, in accordance with IAS 38 - Intangible Assets, when it is likely that the asset will generate future economic benefits and when the cost of the asset can be reliably determined.

Intangible assets with a definite useful life recognised within a business combination, such as customer relationships and order portfolios, are initially recognised at fair value at the date of acquisition, separately from goodwill, if this value can be reliably determined. After initial recognition, they are recognised net of related cumulative amortisation and of any impairment determined in the same way as for tangible assets. Customer relationships are amortised on a straight-line basis in a period of 5 to 10 years, while amortisation of the order book correlates to the processing of orders in the book at the time of acquisition.
Useful life is re-assessed annually, and any changes are applied prospectively as necessary.

Gains or losses arising from the sale of an intangible asset are measured as the difference between the net revenues from the sale and the carrying value of the intangible asset and are recognised in the income statement when the asset is derecognised.

Tangible assets

The value of property, plant and equipment is stated at historical cost, including any direct ancillary charges for making the asset suitable for the use for which it was intended, increased, where relevant and in the case of current obligations, by the current value of the estimated cost for disposal or removal of the asset. If significant portions of these tangible assets have different useful lives, these components are booked separately. Land, whether the site of buildings or free from construction, is not depreciated since it is considered to have an unlimited life.

The value of a building, subject to revaluation in periods prior to 1 January 2004 (the date of transition to IFRS), is recognised according to fair value at the transition date and this value is the replacement cost starting from that date (deemed cost).

Property, plant and equipment are listed net of respective accumulated depreciation and any impairment determined according to the methods described below. Depreciation is calculated on a straight-line basis, according to the estimated life of the asset for the company, which is re-examined annually and adjusted for changes on a case-by-case basis. The main technical amortisation rates used are based on the useful life of each individual item:

Buildings	33 years
Plant and machinery	from 7 to 10 years
Industrial and commercial equipment	from 4 to 6 years
Production equipment	from 4 to 6 years
Furniture and fixtures	from 7 to 10 years
Electronic office equipment	from 3 to 5 years
Automobiles and motor vehicles	from 4 to 5 years

The carrying value of tangible assets is tested for impairment if events or situational changes indicate that the carrying value cannot be recovered. If there is such an indication and if the carrying value exceeds the estimated realisable value, the assets are written down to reflect their realisable value. The realisable value of a tangible asset is the higher of its net selling price and value in use.

In determining value in use, estimated future cash flows are discounted to their current value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. For assets that do not generate cash flows independently, the realisable value is determined in relation to the cash-generating unit to which the asset belongs. Impairment is booked in the income statement under amortisation, depreciation and write-downs. The initial value is reinstated if the causes of impairment in previous financial years are no longer valid.

At the time of the sale or when future economic benefits no longer exist on the use of an asset, it is derecognised from the statement of financial position and related losses or gains (calculated as the differences between the sale price and the carrying value) are reported in the income statement in the year of its elimination.

The outstanding value of the asset, useful life and methods applied are reviewed annually and adjusted if necessary at the end of every financial year.

Financial charges incurred for investments in assets for which there is generally a certain period of time to make the asset ready for use or sale (qualifying assets, pursuant to IAS 23 – Financial Charges) are capitalised and depreciated throughout the useful life of the class of assets to which they refer. All other financial charges are recognised in the income statement as they are incurred.

Equity investments in associates

Equity investments in associates, in which the Eurotech Group has significant influence, are valued using the equity method. The income statement reflects the Group share of the results of the associate. Equity investments in an associate are booked in the income statement at cost, increased by subsequent changes pursuant to acquisition of the Group share in the net assets of the associate, according to the net equity method. Goodwill relating to the associate is included in the carrying value of the shareholding and is not subject to amortisation or to impairment testing.

The Group share of the results of the associate is recognised in the income statement. This share represents the profits of the associate attributable to shareholders, and therefore profits net of tax and the portions payable to the other shareholders of the associate.

If an associate enters adjustments directly in equity, the Group recognises its share and posts it, where applicable, in its statement of changes in shareholders' equity. Gains and losses arising from transactions between the Group and the associate are derecognised in proportion to the investment in the associate.

If the Group share of losses exceeds the carrying value of the equity investment, the latter is derecognised and the surplus is recorded in a special reserve in the amount in which the Group has legal or implicit obligations toward the subsidiary company to cover its losses or, in any event, to make payments on its behalf.

After applying the equity method, the Group assesses whether it is necessary to recognise a further impairment of its equity interest in the associate. The Group makes this assessment at every reporting date if there is objective evidence of impairment of the equity interest in the associate. If this is the case, the Group calculates the impairment as the difference between the recoverable value of the associate and the carrying value of the associate in its statement of financial position, recognising this difference in the annual income statement and classifying it under "Group share of the results of associates".

When significant influence over the associate has been lost, the Group calculates and recognises any residual equity interest at fair value. Any difference between the carrying value of the equity interest at the date of loss of significant influence and the fair value of the residual interest and of the payments received must be posted to the income statement.

Associates end their financial year on the same date as the Group; when the accounting policies used do not comply with those used by the Group, they are adjusted at year-end to make them the same as those used by Group for transactions and events of the same nature and occurring in similar circumstances.

Equity investments in other companies

If the fair value of financial assets made up of equity investments in other companies cannot be measured at the reporting date because the shares are not listed, they are valued at the purchase or subscription cost, after deducting capital refunds, which is adjusted for impairment using the methods described for tangible assets. If the reasons for a write-down cease to exist, equity investments valued at cost are written back to the initial value, and the effect is entered in the income statement. The risk deriving from any losses exceeding shareholders' equity is recorded in an appropriate provision to the extent to which it is committed to fulfil the legal or implicit obligations of the subsidiary company, or in any event to cover its losses.

Other non-current assets

Receivables and other long-term investments held until expiration date are booked at cost, represented by the fair value of the initial amount given in exchange, increased by applicable transaction costs. The initial carrying value is subsequently adjusted to take account of capital refunds and any write-downs or amortisation of the difference between the repayment value and the initial posted value. Amortisation is charged according to the effective internal interest rate, which is the rate that equalises, at the time of their initial recognition, the current value of expected cash flows and the initial posted value (amortised cost method).

Inventories

Inventories, except for work in progress, are stated at the lower of the purchase or production cost and the estimated realisable value represented by the amount that the company expects to obtain from their sale in the course of normal operations.

The cost of raw materials and finished products is calculated by applying the average weighted purchase cost for each transaction, including all ancillary purchase charges.

The production cost of finished and semi-finished products comprises the direct cost of raw materials and labour plus a portion of general production expenses calculated according to standard production capacity, excluding any financial charges.

Obsolete and/or slow-turnover inventories are written down based on their current potential use or on future realisation. The write-down is reversed in subsequent periods if the reason for maintaining it no longer exists.

Contracts in progress

Contracts in progress are valued according to the contractual amounts that have accrued with a reasonable degree of certainty, in accordance with the percentage-of-completion method, so as to attribute revenues and profits to the relevant individual accounting periods, in proportion to completion status. The progress of the contract is determined as the contract costs incurred for work performed to date as a proportion of the estimated total contract costs. The positive or negative difference between the value of the contracts accrued at year-end and the amounts billed is booked respectively under liabilities or assets in the statement of financial position.

Contract revenues, in addition to contract considerations, include changes, price adjustments, and recognition of incentives to the extent to which it is probable that these represent actual revenues that can be reliably determined. Actual losses are recognised regardless of the state of progress of jobs.

Trade receivables and other receivables

Receivables included in current and non-current assets are initially recognised at fair value and then at amortised cost and adjusted for impairment.
Trade receivables whose expiration date falls within the normal commercial terms are not time-discounted and are booked at cost (identified by their face value), net of the respective impairment, which is booked to a specific reserve. Amounts considered uncollectible are estimated according to the current value of expected future cash flows. Impaired receivables are written off and reversed when they become uncollectible.

Impairment of financial assets

At every reporting date the Group tests for impairment of financial assets or groups of financial assets.

Assets determined using the amortised cost method
If there is an objective indication that a loan or receivable recognised at amortised cost may be impaired, the impairment is measured as the difference between the asset's carrying value and the present value of expected future cash flows

(excluding future loan losses not yet incurred) discounted at the initial interest rate of the financial asset (i.e., the effective interest rate calculated at initial recognition). The carrying value of the asset is written down using a specific reserve and the impairment is recognised in the income statement.
If the impairment is reduced in subsequent periods and there is objective evidence that the reduction is due to an event occurring after the recognition of the impairment loss, the impairment may be reversed. Any impairment loss reversals are recognised in the income statement to the extent that the carrying value of the asset does not exceed the amortised cost at the date of reversal.
With regard to trade receivables, an impairment provision is made when there is objective evidence (e.g., the probability of default or significant financial distress of borrowers) that the group will not be able to recover all amounts due according to the original terms and conditions of the invoice.

Treasury shares

Treasury shares purchased are deducted from equity according to the relative purchase cost. The purchase, sale, issue or cancellation of the company's own equity instruments does not entail recognition of any gain or loss in the income statement.

Cash and cash equivalents

Cash and cash equivalents include ready cash, i.e., values that are either available on demand or which can be quickly liquidated, will give good results and do not have collection costs. For the purposes of the consolidated cash flow statement, cash was represented gross of bank overdrafts at the reporting date.

Financial liabilities

Trade payables and other liabilities

Trade payables, whose expiration date falls within the normal commercial terms, are not time-discounted and are booked at cost (identified by their face value), net of the respective impairment, which is booked to a specific reserve.

Other liabilities included in both current and non-current assets are initially recognised at cost, which corresponds to the fair value of the liability, net of transaction costs directly attributed to the issue of the liability. Following initial recognition, financial liabilities are valued using the amortised cost criterion and the effective initial interest rate method.

Loans

All loans are initially recognised at the fair value of the amount received net of ancillary charges related to acquiring the loan. After initial recognition, loans are valued using the amortised cost criterion and the effective interest rate method. Every gain or loss is booked to the income statement when the liability is extinguished, unless this takes place through the amortisation process.
If a long-term loan agreement provision is breached at the reporting date or prior to this date, with the result that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before approval of the financial statements for publication, not to demand payment due to breach of contract. The liability is classified as current at the reporting date because the company does not have an unconditional right to defer settlement for at least 12 months after this date.

Derivative financial instruments

The Group uses derivative financial instruments such as interest-rate swaps in order to hedge any risk from fluctuations of interest rates. Such derivative financial instruments are initially recognised at fair value at the date they are entered into; their fair value is recalculated periodically. They are recognised as assets when their fair value is positive and as liabilities when it is negative. Pursuant to IAS 39, hedging derivative financial instruments are recognised based on hedge accounting standards only when:

a) a formal designation exists and a hedging relationship report was prepared at the beginning of the hedging transaction;
b) the hedging relationship is expected to be highly effective;
c) the hedging relationship effectiveness can be reliably measured;
d) the hedging relationship itself is highly effective in all accounting periods for which it was designated.

When derivative financial instruments are used to hedge the fair value of underlying instruments (so called fair value hedges, as in the case of hedging the fair value of fixed-rate assets/liabilities), they are recognised at fair value through the income statement; and the hedged instruments are adjusted accordingly for changes in fair value of the hedged risk.
When derivatives are cash-flow hedges, e.g. hedging the change in cash flows of assets and liabilities at a variable rate due to interest-rate fluctuations, changes in the fair value are initially recognised on the statement of financial position and are then charged to the income statement consistent with the economic effects produced by the hedged transaction.
Consistent with strategy, the Group does not enter into speculative transactions on derivative instruments. In any event, if these transactions cannot be qualified as hedge transactions, they are registered as speculative transactions. Changes in the fair value of derivatives that do not meet the requirements for qualification as hedging instruments are recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, part of a financial asset or part of a group of similar assets) is derecognised from the financial statements when:

- rights to receive the cash flows from the asset are extinguished;
- the Group holds the right to receive cash flows from the asset, but has undertaken a contractual obligation to pay for them in full and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and (a) has essentially transferred all the risks and benefits of ownership of the financial asset or (b) has not transferred nor retained the risks and benefits of the asset, but has transferred its control.

If the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor held all the risks and benefits or has not lost control of them, the asset is recognised in the Group financial statements to the extent of its residual involvement in the asset. Residual involvement which takes the form of a guarantee on the transferred asset is valued at the lesser of the initial carrying value of the asset and the maximum value of the amount that the Group could be required to pay.
If the residual involvement takes the form of an option issued and/or acquired on the transferred asset (including the options regulated by cash or similar), the amount of Group involvement corresponds to the amount of the transferred asset that the Group can re-acquire; however, in the case of a put option issued on an asset measured at fair value (including options regulated in cash or with similar dispositions), the measure of residual involvement of the Group is limited to the lesser between the fair value of the transferred asset and the strike price of the option.

Financial liabilities

A financial liability is derecognised from the financial statements when the obligation underlying the liability is extinguished, voided or completed.
If an existing financial liability is replaced by another by the same lender, at substantially different conditions, or the conditions of an existing liability are essentially changed, this exchange or change is treated like an accounting elimination of the original liability and a new liability is recorded, posting to the income statement any differences between the accounting values.

Employee benefit obligations

Benefits guaranteed to employees, paid concurrent to or subsequent to the cessation of the employment relationship through defined benefit plans (employee severance indemnity accrued at 31 December 2010 or pension plans) or other long-term benefits (withdrawal indemnity) are recognised in the period when this right vests.

The Group implemented defined benefit and/or defined contribution pension plans, based on conditions and local practices in the countries where the Group operates.

Liabilities related to defined benefit programmes, net of any activities to service the plan, are determined based on actuarial assumptions and are recognised on an accrual basis consistent with the employment services necessary to obtain the benefits. The liabilities are valued by actuarial staff. The portion of cumulative net value of actuarial gains or losses in excess of the greater of 10% of the actuarial value of the defined benefit obligation and 10% of the fair value of the plan asset at the end of the previous reporting period is amortised over the remaining average working life of employees (the corridor method). At first-time adoption of IFRSs, the Group decided to recognise all existing cumulative actuarial gains or losses, while having decided to use the corridor method for all actuarial gains or losses subsequently incurred. All costs stemming from retrospective services are recognised with the straight-line method over an average timeframe, until the rights to benefits vest.

Pursuant to amendments to severance indemnities under Law 296 of 27 December 2006 (2007 Budget Law), the severance indemnities of Italian companies accrued at 1 January 2007 or at the date employees choose the option they will exercise are included in the defined benefit plan category, both in the event of option for supplementary pension and option for allocation to the treasury fund at INPS. The accounting treatment of severance indemnities is now similar to that used for other types of pension scheme contributions.

Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature or of a certain or probable existence, the amount or date of which was not identified at year-end. Provisions are recognised when there is a current obligation (legal or implicit) arising from a past event that necessitates an amount of resources to meet the obligation and a reliable estimate can be made of the amount of the obligation. When the Group believes that a provision to the reserve for risks and charges is partly or totally repaid, e.g. in the case of risks covered by insurance policies, the indemnity is only recognised as a separate item in the assets if, and only if, it is virtually certain. In this case, the cost of the provision in the income statement is stated net of the amount recognised for indemnity.
Provisions are booked at the representative value of the best estimate of the amount that the company would pay to extinguish the obligation, or to transfer it to third parties at the reporting date. If the effect of time-discounting the value of the cash is significant, provisions are determined by time-discounting expected future cash flows at a pre-tax discount rate that reflects the current market evaluation of the cost of money in relation to the time. When time-discounting is performed, the increase in the provision due as time passes is recognised as a financial charge.

Liabilities for decommissioning
An accrual for decommissioning expenses was made against costs that some foreign operations will incur in future periods for the decommissioning, demolition, dismantling and removal of some fixed assets at the end of their useful life. A credit to the plant and machinery entry was stated as a contra entry.
Decommissioning costs are carried at the present value of expected costs needed to settle the obligation, by using estimated cash flows and a pre-tax discount rate that reflects the specific risks related to the decommissioning liability.
The unwinding of the discount is recognised in the income statement as it occurs. Estimated cash flows are revised annually and adjusted as appropriate. Any change in cost estimates or in the discount rate applied are used to reduce the costs of the asset.

Grants

Grants made by public bodies are recognised at fair value when it is reasonably certain that they will be received and the conditions provided for obtaining them are met.

If grants relate to cost components, they are recognised as income but are consistently spread out over the periods so that they refer to the costs they are intended to offset. If the grant is related to any activity or development activity whose value is recognised as a fixed asset, it directly reduces the value of the fixed assets.

Operating grants (granted in order to provide immediate self-financing to the business or as compensation for expenses and losses incurred in a prior financial year) are fully recognised in the income statement at the time when the conditions for posting are met.

Leasing

A contractual agreement is defined as a lease (or containing a leasing transaction) according to the substance of the agreement and requires an assessment of whether fulfilment of the agreement depends on the use of one or more specific assets and if the agreement transfers the right to use this asset. A review is carried out after the start of the agreement only if one of the following conditions appears:

a) there is a change in the agreement conditions, other than renewal or extension of the agreement;
b) a renewal option is exercised or an extension is granted, unless the terms of the renewal or extension are not initially included in the terms of the lease transaction;
c) there is a change in the conditions whereby adaptation depends on a specific activity; or
d) there is a substantial change in the asset.

When a re-examination is carried out, the accounting treatment of the lease will begin or cease on the date at which the circumstances that have given rise to the review for scenarios a), c) or d) change and at the date of renewal or extension for scenario b).

Financial lease agreements that transfer to the Group all the risks and benefits associated with ownership of the leased asset are capitalised from the start date of the lease agreement at the fair value of the leased asset, or at the present value of lease payments if this is lower. Lease payments are apportioned between principal and interest in order to apply a constant periodic rate of interest on the remaining balance of the liability (principal). Financial charges are written to the income statement. Capitalised leased assets are depreciated on the shorter of the estimated useful life of the asset and the duration of the lease agreement, if it is not reasonably certain that the Group will obtain ownership of the asset at the end of the agreement.

Lease agreements in which the lessor essentially retains all the risks and benefits typical of ownership are classified as operating leases. Lease payments are charged to the income statement on a straight-line basis according to the duration of the agreement.

Revenues and costs

Recognition of revenues

Revenues are recognised in the measure in which it is possible to reliably determine the fair value and it is probable that the respective economic benefits will be used.

Depending on the type of transaction, revenues are recognised according to the specific criteria reported below:

- revenues from sales of goods are recognised when the significant risks and benefits of ownership of the goods are transferred to the buyer, generally at the date the goods are shipped;
- revenues for performing services are recognised according to the state of completion of the assets based on the criteria envisaged for contract work in progress. If it is not possible to reliably estimate the value of revenues, these are recognised up to the amount of the costs incurred that is deemed recoverable.

Interest

Interest income and expenses are recognised according to interest accrued on the net value of related assets and liabilities using the effective interest rate (the rate that discounts all future cash flows based on the expected useful life of the financial instrument to equal the net carrying amount of the financial asset).

Dividends

Dividends are reported when the shareholders' right to receive payment is established.

Income tax

Current tax assets and liabilities for the period and for all prior periods are carried at the amount expected to be recovered or to be paid to the tax authorities pursuant to tax legislation in force. Tax rates and fiscal provisions used to calculate the amount are as issued or substantially issued at the reporting date of 31.12.11.
Current taxes relating to elements recognised directly in equity are recognised directly in equity and not in the income statement.

Deferred tax liabilities are calculated using the liability method on temporary differences at the reporting date between tax amounts related to assets and liabilities and the amounts recognised in the derecognise.
Deferred tax liabilities are recognised with regard to all taxable temporary differences, except for:

- when deferred tax assets arise from initial posting of goodwill or an asset and liability in a transaction which is not a business combination and which, at the time of the transaction, does not have an effect on income in the financial year calculated for the financial statements, nor on the income or loss calculated for tax purposes;
- with reference to taxable temporary differences associated with equity investments in subsidiaries, associates and joint ventures, in the event that recharging temporary differences can be controlled and it is likely that it will not take place in the foreseeable future.

Deferred tax assets are recognised against tax losses carried forward to the extent that the company is likely to earn taxable income in the future which can make applicable the use of deductible temporary differences and fiscal losses carried forward, unless:

- the deferred tax asset related to temporary deductible differences arises from the initial recognition of an asset or liability in a transaction that is a business combination and which, at the time of the transaction, does not influence the profit for the year calculated for the purposes of the financial statements or gains or losses calculated for fiscal purposes;
- in the case of taxable temporary differences associated with equity investments in subsidiaries, associates and joint ventures, tax assets are recognised in the amount that temporary differences might be used in the immediate future and that there is adequate taxable income against which the temporary differences can be used.

The recoverability of deferred tax assets is reviewed at the end of every year and is reduced if it is unlikely that sufficient income will be earned in the future to allow all or part of this credit to be used. Unrecognised deferred tax assets are reviewed annually at year-end and are recorded to extent to which taxable profit is likely to be sufficient to allow these deferred tax assets to be recovered.
Deferred tax assets and liabilities are recognised based on the tax rates expected to be applied during the year when these activities are realised or these liabilities extinguished, taking into account the rates in force and those issued or allocated at year-end.
Income taxes related to items posted to equity are directly recognised in equity and not in the income statement.
Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and liabilities and deferred income tax referring to the same taxable object and the same tax authorities.

F – Segment information

The Group's primary segmentation for reporting purposes is by business segment, with secondary segmentation by region. The business segments are the NanoPC and HPC (High Performance Computer) segments. In view of the

cyclicality typical of our clients in the HPC segment and its current low relevance, we have chosen to provide disclosure on the NanoPC segment, divided by the regions in which the Group operates in various ways and based on which senior management monitors performance. There were no significant infragroup transactions between business segments.
Besides the HPC segment, the Group's regions in the NanoPC segment are defined according to the localisation of Group assets and operations. These segments are: Europe, North America and Asia.
Management monitors the EBIT of the individual business units separately for the purposes of resources allocation and performance assessment.

Business segments

The schedule below provides data on the Group's revenues and results and information on its assets and liabilities for the periods ended 31 December 2010 and 31 December 2011.

(€'000)	NanoPC			High Performance Computer			Total		
	FY 2011	FY 2010	%YoY Chg	FY 2011	FY 2010	%YoY Chg	FY 2011	FY 2010	%YoY Chg
Sales and service revenue by segment									
Sales and service revenue by segment	90,971	98,073	-7.2%	2,835	1,196	137.0%	93,806	99,269	-5.5%
Ebitda by segment	3,279	7,786	57.9%	-189	-392	-51.8%	3,090	7,394	58.2%
Ebit by segment	-4,170	38	n.s.	-705	-779	9.5%	-4,875	-741	-557.9%
Total EBIT							-4,875	-741	-557.9%
Net finance income (expense)							-1,861	-1,442	-29.1%
Shares of associates' profit (loss)	123	-1630					123	-1,630	107.5%
Profit before tax of continuing operations							-6,613	-3,813	-73.4%
Income tax							-633	-2,200	71.2%
Net profit (loss)							-7,246	-6,013	-20.5%

The NanoPC sales and services business generated €98,073 thousand in 2010 and €90,971 thousand in 2011, down by 7.2%. The decrease reflects a market contraction in some sectors and regions.
Sales and services Revenues generated by the HPC business rose from €1,196 thousand in 2010 to €2,835 thousand in 2011, due to new opportunities for the Parent Company's new developments and products.

The breakdown of revenues for the NanoPC segment is as follows:

(€' 000)	North America			Europe			Asia			Correction, reversal and elimination			Total		
	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change	FY 2011	FY 2010	%YoY Change
Third party Sales	39,440	47,608		24,211	21,307		27,320	29,158		0	0		90,971	98,073	
Infra-sector Sales	1,368	1,986		8,078	10,436		718	267		(10,164)	(12,689)		0	0	
Total Sales revenues	40,808	49,594	-17.7%	32,289	31,743	17%	28,038	29,425	-4.7%	(10,164)	(12,689)	19.9%	90,971	98,073	-7.2%
Gross profit	17,421	22,565	-22.8%	11,215	11,916	-5.9%	17,373	16,184	7.3%	(251)	(451)	-44.4%	45,758	50,214	-8.9%
Gross profit margin - %	42.7%	45.5%		34.7%	37.5%		62.0%	55.0%					50.3%	512%	
EBITDA													3,279	7,786	-57.9%
EBITDA margin - %													3.6%	7.9%	
EBIT													(4,170)	38	n.s.

The breakdown of turnover by region in the table above shows an increase in Europe and a decrease in North America and Asia for the reasons already mentioned.

The schedule below shows assets and investments related to the Group's individual business lines at 31 December 2011 and 31 December 2010.

(€'000)	NanoPC		High Performance Computer		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Assets and liabilites						
Segment assets	200,203	205,632	4,444	2,798	204,647	208,430
Investments in associate & other companies	548	538	0	0	548	538
Unallocated assets					938	1,778
Total assets	**200,751**	**206,170**	**4,444**	**2,798**	**206,133**	**210,746**
Segment liabilities	68,118	74,537	2,972	725	71,090	75,262
Unallocated liabiities					0	0
Total liabilities	**68,118**	**74,537**	**2,972**	**725**	**71,090**	**75,262**
Other segment information						
Investments in tangible assets	820	1,056	0	0	820	1,056
Investments in intangible assets	2,428	2,605	453	484	2,881	3,089
Depreciation & amortisation	7,449	7,748	516	387	7,965	8,135

Assets and investments in the NanoPC business by region are shown in the schedule below:

(€' 000)	North America		Europe		Asia		Correction, reversal and elimination		Total	
	FY 2011	31.12.2010	FY 2011	31.12.2010	FY 2011	31.12.2010	FY 2011	31.12.2010	FY 2011	31.12.2010
Activities by sector	64,726	58,376	61,118	42,831	118,697	115,949	(44,338)	(11,524)	200,203	205,632
Investments	2,301	2,088	618	1,413	329	160	0	0	3,248	3,661

Assets by business at 31 December 2011 do not include investments in associates and other companies (€548 thousand) and the current income taxes of the Parent Company (€938 thousand).

G – Business combinations and minority interests

Dynatem Inc. acquisition

On 1 June 2011 the Eurotech Group acquired 100% of the voting shares of Dynatem Inc. (an unlisted company based in Mission Viejo, California (US)), which specialises in the development and industrial production of customised and standard boards. The consolidated half-year report commented on in this document includes the results of Dynatem Inc. for the period from the acquisition date (seven months).
The total acquisition cost was €1,043 thousand ($1.5 million), comprising a cash payment of €846 thousand ($1.2 million) and a residual payable tied to an escrow for €216 thousand ($283 thousand). All the related costs directly attributable to the acquisition were booked to the income statement for €56 thousand under the administration expenses item.
Note that the price allocation of €1,283 thousand ($1.85 million) provisionally recognised under the customer relationships item is not definitive and may therefore be subject to change. The Directors defined the useful life of customer relationships at five years.

(€'000)	Value recognized for acquisition	Book value
ASSETS		
Intangible assets	1,293	10
Property, Plant and equipment	32	32
Other non-current assets	3	3
Inventories	591	591
Trade receivables	173	173
Other current assets	24	24
Cash & cash equivalents	167	167
Total assets	**2,283**	**1,000**
LIABILITIES		
Deferred tax liabilities	(500)	0
Other non-current liabilities	(13)	(13)
Debiti verso Fornitori	(368)	(368)
Short-term borrowings	(275)	(275)
Other current liabilities	(84)	(84)
Total liabilities	**(1,240)**	**(740)**
Fair value of net assets	**1,043**	
Goodwill generated by acquisition	**0**	
Cost of the Acquisition	**1,043**	

(€'000)	Liquidity used
Cost of the Acquisition	1,043
Subsidiary's net liquidity	108
Destined Net liquidity for the acquisition	**1,151**
Amounts to be cash out	(216)
Net liquidity used	**935**

Acquisition of minority interest in Advanet Inc.

On 31 March 2011, the Parent Company acquired, through its subsidiary Advanet, the residual interest of 10% in the shares of Advanet Inc. from the minority shareholder. The acquisition took place via purchase of treasury shares held by the subsidiary Advanet. Payment was made in cash.

The price paid (€2,369 thousand, or ¥257,375 thousand) was lower than the book value of the portion of the net assets acquired (€3,966 thousand). The difference of €1,597 thousand was posted to Group shareholders' equity.

H – Breakdown of key items in the statement of financial position

1 – Intangible assets

The schedule below shows the changes in the historical cost and accumulated amortisation of intangible assets in the reporting period:

(€ '000)	DEVELOPMENT COSTS	GOODWILL	SOFTWARE TRADEMARKS PATENTS	ASSETS UNDER CONSTRUCTION & ADVANCES	OTHER INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS
Purchase or production cost	11,264	83,647	25,854	1,727	37,793	160,285
Previous years' impairment	(601)	(640)	(11,108)	(67)	-	(12,416)
Previous years' amortisation	(6,437)	(166)	(4,218)	-	(16,720)	(27,541)
OPENING BALANCE	4,226	82,841	10,528	1,660	21,073	120,328
Purchases	253	-	180	2,448	-	2,881
Increases due to business combination	-	-	38	-	1,283	1,321
Disposals	-	-	(188)	-	(123)	(311)
Other changes	189	5,261	1,241	39	1,302	8,032
Impairment in period	(223)	-	-	(34)	-	(257)
Transfers	803	-	5	(803)	(5)	-
Amortisation in period	(2,038)	-	(410)	-	(3,448)	(5,896)
Reversal of cumulative amortisation	-	-	188	-	123	311
amortisation due to business combination	-	-	(37)	-	-	(37)
Transfers amortisation	-	-	(5)	-	5	-
Other changes in cumulative impairment	(12)	(1)	(354)	5	-	(362)
Other changes in cumulative amortisation	(169)	-	(67)	-	148	(88)
TOTAL CHANGES	(1,197)	5,260	591	1,655	(715)	5,594
Purchase or production costs	12,509	88,908	27,130	3,411	40,250	172,208
Impairment	(836)	(641)	(11,462)	(96)	-	(13,035)
Cumulative amortisation	(8,644)	(166)	(4,549)	-	(19,892)	(33,251)
CLOSING BALANCE	3,029	88,101	11,119	3,315	20,358	125,922

The change in intangible assets was primarily caused by the effect of investments as well as exchange rate fluctuations and write-downs in the period.

Investments refer primarily to recognition of development costs by the Group companies and the costs incurred to purchase new software licences.
The “other changes” item refers to the exchange differences accrued on the beginning balances of the values expressed in foreign currency, particularly in relation to the “goodwill” item and the “other fixed assets” item, which includes the value of customer relationships defined at the time of allocation of the price of the acquisitions.

The “trademarks” item reflects write-downs on the ADS and Arcom trademarks following the decision made by Eurotech management in the final months of 2008 to no longer use these trademarks.
The “Advanet” trademark, which was booked at the time of acquisition of the Advanet Group, is still defined by management as an asset with an indefinite life, as its use for commercial and production purposes has no time limits, considering its characteristics and its position on the Japanese market. As a result, it is not subject to amortisation, but instead to annual impairment tests.

Goodwill refers to the higher value paid, when fully consolidated subsidiaries were acquired, in excess of the fair value of the assets and liabilities acquired. Goodwill is not subject to amortisation but is subject to annual impairment tests.

The increased development costs relative to internal activities carried out by the Group during the year are capitalised net of any contributions received. These fixed assets with a definite useful life are amortised on a straight-line basis based on the life cycle of the products developed, which is estimated at three to five years, beginning from the date of completion of the reference development project. This asset is subject to impairment tests whenever loss of value is indicated. Development costs capitalised in previous years were written down this year by €223 thousand because they referred to products that did not achieve market success within the timeframe initially estimated.

The “software, trademarks, patents and licences” item mainly includes the costs incurred to implement what became the Group’s sole information system. Software is amortised on a straight-line basis over three financial years. The increase during the year was mainly due to costs incurred to acquire software licences for security systems and new products for these systems, as well as management programme licences.

The “assets in progress” item of €3,315 thousand includes €3,311 thousand in development costs (internal personnel, materials and services) related to new products in NanoPC models and systems, included the “rugged" version of the wrist-worn computer, which were still in the project stage at year-end or for which production had not yet been launched. During the year, the Group made a write-down of €34 thousand for development costs capitalised in previous years relating to projects in progress, after deciding to abandon the manufacturing or manufacturing launch of the relative products and/or components used in them.

The increase in the "other intangible fixed assets" item includes €1,283 thousand for the provisional allocation of the excess in the acquisition price of Dynatem Inc. compared with the book value of the net assets acquired to the customer relationships item.

Book value of goodwill and the trademarks allocated to each of the cash generating units:

In order to carry out the annual impairment test, the posted individual goodwill and trademarks with an indefinite useful life acquired through business combinations were allocated to their respective cash flow generating units, corresponding to the legal entity or group of companies to which they refer to test for impairment.

Cash generating units	at December 31, 2011		at December 31, 2010	
	Valore contabile avviamento	Valore contabile marchi con vita utile indefinita	Valore contabile avviamento	Valore contabile marchi con vita utile indefinita
Advanet Group	55,656	10,568	51,327	9,747
Eurotech Inc. (ex Applied Data Systems e ex Arcom Inc.)	24,598	-	23,821	-
Eurotech Ltd. (ex Arcom Ltd.)	5,228	-	5,074	-
Eurotech France S.a.s.	1,051	-	1,051	-
Dynatem Inc.	-	-	-	-
Parvus Corp.	1,478	-	1,478	-
Other	90	-	90	-
TOTAL	88,101	10,568	82,841	9,747

The recoverable amounts of the individual CGUs were calculated according to their value in use. To calculate the respective value, the cash flow projections from the 2012-2014 economic and financial plan were used, as approved by Eurotech's Directors on 02.03.12, while cash flows beyond three years and for an unlimited time period were extrapolated by assuming cash flows similar to those of the third year of the financial plan approved. The plans were prepared in the respective functional currencies, and the consequent recoverable values were uniformly compared with the book values in foreign currency allocated to the various cash generating units. Sensitive elements of the approved financial plan were, if necessary, taken into account in calculating recoverable value.

The growth rate used was 1.5% (2010: 1.5%), less than the average medium-to-long-term growth rate for the embedded PC segment forecast for the various core markets. The discount rate (WACC – Weighted Average Cost of Capital) applied to prospective cash flows varies within a range of 5.31% to 8.85%, calculated according to the country where the individual companies operate and the average debt structure of the sector and net of tax effects.
The key parameters used for impairment tests are as follows:

	ITA	JAP	USA	FRA	UK
Risk free	4.76%	1.12%	2.76%	3.30%	3.00%
Total Market Premium	5.00%	5.00%	5.00%	5.00%	5.00%
Beta unlevered	0.820	0.820	0.820	0.820	0.820
WACC	8.85%	5.31%	6.92%	7.46%	7.20%

The average yield rates at the starting date of the budget reference period for 10-year government bonds were used for the risk free category.
The average unlevered Beta of certain Parent Company comparables was used for all the CGUs considered. The WACC of the individual CGUs was calculated by using the beta coefficient, recalculated using the leverage effect deriving from the debt/equity ratio of the sector.
Considering the assumptions made based on the business and financial plans for 2012-2014 and use of the principal parameters determined for the individual core markets, the values in use resulting from the impairment tests did not indicate that it was necessary to make further write-downs in the value of goodwill and trademarks with an indefinite life.
The recoverability of the values of non-current intangible assets resulting from acquisition of the Advanet Group and Eurotech Inc. appears to be conditional upon the occurrence of possible changes in the key assumptions used to estimate them. Specifically, a 0.5% reduction in the long-term growth rate could cause the book values to exceed their recoverable value. Management also believes that the long-term growth estimate for 2011 of 1.5% (the same as for 2010) is far below estimates for the Japanese and US embedded PC markets.
Generally, the Directors also assumed in their assessments that, although some external indicators (particularly Eurotech's stock market performance) might signal net asset impairment, there was no need to carry out any write-downs. They believe that the market performance reflects the international economic situation and that it did not vary significantly during 2011 from the performance of the sector index to which Eurotech belongs. Future developments at the Eurotech group and expectations for the coming years based on existing orders and opportunities, stakeholder relations and products currently in the portfolio, particularly those developed in recent years, are regarded by the Directors as important factors in support of their decision not to change the values posted.

2 – Property, plant and equipment

The schedule below shows changes in the historical cost and accumulated depreciation and the value of the assets in the period under review:

(€ '000)	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL & COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION & ADVANCES	LEASED ASSETS	TOTAL PROPERTY, PLANT & EQUIPMENT
Purchse of production cost	749	7,981	2,963	7,152	11	935	19,791
Previous year's depreciation	(81)	(5,681)	(2,594)	(4,611)	-	(242)	(13,209)
OPENING BALANCE	668	2,300	369	2,541	11	693	6,582
Purchases	33	261	222	304	-	-	820
Disposals	-	-	(2)	(258)	-	-	(260)
Increases due to business combination	-	27	214	127	-	-	368
Other changes	-	195	98	(187)	-	-	106
Transfers	8	(645)	1,576	(933)	(6)	-	-
Depreciation in period	(16)	(465)	(336)	(971)	-	(24)	(1,812)
Reversal of cumulative depreciation	-	-	2	210	-	-	212
amortisation due to business combination	-	(17)	(196)	(122)	-	-	(335)
Transfers amortisation	(2)	121	(1,053)	934	-	-	-
Other changes in cumulative amortisation	-	(122)	(111)	448	-	1	216
TOTAL CHANGES	23	(645)	414	(448)	(6)	(23)	(685)
Purchase or production cost	790	7,819	5,071	6,205	5	935	20,825
Cumulative depreciation	(99)	(6,164)	(4,288)	(4,112)	-	(265)	(14,928)
CLOSING BALANCE	691	1,655	783	2,093	5	670	5,897

The “land and buildings” item of €691 thousand comprises the book value of land and buildings owned by the subsidiary IPS Sistemi Programmabili Srl and the costs incurred by the Parent Company for improvements to leased property.
The increases of €261 thousand in plant and machinery, €222 thousand in industrial and commercial equipment and €304 thousand in other assets refer mainly to replacements of equipment and new assets to make the operations of the individual Group companies more efficient and effective.
The “fixed assets under lease” item comprises €670 thousand in assets under leasing agreements, booked using the financial method, including €636 thousand for land and buildings in Amaro (UD), the Company’s production centre, and €34 thousand in other assets acquired during the year by the subsidiary IPS Sistemi Programmabili Srl.

The "other changes" item refers to exchange differences accrued on the opening balances of the values at cost and cumulative depreciation.

3 – Investments in associates and other companies

The schedule below shows changes in investments in associates and other companies in the reporting period:

	at December 31, 2011						
(€'000)	INITIAL VALUE	INCREASES	DECREASES	WRITE-UPS /WRITE-DOWN	OTHER	EOP VALUE	%OWNERSHIP
Investments in associate companies:							
Chengdu Vantron Technology Inc.	227	-	(20)	-	(18)	189	38.00%
Delos S.r.l. in liquidazione	21	-	-	-	-	21	40.00%
Isidorey Llc in liquidazione	-	-	-	-	-	-	40.00%
Emilab S.r.l.	52	8	-	-	-	60	24.82%
eVS embedded Vision Systems S.r.l.	8	-	-	-	-	8	32.00%
UTRI S.p.A.	-	-	-	-	-	-	21.32%
TOTAL INVESTMENTS IN ASSOCIATE COMPANIES	308	8	(20)	-	(18)	278	
Investments in other companies:							
Cosint	2	-	-	-	-	2	
Consorzio nazionale fidi	0	-	-	-	-	-	
ALC Consortium	3	-	-	-		3	
Consorzio Ecor' IT	2	-	-	-	-	2	
Consorzio Aeneas	5	-	-	-	-	5	
Inasset S.r.l.	11	33	-	-	-	44	4.44%
Veneto Nanotech S.p.a.	10	-	-	-	-	10	
Kairos Autonomi	195	-	-	-	7	202	19.00%
Others	2	-	-	-	-	2	
TOTAL INVESTMENTS IN OTHER COMPANIES	230	33	-	-	7	270	

At 31.12.11 Eurotech owned the following shareholdings in associates consolidated at equity:

- Emilab Srl = 24.82%, created in 1998;
- Delos Srl = 40%, created during the first half of 2005 and placed in liquidation during the reporting period;
- eVS embedded Vision Systems Srl = 32%, a spin-off from the University of Verona;

- UTRI SpA = 21.32%, following a series of share purchases in 2007 and 2008. This associate presented a debt restructuring plan in the reporting period pursuant to article 182-*bis* of the Budget Law that included an assessment of non-recoverability for the value recognised. The book value had therefore already been fully written down last year.
- Chengdu Vantron Technology Inc., already consolidated and currently 38% owned following the sale of 5.75% of the share capital at year-end;
- Isidorey LLC. a US company 40% owned by E-Tech USA Inc., created in January 2010. The company was put into liquidation in September.

The closing dates of the financial statements and the financial years of all the associates coincide with those of the Parent Company.

The schedule below shows the values of the assets, liabilities, revenues and annual results of equity interests in associates at 31.12.10, as operating and financial information for year-end 2011 is not yet available:

(€'000)	At December 31, 2011							At December 31, 2010						
	Emilab	Delos	UTRI	evS	Isidorey	Vantron	TOTAL	Emilab	Delos	UTRI	evS	Isidorey	Vantron	TOTAL
Share of the Associate's balance sheet:	(*)	(***)	(*)	(*)	(*)	(*)		(**)	(**)	(**)	(**)	(*)	(**)	
Current assets	447	75	1,003	120	34	1,030	2,710	274	105	1,250	80	34	803	2,547
Non current assets	318	0	3,107	10	11	91	3,537	238	10	3,148	6	11	31	3,444
Current liabilities	(353)	0	(4,212)	(97)	(25)	(321)	(5,009)	(253)	(15)	(3,349)	(48)	(25)	(208)	(3,898)
Non current liabilities	(175)	0	(552)	(7)	(636)	0	(1,370)	(53)	0	(484)	(13)	(636)	0	(1,186)
Net assets	237	75	(654)	26	(616)	800	(132)	206	100	565	25	(616)	626	906
Revenue	603	0	116	195	141	1,375	2,430	453	0	1,373	119	141	1,653	3,739
Profit (Loss)	31	(15)	(1,220)	1	(619)	117	(1,704)	28	26	(451)	2	(619)	176	(838)
Carrying amount of the investment	60	21	0	8	0	189	278	52	21	0	8	0	227	308
Reserve for losses on equity interests in affiliates	0	0	0	0	0	0	0	0	0	0	0	248	0	248

(*) FY2010 (***) Financials of liquidation as of September 30, 2011
(**) FY2009

4 – Other non-current assets

The schedule below shows the breakdown of other non-current assets at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Other non-current receivables	843	1,018
TOTAL OTHER NON CURRENT ASSETS	843	1,018

Other receivables mainly comprise security deposits that do not accrue interest. The decrease in this value reflects the repayment of deposits paid.

5 – Inventories

The schedule below shows the breakdown of inventories at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Raw & auxiliary materials and consumables - gross	6,954	6,710
Inventory write-down provision	(928)	(768)
Raw & auxiliary materials and consumables - net	**6,026**	**5,942**
Work in process and semi-finished goods - gross	9,185	8,539
Inventory write-down provision	(24)	0
Work in process and semi-finished goods	**9,161**	**8,539**
Finished poducts and goods for resale - gross	9,364	7,998
Inventory write-down provision	(1,012)	(936)
Finished products and goods for resale - net	**8,352**	**7,062**
Advances	**224**	**44**
TOTAL INVENTORIES	23,763	21,587

At 31 December 2011, inventories totalled €23,763 thousand, net of inventory write-downs totalling €1,964 thousand. The increase in inventories reflects production launched to process projected deliveries in the next few months and the provision of parts to reduce delivery times for some planned orders and to improve production efficiency.

The schedule below shows changes in the inventory write-down reserve in the periods under review:

CHANGES IN CUMULATIVE INVENTORY WRITE-DOWN PROVISION - € '000	at December 31, 2011	at December 31, 2010
OPENING BALANCE	**1,704**	**1,530**
Provisions	549	758
Other changes	72	56
Increases due to business combination	228	0
Utilisation	(589)	(640)
CLOSING BALANCE	1,964	1,704

The “other changes” item refers to changes in the write-down reserves due to exchange differences.

The "increases for business combinations" item reflects changes in the write-down reserves due to the Dynatem acquisition.
The raw materials inventory write-down reserve of €928 thousand refers to obsolete or slow-moving materials, whose full posted value some Group companies do not expect to recover.
The increase of €76 thousand in the finished products inventory write-down reserve was primarily to cover the risk of slow turnover of certain standard and customised finished products.

6 – Work in progress

The schedule below shows information related to work in progress at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Contract revenues recognised as revenue in the period	2,690	574
Contract costs bome as at balance-sheet date	1,873	493
Profits recognised as at balance-sheet date	**817**	**81**
Down payments received	862	0
Gross amount owed to customer for contractual work	0	30
Gross amount owed by customer for contractual work	2,684	287
Contract costs and proits recognised as at balance-sheet date	2,690	574
Revenues recognised in previous periods	1,944	1,593
Billing based on completion status	2,278	1,910
Gross amount owed by customer for contractual work	**2,356**	**287**
Gross amount owed to customer for contractual work	**-**	**30**

The amount referring to down payments received is posted in the "other current liabilities" item in the "amounts owed to customers" sub-item.

7 – Trade receivables

The schedule below shows the breakdown of trade receivables and the respective adjustment reserves at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Trade receivables - customers	27,811	29,675
Doubtful debt provision	(1,087)	(713)
TOTAL TRADE RECEIVABLES	26,724	28,962

Note that, at the reporting date, the Group did not feature significant concentrations of credit risk. Trade receivables falling due within 12 months are normally non-interest bearing and generally fall due at 90/120 days.
Trade receivables decreased by €1,864 thousand compared with 31 December 2010. The decrease mainly reflects the lower concentration of revenues in the final months of 2011 by comparison with the same period a year previously, which meant slightly more uniform revenue distribution. Receivables include about €498 thousand in cash orders presented subject to collection but not yet due at the end of the reporting period.

Receivables are shown net of a doubtful debt reserve of €1,087 thousand. Changes in the doubtful debt reserve in the years under review were as follows:

CHANGES IN CUMULATIVE DOUBTFUL DEBT PROVISION - € '000	at December 31, 2011	at December 31, 2010
OPENING BALANCE	**713**	**1,151**
Provisioning	353	509
Other changes	32	100
Increases due to business combination	5	0
Utilisation	(16)	(1,047)
CLOSING BALANCE	1,087	713

Provisions of €353 thousand made during the year were necessary to adjust the value of individual receivables to their presumed realisable value. Group policy is to identify the individual receivables to be written down, and the provisions made reflect these specific write-downs. "Other changes" includes the effect of translating financial statements in foreign currency.

At 31 December, trade receivables that were past due but not written down were as follows:

			Overdue but not write-off				
€ '000	Total	Not overdue	< 30 days	30 - 60 days	60 - 90 days	90 - 180 days	Over 180 days
2011	26,724	19,133	2,860	829	308	579	3,015
2010	28,962	21,532	2,004	1,584	722	748	2,372

8 – Receivables from associates

Receivables from associates of €1,163 thousand refer almost entirely to a receivable from the company Isidorey, which began as a loan. Now that this company has been put into liquidation, the receivable booked reflects the value of the tangible and intangible assets that will be sold to US subsidiary E-Tech USA by the liquidator of Isidorey. In particular the assets are related to the cloud computing platform developed in the last 18 months. The receivable is shown net of a write-down reserve of €138 thousand, which was restated as a reduction to the receivable.

9 – Tax receivables and payables

Receivables for income taxes represent receivables from individual governments for direct taxation (IRES and income taxes in various countries) which should be recovered within the next year as well as receivables for withholdings made by the US companies following payment of interest charges on infragroup loans and dividends distributed to the Parent Company. The amount decreased by €941 thousand compared with 31 December 2010.

Income tax payables are made up of current taxes relating to the year still to liquidate and represent the amounts that the companies must pay to the tax authorities of the respective countries. These payables are calculated according to the tax rates currently in force in each country. Foreign tax payables were €1,627 thousand (€990 thousand in 2010), while Italian tax payables were €104 thousand (€224 thousand in 2010).
The amount recognised for Italian taxes covers the tax payable for previous years for subsidiary IPS, whose appeal was unsuccessful. Despite the appeal, the Directors deemed it appropriate to provision the entire amount of the payable established, including interest accrued up to year-end.

Income tax payables and receivables are offset if there is a legal right to do so.

10 – Other current assets

The schedule below shows the breakdown of other current assets at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Amounts receivable for grants	201	203
Advance payments to suppliers	116	88
Tax receivables	1,124	1,497
Other receivables	48	268
Accrued income and prepaid expenses	1,080	1,249
TOTAL OTHER CURRENT ASSETS	2,569	3,305

Grants receivable relate to grants that the Parent Company Eurotech SpA can reasonably expect to receive by the end of the following year for the development of new products and technologies carried out in previous years.

Tax receivables mainly comprise receivables for indirect tax (VAT). VAT receivables do not bear interest and are generally settled with the competent tax authority on a monthly basis.

Prepaid expenses refer to costs incurred in advance for banking charges, maintenance fees, utilities, various services and insurance.

11 – Cash & cash equivalents

The schedule below shows the breakdown of cash and cash equivalents at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Bank and post office deposits	13,571	23,706
Cash and valuables in hand	25	45
TOTAL CASH & CASH EQUIVALENTS	13,596	23,751

Bank deposits are mostly on demand and are remunerated at a variable rate of interest. The fair value of cash and cash equivalents is €13,596 thousand (€23,751 thousand at 31 December 2010).

Cash and cash equivalents decreased by €10,155 thousand compared with 31 December 2010, mainly due to the combined effect of cash used to pay for shares of Advanet Inc., to acquire shares of Dynatem Inc. and to repay short-term portions of medium-to-long-term financing.

Note that cash and cash equivalents of €216 thousand are tied to an escrow against the outstanding payable for acquisition of Dynatem Inc. (€1,066 thousand at 31 December 2010).

12 – Other financial assets

The “other financial assets” item of €226 thousand is down €10 thousand on the previous year and refers to transferral to a partner of the *pro rata* share of a loan received by the French subsidiary as the lead company in a project financed in France.

13 – Net financial position

The schedule below shows the Group’s net financial position at 31 December 2011 and 31 December 2010:

(€'000)		at December 31, 2011	at December 31, 2010
Cash & cash equivalents	A	(13,596)	(23,751)
Cash equivalent	**B=A**	**(13,596)**	**(23,751)**
Short term borrowing allowed to affiliates companies	C	(178)	0
Derivative instruments	D	376	339
Short-term borrowing	E	17,253	8,985
Business aggregation liabilities	F	216	1,066
Short-term financial position	**G=C+D+E+F**	**17,667**	**10,390**
Short-term net financial position	**H=B+G**	**4,071**	**(13,361)**
Medium/long term borrowing allowed to affiliates companies	I	0	(636)
Business aggregation liabilities	J	0	0
Other non current financial assets	K	(226)	(236)
Medium/long term borrowing	L	10,482	22,873
Medium-/long-term net financial position	**M=I+J+K+L**	**10,256**	**22,001**
(NET FINANCIAL POSITION) NET DEBT	**N=H+M**	**14,327**	**8,640**

At 31 December 2011, net debt amounted to €14,327 thousand compared with €8,640 thousand a year previously.

At 31.12.11, short-term financial liabilities (pursuant to IAS 1.65) included the medium-to-long-term portion (€6,000 thousand) of an outstanding loan for which one of the covenants in the loan agreement was not met according to the summary consolidated figures at 31 December 2011. Eurotech has already requested the waiver required to continue the financing relationship from the bank concerned, and the bank has communicated, albeit informally, that it wishes to pursue the relationship on the basis of the original amortisation plan. Any increase in costs arising from the breach of the financial indicator will be jointly evaluated.

Short-term loans to other Group companies represent the residual payable of a loan granted to associate Kairos Autonomi, which will be repaid by the end of the second half of 2012.

14 – Shareholders’ equity

The schedule below shows the breakdown of shareholders’ equity at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Share capital	8,879	8,879
Share premium reserve	136,400	136,400
Other reserves	(10,236)	(13,761)
Group shareholders' equity	**135,043**	**131,518**
Equity attributable to minority interest	**0**	**3,966**
Total shareholders' equity	**135,043**	**135,484**

The share capital at 31 December 2011 comprised 35,515,784 ordinary shares, wholly subscribed and paid up, with no nominal value.

The balance in the legal reserve of the Issuer at 31 December 2011 came to €39 thousand and comprised profit provisions made until the financial year ended 31 December 2005.

The share premium reserve, which relates entirely to the Parent Company, totals €136,400 thousand.

The positive translation reserve of €34,514 thousand is generated by the inclusion in the consolidated financial statements of the statements of financial position and income statements of US subsidiaries Parvus Corp., Dynatem Inc., Eurotech Inc. and E-Tech USA Inc., as well as of UK subsidiary Eurotech Ltd. and Japanese subsidiary Advanet Inc..

The "other reserves" item was negative for €35,703 thousand and comprises the Parent Company's surplus reserve, formed by losses carried forward, some allocations of retained earnings from previous years and various other reserves. The year-on-year change in this reserve reflects the booking to equity of an effect of €1,597 thousand arising from the acquisition of the minority shareholding of 10% in Advanet Inc..
The cash flow hedge reserve, which includes cash flow hedge transactions pursuant to IAS 39, was negative for €376 thousand and increased by €37 thousand before tax; it was also not recorded due to the absence of the relative conditions.
The reserve for foreign exchange differences, in which – pursuant to IAS 21 – foreign exchange differences relating to infragroup foreign-currency loans that constitute part of a net investment in foreign operations are recognised, was negative for €124 thousand before tax, and was again not recorded due to the absence of the relative conditions. The reserve increased by €653 thousand during the year.

As at the end of the reporting period the Parent Company, Eurotech SpA, held 420,140 treasury shares. This number remained unchanged compared with 31 December 2010 and the shares had no effect either on the income statement or on shareholders' equity.

Minority interests were cancelled at 31 December 2011 due to the share buyback by subsidiary Advanet Inc., essentially meaning that this Japanese subsidiary is now wholly owned. At 31 December 2010 minority interests totalled €3,966 thousand.

15 – Base and diluted earnings (losses) per share

Base earnings (losses) per share (EPS) are calculated by dividing the income of the year pertaining to ordinary shareholders of the Parent Company by the average weighted number of ordinary shares in circulation during the year, net of treasury shares.

No equity transactions were reported in 2010 and 2011 with a dilutive effect on earnings per share.

The schedule below shows earnings for the period and information on the shares used to calculate base and diluted EPS.

	at December 31, 2011	at December 31, 2010
Net income (loss) attributable to parent company shareholders	(7,246,000)	(6,079,000)
Weighted average number of ordinary shares including own shares	35,515,784	35,515,784
Own shares	(420,140)	(420,140)
Weighted average number of ordinary shares except own shares	35,095,644	35,095,644
Net income (loss):		
- per share	(0.206)	(0.173)
- per share diluted	(0.206)	(0.173)

16 – Borrowings

The schedule below shows the breakdown of medium-to-long-term financial payables at 31 December 2011:

LENDER	COMPANY	BALANCE ON 31.12.2010	BALANCE ON 31.12.2011	SHORT TERM within 12 months	Total Medium and long-term	Mid term Over 12 months	Long term Over 5 years
CURRENT OUTSTANDINGS - (a)		3,154	4,878	4,878	-	-	-
Finance Lease	Eurotech S.p.A.	337	232	110	122	122	-
Finance Lease	I.P.S. Sist.Progr. S.r.l.	33	22	12	10	10	-
Anvar	Eurotech France	665	565	-	565	565	-
TOTAL OTHER FINANCINGS		1,035	819	122	697	697	-
Banca Pop. Friuladria	Eurotech S.p.A.	7,000	5,000	2,000	3,000	3,000	-
Total Credit Agricole		***7,000***	***5,000***	***2,000***	***3,000***	***3,000***	**-**
Veneto Banca	Eurotech S.p.A.	164	-	-	-	-	-
Veneto Banca	Eurotech S.p.A.	755	256	256	-	-	-
Total Veneto Banca		***919***	***256***	***256***	**-**	**-**	**-**
Cassa di Risparmio del FVG	Eurotech S.p.A.	8,000	7,000	1,000	6,000	6,000	-
Total Gruppo INTESA - SAN PAOLO		***8,000***	***7,000***	***1,000***	***6,000***	***6,000***	**-**
The Chugoku Bank Ltd	Advanet Inc.	1,079	998	998	-	-	-
Total The Chugoku Bank Ltd		***1,079***	***998***	***998***	**-**	**-**	**-**
Cassa Rurale della Valle dei Laghi	EthLab S.r.l.	391	351	42	309	181	128
Total Credito Coperativo Banks		***391***	***351***	***42***	***309***	***181***	***128***
Unicredit	EthLab S.r.l.	87	43	43	-	-	-
Unicredit	Eurotech S.p.A.	10,193	8,390	1,914	6,476	6,476	-
Total Gruppo Unicredit		***10,280***	***8,433***	***1,957***	***6,476***	***6,476***	**-**
TOTAL BANK DEBT - (c)		27,669	22,038	6,253	15,785	15,657	128
TOTAL OTHER FINANCING AND BANK DEBT - [(b) + (c)]		28,704	22,857	6,375	16,482	16,354	128
TOTAL DEBT - [(a) + (b) + (c)]		31,858	27,735	11,253	16,482	16,354	128
RECLASSIFICATION OF CURRENT SUBJECT TO COVENANT FUNDING		-	-	6,000	(6,000)	(6,000)	0
TOTAL DEBT AFTER RECLASSIFICATION		31,858	27,735	17,253	10,482	10,354	128

Bank overdrafts

Bank overdrafts are not backed by unsecured or secured guarantees and include uses with the technical form of "subject to collection" and loans granted by factoring companies.

Other loans

Other loans refer to:

- A residual debt for €232 thousand (€122 thousand of which medium-to-long-term) for future instalments on a property lease between the Parent Company and SBS Leasing SpA, which has been recognised as a finance lease and is related to the land and building in Amaro (UD) used for the Company's production facilities and related furnishings and electronic equipment. The lease expires in 2013.
- A residual debt of €22 thousand (€10 thousand of which medium-to-long-term) for future instalments on a lease agreement signed by subsidiary IPS Sistemi Programmabili SpA, which has been recognised as a finance lease and relates to the purchase of furnishings for the new production facility in Rezzato (BS). The lease expires in 2013.
- A low-interest loan granted to subsidiary Eurotech France SAS for €565 thousand (of which €565 thousand medium-to-long-term) falling due in 2014, for R&D activities carried out. As subsidiary Eurotech France SAS was the lead company in the project, this amount also includes the portion redistributed to the project partners totalling €226 thousand, which is included in financial assets.

Bank loans

Bank loans mainly refer to:

- A loan granted to the Parent Company by Banca Popolare Friuladria for €5,000 thousand (of which €3,000 thousand medium-to-long-term) falling due in 2014 for the investment made to acquire, including through a subsidiary, the companies Arcom Control Systems Inc. (now merged with Eurotech Inc.) and Arcom Control Systems Ltd. (now Eurotech Ltd.). This loan is subject to covenant with annual verification based on the year-end financial statements. These covenant (which provide for possible early repayment or an increase in the margin) concern the net debt to equity ratio and the ratio of net debt to operating profit before amortisation and depreciation, provisions for risks and receivables and extraordinary income/expenses (non-recurring pursuant to IAS/IFRS). They also stipulate ownership of at least 70% of the capital of the Arcom Group for the life of the loan. These covenant were met as at 31 December 2011.
- A loan agreed in 2010 by Veneto Banca for an initial amount of €1,000 thousand, with €256 thousand outstanding at year-end, fully payable within financial year 2012, for management of the HPC division.
- A loan granted to the Parent Company by Cassa di Risparmio del FVG for €7,000 thousand (€6,000 thousand of which medium-to-long-term), falling due in 2015, to finance the acquisition of 25% of the shares of subsidiary Advanet. This loan is subject to covenant (which include the possibility of early repayment or increase in the interest rate spread) with annual verification based on the year-end financial statements. These covenant concern the net debt to equity ratio and the ratio of net debt to operating profit before amortisation and depreciation (this ratio was not met at 31 December 2011).
- The outstanding portion (€43 thousand) of a loan granted by Unicredit to subsidiary Ethlab Srl to finance new product development, falling due in 2012.
- The outstanding portion (€8,390 thousand, of which €6,476 thousand medium-to-long-term) of a loan granted to the Parent Company by Unicredit, expiring in 2015, to finance the acquisition, including through a subsidiary, of Applied Data Systems Inc. (now Eurotech Inc.). This loan is subject to covenant (which include the possibility of early repayment or an increase in the interest rate spread) with annual verification based on the year-end financial statements. The covenant relate to debt to equity and debt to EBITDA. All the covenant were respected at the reporting date.
- The outstanding portion (€1,079 thousand, of which €914 thousand medium-to-long-term) of a loan granted to Advanet Inc. by The Chugoku Bank Ltd. remaining from the financial policy that the Japanese group was implementing before its acquisition by Eurotech, in view of the low interest rate on the local market.
- The outstanding portion (€351 thousand, of which €309 thousand medium-to-long-term) of a loan to EthLab Srl to acquire patents and know-how.

17 – Employee benefits

The schedule below shows the breakdown of employee benefits at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Employees' leaving indemnity	398	429
Foreing Employees' leaving indemnity	1,225	1,164
Employees' retirement fund	95	88
TOTAL EMPLOYEES' BENEFITS	1,718	1,681

Defined benefit plans

The schedule below shows changes in defined benefit plans at 31 December 2011 and 31 December 2010:

	Defined benefit plans			
	Italy		Japan	
(€ '000)	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Liabilities at start of period	429	423	1,164	1,083
Cost relating to present service	20	19	118	123
Finance expense	16	16	17	21
Other changes	0	0	125	254
Benefits paid out	(67)	(29)	(199)	(317)
Liabilities at end of period	398	429	1,225	1,164

The defined benefit plans in force in Italy refer exclusively to employee severance indemnity. With adoption of the new International Accounting Standards (IAS), and especially IAS 19, employee severance indemnity is considered a defined benefit obligation whereby the liability is measured based on actuarial techniques. Pension plans in Japan are also considered as such and following the business combination the company valued the relative liability pursuant to IAS 19.

Gains and losses arising from the actuarial calculation based on the new assumptions starting from 1 January 2007 in relation to the employee severance indemnity and other defined benefit plans in place at year-end are charged to the income statement as a cost or revenue when the cumulated net value of the actuarial gains and losses not reported for each plan at the end of the previous year exceeds more than 10% of the higher value of obligations referring to defined benefit plans and the fair value of the assets referred to the plans at that date (so called “corridor method”).

Also pursuant to the 2007 Budget Law, severance indemnities accrued as of 1 January 2007 or as of the option date to exercise by the employees are included in the category of defined benefit plans, both in the event of option for supplementary retirement and option for allocation to the treasury fund at INPS. The accounting treatment of severance indemnities is now similar to that used for other types of pension scheme contributions.

The key assumptions used in determining the current value of severance indemnities are illustrated below:

Actuarial assumption	Defined benefit plans			
	Italy		Japan	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Discount Rate	4.68%	4.58%	1.30%	1.30%
Expected rates of future w ages and salary increases	2.00%	2.00%	1.00%	1.00%
Expected rates of staff turnover	10.00%	10.00%	1.00%	1.00%
Duration	22	19	25	29

The schedule below summarises the change in the current value of the severance indemnities at the end of the period; as indicated in the accounting standards, these values might not correspond to the booked liability.

Variation of current value of the obligation	Defined benefit plans			
	Italy		Japan	
(€ '000)	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Projected benefit obligation at January 1,	482	457	1,363	1,154
Current Service cost	20	19	118	123
Interest cost	16	16	17	21
Other changes	0	0	125	269
Pensions paid	(67)	(29)	(199)	(317)
Actuarial gains or losses	31	19	(16)	113
Projected benefit obligation at December 31	482	482	1,408	1,363

The Group's application of the corridor method in recording actuarial gains and losses for each defined benefit plan has created a difference between the current value of the obligation and the liability recorded. The schedule below shows the limits of the corridor compared with the cumulative actuarial gains and losses not recognised to determine the net actuarial gain or loss that must be reported in the following year.

Limits of the 'corridor'	Defined benefit plans			
(€ '000)	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Unrecognized actuarial gains or losses at January 1	53	37	184	70
Corridor at January 1	48	46	136	118
Difference (A)*	8	7	48	0
Duration	*22*	*19*	*25*	*29*
Recognized actuarial gains or losses (A/B)	0	0	0	1
Unrecognized actuarial gains or losses at January 1	53	37	184	70
Business combination	0	0	0	0
Actuarial gains or losses per year	31	16	(16)	113
Subtotal	84	53	168	183
Recognized actuarial gains or losses	0	0	0	0
Unrecognized actuarial gains or losses at December 31	84	53	168	183

The following is the reconciliation of the current value of the obligation and the liability booked and the summary of the cost components recorded in the income statement.

	Defined benefit plans			
	Italy		Japan	
(€ '000)	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Projected benefit obligation	482	482	1,408	1,363
Unrecognized actuarial gains or losses	84	53	168	183
Other changes	0	0	(15)	(16)
Provisions for pensions charged to balance sheet	398	429	1,225	1,164
Current Service cost	20	19	118	123
Interest cost	16	16	17	21
Costs charged to income statement	36	35	135	144

Employee severance indemnity reserve

The employee severance indemnity reserve refers to the charge that the subsidiary Eurotech France SAS must pay employees if they are still employed by the subsidiary when they reach retirement age.

With adoption of IFRS, the indemnity falls into the category of other long-term benefits to employees to be booked according to IAS 19, and the respective liability is therefore calculated using actuarial techniques.

Actuarial gains and losses are immediately recorded and the corridor method is not used.

The schedule below shows the breakdown of the employee retirement reserve at 31 December 2011 and 31 December 2010:

EMPLOYEES' RETIREMENT FUND on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**88**	**103**
Provision	7	-
Utilization	-	(15)
Discounting back / Actuarial value	-	-
RESERVE AT THE END OF THE PERIOD	95	88

18 – Provisions for risks and charges

The schedule below shows the breakdown of provisions for risks and charges at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Selling agents' commission fund	41	37
Director termination fund	911	887
Guarantee reserve	279	454
Tax provision	-	70
Provision for risk investments	-	248
Busting depreciable asset	355	529
TOTAL FUNDS FOR COSTS AND FUTURE RISKS	1,586	2,225

Supplementary customer indemnity provision

The supplementary customer indemnity provision is allocated based on the amounts envisaged by legislation and collective economic agreements regarding situations of interruption in the mandate given to agents. The effect of time-discounting the share of liabilities that will be liquidated beyond the next year is not expected to be significant.

Cumulative provision for directors' termination indemnity

The cumulative provision for directors' termination indemnity refers to the indemnity recognised for directors with powers set out in by the bylaws of the Company or its subsidiaries. This indemnity is generally paid in the year after the respective allocation and is provisioned for periodically for the relevant share.

Product warranty provision

The product warranty provision is allocated based on the expectations of the charge to incur for non-fulfilment of the warranty commitment on products sold at year-end.

Tax risk reserve

The tax risk reserve is allocated according to assessment by Directors of the risk of legal proceedings resulting from tax investigations.

Reserve for losses on equity interests in associates

The reserve to cover losses on equity interests in associates is allocated for the Group share of the balance-sheet liability pertaining to associates. Specifically, the provision for 2010 refers to the relevant portion of losses incurred in 2010 for associate Isidorey Inc.. Part of this reserve was restated as a reduction in receivables from associates.

Other risks reserve

The other risks reserve is allocated on the basis of expected costs to be incurred for risks related to legal disputes not yet settled and miscellaneous risks. During the reporting period the existing risks reserve was reversed because the risk for which the reserve was created had ceased to exist.

Asset disposal reserve

The asset disposal reserve was allocated in response to an obligation for future costs that a number of Japanese companies of the Group will incur in future years for the disposal, demolition, disassembly, and removal of a number of assets, and improvements to leased property, at the end of their useful lives or of the lease agreement.

The schedule below shows the changes in provisions for risks and charges in the years under review:

SELLING AGENTS' COMMISSION FUND on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**37**	**34**
Provision	4	3
RESERVE AT THE END OF THE PERIOD	41	37

DIRECTOR TERMINATION FUND on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**887**	**391**
Provision	192	431
Other	88	117
Utilization	(256)	(52)
RESERVE AT THE END OF THE PERIOD	911	887

GUARANTEE RESERVE on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**454**	**463**
Provision	-	7
Other	21	46
Utilization	(215)	(62)
Increases due to business combination	19	-
RESERVE AT THE END OF THE PERIOD	279	454

TAX PROVISION on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**70**	**0**
Provision	-	70
Utilization	(70)	-
RESERVE AT THE END OF THE PERIOD	-	70

RESERVE FOR LOSSES ON EQUITY INTERESTS IN AFFILIATES on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**248**	**0**
Provision	-	248
Other	(133)	-
Utilization	(115)	-
RESERVE AT THE END OF THE PERIOD	-	248

GENERIC RISK on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**0**	**130**
Provision	-	-
Other	-	-
Utilization	-	(130)
RESERVE AT THE END OF THE PERIOD	-	-

BUSTING DEPRECIABLE ASSET on €'000	at December 31, 2011	at December 31, 2010
JANUARY 1,	**529**	**582**
Other	168	134
Utilization	(342)	(192)
Discounting back / Actuarial value	-	5
RESERVE AT THE END OF THE PERIOD	355	529

19 – Trade payables

The schedule below shows the breakdown of trade payables at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Third parties	18,339	18,793
Affiliate companies	49	31
TOTAL TRADE PAYABLES	18,388	18,824

Trade payables at 31 December 2010 came to €18,388 thousand, representing a decrease of €436 thousand compared with 31 December 2010. Trade payables are non-interest bearing and, on average, are settled 90-120 days after invoice date.

20 – Payables for business combinations

Payables for business combinations totalled €216 thousand, comprising the outstanding guarantee to shareholders of Dynatem Inc. for the portion of the price tied to an escrow deposit, which will be paid by end-2012.

The decrease reflects the payment made in January 2011 to the shareholders of Applied Data Systems Inc. and a €216 thousand increase in the new escrow to shareholders of the newly acquired Dynatem Inc..

21 – Other current liabilities

The schedule below shows the breakdown of other current liabilities at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Social contributions	588	470
Other	3,990	3,753
Advances from customers	1,856	839
Other tax liabilities	272	87
Gross amount owed to customer for contractual work	0	36
Accrued expanses	523	563
TOTAL OTHER CURRENT LIABILITIES	7,229	5,748

Social security payables

Social security payables refer to amounts due for social security contributions accrued and pertaining to the year.

Other payables

The schedule below shows the breakdown of other payables at 31 December 2011 and 31 December 2010:

(€'000)	at December 31, 2011	at December 31, 2010
Employees	1,120	940
Vacation pay	813	1,053
Directors	100	193
Debiti verso sindaci	70	40
Recall liability	700	0
Grants advances	0	277
Other	1,187	1,250
TOTAL OTHER PAYABLES	3,990	3,753

Amounts payable to employees refer to salaries and wages for the month of December 2011 and payable in the following month, as well as bonuses awarded to some categories of employees. Liabilities for holidays and leaves of absence refer to holidays and leaves accrued and not used by employees at the reporting dates. These recent payables include related contributions.

The "payables for recall" item refers to the outstanding payable relating to one-off costs incurred for the recall of customised product for modification.

Advances for contributions refer to prepayments made upon requests for contributions that were already accounted for and to be accounted for.

22 – Commitments and guarantees

Operating lease commitments – Group as tenant
The Group has entered into operating lease agreements for some buildings, used as operating offices for the Company and some of its subsidiaries and for some vehicles. Property leases have an average life of between 6 and 9 years, with renewal provisions. Renewals are an option that each company has on the property it holds.

Operating leases of motor vehicles have an average life of 3 years.

In 2006, an operating lease agreement was entered into on the property designated as administrative and technical offices for the Parent Company. This operating lease agreement has a duration of six years beginning on 1 September 2006 and stipulates that the Company can rescind with advance notice of 12 months to the lessor. The agreement also includes a purchase option on the property object of the agreement. This option can be exercised at any time at the end of six years of the agreement. The acquisition price will be determined by an expert appointed by the parties or by the court, and in any event, the price calculated must make reference to the provisions regarding how to determine sale prices of industrial buildings in force for industrial development consortia, especially Tolmezzo.

Future leases in relation to non-rescindable operating lease agreements in force at 31 December 2011 are as follows:

(€'000)	at December 31, 2011	at December 31, 2010
Within 12 months	1,398	1,198
Over 12 months but w ithin five years	746	2,203
Over 5 years	-	2,282

Guarantees

The Eurotech Group had potential liabilities at 31 December 2011 deriving from sureties of €937 thousand granted by a number of banks to Group companies.

I - Breakdown of key income statement items

23 – Costs of raw and auxiliary materials and consumables used

(€'000)	FY 2011	FY 2010
Purchases of raw materials, semi-finished and finished products	49,786	49,872
Changes in inventories of raw materials	5,037	5,197
Change in inventories of semi-finished and finished products	(7,557)	(6,206)
TOTAL COST OF MATERIALS	47,266	48,863

The "raw and auxiliary materials and consumables used" item shows an increase due mainly to the rise in sales volumes.

24 – Other operating costs

(€'000)	FY 2011	FY 2010
Service costs	16,483	17,042
Rent and leases	2,464	2,377
Payroll	25,378	26,447
Non recurrent costs	910	0
Accruals and other costs	1,229	1,385
Cost adjustments for in-house generation of non-current assets	(2,632)	(2,790)
Operating costs net of cost adjustments	43,832	44,461

25 – Service costs

(€'000)	FY 2011	FY 2010
Industrial services	5,329	4,864
Commercial services	4,513	4,582
General and administrative costs	6,641	7,596
Total costs of services	16,483	17,042

In the periods under review, service costs rose due to the different exchange rate used to translate financial statements outside the eurozone and to an increase in activity to generate higher sales and profits.

26 – Payroll costs

(€'000)	FY 2011	FY 2010
Wages, salaries, and Social Security	24,917	26,093
Severance indemnities	325	353
Retirement benefit and similar obligations	7	0
Other costs	129	1
Total cost of personnel	25,378	26,447

The "payroll costs" item decreased in the period under review due to the reduction in employee numbers at some of the Group companies.

As shown in the schedule below, the Group headcount increased from 455 at 31.12.10 to 463 at 31.12.11. This increase was partly due to the acquisition of Dynatem Inc. with 18 additional staff, which offset the reduction in the Group workforce on a same-structure basis in 2010.

Employees	Average 2011	at December 31, 2011	Average 2010	at December 31, 2010
Management	2.0	2	2.0	2
Clerical w orkers	389.8	385	392.4	367
Line w orkers	83.3	76	82.4	86
TOTAL	475.1	463	476.8	455

27 – Other provisions and costs

(€'000)	FY 2011	FY 2010
Doubful debt provision	353	509
Other Provisions	72	0
Other costs	804	876
Total accruals and other costs	1,229	1,385

The amounts in the “doubtful debt provision” item refer to provisions made to the respective reserve to represent receivables at their realisable value. The "provisions" item relates exclusively to the write-down of receivables recognised under "other receivables" and therefore non-commercial in nature.
The “miscellaneous operating charges” item includes losses on receivables for €35 thousand (€44 thousand at 31.12.10).

28 – Other revenues

(€'000)	FY 2011	FY 2010
Government grants	27	233
Sundry revenues	355	1,216
Total other revenues	382	1,449

These entries refer mainly to research and development activities which receive funding from local governments and services provided in the past by consultants for the internationalisation process of the Parent Company.
Other revenues include €585 thousand for one-off income from the sale of the entire 40% shareholding held in Japanese company Union Arrow Technologies Inc..

29 – Cost adjustments for in-house generation of non-current assets

The "in-house generation of non-current assets" item at 31.12.11 (€2,632 thousand) includes €487 thousand in costs incurred to develop new circuit boards for a high-performance, low-power processor, €553 thousand to develop products in the high-performance wearable PC range, €453 thousand for costs incurred by the Parent Company for development related to new systems connected to the HPC SBU, €145 thousand for costs incurred by subsidiary Eurotech Ltd. for new products related to the cloud platform, €202 thousand incurred by subsidiary IPS Sistemi Programmabili Srl, mainly for payroll costs relating to new surveillance systems, €717 thousand for material and payroll costs incurred by subsidiary Parvus Corp. to build new mobile routers in the transport and defence sectors and €74 thousand for the cost of materials used for laboratory equipment.
Total adjustments for in-house generation of non-current assets comprise €1,874 thousand in payroll costs (2010: €1,482 thousand), €342 thousand in service costs (2010: €910 thousand) and €416 thousand in materials costs (2010: €398 thousand).

30 – Amortisation, depreciation and write-downs

(€'000)	FY 2011	FY 2010
Amortisation of intangile assets	5,895	5,964
Amortisation of property, plant and equipment	1,813	1,887
Write-down of fixed assets	257	284
Total amortisation and depreciation	7,965	8,135

This change mainly reflects completion of the amortisation process for some intangible assets, particularly development costs, and of the depreciation process for some capital goods. Amortisation relating to PPA refers entirely to customer relationships, in the amount of €3,445 thousand (2010: €3,368 thousand).

The asset write-down is entirely due to the reduced value of the "development costs" item, specifically for projects related to special products that have not achieved the market success expected.

31 – Financial income and charges

(€'000)	FY 2011	FY 2010
Exchange-rate losses	6,489	2,451
Exchange-rate losses from PUT option	0	1,278
Interest expenses	1,076	744
Expenses on derivatives	210	305
Other finance expenses	65	44
Financial charges	7,840	4,822
(€'000)	FY 2011	FY 2010
Exchange-rate gains	5,853	3,034
Interest income due to the discounting	0	80
Interest income	117	262
Other finance income	9	4
Financial incomes	5,979	3,380
Net financial income	(1,861)	(1,442)

The amount of significant foreign exchange losses and gains booked in the period was influenced by purchases and sales made in US dollars by UK subsidiary Eurotech Ltd., which largely cancelled each other out.
The increase in financial charges was €3,018 thousand, from €4,822 thousand in 2010 to €7,840 thousand in 2011. The increase reflects the combined effect of increased total foreign exchange losses and increased interest expenses, particularly on loans.

Financial income also increased by €2,599 thousand, from €3,380 thousand in 2010 to €5,979 thousand in 2011. This performance reflects increased foreign exchange gains (particularly on EUR/YEN and EUR/USD exchanges).

32 – Valuation of associates using the equity method

The amount of €123 thousand relates entirely to the revaluation of equity investments, specifically €115 thousand for associate Isidorey LLC due to the disappearance of part of the reserve for losses recognised in the previous year.
The value of €1,630 thousand recognised for 2010 included a write-down for the impairment test on associate UTRI SpA totalling €1,318 thousand.

33 – Income tax for the period

Income taxes totalled €633 thousand in 2011 and €2,200 thousand in 2010.

(€'000)	FY 2011	FY 2010
Pre-tax result	(6,613)	(3,813)
Income taxes	(633)	(2,200)

The schedule below shows the breakdown of income taxes, distinguishing current taxes from deferred tax assets and liabilities and taxes under Italian law from foreign taxes imposed on Group companies:

(€'000)	FY 2011	FY 2010
IRES (Italian corporate income tax)	85	43
IRAP (Italian Regional business tax)	21	168
Foreign current income taxes	1,720	3,020
Total current income tax	1,826	3,231
Net (prepaid) deferred taxes: Italy	(14)	2
Net (prepaid) deferred taxes: Non-italian	(1,281)	(1,033)
Net (prepaid) deferred taxes	(1,295)	(1,031)
Previous years taxes	102	0
Previous years taxes	102	0
TOTAL INCOME TAXES	633	2,200

Income taxes totalled €633 thousand at 31 December 2011 (current taxes of €1,826 thousand, taxes for previous years of €102 thousand and net deferred tax assets of €-1,295 thousand) compared with €2,200 thousand at 31 December 2010 (current taxes of €3,231 thousand and net deferred tax assets of €-1,031 thousand), representing a decrease of €1,567 thousand.

The Group has fiscal losses arising in the Parent Company and subsidiaries Saee Srl, Dynatem Inc., ETH Devices Sro, E-Tech USA Inc., Eurotech Inc. and IPS Sistemi Programmabili Srl for which no deferred tax assets of more than €37.8 million (2010: €29.5 million) have been recognised, to be reported within the deadlines applicable in each country to offset future taxable profits of the companies in which these losses arise. No deferred tax assets were recognised in relation to these losses since it is not seen as likely that they can be used to compensate future taxable profits within the period of validity.

At 31 December 2011, there were no deferred tax liabilities, posted or unposted, for taxes on the undistributed earnings of certain subsidiaries or associates because there are no assumptions regarding distribution.

J – Other information

34 – Related party transactions

The consolidated financial statements include the financial statements of Eurotech SpA and the subsidiaries in the schedule below:

Name	Location	Currency	%of ownership 31.12.2011	%of ownership 31.12.2010
Subsidiaries				
Parvus Corp.	United States	USD	100.00%	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Italy	Euro	100.00%	100.00%
ETH Lab S.r.l.	Italy	Euro	99.99%	99.99%
Eurotech Finland Oy (3)	Finland	Euro	100.00%	100.00%
Eurotech France S.A.S.	France	Euro	100.00%	100.00%
Eurotech Ltd.	UK	GBP	100.00%	100.00%
E-Tech Inc.	United States	USD	100.00%	100.00%
Eurotech Inc.	United States	USD	100.00%	100.00%
ETH Devices S.r.o.	Slovakia	Euro	100.00%	100.00%
Saee S.r.l.	Italy	Euro	100.00%	100.00%
Dynatem Inc.	USA	USD	100.00%	-
Advanet Inc.	Japan	Yen	90,00% (1)	90,00%
Spirit21 Inc.	Japan	Yen	(2)	90,00%
Affiliated companies				
Chengdu Vantron Technologies Inc.	China		38.00%	43.75%
Delos S.r.l. (3)	Italy		40.00%	40.00%
Isidorey Llc. (3)	United States		40.00%	40.00%
eVS embedded Vision Systems S.r.l.	Italy		32.00%	32.00%
Emilab S.r.l.	Italy		24.82%	24.82%
Utri S.p.A.	Italy		21.32%	21.32%

(1) As a result of valuation of a put option on the remaining 25% of share capital, the consolidation percentage was 90%

(2) Company incorporated

(3) Company in liquidation

The schedule below shows relationships with related parties (in the period in which these were related parties), not derecognised at the time of consolidation.

RELATED PARTIES	Revenues to related parties	Interest to related parties	Purchases from related parties	Financial receivables to related parties	Receivables from related parties	Payables from related parties
Associated companies						
Chengdu Vantron Technology Inc	18	-	69	-	6	113
Isidorey Llc	-	9	-	943	71	-
Emilab S.r.l.	-	-	13	-	-	16
eVS embedded Vision Systems S.r.l.	-	-	16	-	-	-
Utri S.r.l.	-	-	-	-	1	-
Total	18	9	98	943	78	129
Other related parties						
Wulfenia	-	-	9	-	-	4
Gruppo Finmeccanica	397	-	54	-	475	56
Kairos Autonomi	-	6	-	283	-	-
Total	397	6	63	283	475	60

Below is a list of compensation accrued for Directors and Auditors for services provided to Eurotech SpA and to other consolidated companies, pursuant to article 78 of Consob Issuer Regulation 11971/99, as amended, and Annex 3C of said Regulation.

Name		Expiration	at December 31, 2011			
			Fees for the appointment	Other fees	Benefits	Bonus
Siagri Roberto	President	In charge up to 31.12.2013 financials	337	10	4	-
Tecchiolli Giampietro	Vice President - Director	In charge up to 31.12.2013 financials	227	10	3	-
Barazza Sandro	Director	In charge up to 31.12.2013 financials	7	129	3	-
Bertolone Giovanni	Director	In charge up to 31.12.2013 financials	7	-	-	-
De Toni Alberto Felice	Director up to April 28, 2011		7	-	-	-
Grasso Giancarlo	Director from April 28, 2011	In charge up to 31.12.2013 financials	5	-	-	-
Mio Chiara	Director	In charge up to 31.12.2013 financials	22	-	-	-
Pedicchio Maria Cristina	Director from April 28, 2011	In charge up to 31.12.2013 financials	14	-	-	-
Pizzul Cesare	Director	In charge up to 31.12.2013 financials	22	-	-	-
Soccodato Giovanni	Director	In charge up to 31.12.2013 financials	7	-	-	-
Tucci Maurizio	Director up to April 28, 2011		2	-	-	-
Siciliotti Claudio	President of Board of Statutory Auditors	In charge up to 31.12.2013 financials	45	-	-	-
Cignolini Michela	Statutory Auditor	In charge up to 31.12.2013 financials	30	-	-	-
Pingaro Giuseppe	Statutory Auditor	In charge up to 31.12.2013 financials	30			
TOTAL			762	149	10	-

Lastly, the following is information on equity interests held in the company and its subsidiaries by members of the management and supervisory bodies, general managers and managers with strategic responsibilities, as well as by their spouses not legally separated and their minor children, directly or via companies controlled, trustee companies or via an interposed third party, as shown by the shareholder register, notifications received and other information acquired from the members of the management and supervisory bodies, general managers, and strategically accountable managers in compliance with the requirements of article 79 of Consob Regulation 11971/19 99 as subsequently amended and Annex 3C of the same regulation.

		at December 31, 2011							
Name		Company	Possessory title	Share at January 1,	Share acquired in the period	Share disposed in the period	Share at the end of the period	of which shares at the end of the period	
Siagri Roberto	President	Eurotech	Ownership	2,500,531	-	-	2,500,531	1,040,371	
Tecchiolli Giampietro	Director	Eurotech	Ownership	191,015	-	-	191,015	-	
Barazza Sandro	Director	Eurotech	Ownership	-	2,000		2,000	-	
Bertolone Giovanni	Director	Eurotech	Ownership	-	-	-	-	-	
De Toni Alberto Felice	Director up to April 28, 2011	Eurotech	Ownership	6,003	-	-	-	-	
Grasso Giancarlo	Director from April 28, 2011	Eurotech	Ownership	-	-	-	-	-	
Mio Chiara	Director	Eurotech	Ownership	-	-	-	-	-	
Pedicchio Maria Cristina	Director from April 28, 2011	Eurotech	Ownership	-	-	-	-	-	
Pizzul Cesare	Director	Eurotech	Ownership	-	-	-	-	-	
Soccodato Giovanni	Director	Eurotech	Ownership	-	-	-	-	-	
Tucci Maurizio	Director up to April 28, 2011	Eurotech	Ownership	-	-	-	-	-	
Siciliotti Claudio	President of Board of Auditors	Eurotech	Ownership	20,000		-	20,000	10,000	(*)
Cignolini Michela	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-	
Pingaro Giuseppe	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-	

(*) Shares owned indirectly by Pronet S.r.l.

35 – Financial risk management: objectives and criteria

The Group's financial instruments, other than derivative contracts, include bank loans in the various technical forms, financial leases, short-term and at-sight bank deposits. These instruments are intended to finance Group operations. The Group has several other receivable and payable financial instruments at its disposal, such as trade receivables arising from operations and liquidity. The Group also had transactions in derivatives, mainly swap or collar transactions on interest rates. The objective is to manage interest rate risks caused by Group transactions and by its sources of finance.

In accordance with Group policies, no speculative derivatives have been entered into.

The main risks generated by Group financial instruments are interest rate risks, exchange risks, liquidity risks and credit risks. The Board of Directors has reviewed and agreed to the policies for managing these risks, as summarised below.

Interest rate risk

Group exposure to the risk of interest rate fluctuations mainly involves medium-term bonds held by the Group, featuring floating interest rates linked to various indices. In previous years the Group signed interest rate swap contracts providing for recognition of a variable rate against payment of a fixed rate. The contracts are designated to hedge changes in the interest rates in place on some loans. Group policy is to maintain between 30% and 60% of its loans at a fixed rate. At 31 December 2011, about 45% of Parent Company loans were fixed-rate (compared with about 50% in 2010). Most of the outstanding loans of the Japanese companies are fixed-rate, since these are currently more convenient than variable-rate loans.

Exchange rate risk

In view of the significant investment transactions in the USA, Japan and the UK, with substantial foreign currency cash flows from business and financial operations, the Group's financial statements could be significantly affected by changes in the USD/EUR, JPY/EUR and GBP/EUR exchange rates. In 2011 no foreign exchange hedges were executed because of the uneven USD, GBP and JPY flows, particularly taking into account that the individual subsidiaries tend to operate in their respective functional currencies in their respective core markets.

About 83.7% of sales of goods and services (2010: 84.8%) and 78.3% (2010: 78.1%) of the cost of goods purchases and the operating costs of the Group are denominated in a different currency from the functional currency used by the Parent Company to draw up these financial statements.

Product and component price risk

Group exposure to price risk is not significant.

Credit risk

The Group trades only with known and reliable customers. The Group's policy is to check the creditworthiness grade of customers that request extended payment arrangements. In addition, the balance of receivables is monitored during the year so that the amount of non-performing positions is not significant. Maximum risk exposure is shown in Note 7. Only some of the receivables from our main customers are insured due to the reduction of the exposure granted by insurance companies in 2009.
Financial assets are recognised in the financial statements net of write-downs calculated according to the risk of counterparty default, taking into account the information available on the customer's level of solvency and historical data. There is no significant concentration of credit risk in the Group.
Credit risk concerning other Group financial assets, which include cash and equivalents and financial instruments, presents a maximum risk equal to the book value of these assets in the event of insolvency of the counterparty.

Liquidity risk

The objective of the Group is to strike a balance between maintenance of funds and flexibility through the use of overdrafts, loans, and finance leases, as well as via equity financing in the market.
Group policy states that no more than 40% of loans must fall due within 12 months.
As at 31 December 2011, 27.9% of Group financial payables will accrue within one year (2010: 28.5%), based on the balances of the original plans. These values differ from the financial statement balances because, due to informal agreements with the banks, no risk of early repayment is deemed to exist.
Considering its current net financial position and the structure of its working capital, the risk that the Group will be unable to honour its financial liabilities is limited. The Company systematically controls liquidity risk by analysing a specific reporting system and the economic environment; the uncertainties that are a periodic feature of the financial markets require a particular focus on liquidity risk management. With this in mind, initiatives have been taken to generate financial resources with business operations and to maintain an adequate level of available liquidity, to ensure a normal level of operations and to respond to the strategic decisions of the next few years. The Group therefore plans to respond to the requirements of payables falling due and planned investments via flows from business operations, available cash and, as necessary, via bank loans and other forms of funding.

€ '000	Less 12 months	1to 2 yeears	3 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	12,375	4,207	6,147	128	22,857
Trade payables and other liabilities	25,617	0	0	0	25,617
Business combination liabilities	216	0	0	0	216
Fianancial derivatives	163	71	142	0	376
Total as of December 31, 2011	38,371	4,278	6,289	128	49,066

Capital management

The aim of Group capital management is to ensure that adequate levels of the capital indicators are maintained in order to sustain the business and achieve maximum value for shareholders.

The Group manages the capital structure and modifies it according to changes in economic conditions. Group policy does not currently include the distribution of dividends. To maintain or upgrade the capital structure, the Group may reimburse capital or issue new securities.
No change was made to targets, policies, or procedures in the years 2010 and 2011.
The Group audits its capital periodically using the debt/capital ratio, ie. net debt divided by total capital plus net debt. Given the decidedly unstable global financial situation, it is currently not easy to access bank loans despite the fact that the parameters set under management policy are still valid.
Group policies should aim to maintain the debt/capital ratio at between 20% and 40% (at 31.12.11, the ratio was 10.6%). Group net debt includes interest-bearing loans and payables for investments in shareholdings, net of cash and cash equivalents. Capital includes the capital attributable to Parent Company shareholders, net of undistributed net profits.

(€'000)	at December 31, 2011	at December 31, 2010
Other current and non current financial assets	(404)	(872)
Derivative instruments	376	339
Borrowing	27,735	31,858
Debiti per acquisto partecipazioni	216	1,066
Cash & cash equivalents	(13,596)	(23,751)
Net financial position	**14,327**	**8,640**
Group Equity	135,043	131,518
Group Equity	**135,043**	**131,518**
EQUITY AND NET FINANCIAL POSITION	**149,370**	**140,158**
Net financial position on Equity	10.6%	6.6%

36 – Financial Instruments

Fair value measurement and relative hierarchical measurement levels
All financial instruments recognised at fair value are classified under the following three categories:
Level 1: market listing
Level 2: valuation techniques (based on observable market data)
Level 3: valuation techniques (not based on observable market data)

The fair value of derivatives and of loans obtained has been calculated by discounting expected cash flows to present value applying prevailing interest rates. The fair value of other financial assets has been calculated using market interest rates.
Comparison of the book value and the fair value by category of all Group financial instruments booked in the financial statements does not show significant differences worth representing.

At 31 December 2011, the Group held the following financial instruments measured at fair value:

(Migliaia di Euro)	Importo nozionale 31.12.2011	Fair valute positivo al 31.12.2011	Fair valute negativo al 31.12.2011	Importo nozionale 31.12.2010	Fair valute positivo al 31.12.2010	Fair valute negativo al 31.12.2010
Cash flow hedge						
Contratti Interest Rate Swap (IRS)	10.116	0	(376)	8.596	0	(339)

Note that all the assets and liabilities measured at fair value at 31 December 2011 are classified as Level 2. In addition, in 2011 no transfers were made from Level 1 to Level 2 or to Level 3, or vice versa.

Interest rate risk

Interest on financial instruments classified as variable-rate instruments is recalculated periodically during the financial year. Interest on financial instruments classified as fixed-rate instruments is kept constant until the maturity date of the instruments concerned.

Hedging

Cash flow hedges

At 31 December 2011, the Group held four IRS contracts (for a notional value of €9.1 million) signed during the past four years and designated as interest rate hedging instruments.

	Due date	*Fixed rate*	*Floating rate*	*Market value (€'000)*
Interest rate swap contracts				
EUR 1,428,572	30.06.14	2.21%	Euribor 6 month	(19)
EUR 3,500,000	31.12.15	2.52%	Euribor 6 month	(96)
EUR 4,194,917	31.12.15	4.08%	Euribor 6 month	(261)

Interest rate swap contract conditions were negotiated to coincide with the conditions of the underlying commitments.

The accounting treatment of these financial instruments in 2011 entailed an decrease in equity of €37 thousand and decreased the cash flow hedge reserve as a direct reduction of equity to €376 thousand.

37 – Events after the reporting period

No significant events took place after the reporting period.

Amaro, 15.03.12

On behalf of the Board of Directors
Chairman
Roberto Siagri

Annex I - Information provided pursuant to article 149-*duodecies* of the Consob Issuer Regulation

The schedule below was prepared in accordance with article 149-*duodecies* of the Consob Issuer Regulation and shows the amounts paid in 2011 for auditing and other services provided by the Independent Auditor and entities that are a part of this firm's network.

(€'000)	Service provider	Eurotech Group entity	2011 fees
Audit			
	Reconta Ernst & Young S.p.A.	Parent company - Eurotech S.p.A.	123,924
	Reconta Ernst & Young S.p.A.	Subsidiaries	24,533
	Rete Ernst & Young	Subsidiaries	412,802
Tax consultant			
	Rete Ernst & Young	Parent company - Eurotech S.p.A.	6,812
	Rete Ernst & Young	Subsidiaries	8,135
Other services			
	Rete Ernst & Young	Parent company - Eurotech S.p.A.	-
	Reconta Ernst & Young S.p.A.	Subsidiaries	-
	Rete Ernst & Young	Subsidiaries	-
TOTAL			576,206

Certification of the consolidated financial statements pursuant to article 154-*bis* of Legislative Decree 58 of 24 February 1998

Amaro, 15.03.12

1. We the undersigned, Roberto Siagri, the Chief Executive Officer and Sandro Barazza, the Financial Reporting Manager of Eurotech SpA, hereby attest, pursuant to article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, to:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the financial statements in financial year 2011.

2. Assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements to 31.12.11 is based on a model defined by Eurotech in keeping with the COSO framework (a document in the COSO Report) and taking into account the document “Internal Control over Financial Reporting – Guidance for Smaller Public Companies”, both of which were prepared by the Committee of Sponsoring Organizations of the Treadway Commission and which represent an internationally recognised general framework of reference.

3. We furthermore attest that:

   3.1 The consolidated financial statements to 31.12.11:
   - were prepared in compliance with the international accounting standards (IFRSs) recognised in the European Union pursuant to Regulation (CE) 1606/2002 of the European Parliament and of the Council, dated 19 July 2002
   - correspond to the results in the corporate books and accounting records
   - provide a fair and true representation of the assets, liabilities, financial position and profit or loss of the Issuer and of all its consolidated companies.

   3.2 The report on operations includes a fair review of the development and performance of the business and the situation of Eurotech as the Issuer and of all its consolidated companies, together with a description of the principal risks and uncertainties that they face.

Chief Executive Officer
Roberto Siagri

Financial Reporting Manager
Sandro Barazza

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders of
Eurotech S.p.A.

1. We have audited the consolidated financial statements of Eurotech S.p.A. and its subsidiaries (the "Eurotech Group") as of and for the year ended December 31, 2011, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Eurotech S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by Consob (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 30, 2011.

3. In our opinion, the consolidated financial statements of the Eurotech Group at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Eurotech Group for the year then ended.

4. The Directors of Eurotech S.p.A. are responsible for the preparation of the Management report in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Management report and the specific section on Corporate Governance and the Company's Ownership Structure regarding the information included therein in compliance with art. 123-bis of

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Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion, the Management report and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the specific section of the report, are consistent with the consolidated financial statements of the Eurotech Group as of December 31, 2011.

Treviso, March 30, 2012

Reconta Ernst & Young S.p.A.
Signed by: Michele Graziani, Partner

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