EUROTECH GROUP

CONSOLIDATED FINANCIAL STATEMENT AT DECEMBER 31, 2005

EUROTECH GROUP

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Corporate Information

Eurotech S.p.A. is a public company incorporated under Italian law, having its registered office in Amaro (Udine). The publication of the consolidated financial statement of Eurotech S.p.A. for the year ended December 31, 2005 has been authorized by the Company' Board of Directors on March 14, 2006. The main activities of the Group are described in note 22.

Board of Directors	
President	Roberto Siagri
Vice President	Dino Feragotto
Vice President	Massimo Mauri
Executive Director	Giampietro Tecchiolli
Director	Giovanni Saladino [1]
Director	Michele Vitali [1]
Director	Caterina Belletti [1 2]
Director	Alberto Felice De Toni [1 2 3]
Director	Giovanni Spangaro [1 2]

The current Board of Directors was appointed at the ordinary shareholders' meeting held on June 9, 2005, integrated by the shareholders' metings held on July 21, 2005 and September 2, 2005. The Board shall remain in charge until the date on which the financial statements of the Company for the period ending December 31, 2007 are approved.

Statutory Auditors	
Chairman	Claudio Siciliotti
Statutory Auditor	Umberto Lago
Statutory Auditor	Stefano Milanese
Alternate Auditor	Michela Cignolini
Alternate Auditor	Roberto d'Imperio

The currents statutory auditors were appointed at the ordinary shareholders' meeting held on June 9, 2005. These auditors shall remain in charge until the date on which the financial statements of the Company for the period ending December 31, 2007 are approved.

External Auditors	
	Reconta Ernst & Young

Reconta Ernst & Young have been appointed as our independent accountants at the ordinary shareholders' meeting of July 21, 2005 for the financial years 2005, 2006 and 2007.

Name and registered office of the Parent Company	
	Eurotech S.p.A. Via J. Linussio n. 1 33020 Amaro (UD) Registration number at the Companies Registry of Udine: 01791330309

[1] Non-executive directors
[2] Independent directors, in accordance with the Internal Dealing code elaborated by the Corporate Governance Committee of Listed Companies
[3] Lead Independent Director

Shareholders Information

The ordinary shares of Eurotech SpA , the Parent Company of the Eurotech Group, are listed since November 30, 2005 at the MTAX-Star segment of the Italian Stock Exchange in Milan.

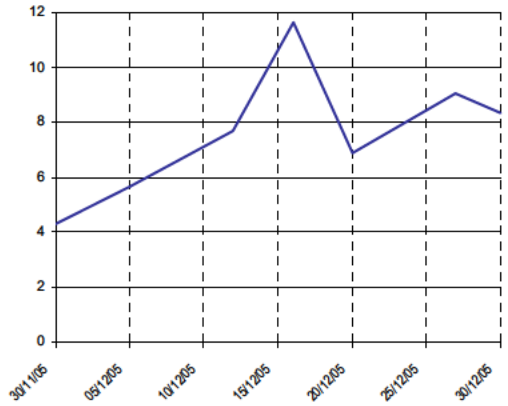
Share Capital of Eurotech S.p.A. at December 31, 2005

Share Capital	Euro 4,656,324.00
Number of ordinary shares (unit value Euro 0,25)	18,625,294
Number of savings shares	-
Number of shares owned by Eurotech S.p.A.	3.000
Market capitalization (December 2005 medium fixing price)	Euro 138 million
Market capitalization (fixing December 30, 2005)	Euro 154 million

Stock Market Trend of Eurotech S.p.A.

Relative performance of EUROTECH S.p.A.
November 30, 2005 – December 31, 2005

The graph chart highlights the title trend on the basis of reference daily prices.



The candle graph chart highlights the minimum and maximum daily prices.

Directors' Report

Introduction

The consolidated financial statements at December 31, 2005 are the first consolidated financial statements issued after the listing at the MTAX-Star segment of the Italian Stock Exchange on November 30, 2005.

According to European Regulation n. 1606 of July 2002, the Offering Circular filed with CONSOB by Eurotech S.p.A. on November 10, 2005, and related to the company's Global Offering of ordinary share, was drawn up in accordance with the International Accounting and Financial Reporting Standards (IAS/IFRS).

The Group's financial data for the year ended December 31, 2004 are presented for a comparison and have been restated according to IAS/IFRS. Besides, the Group has adopted on January 1, 2005 the accounting principles IAS 32 and 39, consequently restating the balance sheet at December 31, 2004 in accordance with these principles.

Highlights

Selected income statement information

OPERATING RESULTS	31.12.2004	%	31.12.2005	%
SALES AND SERVICE REVENUE	16.649	100,0%	29.851	100,0%
GROSS MARGIN	10.163	61,0%	15.292	51,2%
EBITDA	1.986	11,9%	3.298	11,0%
EBIT	1.457	8,8%	2.300	7,7%
PROFIT (LOSS) BEFORE TAXES	1.033	6,2%	2.003	6,7%
GROUP NET PROFIT (LOSS) FOR THE PERIOD	647	3,9%	1.064	3,6%

Selected balance sheet information

BALANCE SHEET DATA	31.12.2004	31.12.2005
NON CURRENT ASSETS	**7.687**	**9.897**
intangible assets	5.306	6.235
property, plant and equipment	2.223	2.550
Current assets	16.631	42.989
TOTAL ASSETS	**24.318**	**52.886**
Group shareholders' equity	**5.447**	**32.454**
Minority interests	**556**	**551**
Total non current liabilities	**7.128**	**3.477**
Total current liabilities	**11.187**	**16.404**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**24.318**	**52.886**

Financial overview

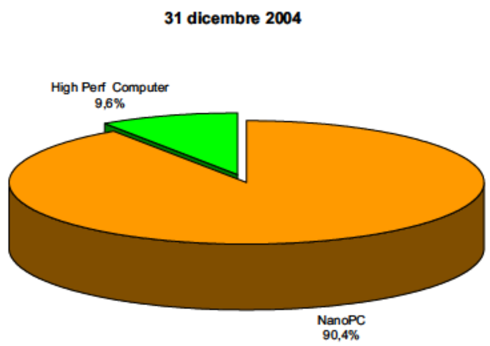
	31.12.2004	31.12.2005
NET FINANCIAL POSITION	**(9.097)**	**20.348**
TOTAL NET WORKING CAPITAL	**8.578**	**3.640**
NET CASH DATA		
Net cash provided by (used in) operating activities	(498)	7.020
Net cash provided by (used in) investing activities	(2.683)	(2.126)
Net cash provided by (used in) financing activities	4.879	18.016
Effect of change in exchange rates	(40)	114
TOTAL NET CASH	**1.658**	**23.024**

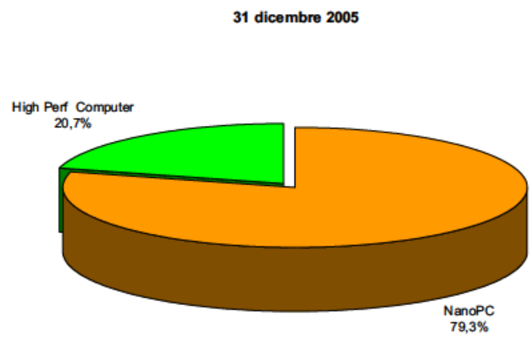
Number of employees

	31.12.2004	31.12.2005
NUMBER OF EMPLOYEES	147	158

Business segment revenues

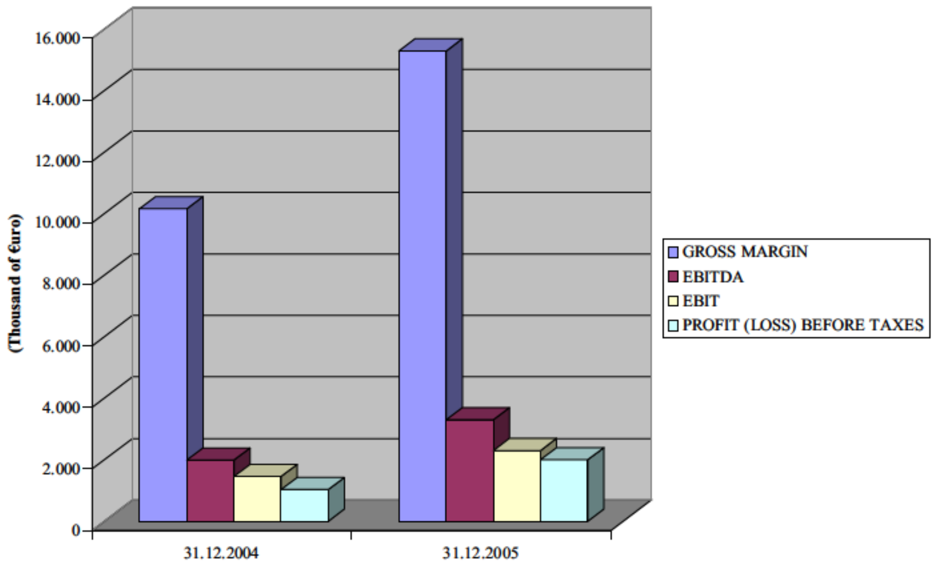
(Thousands of Euro)	NanoPC			High Performance Computer			Total		
	31 12 2004	31 12 2005	Var % 05-04	31 12 2004	31 12 2005	Var % 05-04	31 12 2004	31 12 2005	Var % 05-04
Sales and service revenue	15.056	23.671	57,2%	1.593	6.180	287,9%	16.649	29.851	79,3%





The two business segments presented in the graphic are the nanoPC and HPC sectors. NanoPC products are miniaturised electronic modules and systems designed for transportation, medical diagnostics, defence and the industry. HPCs are High Performance Computers for universities, research institutes and computation centres.

Graphic results



The Eurotech Group

The Company carries out the research, development, production and marketing of miniaturised computers ("NanoPCs") and High Performance Computers ("HPCs").
The assumption behind Eurotech's creation and growth is that the most important technologies tend, as they spread, to become more and more integrated in our everyday life. Organized and interconnected structures of computer nets will begin to develop until they become almost invisible, creating an environment of augmented reality which will make our life simpler and more comfortable.

Eurotech is a centre of technological excellence which designs, develops and markets cutting-edge computing solutions. Its miniaturized computer architectures are designed to answer specific requirements and to operate in harsh environments and hostile conditions. Thanks to the know-how acquired in miniaturization, the Group has become a leader in the design and manufacturing of clusters of miniaturized PCs operating like a single high-performance computer, used for extreme computation.

Since its foundation, the Eurotech Group has always considered Research and Development as a key factor in its business model. The Group's activity is focused on the study and design of innovative and value-added solutions which anticipate market evolutions and future scenarios through accurate strategic planning.

The Group's products within the NanoPC sector consist of miniaturised electronic modules and systems for transportation, defence, medical diagnostics and the industry.
The Group's products within the HPC sector consist of high-performance computers for universities, research institutes and computation centres.

The Eurotech Group manufactures systems and modules compliant with hardware and software standards. From the start, the Group's products have been based on the PC x86 architecture and on international mechanical standards, like PC/104 and CompactPCI. Today, both standard and open source operating systems tend to be independent from the hardware. In fact, industry-standard operating systems for the most part support a number of different harware architectures. Therefore, it is possible to offer non PC x86 architectures while preserving software portability. The result is a much lower consumption and the development of new application types (wearable computers).
Next to catalog products, Eurotech also designs and manufactures complete OEM and custom modules and systems. The aim is to give our customers a competitive edge by offering innovative solutions and products requiring a short implementation.

Recently the Group, on the basis of carefully defined strategies that take into account customers' needs and market requirements, has specialized and refocused its offer of standard modules and systems, strengthening its presence in the NanoPC market. Its miniaturized computers are designed for use in the field of intelligent transportation and specialize in the management, location and control of mobile vehicles (trains, planes, busses, underground, etc). The Group's products also focus on the industry (monitoring and data transfer) with the introduction of state-of-the-art intelligent human-machine interfaces and of network appliances assuring data flow quality (like Voip and Videostreaming).

The Group's business model is based on the outsourcing of the most part of assembly operations; this model is constantly updated to foster efficiency and to assure an ever increasing production capacity at a competitive cost.

As at December 2005, the Eurotech Group consists of the following companies:

Name	Activity	% of ownership
Parent company		
Eurotech S.p.A.	Operates in the NanoPC and High-Performance Computer sectors, and develops new products for the Group.	
Subsidiaries		
Parvus Corp.	Active in the NanoPC sector in the US market.	100,00%
Erim Développement S.A.S.	Holding company owning 100% of Erim SA, a company that operates in the NanoPC sector in the French market.	100,00%
Eurotech Finland Oy	Markets the Group's products in Northern Europe and China.	100,00%
I.P.S. Sistemi Programmabili S.r.l.	Active in the NanoPC sector with the I.P.S. trademark.	80,00%
Neuricam S.p.A.	Carries out projects related to innovative technological solutions in the field of intelligent sensors and advanced vision systems.	63,59%
EthLab S.r.l.	Carries out research and development projects for the Group since the beginning of 2005.	99,90%

Operating Results

OPERATING RESULTS	31.12.2004	%	31.12.2005	%
SALES AND SERVICE REVENUE	16.649	100,0%	29.851	100,0%
GROSS MARGIN	10.163	61,0%	15.292	51,2%
EBITDA	1.986	11,9%	3.298	11,0%
EBIT	1.457	8,8%	2.300	7,7%
PROFIT (LOSS) BEFORE TAXES	1.033	6,2%	2.003	6,7%
GROUP NET PROFIT (LOSS) FOR THE PERIOD	647	3,9%	1.064	3,6%

The Group's revenue increased from Euro 16,649 thousand in the financial year 2004 to Euro 29,851 thousand in the financial year 2005, a total increase of approximately 79,3%. This rise was due to the combined effect of a 61,1% increase in operating activities, worth Euro 10,174 thousand, and of the inclusion of Erim Développement S.A.S., worth a

12,30% increase for Euro 3,028 thousand (the revenues of Erim were included for 3 months in the financial year 2004, starting October 1, 2004 with a revenue of Euro 987 thousand, and for 12 months in the financial year 2005).
The internal growth is essentially linked to the Group's strategic plan. In particular, the revenues of the Parent Company registered a 70,3% increase, while the revenues of the US subsidiary Parvus increased from Euro 4,623 thousand for the year ended December 2004 to Euro 8,446 thousand for the year ended December 2005, a 82,7% rise due to a better penetration in the North-American market, thanks to the progressive introduction of technological solutions that were already available to the other companies of the Group.

The absolute value of the gross margin increased 50,5% from the end of 2004 to the end of 2005. The gross margin increased from Euro 10,163 thousand as at December 31, 2004 to Euro 15,292 thousand as at December 31, 2005, with an effect on revenues decreasing from 61% as at December 2004 to 51,2% as at December 2005. This increase is due to the dynamics of the product mix in the two different periods, with a reduction of earnings from sales of custom products and an increase of earnings from sales of catalog products, and to the further implementation of a business model based on outsourcing, which allows, even if reducing gross margin, a consistent reduction of operating costs. This trend reflects the Group's growth strategy, based on a business expansion due to an increase in standard products sales and on the structural optimization of operating costs. Service costs and payroll costs as a percentage of revenue decreased from 20,9% in 2004 to 18,9% in 2005, and from 31,3% in 2004 to 24,2% in 2005, respectively.

The results before amortization, depreciations and financial costs (EBITDA) are positive, amounting to Euro 1,986 thousand as at December 2004 and to Euro 3,298 thousand as at December 2005. This is due to the structural optimization explained above, to the change in the product mix, to the further implementation of outsourcing and to the acquisition of Erim Développement S.A.S. in the last quarter of 2004.

The operating result (EBIT) increased by 57,9%, passing from Euro 1,457 thousand as at December 31, 2004 to Euro 2,300 thousand as at December 31, 2005. EBIT as a percentage of revenue was 8,8% and 7,7% for the years ending December 31, 2004 and December 31, 2005 respectively. This trend is strictly due to EBITDA margin increase.

Profits before taxes increased by Euro 970 thousand, from Euro 1,033 thousand for the year 2004 to Euro 2,003 thousand for the year 2005. This trend depends on the increase of EBIT and on the decrease of net financial costs.

Net profit increased from Euro 647 thousand to Euro 1,064 thousand for the years 2004 and 2005 respectively, with an increase of 64,5%. This development, which reflects the net profit before taxes, is due to the differences between Italian and foreign tax rules and is also a result of minority interests.

The evolution of revenues and marginality for each business segment, and their relative variation, are presented below.

(Thousands of Euro)	NanoPC			High Performance Computer			Total		
	31 12 2004	31 12 2005	Var % 05-04	31 12 2004	31 12 2005	Var % 05-04	31 12 2004	31 12 2005	Var % 05-04
Sales and service revenue	15.056	23.671	57,2%	1.593	6.180	287,9%	16.649	29.851	79,3%
Gross margin	9.720	12.882	32,5%	443	2.410	444,0%	10.163	15.292	50,5%
Ebitda	1994	1.780	-10,7%	-8	1.518	n.s.	1.986	3.298	66,1%
Ebitda percentage on revenue	13,2%	7,5%		-0,5%	24,6%		11,9%	11,0%	
Ebit	1508	811	-46,2%	-51	1.489	n.s.	1.457	2.300	57,9%
Ebit percentage on revenue	10,0%	3,4%		-3,2%	24,1%		8,8%	7,7%	

The revenues of the NanoPC segment increased from Euro 15,056 thousand in 2004 to Euro 23,671 in 2005, with a 57,2% increase. This growth is due by 43,7% to the sales increase registered mainly by the Parent Company, and by 13,5% to the consolidation of Erim Développement S.A.S. and Eurotech Finland Oy. The revenues of the HPC segment went from Euro 1,593 thousand in 2004 to Euro 6,180 thousand in 2005, with a 287,9% increase, totally due to the earnings increase of the Parent Company.

SALES BY TYPE	31.12.2004	%	31.12.2005	%
Industrial sales	16.291	97,8%	29.382	98,4%
Services	358	2,2%	469	1,6%
TOTAL SALES AND SERVICE REVENUE	**16.649**	**100,0%**	**29.851**	**100,0%**

The break-down of revenues by type shows an 80,4% increase in industrial revenues, consistent with the increase in total earnings.

BREAKDOWN BY GEOGRAPHIC AREA	31.12.2004	%	31.12.2005	%	var. %
Italy	10.171	61,1%	14.539	48,7%	42,9%
European Union without Italy	987	5,9%	5.656	18,9%	473,0%
United States	4.485	26,9%	8.374	28,1%	86,7%
Other	1.006	6,0%	1.282	4,3%	27,4%
TOTALE SALES AND SERVICE REVENUE	**16.649**	**100,0%**	**29.851**	**100,0%**	**79,3%**

The break-down of revenues by geographic area shows a consistent sales increase in the United States, realized by the group's subsidiary Parvus Corp. The sales growth in the EU is due to the development of the Group's activities and to the consolidation of new companies.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
Purchases of raw materials, semi finished and finished materials	8.759	52,6%	15.323	51,3%	74,9%
Changes in inventory of raw materials	(1.764)	10,6%	(313)	1,0%	82,3%
Change in inventory of semi finished and finished materials	(509)	3,1%	(451)	1,5%	11,4%
TOTAL COST OF MATERIALS	**6.486**	**39,0%**	**14.559**	**48,8%**	**124,5%**

The table on raw materials and consumables presented above shows a growing trend for the considered period, having risen from Euro 6,486 thousand for 2004 to Euro 14,559 thousand for 2005. This 124,5% increase is due to augmented sales volumes as well as to the consolidation of Erim and Eurotech Finland for the full financial year 2005.

Cost of raw materials and consumables as a percentage of revenue increased from 39% in 2004 to 48,8% in 2005, due to the change in the product mix, which includes a consistent rise in revenues from the HPC sector.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue
Service costs	3.480	20,9%	5.639	18,9%
Rent and leases	286	1,7%	492	1,6%
Payroll	5.212	31,3%	7.211	24,2%
Accruals and other costs	172	1,0%	204	0,7%
Other revenues	(973)	5,8%	(1.552)	5,2%
Other operating costs, net	**8.177**	**49,1%**	**11.994**	**40,2%**

Other operating costs, which are presented in the table above, show a 46,7% increase, from Euro 8,177 thousand in 2004 to Euro 11,994 thousand in 2005. As a percentage of revenue, operating costs decreased from 49,1% in 2004 to 40,2% in 2005, thanks to the strategy adopted by the Group. In particular, payroll decreased from 31,3% to 24,2% and service costs decreased from 20,9% to 18,9%, as a percentage of revenue.

Service costs are detailed in the table below.

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Production services	925	26,6%	1.772	31,4%	91,6%
Sales services and commissions	1.021	29,3%	1.542	27,3%	51,0%
General and administrative costs	1.534	44,1%	2.325	41,2%	51,6%
TOTAL SERVICE COSTS	**3.480**	**100,0%**	**5.639**	**100,0%**	**62,0%**
Service costs as a percentage of revenue	**20,9%**		**18,9%**		

Total service costs went from Euro 3,480 thousand in 2004 to Euro 5,639 thousand in 2005, with a 62% increase, while service costs as a percentage of revenue diminished from 20,9% in 2004 to 18,9% in 2005, due to the Group's expansion strategy and to the related investments.

In particular, the cost for production services shows a 91,6% increase, from Euro 925 thousand in 2004 to Euro 1,772 thousand in 2005. This is mainly due to major invesments in new products.

The cost for sales services shows a 51% increase, from Euro 1,021 thousand in 2004 to Euro 1,542 thousand in 2005. This increase is mainly due to the Group's penetration into new markets and to an enlargement of the customer base, above all in Italy, France and the United States.

Costs for general and administrative services show a 51,6% increase, from Euro 1,534 thousand in 2004 to Euro 2,325 thousand in 2005, in line with the increase in revenues.

The costs for rent and leases show a 72% increase, from Euro 286 thousand in 2004 to Euro 492 thousand in 2005. These costs as a percentage of revenue held steady at 1,7% in the two examined periods. The increase in value is due to the higher leasing costs sustained by the newly incorporated companies and to the higher costs sustained by some subsidiaries to pay for larger productive and commercial space.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
Wages and Social Security	5.077	30,5%	6.922	23,2%	36,3%
Severance allowances	118	0,7%	169	0,6%	43,2%
Retirement lump sum payments	0	0,0%	10	0,0%	n/a
Other costs	17	0,1%	110	0,4%	547,1%
TOTAL PAYROLL	**5.212**	**31,3%**	**7.211**	**24,2%**	**38,4%**

Total payroll costs in the reference period show a 38,4% increase, due to the acquisition of Erim Développement S.A.S. and Eurotech Finland Oy, and to to an increase of personnel within the existing companies, necessary to sustain the Group's development programs with an adequate structure.

Payroll costs as a percentage of revenue decreased from 31,3% in 2004 to 24,2% in 2005, due to the better efficiency achieved by the Group in the optimization of its resources.

The following table shows the number of employees in the relevant period, which passed from a staff of 147 in 2004 to a staff of 158 in 2005.

Employees	31.12.2004	31.12.2005
Management	2	2
White Collar Employees	117	117
Blue Collar Employees	28	39
TOTAL	**147**	**158**

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Allowance for doubful accounts	20	11,6%	70	34,3%	250,0%
Provisions	8	4,7%	7	3,4%	12,5%
Other costs	144	83,7%	127	62,3%	11,8%
TOTAL ACCRUALS AND OTHER COSTS	**172**	**100,0%**	**204**	**100,0%**	**18,6%**
Service costs as a percentage of revenue	**1,0%**		**0,7%**		

Allowance for doubtful accounts refers to the accruals performed in the considered periods. Accruals refer mainly to the selling agents' commission fund.

As a percentage of revenue, accruals and other costs have held steady, passing from 1% in 2004 to 0,7% in 2005.

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Government grants	89	9,1%	218	14,0%	144,9%
Capitalized development costs	775	79,7%	1.287	82,9%	66,1%
Other revenues	109	11,2%	47	3,0%	56,9%
TOTAL OTHER REVENUES	**973**	**100,0%**	**1.552**	**100,0%**	**59,5%**
Service costs as a percentage of revenue	**5,8%**		**5,2%**		

Other revenues show a 59,5% increase in the examined period, from Euro 973 thousand in 2004 to Euro 1,552 thousand in 2005. This growth is primarily due to increases in capitalized costs incurred by the Group for the development of new solutions, systems and integrated standard modules in the field of NanoPCs and wearable PCs. The increase is equally due to the inclusion of government grants, following development activities performed by the Group either in 2005 or in the preceding years, but which could not yet be considered certain. The capitalized costs mainly arise from payroll, material and structural costs.

As a percentage of revenue, this section has basically held steady.

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Amortization of intangible assets	261	49,3%	626	62,7%	139,8%
Amortization of property, plant and equipment	268	50,7%	361	36,2%	34,7%
Depreciation of fixed assets	0	0,0%	11	1,1%	n/a
Total amortization and depreciation	**529**	**100,0%**	**998**	**100,0%**	**88,7%**
Service costs as a percentage of revenue	**3,2%**		**3,3%**		

As shown in the above table, the increase in total amortization and depreciation was 88,7%, from Euro 529 thousand for the year 2004 to Euro 998 thousand for the year 2005. This variation is due to the inclusion of new companies into the Group and to the increase in amortization of development costs which were capitalized in the preceding period. During the year 2005, a large part of the costs of development which were capitalized in 2004 were amortized, and the correlated sales revenue started to grow.

As a percentage of revenue, total amortization and depreciation passed from 3,2% in 2004 to 3,3% in 2005, due to an increased commitment of the Group to the development of new standard solutions.

(Thousands of Euro)	31.12.2004	31.12.2005	var. %
Share of profit of associates	9	3	66,7%
as a percentage of revenue	**0,1%**	**0,0%**	
Financial costs	(517)	(595)	15,1%
as a percentage of revenue	**-3,1%**	**-2,0%**	
Financial income	84	295	251,2%
as a percentage of revenue	**0,5%**	**1,0%**	

Investments in associated companies, which are accounted for under the equity method, were re-evalued by Euro 9 thousand and 3 thousand for the years 2004 and 2005 respectively.

The increase in financial costs was 15,1%, rising from Euro 517 thousand to Euro 595 thousand for 2004 and 2005 respectively. Financial costs as a percentage of revenue were 3,1% and 2% respectively. The increase was primarily due to an increase in mid- and long-term liabilities (incurred by issuing a convertible bond, at present extinguished) and to sales of trade receivables.

Financial income increased by 251,2%, from Euro 84 thousand to Euro 295 thousand for the years 2004 and 2005 respectively. This increase was primarily due to changes in the € and US dollar exchange rate, to the termination effects of an Interest Rate Swap contract and to interests on available liquidity deriving from the Group's listing.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
Profit before taxes	1.033	6,2%	2.003	6,7%	93,9%
Income taxes	(455)	2,7%	(981)	3,3%	115,6%
Income taxes as a percentage of profit before taxes (effective tax rate)	**44,0%**		**49,0%**		

Profit before taxes was Euro 1,033 thousand in 2004 and Euro 2,003 thousand in 2005, representing a percentage of revenue of 6,2% and 6,7% respectively.

The following table presents a breakdown of taxes for each considered period, showing differences between current and deferred taxes, and between Italian and foreign taxes.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
IRES (Italian Government current tax)	178	1,1%	238	0,8%	33,7%
IRAP (Italian Regional current tax)	186	1,1%	197	0,7%	5,9%
Current foreign taxes	67	0,4%	396	1,3%	491,0%
Total current tax	**431**	**2,6%**	**831**	**2,8%**	**530,7%**
Deferred Italian taxes	(9)	0,1%	209	0,7%	n.s.
Deferred foreign taxes	33	0,2%	(59)	0,2%	278,8%
Total deferred taxes	**24**	**0,1%**	**150**	**0,5%**	**525,0%**
TOTAL INCOME TAXES	**455**	**2,7%**	**981**	**3,3%**	**115,6%**

Consolidated Balance Sheet

Non-current Assets

(Thousands of Euro)	31/12/2004	31/12/2005
ASSETS		
Intangible assets	5.306	6.235
Property, Plant and equipment	2.223	2.550
Equity investments	19	82
Deferred tax assets	103	1.008
Other non current assets	36	22
Total non current assets	**7.687**	**9.897**

Non-current assets, presented in the table above, increased from Euro 7.687 thousand in 2004 to Euro 9.897 thousand in 2005. This increase is due to the capitalization in intangible assets of development costs and software costs for the implementation of the new ERP software management system, and to the inclusion of deferred tax assets of the Parent Company (due following the inclusion of IPO fees and costs net of taxes in the shareholders' equity). The IPO fees and costs incurred by the Group amount to Euro 3,262 thousand, net of the share sold by one of the partners at the time of public offering. These costs have been classified as paid-in capital, net of deferred tax assets for a total amount of Euro 1,215 thousand.

Major additions to non-current assets are the following:

(Thousands of Euro)	31.12.2004	31.12.2005	Var.
Intangibles	639	1.861	1.222
Property, plant and equipment	358	967	609
Investments	0	60	60
CAPEX	**997**	**2.888**	**1.891**

Current Assets

(Thousands of Euro)	31/12/2004	31/12/2005
Inventory	5.250	6.004
Contracts in progress	0	2.044
Trade receivables	8.402	7.267
Other current assets	419	2.090
Cash and cash equivalents	2.560	25.584
Total current assets	**16.631**	**42.989**

Current assets show a positive trend, increasing from Euro 16,631 thousand in 2004 to Euro 42,989 thousand in 2005.

The increase in current assets is due to consistent available liquidity, derived for the amount of Euro 23,644 thousand from the increase of capital that took place on November 30, 2005 following the Group's listing (net of IPO fees and costs), and to an increase in contracts in progress, arising from advances made in connection with HPC Apenext.

An increase of Euro 1,671 thousand in other current assets is primarily due to a VAT tax credit greater than in 2004, and to credits for government grants to be received in 2006.

Net Working Capital

Net working capital consists of current assets net of cash and cash equivalents and additioned of current non-financial liabilities. It is presented in the following table.

(Thousands of Euro)	31/12/2004	31/12/2005
Inventory	5.250	6.004
Contracts in progress	0	2.044
Trade receivables	8.402	7.267
Other current assets	419	2.090
Trade payables	(4.011)	(9.572)
Tax payables	(442)	(392)
Other current liabilities	(1.040)	(3.801)
Total net working capital	**8.578**	**3.640**

The decrease in net working capital is primarily due to the increase of other current liabilities for advances from customers and for amounts due to suppliers in relation to contracts in progress. The consistent increase in trade payables is primarily due to the fees and costs incurred the Company's IPO at the end of 2005, which will determine a financial disbursement in 2006.

Net Financial Position

The following table sets out the Group's net financial position at the end of the years 2004 and 2005.

(Thousands of Euro)	31/12/2004	31/12/2005
Cash and cash equivalents	2.560	25.584
Other current financial assets		
Short term debt	(5.694)	(2.639)
Total net short-term debt	**(3.134)**	**22.945**
Convertible bonds	(2.447)	0
Long term debt	(3.516)	(2.597)
Total long-term debt	**(5.963)**	**(2.597)**
NET FINANCIAL DEBT	**(9.097)**	**20.348**

The Group's net financial position is positive. It changes from a negative value of Euro 9,097 thousand as at January 1, 2005 (restated from December 31, 2004) to Euro 20,348 thousand on December 31, 2005, with an increase of Euro 29,445 thousand.
Total net short-term debt changes from a negative value of Euro 3,134 thousand to a positive value of Euro 22,945 thousand. This difference is primarily due to the cash flow obtained from the share-capital increase that took place on

November 30, 2005 following the Group's listing (Euro 23,644 thousand, net of IPO fees and costs) and to the sales of trade receivables performed in September (for a remaining amount of Euro 2,195 thousand, compared to the original amount of Euro 5,327 thousand) and in December 2005 (for an original amount of Euro 2,461 thousand). These sales are characterized by a transfer of substantially all risks and benefits associated with such receivables, which are consequently cancelled form the activities of the group.
Total medium/long term debt changes from Euro 5,963 thousand as at January 1, 2005 to Euro 2,597 thousand as at December 31, 2005 following the conversion of the convertible bond issued in July 2004 and subscribed by Eurotech's shareholders to finance the acquisition of Erim Développement S.A.S. and Eurotech Finland Oy. In July 2005, all the bondholders have converted their bonds into Eurotech shares at a conversion ratio of 60 shares for each bond. The company's share capital consequently increased by Euro 150 thousand, and the remaining amount subscribed (equal to Euro 2,350 thousand) was classified as paid-in capital.

Total bank debt is Euro 3,782 thousand. Together with current account liabilities for Euro 1,454 thousand at the end of 2005, the Group has a total bank exposure position of Euro 5,236 thousand, of which Euro 2,639 thousand is short term.

Cash Flows

(Thousands of Euro)	31/12/2004	31/12/2005
Net cash provided by (used in) operating activities	(498)	7.020
Net cash provided by (used in) investing activities	(2.683)	(2.126)
Net cash provided by (used in) financing activities	4.879	18.016
Effect of change in exchange rates	(40)	114
Increase (decrease) of cash and cash equivalents	1.658	23.024
Cash and cash equivalents at beginning of the period	902	2.560
Cash and cash equivalents at the end of the period	2.560	25.584

Investment activity is significantly influenced by investments in the development of new products in the field of NanoPC modules and systems as well as the new ERP system, and investment in industrial, commercial and hardware equipment.

Cash flows derived from financing activities arise from the increase of share-capital following the Company's listing, from the reimbursement of short-term and mid-term financing and from the partial reimbursement of projected revenues from counterparties to the sale of trade receivables.

Leverage

The changes in our net financial position, has involved the following financial leverage trend:

	31/12/2004	31/12/2005
Leverage		
Financial leverage	60,25%	160,76%

[Net financial debt / net financial debt plus net equity of the group)]

The consistent cash and cash equivalents available to the Parent Company has involved a reversal of our financial leverage. This is primarily due to cash flow obtained from the share-capital increase following the Company's listing.

Investments and Research & Development

As at December 31, 2005 the Group's technical investments for machinery and instrumentation (property, plant and equipment) amounted to Euro 967 thousand, while investments for technical and managing software (intangible assets) amounted to Euro 375 thousand.
In the course of 2005, the Group has performed R&D activities focused on industrial and technological innovation, on the design of new products and on process optimization.
Research has led to the development of new products and applications in the field of embedded modules and systems, of highly-integrated low-consumption NanoPCs, network appliances and high-performance computers. R&D made it possible to offer higher-quality, innovative products, and to lower production costs, with a resulting increase in competitiveness. In the considered period, development costs for new products have been capitalized for an amount of Euro 1,432 thousand.

Relevant Events after the balance sheet date

On February 3rd, 2006, Eurotech S.p.A. signed with the UK company Spectris plc an option for the acquisition of the entire issued share capital of Arcom Control Systems Ltd and Arcom Control Systems Inc. The total consideration for the acquisition is US$ 26 million. Eurotech has paid to Spectris plc US$ 2 million to ensure the deal, which is expected to come to completion within 60 days.
The Arcom Group operates in the sector of Nano-PCs and miniaturized computers in both the USA and the UK, with clients in the electronics, energy, transportation and industrial markets. According to data presented by the Arcom management, the consolidated revenues for 2005 of the two Arcom Group companies were approximately US$ 29 million, with an EBITDA of approximately. 11%.

Competitive Scenario, Predictable Evolution and Future Growth Strategy

The Eurotech Group is increasingly diversifying its offer from the competitors and is positioning itself so as to seize the opportunities that will arise in the future from the spreading of pervasive computation. Today the Group already offers modular solutions of gerarchically interconnected computation devices for the fields of transportation, defense, medical diagnostics and the industry.
With the introduction of wearable computers, programmed for the first half of 2006, the Group's commercial offer reaches new boundaries, with a complete range of net-centric solutions that spread from the centre (high-performance computers and LCD computer panels for building automation) to the periphery (embedded computers for location and management of mobile vehicles) up to the individual (portable devices for soldiers, policemen, firemen, doctors, and anyone operating in emergency situations).

As regards product prices, the decrease trend appears unevenly distributed. The pressure on prices depends both on the geographic location, being higher in central and southern Europe and lower in the United States and northern Europe, and on the reference market, being higher in the industry than in the defence sector, and is probably due to economic stagnation and zero growth in most of Europe. Management believes that the new positioning of the Group after the acquisition of Arcom, together with the fact that our structure is based on mainly fixed operating costs, should relieve the pressure on prices and allow the Group to pursue its program of sustained dimensional growth.

The Group's strategic development will continue, in accordance with the guidelines presented at the time of the Company's introduction to the market and to the financial community.

The development of the strategic plan includes the following:

- the Group will pursue its strategy of internationalization, both by strengthening its already conquered positions, and by means of new acquisitions;

- the Group will develop and market new products and solutions within its business areas, dedicating special attention to the design of standard products aimed at widening the Group's commercial opportunities in the reference markets;

- the Group will strengthen its business relations with key-account customers by means of specific strategic agreements;

- the Group will institutionalize its research activity on device miniaturization and low- and high-speed interconnection by developing and empowering its subsidiary ETH-Lab Srl and by closing research agreements with universities and research institutes;

- the Group will take all the required steps to increase in any possible way the reputation and visibility of its companies and of its products.

The Eurotech Group will adopt the best strategies to maintain sustained growth, equal or stronger than in the past, and to become an increasingly respected and recognized brand in the market of pervasive computation.

Treasury shares

The number of Eurotech shares owned by the Parent Company at the end of financial year 2005 is 3,000.

From the date of listing, the shares owned by the Parent Company have been operated upon as follows:

	Nr of share	Face value of a share (Thousand of Euro)	% of share capital	Book value (Thousand of Euro)	Share Average value
January 1, 2005	-	-	-	-	-
Purchase	68.683	17	0,37%	501	7,29
Sale	(65.683)	(16)	0,35%	(487)	7,41
Tax effect on Profit / Charge				2	
December 31, 2005	**3.000**	**1**	**0,02%**	**16**	

Consolidated Financial Statements at December 31, 2005, prepared in conformity with IFRS

Balance Sheet

BALANCE SHEET (Thousands of Euro)	Notes	31/12/2004 (a)	31/12/2005 (b)
ASSETS			
Intangible assets	1	5.306	6.235
Property, plant and equipment	2	2.223	2.550
Associates and other entities	3	19	82
Deferred tax assets	27	103	1.008
Other non current assets	4	36	22
Total non current assets		**7.687**	**9.897**
Inventory	5	5.250	6.004
Construction Contracts in progress	6	0	2.044
Trade receivables	7	8.402	7.267
Other current assets	8	419	2.090
Cash and cash equivalents	9	2.560	25.584
Totale current assets		**16.631**	**42.989**
Total assets		**24.318**	**52.886**
Share capital		1.247	4.656
Retained earnings		3.553	26.734
Net profit (loss) for the period		647	1.064
Group shareholders' equity		**5.447**	**32.454**
Minority capital and reserves		625	593
Minority profit (loss) for the period		(69)	(42)
Minority interests		**556**	**551**
Total shareholders' equity	10	**6.003**	**33.005**
Long term debts	12	3.516	2.597
Convertible bonds	13	2.447	0
Employees' benefits	14	550	481
Deferred tax liabilities	27	515	324
Other non current liabilities	16	100	75
Total non current liabilities		**7.128**	**3.477**
Trade payables	17	4.011	9.572
Short term borrowings	12	5.694	2.639
Tax payables	19	442	392
Other current liabilities	20	1.040	3.801
Total current liabilities		**11.187**	**16.404**
Total liabilities		**18.315**	**19.881**
Total liabilities and shareholders' equity		**24.318**	**52.886**

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Income Statement

OPERATING RESULTS (Thousands of Euro)	Notes	31/12/2004	31/12/2005
Sales and service revenue	22	16.649	29.851
Cost of materials	23	(6.486)	(14.559)
Services	24.1	(3.480)	(5.639)
Rent and leasing	24.2	(286)	(492)
Payroll	24.3	(5.212)	(7.211)
Accruals and other costs	24.4	(172)	(204)
Other revenue	24.5	973	1.552
Profit before depreciation and amortization		**1.986**	**3.298**
Amortization	25	(529)	(987)
Depreciation	25	0	(11)
Operating profit		**1.457**	**2.300**
Share of profit of associates	26	9	3
Finance costs	26	(517)	(595)
Finance income	26	84	295
Profit before taxes		**1.033**	**2.003**
Income tax expenses	27	(455)	(981)
Net profit (loss) for the period		**578**	**1.022**
Minority interest		**(69)**	**(42)**
Group net profit (loss) for the period		**647**	**1.064**
Earnings per share	11	**0,065**	**0,095**
Diluted earnings per share	11	**0,065**	**0,101**

OPERATING RESULTS (Thousands of Euro)	Notes	31/12/2004	31/12/2005
Sales and service revenue	22	16.649	29.851
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Diluted earnings per share	11	**0,065**	**0,101**

Statement of Changes in Shareholders' Equity

(Thousands of Euro)	Share capital	Legal reserve	Paid in capital	Translation adjustment	Other reserve	Own Shares	Net profit (loss) for the period	Group shareholders' equity	Minority capital and reserves	Minority profit (loss) for the period	Totale minority interest	Total shareholders' equity
Balance December 31, 2003	425	29	3.816	(29)	697		(256)	4.682	737	29	766	5.448
Allocation of prior year results		1			(257)		256		29	(29)		
Increase of share capital	822		(659)					163				163
Other				(40)	(10)			(50)	(141)		(141)	(191)
Effect of application of IAS 32 39					5			5				5
Net profit December 31, 2004							647	647		(69)	(69)	578
Balance December 31, 2004	1.247	30	3.157	(69)	435		647	5.447	625	(69)	556	6.003
Allocation of prior year results		3			644		(647)		(69)	69		
Convers on of bonds	150		2 350		(13)			2 487				2 487
Free increase of capital	1 397		(1 397)									
Paid capital increase	1 862		23 447					25 309				25 309
Costs for share quotation					(2 047)			(2 047)				(2 047)
Share based payment					67			67				67
Other effects of adoption IFRS 2					21			21				21
Other				114	8	(16)		106	37		37	143
Distribution of dividends												
Net profit December 31, 2005							1 064	1 064		(42)	(42)	1 022
Balance December 31, 2005	4.656	33	27.557	45	(885)	(16)	1.064	32.454	593	(42)	551	33.005

Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT (Thousands of Euro)		31/12/2004	31/12/2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Group net profit (loss) for the year		**647**	**1.064**
Adjustments to reconcile group net profit (loss) to net cash provided (used) by operating activities:			
Minority interest		(69)	(42)
Depreciation and amortization		529	998
Allowance for doubtful accounts		20	70
Gains and losses from disposal of tangible and intangible assets		0	
Share of profit of associates		(9)	(3)
Exchange differences		0	40
Provision for employees' benefits		130	(69)
Deferred taxes		226	119
Change in current assets and liabilities			
Trade receivables		(1.894)	1.065
Other current assets		479	(1.671)
Inventory		(1.609)	(2.798)
Trade payables		1.028	5.561
Other current liabilities		24	2.686
Total adjustments and changes		**(1.145)**	**5.956**
Net cash provided by (used in) operating activities		**(498)**	**7.020**
CASH FLOW FROM INVESTING ACTIVITIES:			
Disposal of property, plant and equipment		36	50
Interest income		84	174
Addition of intangible assets		(999)	(1.566)
Addition to property, plant and equipment		(317)	(738)
Net change in financial assets		(46)	(46)
Acquisition of business net of cash acquired:		(1.441)	
Property, plant and equipment	*(30)*		
Investments	*(11)*		
Current assets	*(1.812)*		
Liabilities	*2.088*		
Goodwill	*(1.531)*		
Minority	*(140)*		
Accumulated losses	*(5)*		
Net cash provided by (used in) investing activities		**(2.683)**	**(2.126)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Share capital increase		163	25.309
IPO fees and costs			(3.262)
Other movements of equity			117
Financing and bank debt		4.716	(4.148)
Dividendi pagati agli azionisti			
Net cash provided by (used in) investing activities		**4.879**	**18.016**
Effect of changes in exchange rates on cash		(40)	114
Increase (decrease) of cash and cash equivalents		**1.658**	**23.024**
Cash and cash equivalents at beginning of the period		**902**	**2.560**
Cash and cash equivalents at the end of the period		**2.560**	**25.584**
Interest paid		**229**	**480**
Taxes income paid		**165**	**1.198**

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Notes to the Consolidated Financial Statements

A – Introduction

The consolidated financial statements for the year 2005 have been prepared in conformity with IFRS (International Financial Reporting Standards) defined by the International Accounting Standards board and adopted by the European Commission in accordance with art. 6 of CE Regulation n. 1606/2002 of July 19, 2002.

The Eurotech Group has decided to adopt the IAS/IFRS principles starting from January 1, 2004, except for financial instruments within the scope of IAS 32 and IAS 39, which were adopted starting from January 1, 2005. The comparative financial figures as at December 31, 2004 that are within the scope of IAS 32 and IAS 39 have been restated accordingly.
The accounting principles adopted at December 31, 2005 are consistent with those adopted at December 31, 2004. Financial data for 2004 have been restated according to IFRS and are presented for a comparison.
The consolidated financial statements are presented in Euro rounded off to thousands. It comprises the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the present notes to the financial statements.
The financial statements of the subsidiaries, included in the consolidated financials statements are the ones approved by the Board of Directors of the subsidiaries. If necessary, these financial statements have been adjusted and restated according to international accounting standards and to group accounting policies.

B - First Time Application of IAS/IFRS

For a complete analysis of the effects deriving from the first time application of IAS/IFRS, please refer to Annex 1, which compares and restates financial figures according to Italian and international accounting principles and explains the applied accounting principles.
As regards the exceptions allowed by IFRS 1 for transition to IAS/IFRS, the Eurotech Group has decided to apply the IAS 32 and IAS 39 principles starting from January 1, 2005. Annex 1 presents the effects deriving from the first time application of IAS/IFRS, which are accounted for in the balance sheet as at January 1, 2005.

The effects of adopting IAS 32 and IAS 39 in the opening balance sheet of January 1, 2005 are summarized as follows (please refer to Annex 2 for details):

- derivatives are valued at fair value;
- financial assets and financial liabilities other than derivatives are measured at amortized cost; accordingly, issue costs are expensed over the relevant period
- the amount of the convertible bond is allocated between the liability component and the equity component. In particular, on the issue of the convertible bonds, the fair value of the liability component is determined by discounting future cash flows using a market rate for an equivalent non-convertible bond. This amount is carried as a long-term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of issue costs. The value of the conversion option is not changed in subsequent years.

The comparative financial figures as at December 31, 2004 that are within the scope of IAS 32 and IAS 39 have been restated accordingly.

C – Significant accounting judgements and estimates

Judjements

The application of accounting principles has required management to take decisions based on the following discretionary assumptions, which have had a significant effect on the resulting data:

Revenue recognition – Sales of components

Under IAS 18, when the seller maintains a continuous involvement in the assets being sold and the consideration agreed between the entity and the buyer is not collected, the transaction is not recognized as revenue. Consequently, the sales of components made by the Group to outside contractors, that carry out their processing on the components and then sell the processed components to the Group, are not considered by the Group's executives as meeting the criteria for revenue recognition.

Use of estimates

The preparation of consolidated financial statements and related notes in accordance with IAS/IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates are used in many areas, including accounting for provisions for doubtful accounts receivable, obsolete and slow-moving inventories, depreciation and amortization, asset impairment, employee benefits, taxes, other provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the statement of income.

In particular, goodwill is reviewed for impairment, annually or more frequently. Impairment is determined by making an estimate of the recoverable amount of the cash-generating unit to which the goodwill relates. The estimate of the recoverable amount is in turn based on the value in use, utilizing a discounted cash flow methodology approved by the board of directors. As at December 31, 2005, goodwill amounts to Euro 3,192 thousand (Euro 3,192 thousand in 2004). More details can be found in note 1.

D – Basis of Consolidation

The consolidated financial statements comprises the financial statements of the Parent Company Eurotech S.p.A. and of its Italian and foreign subsidiaries. Subsidiaries are fully consolidated from the date of the acquisition, being the date on which the Group obtains control, continue to be consolidated until the date that such control ceases. Control exists when Eurotech has the majority of voting rights or has the power, directly or indirectly, to govern (also through consolidated or associated companies) the financial and operating policies of an enterprise so as to obtain benefits from its activities.

At December 31, 2005, the Group's companies that are fully consolidated are the following:

Name	Registered office	% of ownership
Parent company		
Eurotech S.p.A.	Via Jacopo Linussio, 1– Amaro (UD) - Italy	
Fully consolidated controlled companies		
Parvus Corp.	Salt Lake City (USA)	100,00%
Erim Développement	Venissieux Cedex (France)	100,00%
Erim SA	Venissieux Cedex (France)	100,00%
Eurotech Finland Oy	Helsinki (Finland)	100,00%
I.P.S. Sistemi Programmabili S.r.l.	Via Piave, 54 – Caronno Varesino (VA) - I	80,00%
Neuricam S.p.A.	Via S. Maria Maddalena, 12 – Trento - I	63,59%
EthLab S.r.l.	Via Dante, 78 – Trento - I	99,90%

The following associated companies are accounted for under the equity method:

Associated companies accounted for by the equity method		
Delos S.r.l.	Via Roberto Cozzi, 53 – Milan - Italy	40,00%
Emilab S.r.l.	Via Jacopo Linussio, 1– Amaro (UD) - Italy	24,82%

The main changes that have taken place in the subsidiaries and associates since December 31, 2004 are the following:

- Delos S.r.l.: acquired on April 22, 2005, shareholding 40%;

- Ascensit S.r.l. : sold on October 17, 2005.

E - Significant Accounting Policies

Basis of Consolidation

The financial statements of subsidiaries are prepared using accounting policies consistent with the Parent Company. Adjustments are made to bring into any dissimilar accounting policies that may exist. All intra-group balances and transactions, including unrealized profits and losses resulting from transactions with associates are eliminated for the amount attributable to the Group. Unrealised losses are eliminated unless costs cannot be recovered.

Foreigh currency translation

The consolidated financial statements are presented in Euro, which is the functional and presentation currency of the Eurotech Group. Each company in the Group determinates its own functional currency, which is used to measure each financial statements.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The exchange differences are charged to the income statement, with the exception of differences deriving from foreign-currency loans taken out to cover net investments in foreign companies, which are recorded directly in the shareholders' equity until divestment; at that date, the differences are booked to the income statement. Taxes and tax credits arising from exchange differences on these loans are recorded directly in the shareholders' equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

The functional currency used by the consolidated US company Parvus Corp. is the US dollar.

As at the reporting date, the assets and liabilities of Parvus Corp. are translated into the presentation currency of the Eurotech Group (Euro) at the rate of exchange ruling at the balance sheet date, while the income statement is translated at the weighted average exchange rates for the year.
The exchange differences arising on the translation are taken directly to a separate component of the equity. On disposal of a foreign company, the cumulative exchange differences recognised in the shareholders' equity relaring to that particular foreing company are recognised to the income statement.

Business Segments

Business segments are distinctive areas which either provide homogeneous products and services (primary level) or concern a defined geographic area (secondary level). The Eurotech Group has two business segments at the primary level: the NanoPC segment (miniaturized computers) and the HPC segment (High Performance Computers). At the secondary level, net sales revenues are accounted for according to the geographic distribution of customers.

Basis of Valuation

The accounting principles and the basis of valuation adopted to prepare the consolidated financial statement as at December 31, 2005 are listed below:

Intangible Assets

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is not amortized and is measured at cost less any accumulated impairment losses. Goodwill arising on the acquisition of associates is not separately recognized, but is included in the carrying value of associates.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses on goodwill are not reversed under any circumstances. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (Business Combinations) retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts, subject to being tested for impairment at that date.

Research and Development Costs

Research costs are charged to the income statement in the period in which they are incurred. Development costs are recorded as an asset only if all the following conditions are met: the existence of the ability of the Group to measure reliably the expenditure attributable to the asset during the development phase and the technical feasibility, expected prices and volumes show that the development costs will generate future economic benefits. Capitalized development costs comprise only expenditures that can be attributed directly to the development process. Capitalized development costs are amortized on the period in which the expected estimated revenues will be received.

All other development costs are charged to the income statement in the period in which they are incurred.

Other Intangible Assets

Intangible assets with finite useful lives are capitalized at purchase or manufacturing cost. Amortization is charged on assets with finite lives on a straight-line basis over their estimated useful lives. Intangible assets are tested for impairment annually using the same approach explained later on for property, plant and equipment; useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets acquired from a business acquisition are recognized at fair value as at the date of acquisition separately from goodwill, to the extent their fair value can be measured reliably.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, comprising any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; the initial cost also includes any relevant expected costs of dismantling and removing the item to the extent the Group has a present obligation to dismantle and remove the item. Significant parts of an asset with different useful lives are accounted for separately. Land, including land appurtenant to the buildings, which has an unlimited life is not depreciated.

A building, revalued at January 1, 2004 (IFRS transition date) or before this date, is stated at fair value at the transition date, which represents the deemed cost of the asset.

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value, determined according to an approach described later on in this note. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Buildings	3%
Machinery and installations	10%-12%
Industrial and commercial equipment	25%
Production equipment	25%
Furniture and fixtures	12%
Office equipment	20%
Motor vehicles	20%-25%

Asset lives are reviewed at the end of each reporting period and the effects of changes in estimated life, if any, are recognized prospectively. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement in the impairment, depreciation and amortization expenses line item. If there are indications that previously recognized impairment losses has disappeared or reduced, the Group determines the recoverable amount of assets to quantify the reversal.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Investments in an Associate

Investments in associated companies, that are companies upon which the Eurotech Group has significant influence, are accounted for under the equity method. Gains and losses of the Group are recorded in the consolidated financial statements from the date control begins until the date that control ceases. When the Group's losses exceed the carrying value of the associate, the carrying amount is reduced to zero and the excess, if any, is taken to a separate component of equity, to the extent that the Group has incurred obligations in respect of the equity investment.
Associated companies' adjustments, if any, that require direct recording in the shareholders' equity, are recognized for the amount attributable to the Group in the statement of changes in shareholders' equity. The closing date of the financial year is the same for the Group and its associates; the accounting policies applied by associates are consistent with the policies adopted by the Group for similar events and transactions.

Investments Held-to-Maturity

Investments other than those in subsidiaries and associates, that are intended to be held-to-maturity, are initially recognized at cost and subsequently are measured at amortized cost. The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already received, adjusted for impairment losses, determined with the same approach described above for property, plant and equipment. Impairment losses are recognized in the income statement. If there are indications that previously recognized impairment losses has disappeared or reduced, the Group determines the recoverable amount of equity investments to quantify the reversal; the reversal may not raise the carrying value above the figure it would have stood if no impairment had originally been recognized. When the Group's share of losses of an equity investments other than those in subsidiaries and associates, if any, exceeds the carrying amount of the related investment on the Group's balance sheet, the carrying amount of the investment is reduced to zero and further losses are not recognized except to the extent that the Group has incurred obligations in respect of the equity investment.

Other Non-current Assets

Non current receivables and other non current assets that are intended to be held-to-maturity are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the transaction. Subsequently, they are measured at amortized cost using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument. Amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already received, adjusted (up or down) on the basis of the amortization of any differences between the initial amount and the maturity amount, minus any write-down for impairment and uncollectibility.

Inventories

Inventories, except for construction contracts, are valued at the lower of cost and net realizable value, the cost being determined on a weighted average cost (by single movement) basis. Net realizable value is the estimated selling price in the ordinary course of business.

Construction Contracts

Construction contracts are recognized in accordance with the stage of completion method, in order to recognize revenue and costs in the income statement in the period in which the work is performed. The stage of completion of contracts in progress is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. The gross amount due from customers for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings is presented as an asset in the balance sheet; the gross amount due to customers for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses) is presented as a liability in the balance sheet.

Contract revenue comprises the amount of revenue initially agreed with customers, together with any variations, claims and incentive payments as long as it is probable that they will result in revenue and can be measured reliably. As soon as the Group considers that it is probable that the contract costs will exceed contract revenue, it recognizes the expected loss as an expense immediately.

Trade Receivables

Trade receivables, whose terms are consistent with market conditions, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. The estimate for doubtful debts is made with reference to the present value of expected future cash flows.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Other financial assets Held for Trading or Available for Sale

Other financial assets held for trading or available for sale are initially recognized, on the basis of the trading date, at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, other financial assets, which are classified as held for trading and available-for-sale, are measured at fair value. When market prices are not available and the fair value cannot be measured reliably, other financial assetsheld for trading or available for sale with fixed maturity are measured at amortized cost using the effective interest method; when such financial assets have no fixed maturity they are measured at acquisition cost.

Gains or losses on available-for-sale other financial assets are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

If there are indications that previously recognized impairment losses have disappeared or reduced, the Group determines the recoverable amount of financial assets available for sale other than equity investments, to quantify the reversal to recognize in the income statement; the reversal may not raise the carrying value above the figure it would have stood if no impairment had originally been recognized.

Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, gross of outstanding bank overdrafts.

Financial Liabilities

Trade Payables

Trade payables, whose terms are consistent with market conditions, are recognized and carried at original invoice amount.

Loans

All loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs.
After initial recognition, loans are measured at amortized cost using the effective interest method.
Gains and losses are recognized in the net profit and loss when loans are derecognized, as well as through the amortization process.

Other Financial Liabilities

Other financial liabilities other than derivatives are initially recognized at cost, being the fair value of the consideration received net of transaction costs associated with the liabilites.

After initial recognition, other financial liabilities other than derivatives are subsequently measured at amortized cost using the effective interest method. Other financial liabilities hedged by derivative instruments aiming at managing the exposure to changes in fair value of the liabilities are measured at fair value in accordance with hedge accounting principles provided by IAS 39; gains and losses arising from re-measurement at fair value, to the extent of the effective hedged portion, due to changes in relevant hedged risk, are recognized in the statement of income and are offset by the effective portion of the loss or gain arising from remeasurement at fair value of the hedging instrument.

Derivative Financial Instruments

The Group uses derivative products to manage its exposure to fluctuations in interest rates relating to specific financial liabilities. It is not Group policy to enter into derivatives contracts for speculative purposes. However for derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

The gain or loss on the hedged item, to the extent of the portion attributable to the hedged risk, adjusts the carrying amount of the hedged item and is recognized in the net profit and loss. Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of a recognized asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve. The cumulative gain or loss is removed from equity and recognized in the statement of income at the same time as the hedged transaction affects the statement of income. The gain or loss associated with that part of a hedge that has become ineffective is recognized in the statement of income immediately.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.
Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Employee Benefits

The Group provides post–employment benefits plans, both defined benefit plans (staff severance provision) and other long-term benefits plans (long-service leave) for the benefit of employees. These benefits are attributed to the periods in which the obligation to provide post-employment benefits arises.

The Group' s obligation in respect of defined benefits plans, net of plan assets, is calculated using actuarial assumptions by estimating the amount of future benefits earned in return for services rendered; the Group's obligation is determined by independent actuaries. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized gains and losses for each individual plan exceed 10% of the greater of the present value of the Group's obligation or the fair value of plan assets (corridor mechanism).

share-base payment plans

Stock options are valuated at fair value with binominal method at the date on which they are granted (the listing date). The cost is recognized, together with a corresponding increase in equity, in the profit and loss as payroll cost if related to employees or service cost if related to sales agents, over the vesting period. . Variations in fair valued subsequent to the listing date have no effect on initial valuation.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount provided is the best estimate of the expenditure required to settle the obligation or to transfer it to a third party at the balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Convertible Bonds

Convertible bonds are recognized by splitting the liability portion and the call option: the liability portion is recognized among the financial liabilities net of issue costs. The corresponding disbursements on those bonds are charged as interest expense in the profit and loss. . On insuance of the convertible bonds, the fair value of the liability component is determined by discounting future cash flows using a market rate for an equivalent nonconvertible bond; this amount is carried as a long-term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of issue costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Grants received for the purchase of property, plant and equipment or the development costs are deducted from the carrying amount of the related assets and recognized in income over the useful life of the assets. Grants related to expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group with no future related costs, are recognized in income when they become receivables.

Leases

Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability; the finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets held under finance leases are depreciated over their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are charged to the statement of income over the lease term.

Revenue and Expenses

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue (fair value) can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognized:

- Sale of goods: revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.
- Rendering of services: revenue from rendering of services is recognized by reference to the stage of completion. Stage of completion is measured by reference to the method used for construction contracts. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Interest

Interest income and expenses are recognized as the interest accrues to the net carrying amount of the financial asset or liability, using the effective interest method.

Dividends

Revenue is recognized when the shareholders' right to receive the payment is established.

Income Tax

Current income taxes are provided for on the basis of the estimated amount to be payable based on the tax laws in force.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

F - Balance sheet – Selected information

1 - Intangible Assets

The following table presents intangible assets in terms of historical cost and amortization in the considered period:

	DEVELOPMENT COSTS	GOODWILL	SOFTWARE TRADEMARKS PATENTS	INTANGIBLE ASSETS IN PROGRESS AND PAYMENTS ON ACCOUNT	OTHER	TOTAL INTANGIBLE ASSETS
Cost	714	3.358	733	1.014	774	6.593
Depreciation	0	0	0	0	0	0
Accrued Amortization	(304)	(166)	(669)	0	(148)	(1.287)
NET BOOK VALUE AT JANUARY 1,	**410**	**3.192**	**64**	**1.014**	**626**	**5.306**
Additions	433		365	1.053	10	1.861
Grants received	(298)					(298)
Other	(30)		20		(51)	(61)
Depreciation	(11)					(11)
Reclassification	815		10	(825)		0
Amortization	(337)		(140)		(149)	(626)
Other movements Accrued Amortization	30		(17)		51	64
TOTAL MOVEMENTS	**602**	**0**	**238**	**228**	**(139)**	**929**
Cost	1.634	3.358	1.128	1.242	733	8.095
Depreciation	(11)	0	0	0	0	(11)
Accrued Amortization	(611)	(166)	(826)	0	(246)	(1.849)
NET BOOK VALUE	**1.012**	**3.192**	**302**	**1.242**	**487**	**6.235**

The most significant increase relates to internally generated development costs incurred by the Group in the reference period, and capitalized net of grants received. These intangibles have a definite life and, accordingly, are amortized over a period of 5 to 7 years from the date of completion of the related project. The useful life is computed on the basis of the estimated cycle of utilization of the developed product. These intangibles are tested for impairment when indicators of reduction of value exist.
Development costs show a decrease of Euro 298 thousand, due to the recognition of a government grant for which the Group obtained in December 2005 a reasonable assurance that the grant would be received.

Licenses, trademarks and software principally include costs incurred for the development of the new ERP system by the Company and by the US subsidiary Parvus Corp. Software is amortized over three years.

Goodwill relates for Euro 162 thousand to the purchase of the business of Ascensit and for Euro 3,030 thousand to the excess of the purchase price paid over the fair value of the net assets acquired of the wholly consolidated subsidiaries. Starting January 1, 2004, goodwill is not amortized but tested annually for impairment.

Goodwill deriving from the business combinations of previous financial years, referred to the acquisition of the subsidiaries uricam S.p.A., I.P.S. Sistemi Programmabili S.r.l., Parvus Corp., Eurotech Oy, Erim Group and Ascensit, has been allocated to the cash generating unit NanoPC and subsequently tested for impairment.

The recoverable amount has been based on the value in use, utilizing a discounted cash flow methodology over a business plan of three years approved by the board of directors and prepared in view of the Company's listing.,. The discount rate applied to the future cash flow is 7,8%; the cash flows projected to five years have been assumed equal to the cash flows of the third year of the three-year business plan.

The following table presents goodwill by entity and/or business, tested for impairment :

(Thousands of Euro)	31/12/2004	31/12/2005
Parvus Corp.	1.478	1.478
Erim Développement	1.050	1.050
Eurotech Finland Oy	63	63
Neuricam S.p.A.	72	72
I.P.S. Sistemi Programmabili S.r.l.	367	367
Ascensit	162	162
Total goodwill	3.192	3.192

No impairment has been recognized for the examined period.

Other intangibles include the net book value of the custormer list, amounting to Euro 450 thousand as at December 31, 2005 and to Euro 570 thousand as at December 31, 2004. This value was acquired through the business combination with the French group Erim in 2004. The customer list is amortized over 5 years, based on the estimate of its useful life by the directors.

In progress amounts to Euro 1,242 thousand and consists for Euro 1,144 thousand of personnel and materials for the development of new products, mainly modules and systems in the NanoPC segment, for Euro 43 thousand of advances for software and for Euro 55 thousand of advances for licenses.

2 - Property, Plant and Equipment

The following table presents the movements in property, plant and equipment in terms of historical cost and amortization for the considered period:

	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL TOOLS	OTHER	IN PROGRESS	LEASED ASSETS	TOTAL PROPERTY, PLANT AND EQUIPMENT
Cost	759	88	1.450	998	28	758	4.081
Depreciation	0	0	0	0	0	0	0
Accrued Amortization	(16)	(38)	(1.107)	(614)	0	(82)	(1.857)
NET BOOK VALUE AT JANUARY 1,	**743**	**50**	**343**	**384**	**28**	**676**	**2.224**
Additions		175	231	257	30		693
Disposal	(2)	(8)	(104)	(38)		(32)	(184)
Other		2	200	58		14	274
Depreciation							0
Reclassification			(175)	203	(28)		0
Amortization	(15)	(17)	(160)	(142)		(27)	(361)
Diversion of funds		1	95	38			134
Other movements Accrued Amortization	1	(1)	(173)	(43)		(14)	(230)
Reclass. Acc. Depr.			194	(194)			0
TOTAL MOVEMENTS	**(16)**	**152**	**108**	**139**	**2**	**(59)**	**326**
Cost	757	257	1.602	1.478	30	740	4.864
Depreciation	0	0	0	0	0	0	0
Accrued Amortization	(30)	(55)	(1.151)	(955)	0	(123)	(2.314)
NET BOOK VALUE	**727**	**202**	**451**	**523**	**30**	**617**	**2.550**

Land and buildings equal to Euro 727 thousand includes land and building of the subsidiary I.P.S. Sistemi Programmabili S.r.l.. Such property buildings are covered by a guarantee of Euro 310 thousand for long-term debt.
The increase in industrial and commercial tools relates to the purchase of new instruments for the manufacturing department of Amaro (UD) and of the subsidiaries Erim Développement S.A.S. and Parvus Corp.
Other refers principally to the purchase of computers for the internal information system of the Company and to the purchase of furniture and fixtures for the US subsidiary Parvus Corp.
Property, plant and equipment include Euro 617 thousand of assets acquired through financial leases, of which Euro 20 thousand related to furniture and fixtures, and Euro 597 thousand for land and buildings located in Amaro (UD), the manufacturing site of the Company.

3 - Investments in Associates and other Companies

The following table shows the movements in investments in associates companies in the examined period:

	31/12/2005					
(Thousands of Euro)	BEGINNING VALUE	ADDITIONS	DISPOSALS	OTHER	FINAL VALUE	% OF OWNERSHIP
Associated companies:						
Emilab S.r.l.	16			3	19	24,82%
Delos S.r.l.		40			40	40,00%
TOTAL ASSOCIATED COMPANIES	**16**	**40**	**0**	**3**	**59**	
Other companies:						
Consorzio nazionale imballaggi	0				0	
Cosint	2				2	
Consorzio nazionale fidi	1				1	
Inasset S.r.l.		20			20	18,18%
TOTAL OTHER INVESTMENTS	**3**	**20**	**0**	**0**	**23**	
TOTAL INVESTMENTS	**19**	**60**	**0**	**3**	**82**	

Eurotech owns the following investments in associates companies, accounted for by the equity method:
- 24,82% investment in Emilab S.r.l., incorporated in 1998;
- 40% investment in Delos S.r.l., incorporated in the first semester of 2005. As the company's financial statement for the first year of activity is not yet available, the final value has been left unchanged.

These associates companies are not listed, therefore no market price is available to determine the fair value. The closing date for these companies is the same closing date of the Parent Company.

During the fourth quarter of 2005 the Group dismissed its 42,74% investment in Ascensit S.r.l., a company that had been completely depreciated in past years, for proceeds amounting to Euro 39 thousand.

Assets and liabilities, profit and business revenue of investments in associates companies at December 31, 2005 are presented below:

(Thousands of Euro)	31/12/2004			31/12/2005			
	Emilab	Ascensit	TOTAL	Emilab	Ascens t	Delos	TOTAL
Share of the Associate's balance sheet:					(*)	(**)	
Current assets	74	25	99	105			105
Non current assets	77	6	83	73			73
Current liabilities	(78)	(16)	(94)	(66)			(66)
Non current liabilities	(7)		(7)	(35)			(35)
Net assets	**66**	**15**	**81**	**77**	**0**	**0**	**77**
Share of the Associate's revenue and profit							
Revenue	148	6	154	149			149
Profit	16	8	24	10			10
Carrying amount of the investment	**16**	**0**	**16**	**19**	**0**	**40**	**59**

(*) Sold Company

(**) Company founded in 2005. Balance sheet still not approved by Directors

4 - Other Non-current Assets

The following table shows the movements in other non-current assets in the examined period:

(Thousands of Euro)	31.12.2004	31.12.2005	Var.
Other financial receivables	36	22	(14)

Other financial receivables principally consist of guarantee deposits and do not carry interests.

5 - Inventories

The following table shows the breakdown of inventories in the examined period:

(Thousands of Euro)	31.12.2004	31.12.2005	Var.
Raw materials, gross	2.258	2.976	718
Less allowance for obsolete and slow moving items	(30)	(101)	(71)
Raw materials, net	**2.228**	**2.875**	**647**
Semifinished products and work in progress	**533**	**306**	**(227)**
Finished products, gross	2.605	3.031	426
Less allowance for obsolete and slow moving items	(121)	(208)	(87)
Finished product, net	**2.484**	**2.823**	**339**
Advances	**5**	**0**	**(5)**
TOTAL INVENTORIES	**5.250**	**6.004**	**754**

The increase in inventories is due to the normal production cycle.

The following table shows the allowance for obsolete and slow moving items in the considered period.

ALLOWANCE FOR OBSOLETE AND SLOW MOVING ITEMS on Thousands of Euro	31.12.2004	31.12.2005	Var.
JANUARY 1,	**156**	**151**	**(5)**
Provision	45	258	213
Utilization	(50)	(100)	(50)
RESERVE AT THE END OF THE PERIOD	**151**	**309**	**158**

The allowance for obsolete and slow moving raw materials amounts to Euro 101 thousand and refers to obsolete material not entirely recoverable by the Company. The allowance for obsolete finished products was utilized for Euro 100 thousand as the Company and its US subsidiary Parvus Corp. have scrapped finished products; subsequently the allowance for obsolete and slow moving items was increased by Euro 157 thousand.

6 – Construction contracts in progress

The following table shows information on construction contracts in progress at the date of the balance sheet .

(Thousands of Euro)	31.12.2004	31.12.2005	Var.
Revenues for construction contracts in progress	0	5.330	5.330
Expenses for construction contracts in progress	0	3.232	3.232
Gains	**-**	**2.098**	**2.098**
Advances on construction contracts in progress	0	1.834	1.834
Amount due by the customer for construction progress	0	2.044	2.044
Expenses for construction contracts in progress	0	5.330	5.330
Revenues in progress	0	3.286	3.286
Amount due by the customer for contracts in progress	**-**	**2.044**	**2.044**

Advances received are reported in other current liabilities under amount due from customers and refer principally to HPC Apenext.

7 - Trade Receivables

The following table shows the breakdown of trade receivables at December 31, 2004 and December 31, 2005:

(Thousands of Euro)	31.12.2004	31.12.2005
Third parties Trade receivables	8.634	7.450
Associated companies	0	0
Allowance for doubtful accounts	(116)	(183)
TOTAL TRADE RECEIVABLES	**8.518**	**7.267**

Trade receivables do not carry interest and are normally due in 90 days.

Trade receivables decreasedby Euro 1,251 thousand compared to December 31, 2004. They include approximately Euro 30 thousand from sale of receivables to relevant counterparties, but whose risks and benefits are not completely transferred and cannot be cancelled from the Group's activities

In September and December 2005 the Parent Company performed two operations of sale of receivables for a total amount of Euro 7,788 thousand.

Trade receivables are accounted for net of an allowance for doubtful accounts amounting to Euro 183 thousand. Movements in the allowance for doubtful accounts are as follows:

ALLOWANCE FOR DOUBTFUL ACCOUNTS on Thousands of Euro	31.12.2004	31.12.2005
JANUARY 1,	**(104)**	**(116)**
Provision	(18)	(70)
Other	6	(1)
Utilization	0	4
RESERVE AT THE END OF THE PERIOD	**(116)**	**(183)**

8 - Other Current Assets

The following table shows the breakdown of other current assets at December 31, 2004 and December 31, 2005:

(Thousands of Euro)	31.12.2004	31.12.2005	Var.
Grants to be received	38	613	575
Advances to suppliers	15	4	(11)
Tax receivables	151	1.251	1.100
Other receivables	59	85	26
Prepaid expenses	156	137	(19)
TOTAL OTHER CURRENT ASSETS	**419**	**2.090**	**1.671**

Tax receivables refer mainly to VAT receivable from the Italian authorities. VAT receivables do not carry interest and are normally collected on a monthly basis.

Grants to be received relate to grants for which there is a reasonable assurance that they will be received within the subsequent financial year,to cover development costs for new products and technologies incurred in the current and prior years and already partially capitalized.

The following table shows the breakdown of accrued income and prepaid expenses as at December 31, 2004 and December 31, 2005.

(Thousands of Euro)	31.12.2004	31.12.2005
Accrued income	8	5
Prepaid expenses	148	132
TOTAL ACCRUALS AND PREPAID	**156**	**137**

Accrued income refers principally to consultants' fees for the year 2005, which will be invoiced in 2006.

Prepaid expenses refer to costs incurred for bank charges, insurance fees, services and utilities.

9 - Cash and cash equivalents

Cash and cash equivalents as at December 31, 2004 and December 31, 2005 are as follows:

(Thousands of Euro)	31.12.2004	31.12.2005
Deposits with banks	2.551	25.581
Checks	5	0
Cash on hand	4	3
TOTAL CASH AND CASH EQUIVALENTS	**2.560**	**25.584**

Bank deposits are on demand and earn interest at floating rates. The fair value of cash and cash equivalents is Euro 25,584 thousand (Euro 2,560 thousand at December 31, 2004).

Cash and cash equivalents increased from December 31, 2004 by Euro 23,024 thousand, principally due to the cash flow generated by the Company's listing and by the sale of receivables performed by the Parent Company in September and December 2005, for a total amount of Euro 7,788 thousand.

10 - Shareholders' equity

The following table shows the breakdown of shareholders' equity at January 1, 2005 (restated from December 31, 2004) and at December 31, 2005:

(Thousands of Euro)	31/12/2004	31/12/2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Share capital	1.247	4.656
Retained earnings	3.553	26.734
Net profit (loss) for the period	647	1.064
Group shareholders' equity	**5.447**	**32.454**
Minority capital and reserves	625	593
Minority profit (loss) for the period	(69)	(42)
Minority interests	**556**	**551**
Total shareholders' equity	**6.003**	**33.005**

Changes in shareholders' equity are as follows:

Balance December 31, 2004	1.247	30	3.157	(69)	435		647	5.447	625	(69)	556	6.003
Allocation of prior year results		3			644		(647)		(69)	69		
Convers on of bonds	150		2 350		(13)			2 487				2 487
Free increase of capital	1 397		(1 397)									
Paid capital increase	1 862		23 447					25 309				25 309
Costs for share quotation					(2 047)			(2 047)				(2 047)
Share based payment					67			67				67
Other effects of adoption IFRS 2					21			21				21
Other				114	8	(16)		106	37		37	143
Distribution of dividends												
Net profit December 31, 2005							1 064	1 064		(42)	(42)	1 022
Balance December 31, 2005	4.656	33	27.557	45	(885)	(16)	1.064	32.454	593	(42)	551	33.005

As at December 31, 2005 the share capital of the Company amounts to 18.625.296 ordinary shares, issued and paid, with a nominal value of Euro 0,25 each.

A first increase in the Company's share capital took place at the shareholders' meeting held on July 21, 2005, when bondholders exercised their right to convert into shares, at a conversion ratio of 60 ordinary shares per bond, the convertible bonds authorised for issue by an extraordinary shareholders' meeting on July 29, 2004. The Company's share capital consequently increased by Euro 150 thousand; the remaining amount of Euro 2,337 thousand was classified as paid-in capital and Euro 1,397 thousand were utilized for a non-paying capital increase.

The same shareholders' meeting resolved to increase the paid-in share capital for the purpose of the Global Offering and authorised, additional on admission to trading of the Company's ordinary shares at the MTAX-Star segment of the Italian Stock Exchange controlled by Borsa Italiana S.p.A., the issue of a maximum of 1,100,000 ordinary shares with a nominal value of € 0.25 each, excluding any rights of subscription, such increase being reserved for the stock option plan for employees and directors of the Parent Company and of the other companies within the Group. According to the stock option plan, within the year 2007 optionees can subscribe the Company's shares at the price determined at the time of Global Offering

Legal reserve as at December 31, 2005 is of Euro 33 thousand and consists of allocation results from the financial year ended December 31, 2004.

Paid-in capital entirely refers to the Parent Company and amounts to Euro 27,557 thousand as shown in the above table.

The translation adjustment derives fro the consolidation of the financial statements of the US subsidiary Parvus Corp., expressed in US Dollars.

Other reserves include retained earnings of the Company, and consist of allocations of prior years results and of losses deriving from consolidation. In the reference period, movements in other reserves are due: (i) to the inclusion in the shareholders' equity of IPO fees and costs net of tax effect; (ii) to the inclusion of Euro 67 thousand, in accordance with IFRS 2, following the subscription of the stock option plan; (iii) to the inclusion of employees' and agents' benefits for Euro 21 thousand, following a 5% reduction of the listing price of the shares they are entitled to.

The number of treasury shares owned by the Parent Company Eurotech S.p.A. at the end of financial year 2005 is 3,000. The purchase and sale operations performed after listing, with no effect on the profit and loss, are the following:

	Nr of share	Face value of a share (Thousand of Euro)	% of share capital	Book value (Thousand of Euro)	Share Average value
January 1, 2005	**-**	**-**	**-**	**-**	**-**
Purchase	68.683	17	0,37%	501	7,29
Sale	(65.683)	(16)	0,35%	(487)	7,41
Tax effect on Profit / Charge				2	
December 31, 2005	**3.000**	**1**	**0,02%**	**16**	

Minority interests refer to the interest owned by third parties in the subsidiaries Neuricam S.p.A. and I.P.S. Sistemi Programmabili S.r.l. As at December 31, 2005 minority interests amount to Euro 551 thousand.

The following table compares the net profit and shareholders' equity of the Parent Company with the consolidated net profit and shareholders' equity as at January 1, 2005 (restated from December 31, 2004) and December 31, 2005.

(Thousands of Euro)	Net income 31/12/2004	Equity 31/12/2004	Net income 31/12/2005	Equity 31/12/2005
Parent Company's Equity	**323**	**5.252**	**496**	**31.598**
Difference between book value and net equity	261	(2.572)	601	(1.836)
Goodwill		3.030		3.030
Customer list	(30)	570	(120)	450
Write off of effects of intercompany operations		(90)		(90)
Effects of share profit of associates	14	(35)	36	1
Write off of unrealized inventory profit			(49)	(49)
Tax effects of above adjustment entries	10	(157)	58	(99)
Shareholders' Equity	**578**	**5.998**	**1.022**	**33.005**

11 - Basic and diluted earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year, net of own shares held by the Company.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Parent Company, after deducting interest on the convertible bonds net of taxes, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued according to the stock option plan reserved to executives and employees of the Company and of its subsidiaries (and following the conversion of all bonds into shares for the year 2004).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2004	2005
Net income attributable to parent company shareholders	647.000	1.064.000
Interests on convertible bond	26.886	64.573
Net income diluted attributable to parent company shareholders	673.886	1.128.573
Weighted average number of ordinary shares including own shares	9.884.172	11.126.129
Own shares		(250)
Weighted average number of ordinary shares except own shares	9.884.172	11.125.879
Dilution effect:		
- Convertible bonds	503.333	
- Options on shares		49.602
Weighted average number of ordinary shares except own shares	10.387.505	11.175.481
Net income:		
- per share	0,065	0,096
- per share diluted	0,065	0,101

The weighted average number of ordinary shares used in calculating the basic and diluted earnings per share takes into account the operations performed in the two examined periods on the Company's share capital:

- an increase in the share capital of the Company from Euro 425,461 to Euro 1,227,292 by way of bonus issue of shares from accumulated reserves, and an increase of the shares' nominal value from Euro 0,52 to Euro 1,00, both authorized at the extraordinary shareholders' meeting held on July 29, 2004;
- an increase in the share capital through the issuance of 19,620 new ordinary shares with a nominal value of Euro 1,00 each, authorized by the same extraordinary shareholders' meeting of July 29, 2004;
- the issue of convertible bonds in an amount of Euro 2,500,000 through the issuance of 2,500 bonds, resolved at the same extraordinary shareholders' meeting of July 29, 2004;
- the conversion of 52,500 preferrence shares into ordinary shares of the Company, authorized on September 29, 2004 at an extraordinary shareholders' meeting of the Company ;
- the conversion into shares of the convertible bonds that had been authorised for issue by the extraordinary shareholders' meeting of July 29, 2004, at a conversion ratio of 60 ordinary shares for each bond, resolved by the extraordinary shareholders' meeting held on July 21, 2005;
- the reduction in the nominal value of the shares resulting from the conversion of the convertible bonds from Euro 1 to Euro 0.25 each, at the same extraordinary shareholders' meeting of July 21, 2005;

- an increase in the share capital by way of a bonus issue on a 2 for 1 basis, resolved by the same extraordinary shareholders' meeting of July 21, 2005;
- an increase in the share capital through the issuance of 7,450,000 new shares, following the Company's listing at the MTAX-Star segment of the Italian Stock Exchange on November 30, 2005;
- on admission to trading of the Company's ordinary shares, the granting of a total amount of 1,100,000 options for the subscription of up to 1,100,000 Eurotech ordinary shares, at a subscription price equal to the price of the Company's Shares at the time of the Global Offering.

12 - Long and medium-term bank debt

The following table presents the list of long and medium-term bank debts as at December 2005, as well as the total amount of bank debt at year end.

LENDER	COMPANY	DUE DATE	BALANCE ON 31 12 2005	SHORT TERM w thin 12 months	Total Medium and long term	Mid term Over 12 months	Long term Over 5 years
CURRENT OUTSTANDINGS - (a)			1.454	1.454	-	-	-
SIMEST	Eurotech S.p.A.	04/06/2010	208	46	162	162	-
IMI San Paolo	Eurotech S.p.A.	01/01/2007	95	95	-	-	-
Leasing Finanziario	Eurotech S.p.A.	01/03/2013	610	63	547	283	264
TOTAL OTHER FINANCINGS			913	204	709	445	264
Banco di Brescia	Eurotech S.p.A.	31/12/2006	22	22	-	-	-
Total Gruppo Banca Lombardia			***22***	***22***	***-***	***-***	***-***
Friulcassa	Eurotech S.p.A.	31/07/2008	463	150	313	313	-
Total Gruppo IMI San Paolo			***463***	***150***	***313***	***313***	***-***
Banca Intesa	Eurotech S.p.A.	30/06/2008	860	336	524	524	-
Banca Intesa	I.P.S. Sist.Progr. S.r.l.	30/06/2009	63	16	47	47	-
Banca Intesa	I.P.S. Sist.Progr. S.r.l.	31/05/2010	89	21	68	68	-
Banca Pop. Friuladria	Eurotech S.p.A.	31/12/2007	338	166	172	172	-
Total Gruppo INTESA			***1.350***	***539***	***811***	***811***	***-***
Key Bank	Parvus Corporation	02/09/2006	22	22	-	-	-
Key Bank	Parvus Corporation	02/09/2007	72	40	32	32	-
Key Bank	Parvus Corporation	02/09/2008	30	10	20	20	-
Key Bank	Parvus Corporation	02/09/2009	13	6	7	7	-
Total Key Bank			***137***	***78***	***59***	***59***	***-***
Banca Pop. Vicenza	Eurotech S.p.A.	30/09/2007	59	33	26	26	-
Total GruppoBancaPop.Vicenza			***59***	***33***	***26***	***26***	***-***
Unicredit	Eurotech S.p.A.	30/06/2009	500	83	417	417	-
Unicredit	Eurotech S.p.A.	30/04/2010	315	70	245	245	-
Total Gruppo Unicredit			***815***	***153***	***662***	***662***	***-***
Crédite Lyonnais	Erim Group	30/07/2010	23	6	17	17	-
TOTAL BANK DEBT - (c)			2.869	981	1.888	1.888	-
TOTAL OTHER FINANCING AND BANK DEBT - [(b) + (c)]			3.782	1.185	2.597	2.333	264
TOTAL DEBT - [(a) + (b) + (c)]			5.236	2.639	2.597	2.333	264

Bank loans have a variable interest rate linked to euribor 3 months, with a 0,75% to 2% spread. The other loans from Simest and San Paolo IMI have a fixed interest rate of 2,83% and 3,70% respectively.

Bank overdrafts

Bank overdrafts are not guaranteed. Overdrafts include receivables subject to collection and borrowings from factoring companies.

Other loans

Other loans consist of:

- Euro 610 thousand (of which Euro 547 thousand long-term) for lease installments on the real estate lease contracted with S.B.S. Leasing S.p.A. concerning land and building of the Company's manufacturing site located in Amaro (UD) and related furniture, fixtures and electronic machinery; the lease is accounted for in accordance with the financial method and expires in 2013.
- a privileged interest rate long-term loan from SIMEST to the Company of Euro 208 thousand (of which Euro 162 thousand long-term) expiring in 2010, for the opening of the new office in Shanghai (China); the loan is guaranteed by a deposit account of Euro 83 thousand.
- a privileged interest rate loan from IMI San Paolo to the Company of Euro 95 thousand, entirely receivable within the year, on a scientific project in accordance with Italian law 46/82.

Bank loans

Bank loans relate principally to:

- a loan from Banca Intesa to the parent Company of Euro 860 thousand (of which Euro 524 thousand long-term) expiring in 2008, for the acquisition of the US subsidiary Parvus Corp.;
- a loan from Banca Popolare Friuladria to the parent Company of Euro 338 thousand (of which Euro 172 thousand long-term) expiring in 2007, for the acquisition of the Italian subsidiary I.P.S. Sistemi Programmabili S.r.l.;
- a loan from Banca Popolare Friulcassa to the parent Company of Euro 463 thousand (of which Euro 313 thousand long-term) expiring in 2008, for the acquisition of the US subsidiary Parvus Corp.;
- a loan from Unicredit to the parent Company of Euro 500 thousand (of which Euro 417 thousand long-term) expiring in 2009, in order to consolidate the existing short-term borrowings;
- a guaranteed loan from Banca Intesa to the subsidiary I.P.S. Sistemi Programmabili S.r.l. of Euro 63 thousand (of which Euro 47 thousand long-term) guaranteed by the property building of I.P.S.;
- three loans in US dollars from Key Bank to the US subsidiary Parvus Corp. for a total amount of Euro 137 thousand (of which Euro 59 thousand long-term);
- a loan obtained in 2005 from Banca Intesa by the subsidiary I.P.S. Sistemi Programmabili S.r.l. of Euro 89 thousand (of which Euro 68 thousand long-term) due in 2010;
- a loan obtained in 2005 from Unicredit by the parent Company of Euro 315 thousand (of which Euro 245 thousand long-term) due in 2010, to support the development of new products.

13 - Convertible bonds

As at December 31, 2004 the Company had issued a total number of 2,500 convertible bonds for a nominal value of Euro 2,500 thousand. Each bond had a nominal value of Euro 1,000.00.

The bonds, issued on June 29, 2004 and expiring on June 30, 2006, earn interest at the 4.5% annual rate, payable semiannually on June 30 and December 31.
The shareholders' meeting of July 21, 2005 has resolved to modify the rules applicable to the convertible bonds issued on July 29, 2004, giving the faculty to convert the shares also before the listing of the Company's shares on the stock market in Italy or in foreign countries, on the basis of a conversion rate of 60 shares for each convertible bond.
At that same shareholders' meeting, all the bondholders agreed to immediately convert their bonds into Eurotech shares.

The application of IAS 32 and IAS 39 at January 1, 2005 lead to split the value of the debt component from the value of the equity component.

The fair value of the debt component was measured, at the date of issue, to be Euro 2,487 thousand, through the discounting of the future cash flows contractually agreed (capital and interest) at the equivalent interest rate of 4,9%; such amount is classified in non current liabilities and is adjusted by the method of amortized cost. The valuation lead to an adjustment of Euro 40 thousand at January 1, 2005. The difference between nominal value at issue date equal to Euro 2,500 thousand and the value of the liability, equal to Euro 2,487 thousand is attributed to conversion option, which is accounted for in net equity for Euro 13 thousand.

14 - Employees' benefits

The table below shows the breakdown of employees' benefits as at December 31, 2004 and December 31, 2005:

(Thousands of Euro)	31.12.2004	31.12.2005
Employees' leaving indemnity	493	414
Employees' retirement fund	57	67
TOTAL EMPLOYEES' BENEFITS	**550**	**481**

Employees' severance indemnity

The following table shows employees' severance indemnity as at December 31, 2004 and December 31, 2005.

(Thousand Euro)	31/12/2004	31/12/2005
Projected benefit obligation at January 1	**420**	**493**
Current Service cost	110	107
Interest cost	16	16
Pensions paid	(53)	(202)
Recognized actuarial gains or losses	0	0
Projected benefit obligation at December 31	**493**	**414**

With the introduction of IFRS and specifically of IAS 19, the employees' severance indemnity is a defined benefit obligation which must be valued on an actuarial basis.

The Group's obligation in respect of employees' severance indemnity is calculated using the following actuarial assumptions:

Actuarial assumptions

	31/12/2004	31/12/2005
Discount Rate	4,53%	3,90%
Expected rates of future wages and salary increases	3,07%	3,00%
Expected rates of staff turnover	10,00%	10,00%
Duration	25	24

The following table shows the change in the actual value of the employees' severance indemnity ("TFR") at year-end. As indicated in the paragraph referring to significant accounting policies, this value could differ from the recorded liability.

Development of projected benefit obligation

(Thousand Euro)	31/12/2004	31/12/2005
Projected benefit obligation at January 1	420	503
Current Service cost	110	107
Interest cost	16	16
Pensions paid	(53)	(202)
Actuarial gains or losses	10	158
Projected benefit obligation at December 31	**503**	**582**

By applying the corridor method to actuarial gains and losses in respect to individual defined benefits plans, a difference could arise between the actual value of the obligation and the recorded liability.
The following table shows the corridor borders compared to the cumulative unrecognized gains and losses, in order to determine the net actuarial gains and losses to be recorded in the following year.

(Thousand Euro)	31/12/2004	31/12/2005
Unrecognized actuarial gains or losses at January 1	0	10
Corridor at January 1	42	50
Difference "A"	0	0
Duration	*25*	*24*
Recognized actuarial gains or losses	0	0
Unrecognized actuarial gains or losses at January 1	0	10
Actuarial gains or losses per year	10	158
Subtotal	10	168
Recognized actuarial gains or losses	0	0
Unrecognized actuarial gains or losses at December 31	10	168

The following table presents the reconciliation of the actual value of the obligation to the recorded liability, and resumes the net costs included in the income statement.

Development of plan assets

(Thousand Euro)	31/12/2004	31/12/2005
Projected benefit obligation	503	582
Unrecognized actuarial gains or losses	10	168
Provisions for pensions charged to balance sheet	**493**	**414**
Current Service cost	110	107
Interest cost	16	16
Recognized actuarial gains or losses	0	0
Costs charged to income statement	**126**	**123**

Employees' retirement fund

The employees' retirement fund relates to the French subsidiary Erim Développement S.A.S., which will use this fund for employees who reach retirement age within the Company.

With the introduction of IFRS and specifically of IAS 19, the employees' retirement indemnity is a defined benefit obligation which must be valued on an actuarial basis.

Actuarial gains and losses are immediately recorded and the corridor method is not applied.

The table below shows the employees' retirement indemnity as at December 31, 2004 and December 31, 2005.

EMPLOYEES' RETIREMENT FUND on Thousands of Euro	31.12.2004	31.12.2005
JANUARY 1,	**0**	**57**
Provision		10
Other	58	
Utilization		
Discounting back / Actuarial value	(1)	
RESERVE AT THE END OF THE PERIOD	**57**	**67**

15 – Share-based payment plans

Stock option plan for directors and employees

According to the Group's stock option plan, a total amount of 1,100,000 share options are granted, at the date of listing, to directors and to some employees of the Parent Company and of its subsidiaries in service at the date of grant (November 30, 2005). The exercise price of the options is equal to the market price of the shares determined at the time of the Global Offering. The contractual life of each option granted is 25 months According to the plan, 50% of granted options can be exercised from December 1, 2006 through December 29, 2006, while the remaining 50% can be exercised from December 1, 2007 through December 28, 2007 (date of plan expiration). Options that have not been exercised in the first period can be exercised in the second period. There are no cash settlement alternatives.

The following table illustrates the number of share options related to the stock option plan.

	2005 number of options	*2005 weighted average exercise price*
Outstanding at the beginning of the year	-	-
Granted during the year	1,100,000	-
Forfeited during the year	–	–
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at the end of the year	1,100,000	-
Exercisable at the end of the year	–	–

The fair value of granted options is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the estimate of the options value.

	2005
Dividend yield (%)	0,36
Expected volatility (%)	52,94

Historical volatility (%)	52,94
Risk-free interest rate (%)	2,234
Expected life of option (years)	2 years and 1 month
Weighted average share price (euro)	7,41

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. In the lack of sufficient data on the historical volatility of the company's shares at the date of grant (November 30, 2005, first day of trading), expected volatility was determined taking into account the historical volatility of similar companies operating in the same business sector, whose shares have been officially traded for at least three years. Expected dividends have been determined similarly. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

The expense for the stock option plan amounts to Euro 67 thousand, recognized in the profit and loss as payroll costs, with a corresponding encrease in shareholders' equity.

Shares reserved to employees and sales agents at the time of Global Offering
At the time of Global Offering, n. 120,900 shares were reserved to the Group's employees and sales agents.

The subscription price for employees and sales agents was fixed at Euro 3.4 per share, with a 5% reduction on the shares offering price.

The amount of shares reserved to employees and sales agents was entirely subscribed at the date of the Global Offering, at a weighted average price of Euro 3.23 per share.

According to IFRS 2, the cost for this plan has been recognized in the profit and loss aspayroll and service costs, with a corresponding encrease in shareholders' equity of Euro 21 thousand.

16 - Other long-term liabilities

Other long-term liabilities are composed entirely of the provisions for risks and charges presented in the following table:

(Thousands of Euro)	31.12.2004	31.12.2005
Selling agents' commission fund	23	22
Term of office expiration fund	20	30
Products warranty fund	28	23
Future risks fund	29	0
COSTS AND FUTURE RISKS TOTAL FUNDS	**100**	**75**

Selling agents' commission provision

The selling agents' commission fund is allocated on the basis of current regulations and of collective business agreements related to termination of agents' assignments. The liability is expected to be settled in the next financial year.

Term-of-office expiration provision

Term-of-office expiration provisionrelates to the indemnity recognized to executive directors in accordance with the Company's Bylaw. This indemnity is accrued annually and paid in the year following expiry of a term of office.

warranty provision

A warranty provision is recognized for expected warranty claims on products sold at year-end. It is expected that most of these costs will be incurred in the next financial year.

The following table shows the breakdown of movements in the above listed funds for the examined periods:

SELLING AGENTS' COMMISSION FUND on Thounsands of Euro	31.12.2004	31.12.2005
JANUARY 1,	**15**	**23**
Provision	8	7
Utilization		(8)
RESERVE AT THE END OF THE PERIOD	**23**	**22**

DIRECTOR TERMINATION FUND on Thousands of Euro	31.12.2004	31.12.2005
JANUARY 1,	**20**	**20**
Provision	20	30
Utilization	(20)	(20)
RESERVE AT THE END OF THE PERIOD	**20**	**30**

GUARANTEE RESERVE on Thousands of Euro	31.12.2004	31.12.2005
JANUARY 1,	**9**	**28**
Provision		
Other	19	
Utilization		(6)
RESERVE AT THE END OF THE PERIOD	**28**	**22**

FUTURE RISK on Thousands of Euro	31.12.2004	31.12.2005
JANUARY 1,	**29**	**29**
Provision		
Other		
Utilization		(29)
RESERVE AT THE END OF THE PERIOD	**29**	**-**

Accruals for future risks have been completely utilized following the transfer of the associated company Ascensit S.r.l.

17 - Trade payables

The table below shows the breakdown of trade payables as at December 31, 2004 and December 31, 2005:

(Thousands of Euro)	31.12.2004	31.12.2005
Third parties	4.006	9.566
Associated companies	5	6
TOTAL TRADE PAYABLES	**4.011**	**9.572**

Trade payables do not earn interest and are normally paid in 90-120 days.

18 - Short-term borrowings

Reference should be made above to the section related to paragraph 12 - Long and medium term bank debt.

19 - Taxes payables

Taxes payables mainly include the liability for income taxes of the prior year and withholding taxes on labour. The carrying amount at the end of a period is normally paid in the following month.

20 - Other current liabilities

The table below shows the breakdown of other current liabilities as at December 31, 2004 and December 31, 2005.

(Thousands of Euro)	31.12.2004	31.12.2005
Social contributions	245	279
Other	648	3.293
Derivative instruments	17	28
Accrued expenses	130	201
TOTAL OTHER CURRENT LIABILITIES	**1.040**	**3.801**

Social contributions

Social contributions relate to liabilities with social security entities which are normally paid within the year.

Other

The following table shows the breakdown of other liabilities as at December 31, 2004 and December 31, 2005.

(Thousands of Euro)	31.12.2004	31.12.2005
Employees	238	623
Vacation pay	226	265
Directors	25	23
Advances on contracts in progress	0	1.834
Advances from customers	0	436
Other	159	140
TOTAL OTHER PAYABLES	**648**	**3.321**

Employees refers to wages of the month preceding the closing of the period, payable in the following month, and to bonuses recognized to certain categories of employees. Vacation pay refers to unused vacation periods and leaves at the reference date, inclusive of social contributions.

Advances on contracts in progress amount to Euro 1,834 thousand and refer to advances received from customers on contract HPC Apenext in progress at year-end.

Advances from customers amount to Euro 436 thousand and relate to amounts received for supplies to be performed.

21 – Commitments and contingencies

Operating lease commitments - Group as lessee

The Group has entered into several operating lease contracts for the rent of buildings utilized as operating sites of the Group and its subsidiaries and for the use of vehicles. Rent of buildings are over an average period of 6 to 9 years and can be renewed. The renewal is an option of the lessee. Leases of vehicles are over an average period of 3 years.

Non cancellable future minimum lease payments at December 31, 2005 are as follows:

Thousands of Euro	31/12/2004	31/12/2005
Within one year	243	238
Beyond one year, but within five	549	346
Beyond five years		

Guarantees given

Guarantees given by the Eurotech Group at December 31, 2005 consist of:

cash deposit of Euro 83 thousand as a guarantee for certain guarantees issued by a bank to SIMEST in connection with a loan granted by SIMEST to the Company;

guarantee of Euro 542 thousand given from a bank in behalf of the subsidiary Neuricam S.p.A. to local authorities of the Province of Trento;
mortgage on the property building of the subsidiary I.P.S. Sistemi Programmabili S.r.l. to guarantee the long-term debt from Banca Intesa to the subsidiary. The amount of the mortgage is Euro 310 thousand;
guarantees given to certain banks to third parties on behalf of Group companies for Euro 4.069 thousand.

As at December 31, 2005 the Company is committed to acquire the remaining 20% of the share capital of the subsidiary I.P.S. Sistemi Programmabili S.r.l..

G - Income statement – Selected information

22 – Group segment information

Group segment information refer to business segments (primary level) and to geographic areas (secondary level).
Business segments provide homogeneous products and services. The Eurotech Group has two business segments: the NanoPC segment (miniaturized computers) and the HPC segment (High Performance Computers). There are no significant inter-segment operations between the business segments.
The geographical segments are based on the location of the Group's assets.. Sales to customers disclosed in geographical segments are based on the geographical location of its customers.The identified geographic segments are Italy, other EU countries, United States and other countries.

Business segments

The following table presents revenues, business results, assets, liabilities and investments regarding the Group's business segments for the years ended December 31, 2004 and December 31, 2005.

(Thousands of Euro)	NanoPC		High Performance Computer		Total		
	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	Var % 05-04
Sales and service revenue							
Sales and service revenue	15.056	23.671	1.593	6.180	16.649	29.851	79,3%
Ebitda	1.994	1.780	8	1.518	1.986	3.298	66,1%
Ebit	1.508	811	51	1.489	1.457	2.300	57,9%
Operating profit					1.457	2.300	57,9%
Net financial costs					433	300	30,7%
Share of profit of associates	9	3			9	3	66,7%
Earnings before taxes					1.033	2.003	93,9%
Income taxes expenses					455	981	115,6%
Net profit of the year					578	1.022	76,8%

The revenues of the NanoPC business segment are Euro 15,056 thousand in 2004 and Euro 23,671 thousand in 2005, with a 57,2% increase, 43,7% of which is due to the sales increase of the Parent Company and of the US subsidiary

Parvus Corp, and 13,5% of which is due to the inclusion of Erim's revenues for 12 months in financial year 2005, compared to only 3 months in financial year 2004.

The revenues of the HPC business segment are Euro 1,593 thousand in 2004 and Euro 6,180 thousand in 2005, with a 287,9% increase, completely due to the increase in revenues of the Parent Company.

(Thousands of Euro)	NanoPC		High Performance Computer		Total	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Assets and liabilities						
Segment assets	23.349	22.442	705	2.836	24.054	25.278
Investments in associates and other companies	19	82	0	0	19	82
Other assets not allocated					380	27.526
Total Assets	**23.368**	**22.524**	**705**	**2.836**	**24.453**	**52.886**
Segment liabilities	18.450	16.162	0	3.685	18.450	19.847
Other liabilities not allocated					0	34
Total Liabilities	**18.450**	**16.162**	**0**	**3.685**	**18.450**	**19.881**
Other Segment Information						
Additions in tangible assets	639	910	0	57	639	967
Addition in intangible assets	358	1.751	0	110	358	1.861
Depreciations	529	958	43	29	572	987

Geographic segments

The following tables present revenues, expenditure and certain asset information regarding the Group's geographical segments for the years ended December 31, 2004 and December 31, 2005.

BREAKDOWN BY GEOGRAPHIC AREA	31.12.2004	%	31.12.2005	%	var. %
Italy	10.171	61,1%	14.539	48,7%	42,9%
European Union without Italy	987	5,9%	5.656	18,9%	473,0%
United States	4.485	26,9%	8.374	28,1%	86,7%
Other	1.006	6,0%	1.282	4,3%	27,4%
TOTAL SALES AND SERVICE REVENUE	**16.649**	**100,0%**	**29.851**	**100,0%**	**79,3%**

Revenues by geographic area presented in the above table show an increase in the United States due to the sales increase of the US subsidiary Parvus Corp. The revenue increase in Italy is mainly due to the HPC Apenext construction contract in progress, while the revenue increase in the EU is due to the inclusion of revenues of Erim Développement S.A.S. and Eurotech Finland Oy for the entire financial year 2005.

(Thousands of Euro)	Italy		France	USA	Other countries		Total	
	31.12.2004	31.12.2005	31.12.2005	31.12.2004	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Other Segment Information								
Segment assets	17.837	44.713	3.308	2.031	210	285	24.434	52.804
Investments in associates and other companies	19	82	0	0	0	0	19	82
Total Assets	**17.856**	**44.795**	**3.308**	**2.031**	**210**	**285**	**24.453**	**52.886**
Investments								
Tangible assets	475	558	179	133	19	11	639	967
Intangible assets	344	1.649	0	14	0	0	358	1.861
Financial assets	0	60	0	0	0	0	0	60

23 - Cost of materials

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
Purchases of raw materials, semi finished and finished materials	8.759	52,6%	15.323	51,3%	74,9%
Changes in inventory of raw materials	(1.764)	10,6%	(313)	1,0%	82,3%
Changes in inventory of semi finished and finished materials	(509)	3,1%	(451)	1,5%	11,4%
TOTAL COST OF MATERIALS	**6.486**	**39,0%**	**14.559**	**48,8%**	**124,5%**

Total cost of materials shows a 124,5% increase in the reference period, from Euro 6,486 thousand in 2004 to Euro 14,559 thousand in 2005.

24 - Other operating costs

24.1 - Services

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Production services	925	26,6%	1.772	31,4%	91,6%
Sales services and commissions	1.021	29,3%	1.542	27,3%	51,0%
General and administrative costs	1.534	44,1%	2.325	41,2%	51,6%
TOTAL SERVICE COSTS	**3.480**	**100,0%**	**5.639**	**100,0%**	**62,0%**
Service costs as a percentage of revenue	**20,9%**		**18,9%**		

Services in the considered periods show a 62% increase, from Euro 3,480 thousand to Euro 5,639 thousand.

This growth is due to the consolidationof new companies, to the Group's expansion strategy and to the related investments.

24.2 - Rent and lease

The costs for rent and lease show a 72% increase, from Euro 286 thousand in 2004 to Euro 492 thousand in 2005.

As a percentage of revenues, costs for rent and lease held steady at approximately 1,6% in the two considered periods. The increase is due to the higher leasing costs incurred by the newly incorporated companies and to the higher costs incurred by some subsidiaries to pay for larger productive and commercial space.

24.3 - Labour

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
Wages and Social Security	5.077	30,5%	6.922	23,2%	36,3%
Severance allowances	118	0,7%	169	0,6%	43,2%
Retirement lump sum payments	0	0,0%	10	0,0%	n/a
Other costs	17	0,1%	110	0,4%	547,1%
TOTAL PAYROLL	**5.212**	**31,3%**	**7.211**	**24,2%**	**38,4%**

Labour costs in the reference period show a 38,4% increase principally due to the consolidation of Erim Développement S.A.S. and Eurotech Finland Oy, and to an increase of the number of employees within the existing companies, needed to maintain the Group's development programs with an adequate structure.

The following table shows the number of employees in the relevant period, which passed from a staff of 147 in 2004 to a staff of 158 in 2005.

Employees	31.12.2004	31.12.2005
Management	2	2
White Collar Employees	117	117
Blue Collar Employees	28	39
TOTAL	**147**	**158**

24.4 - Provisions and other costs

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Allowance for doubful accounts	20	11,6%	70	34,3%	250,0%
Provisions	8	4,7%	7	3,4%	12,5%
Other costs	144	83,7%	127	62,3%	11,8%
TOTAL ACCRUALS AND OTHER COSTS	**172**	**100,0%**	**204**	**100,0%**	**18,6%**
Service costs as a percentage of revenue	**1,0%**		**0,7%**		

Allowance for doubful accounts refers to the accruals accounted for in the considered periods. Trade receivable are accounted for net of the allowance for doubtful accounts. Accruals refer mainly to the selling agents' commission provision.

24.5 - Other revenue

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Government grants	89	9,1%	218	14,0%	144,9%
Capitalized development costs	775	79,7%	1.287	82,9%	66,1%
Other revenues	109	11,2%	47	3,0%	56,9%
Total other revenues	**973**	**100,0%**	**1.552**	**100,0%**	**59,5%**
Service costs as a percentage of revenue	**5,8%**		**5,2%**		

Other revenues show a 59,5% increase in the reference period. Increases for internal projects and constructions as at December 31, 2005 amount to Euro 1,287 thousand, and relate to Euro 929 thousand to capitalized payroll costs and material costs incurred by the parent Company for the development of new solutions, systems and integrated standard modules in the field of NanoPCs; to Euro 89 thousand to the costs incurred for the development of a new mobile router for the transportation sector and for other minor projects by the subsidiary Parvus Corp; to Euro 228 thousand to payroll costs incurred by the subsidiary Neuricam S.p.A. for a new project financed by a local law; and to Euro 41 thousand to payroll costs incurred by the subsidiary I.P.S. Sistemi Programmabili S.r.l.

25 - Depreciation and amortization

(Thousands of Euro)	31.12.2004	%	31.12.2005	%	var. %
Amortization of intangible assets	261	49,3%	626	62,7%	139,8%
Amortization of property, plant and equipment	268	50,7%	361	36,2%	34,7%
Depreciation of fixed assets	0	0,0%	11	1,1%	n/a
Total amortization and depreciation	**529**	**100,0%**	**998**	**100,0%**	**88,7%**
Service costs as a percentage of revenue	**3,2%**		**3,3%**		

The increase in total amortization and depreciation was 88,7%, from Euro 529 thousand in 2004 to Euro 998 thousand in 2005. This increase is due to the consolidation of new companies into the Group and to the increase in amortization of capitalized development costs.

26 - Financial income and expenses

(Thousands of Euro)	31.12.2004	31.12.2005	var. %
Share of profit of associates	9	3	66,7%
as a percentage of revenue	**0,1%**	**0,0%**	
Financial costs	(517)	(595)	15,1%
as a percentage of revenue	**-3,1%**	**-2,0%**	
Financial income	84	295	251,2%
as a percentage of revenue	**0,5%**	**1,0%**	

Investiments in associated companies, which are accounted for under the equity method, were re-evalued by Euro 9 thousand and 3 thousand for the years 2004 and 2005 respectively.

The increase in financial costs was 15,1%, rising from Euro 517 thousand to Euro 595 thousand in 2004 and 2005 respectively. The increase was primarily due to an increase in mid- and long-term liabilities (incurred by issuing a convertible bond, at present extinguished) and to sales of trade receivables.

Financial income increased by 251,2%, from Euro 84 thousand to Euro 295 thousand in the years 2004 and 2005 respectively. This increase was primarily due to changes in the € and US dollar exchange rates, to the termination effects of an Interest Rate Swap contract and to interests on available liquidity deriving from the Group's listing.

27 - Income taxes

Profit before taxes was Euro 1,033 thousand in 2004 and Euro 2,003 thousand in 2005.

Income taxes amount to Euro 455 thousand in 2004 and to Euro 981 thousand in 2005.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
Profit before taxes	1.033	6,2%	2.003	6,7%	93,9%
Income taxes	(455)	2,7%	(981)	3,3%	115,6%
Income taxes as a percentage of profit before taxes (effective tax rate)	**44,0%**		**49,0%**		

The following table presents a breakdown of income taxes for each considered period, showing differences between current and deferred taxes, and between Italian and foreign taxes.

(Thousands of Euro)	31.12.2004	% of revenue	31.12.2005	% of revenue	var. %
IRES (Italian Government current tax)	178	1,1%	238	0,8%	33,7%
IRAP (Italian Regional current tax)	186	1,1%	197	0,7%	5,9%
Current foreign taxes	67	0,4%	396	1,3%	491,0%
Total current tax	**431**	**2,6%**	**831**	**2,8%**	**530,7%**
Deferred Italian taxes	(9)	0,1%	209	0,7%	n.s.
Deferred foreign taxes	33	0,2%	(59)	0,2%	278,8%
Total deferred taxes	**24**	**0,1%**	**150**	**0,5%**	**525,0%**
TOTAL INCOME TAXES	**455**	**2,7%**	**981**	**3,3%**	**115,6%**

Consolidated statement of changes in equity	31.12.2004	31.12.2005
deferred income tax related to items charged or credited directly to equity		
IPO fees and costs	0	1.215
Capital gains from transfer treasury shares	0	(3)
Income tax expense reported in equity	-	**1.212**

Income taxes are computed starting form the accounting profits before taxes. The following table summarizes the reconciliation between the statutory tax rate and the effective tax rate for the years ended December 31, 2004 and December 31, 2005:

(Thousands of Euro)	31.12.2004	31.12.2005
Italian statutory tax rate	33,00%	33,00%
Earnings before tax	1.033	2.003
Taxes at the Italian statutory rate	341	661
Difference between the Italian statutory rate and the foreign tax rates	(21)	79
Effects of the changing of the ordinary tax rate		
Non taxable incomes/relief	0	(76)
Non deductible costs	2	91
Other permanent differences	(23)	0
Subtotal	**(21)**	**15**
Temporary differences excluded from the calculation of deferred taxes		
Fiscal losses carried forward	(20)	0
Other temporary differences	(10)	0
Subtotal	(30)	0
Real fiscal charge IRES	269	755
Current taxes	235	634
Deferred taxes	34	121
Real tax charge IRES	269	755
Current taxes IRAP	186	196
Deferred taxes IRAP	(10)	24
Real tax change IRAP	176	220
Previous year tax charges	10	6
Total Real Fiscal Charge	455	981
Real Tax rate	44,0%	49,0%

Deferred tax assets and liabilities as at December 31, 2005 and December 31, 2004 are as follows:

(Thousands of Euro)	31.12.2004	31.12.2005
DEFERRED TAX ASSETS		
Over fiscally deductible goodwill depreciation	23	41
Allowance fo obsolete and slow moving inventory	17	134
Allowance for doubtful accounts	0	3
Deductible expenses in subsequent years	50	35
Losses available to offset subsequent taxable profits	77	119
IPO fees and costs	0	1.195
Effects of IFRS adoption	249	255
Intercompany operations	0	18
Offset taxes	(313)	(792)
Scritture di consolidamento	0	0
TOTAL DEFERRED TAX ASSETS	**103**	**1.008**

DEFERRED TAX LIABILITIES		
depreciations	50	47
Effects of IFRS adoption	535	877
IFRS entries consolidation	190	150
Other temporary changes	53	42
Offset taxes	(313)	(792)
TOTAL DEFERRED TAX ASSETS	**515**	**324**

As at December 31, 2005 there was no recognized deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates, as undistributed profits will not be distributed in the foreseeable future.

28 - Related party disclosures

The consolidated financial statements includes the financial statements of Eurotech S.p.A. and of the Group's subsidiaries listed below:

Name	Location	% of ownership 31.12.2004	% of ownership 31.12.2005
Subsidiaries			
Parvus Corp.	USA	100,00%	100,00%
Neuricam S.p.A.	Europe	63,59%	63,59%
I.P.S. Sistemi Programmabili S.r.l.	Europe	80,00%	80,00%
ETH Lab S.r.l.	Europe	100,00%	100,00%
Eurotech Finland Oy	Europe	100,00%	100,00%
Erim Développement S.A.S.	Europe	100,00%	100,00%

The tables below lists the unconsolidated transactions with related parties and the compensations of key management personnel, directors and auditors of the Company and of its subsidiaries, pursuant to article 78 of Consob Regulations 11971/99 as amended.

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						
Emilab S.r.l.			12			6
Delos S.r.l.						
Ascensit S.r.l.			34			
Total	-	-	46	-	-	6
Shareholders						
THE S.r.l.	1		15		1	
Friulia S.p.A.			6			
Total	1	-	21	-	1	-

Name		31/12/2005 Fees for the appointment	Other fees	Benefits	Stock option n. of shares
Siagri Roberto	President	150	10	3	200.000
Feragotto Dino	Vice President Director	118	8		145.000
Mauri Massimo	Vice President Director	78	8		165.000
Tecchiolli Giampietro	Director	64	5		75.000
Belletti Caterina	Director	2			
De Toni Alberto Felice	Director	2			
Saladino Giovanni	Director	3			
Spangaro Giovanni	Director	2			
Vitali Michele	Director	3			
Siciliotti Claudio	Chairman of the Board of Auditors	29			
Lago Umberto	Statutory Auditor	10			
Milanese Stefano	Statutory Auditor	10			
Cignolini Michela	Statutory Auditor up to 31.12.2004 financials approval	7			
Baxa Fulvio	Statutory Auditor up to 31.12.2004 financials approval	7			
Other employees					515.000

Name		31/12/2005							
		Company	Possessory title	Share at January 1	Share disposed before the stock split and the bonus issue	Share disposed before the stock split and the bonus issue	Share acquired in the period	Share disposed in the period	Share at the end of the period
Siagri Roberto	President	Eurotech	Ownership	168.680	0	1.349.440	0	0	1.349.440
Feragotto Dino	Vice President - Director	Eurotech	Ownership	161.873	0	1.294.984	0	0	1.294.984
Mauri Massimo	Vice President - Director	Eurotech	Ownership	15.000	0	120.000	100.000	0	220.000
Tecchiolli Giampietro	Director	Eurotech	Ownership	19.620	0	156.960	30.000	(4.200)	182.760
Belletti Caterina	Director	Eurotech	Ownership	0	0	0	0	0	0
De Toni Alberto Felice	Director	Eurotech	Ownership	0	0	0	5.000	0	5.000
Saladino Giovanni	Director	Eurotech	Ownership	22.500	0	180.000	0	(180.000)	0
Spangaro Giovanni	Director	Eurotech	Ownership	0	0	0	10.000	0	10.000
Chiandussi Roberto	Director up to 31.12.2004 financials approval	Eurotech	Ownership	162.000	(62.000)	800.000	30.000	(6.000)	824.000
Pezzulli Giorgio	Director up to 31.12.2004 financials approval	Eurotech	Ownership	162.000	(55.000)	856.000	20.000	(6.000)	870.000
Vitali Michele	Director	Eurotech	Ownership	0	0	0	0	0	0
Siciliotti Claudio	President of Bord of Auditors	Eurotech	Ownership	0	0	0	50.000	0	50.000
Lago Umberto	Statutory Auditor	Eurotech	Ownership	13.635	0	109.080	0	0	109.080
Milanese Stefano	Statutory Auditor	Eurotech	Ownership	0	0	0	0	0	0
Cignolini Michela	Statutory Auditor up to 31.12.2004 financials approval	Eurotech	Ownership	0	0	0	0	0	0
Baxa Fulvio	Statutory Auditor up to 31.12.2004 financials approval	Eurotech	Ownership	0	0	0	0	0	0

29 - Financial risk management: objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.
The Group also enters into derivative transactions, including principally interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.
The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The board of directors reviews and agrees policies for managing each of these risks, and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's longterm debt obligations with a floating interest rate.
In previous financial years the Group entered into interest rate swaps, in which the Group agreed to exchange, at specified intervals, the difference between fixed and floatingrate interest amounts. These swaps are designated to hedge underlying debt obligations.

Foreign currency risk

As a result of significant investment operations in the United States, the Group's balance sheet can be affected significantly by movements in the US$ / Euro exchange rates. Nevertheless, as the US$ cash flow is still not stabilized, the Group for the moment does not seek to hedge this exposure.

Commodity price risk

The Group's exposure to commodity price risk is at present minimal. A rise in product prices and a production delay could derive from the application of the ROHS directive, which will be effective in the European Union starting July 1, 2006.
This directive is not expected to have a relevant impact, as it does not apply to non-European markets nor to part of the EU markets served by the Group.

The Group's companies are at present engaged in verifying the applicability of the ROHS directive on catalog products and on currently designed products. The directive does not apply to the most part of the current production, but customers have a discretionary right to require its application. For this reason, the Europe-based companies of the Group have put into effect a plan to apply the ROHS directive, whenever required, to catalog products as well as to product revisions and design.

Credit risk

The Group trades only with recognised, creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The trade receivables of our main clients are insured.

Credit risk is partially transferred through sales of trade receivables through factoring transactions.
There are no significant credit risk concentrations within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. The Group's policy is that no more than 35% of borrowings should mature in any 12-month period.
Available liquidity deriving from the Company's listing has not been invested but deposited in running accounts with an interest rate equal to euribor.

30 – Events after the balance sheet date

On February 3rd, 2006, Eurotech S.p.A. signed with Spectris plc an option for the acquisition of the entire issued share capital of Arcom Control Systems Ltd and Arcom Control Systems Inc. The total consideration for the acquisition is US$ 26 million. Eurotech has paid to Spectris plc US$ 2 million to ensure the deal, which is expected to come to completion within 60 days.
The Arcom Group operates in the sector of Nano-PCs and miniaturized computers in both the USA and the UK, with clients in the electronics, energy, transportation and industrial markets. According to data presented by the Arcom management, the consolidated revenues for 2005 of the two Arcom Group companies were approximately US$ 29 million, with an EBITDA of 11%.

Annex 1: Reconciliations of financial statements under previous Italian GAAP to financial statements under IFRS

1. Premises

Falling within the requirements of art. 27 of Law Decree 127/1991 paragraph 1, Eurotech S.p.A. is exempt from the obligation of preparing consolidated financial statements. The Group nevertheless drew up a consolidated financial statement for the year ended December 31, 2004 for purposes of inclusion in the Offering Circular required for the Company's listing at the MTAX-Star segment of the Italian Stock Exchange, pursuant to Regulation 809/2004/CE.

Pursuant to Regulation 809/2004/CE and to Recommendation 05-054b of the Committee of European Securities Regulators ("CESR"), the Eurotech Group also restated the consolidated financial statements for the year ended December 31, 2004 in conformity with International Financial Reporting Standards ("IFRS"). At December 31, 2005 these standards are unchanged, as neither the new interpretations by the European Commission nor the issue of new rules or interpretations by competent authorities have modified the principles adopted by the Company in preparing the comparative figures for the first complete consolidated financial statements in accordance with IFRS.

The financial information restated in conformity with IFRS were prepared solely for purposes of inclusion in the Offering Circular and therefore do not include all the comparative information and disclosures which would be necessary for a full presentation of the consolidated financial position and results of operations of the Eurotech Group for the year ended December 31, 2004. For this reason, the presented financial information cannot be considered a first-time application of IFRS.

The accompanying statements present the financial information prepared in accordance with IFRS and shows the effects of the transition to IFRS, with reference to the financial year 2004, on the consolidated financial position and results of operations, on the financial performance and on the cash flow.

To that end the following have been prepared:

- the accounting principles and explanatory notes describing the basis of transition to IFRS and the accounting options chosen by Eurotech, listed below at paragraphs 3 and 4;

- the reconciliations of consolidated shareholders' equity and consolidated net income under the previous Italian GAAP to consolidated shareholders' equity and consolidated net income under IFRS, presented in paragraph 5a:

  at the date of transition to IFRS (January 1, 2004);
  at December 31, 2004 and for the financial year then ended;

- the IFRS consolidated balance sheets at January 1, 2004 and December 31, 2004, the IFRS consolidated income statement and consolidated cash flow statement for the year ended December 31, 2004, as well as a summary of the adjustments of the statements to IFRS, presented in paragraph 5b;

- the notes to reconciliations, presented in paragraph 5c.

2. Basis of presentation of IFRS restated financial information for the year 2004

The objective of the financial information for the year 2004 prepared according to IFRS is to present the consolidated financial position of Eurotech S.p.A. and subsidiaries at December 31, 2004, and the consolidated results of operations and cash flows for the year then ended, in conformity with the IFRS approved by the European Commission, as described below.

The IFRS consolidated balance sheet and the IFRS consolidated income statement have been obtained from the consolidated data, prepared in accordance with the provisions of Italian law as interpreted by, and integrated with, the accounting principles established by the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri* (the Italian accounting profession), by making the appropriate IFRS adjustments and reclassifications to reflect the changes in the presentation, recognition and valuation required by IFRS.

Adjustments have been made to conform with IFRS standards in effect to December 31, 2005. The approval process on the part of the European Commission and the adaptations and interpretations of the official bodies in charge of these activities is still in progress.

To present the effects of the transition to IFRS and to satisfy the rules for disclosure indicated in paragraph 39 a) and b) and paragraph 40 of IFRS 1 concerning the effects of the first-time application of the IFRS, the Eurotech Group has followed the example contained in IFRS 1.

The effects of the transition to IFRS are the result of changes in accounting principles and consequently, as required by IFRS 1, they are reflected in the opening shareholders' equity at the date of transition (January 1, 2004). In the transition to IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless when the adoption of IFRS accounting standards has required the formulation of estimates in accordance with different methods.

3. Rules for the first-time application of IFRS and accounting options chosen by Eurotech

The restatement of the opening consolidated balance sheet at January 1, 2004 and of the consolidated financial statements for the year ended December 31, 2004 have also required the following preliminary decisions by the Eurotech Group among the options provided by IFRS:

- financial statement presentation: the "current/non-current" classification, which is generally applied by industrial and commercial enterprises, has been adopted for the balance sheet, while the classification of expenses by nature has been chosen for the income statement;

- optional exemptions provided by IFRS 1 upon first-time application of IFRS at January 1, 2004:

  Valuations of land and buildings at fair value as the deemed cost;

  Business combinations: for purposes of the first-time application of IFRS to any business combination, the purchase method set out in IFRS 3 has been applied prospectively beginning from January 1, 2004. This also required the interruption of the process of amortization of goodwill and/or of differences on consolidation recorded at January 1, 2004;

  employee benefits: the Eurotech Group elected to recognize all cumulative actuarial gains and losses that existed at January 1, 2004, but decided to apply the corridor method to later actuarial gains and losses;

  financial instruments: the Eurotech Group decided to adopt IAS 32 and IAS 39 starting from January 1, 2005 and to apply Italian GAAP to financial instruments that are within the scope of IAS 32 and IAS 39 in preparing the opening IFRS consolidated balance sheet at January 1, 2004, the IFRS consolidated income statement for the year ended December 31, 2004 and the IFRS consolidated balance sheet at December 31, 2004.

- accounting treatments chosen from the accounting options provided by IFRS:

inventories: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. The Eurotech Group has chosen to use the weighted average cost method for each movement;

valuation of tangible assets and intangible assets: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. The Eurotech Group has chosen to adopt the cost method;

4. Main effects deriving from the adoption of IFRS on the consolidated opening balance sheet at January 1, 2004 and on the consolidated financial statements for the year ended December 31, 2004

The differences arising from the application of IFRS compared to Italian GAAP as well as the choices made by the Eurotech Group among the accounting options provided by IFRS described above, require a restatement of the accounting data prepared in accordance with the Italian regulations governing financial statements, whose effects on shareholders' equity and consolidated net income are summarized in the following tables. Information on the adjustments made to the balances prepared in accordance with Italian GAAP to conform to IFRS standards are presented in the following paragraphs.

4.a Reconciliations of consolidated shareholders' equity at January 1, 2004 and at December 31, 2004 and of consolidated income statement for the year 2004

Thousands of Euro	Shareholders' equity at 1° January 2004	Shareholders' equity at 31 December 2004	Net Income for the year 2004
TOTAL AMOUNT (ATTRIBUTABLE TO PARENT COMPANY AND TO MINORITY INTERESTS) ACCORDING TO ITALIAN GAAP	4.855	5.046	186
less: minority interests	(556)	(432)	14
ATTRIBUTABLE TO THE PARENT COMPANY ACCORDING TO ITALIAN GAAP	4.299	4.614	200
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:			
1. Business combinations			
1.1 Customer lists	0	570	(30)
1.1 Goodwill and differences on consolidation	0	(134)	291
1.2 Provisions	0	(19)	(1)
1.3 Reassessment of the useful life of tangible fixed assets	0	10	0
TOTAL BUSINESS COMBINATION	0	427	260
2. Development Costs			
2.1 Capitalization on development costs	707	1.158	451
2.2 Write off of development costs that do not meet the criteria for capitalization under IAS 38	(19)	(15)	4
2.3 Reassessment of the useful life of capitalized development costs	78	85	7
TOTAL DEVELOPMENT COSTS	766	1.228	462
3. Write off of start-up and expansion costs	(123)	(122)	1
4. Write off of other intangible assets	(3)	(5)	(2)
5. Write off of trademark registration costs	(19)	(22)	(3)
6. Land and buildings	268	262	(6)
7. Factoring transactions	0	0	0
8. Deferred taxes	0	20	20
9. Employees' severance indemnities	17	24	7
10. Convertible bonds	0	0	0
11. Government grants			
11.1 Grants related to income	38	24	(14)
11.2 Grants related to assets	0	(288)	(288)
TOTAL GOVERNMENT GRANTS	38	(264)	(302)
12. Revenue recognition - Sales of components	0	0	0
13. Reclassification of deferred tax assets	0	0	0
Tax effect on reconciling items	(351)	(596)	(44)
Minority interests on reconciling items	(210)	(124)	55
ATTRIBUTABLE TO THE PARENT COMPANY ACCORDING TO IAS/IFRS	4.682	5.442	647

4.b Reconciliations of consolidated balance sheets at January 1, 2004 and at December 31, 2004 and of consolidated income statement and cash flow statement for the year ended December 31, 2004

In addition to the reconciliations of shareholders' equity at January 1, 2004 and December 31, 2004, and of income statement for the year 2004, accompanied by comments on the adjustments made to the balances prepared in accordance with Italian GAAP, the tables below present the consolidated balance sheets at January 1, 2004 and December 31, 2004, the consolidated income statement and the consolidated cash flow statement for the year 2004. The following is presented for each item in individual columns:

• amounts according to Italian GAAP;
• adjustments and reclassifications to conform to IFRS standards;

• adjusted amounts according to IFRS;

The comments made for the above presented statements also apply to the following tables.

4.b.1 Reconciliations of consolidated balance sheets at January 1, 2004 and at December 31, 2004

BALANCE SHEET (Thousands of Euro)	01/01/2004 Italian GAAP	Reclassification IFRS	Adjustments IFRS	01/01/2004 IFRS
ASSETS				
Intangible Assets	2.803	(24)	258	3.037
Property, plant and equipment	1.888	24	268	2.180
Other non current Assets	30	202		232
Total non current Assets	**4.721**	**202**	**526**	**5.449**
Inventory	2.854	123		2.977
Trade receivables	6.208	(680)		5.528
Other current assets	952	(202)		750
Cash and cash equivalents	902			902
Total Current assets	**10.916**	**(759)**	**0**	**10.157**
Total Assets	**15.637**	**(557)**	**526**	**15.606**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Share capital	425			425
Retained earnings	4.130		383	4.513
Net Profit (Loss) for the period	(256)			(256)
Group shareholders' equity	**4.299**	**0**	**383**	**4.682**
Minority capital and reserves	527		210	737
Minority profit (loss) for the period	29			29
Minority interests	**556**	**0**	**210**	**766**
Total Shareholders' equity	**4.855**	**0**	**593**	**5.448**
Long term debt	3.568			3.568
Employees' benefits	437		(17)	420
Other non current liabilities	139		351	490
Total non current liabilities	**4.144**	**0**	**334**	**4.478**
Trade payables	3.455	(557)	(401)	2.497
Short term borrowings	2.102			2.102
Taxes payables	395			395
Other current liabilities	686			686
Total current liabilities	**6.638**	**(557)**	**(401)**	**5.680**
Total liabilities	**10.782**	**(557)**	**(67)**	**10.158**
Total liabilities and shareholders' equity	**15.637**	**(557)**	**526**	**15.606**

BALANCE SHEET (Thousands of Euro)	31/12/2004 Italian GAAP	Reclassification IFRS	Adjustments IFRS	31/12/2004 IFRS
ASSETS				
Intangible Assets	4.099	(20)	1.227	5.306
Property, plant and equipment	1.931	20	272	2.223
Other non current Assets	55	218	20	293
Total non current Assets	**6.085**	**218**	**1.519**	**7.822**
Inventory	4.662	588		5.250
Trade receivables	5.726	2.676		8.402
Other current assets	648	(253)	24	419
Cash and Cash equivalents	2.560			2.560
Total current Assets	**13.596**	**3.011**	**24**	**16.631**
Total Assets	**19.681**	**3.229**	**1.543**	**24.453**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Share capital	1.247			1.247
Retained earnings	3.167		381	3.548
Net Profit (Loss) for the period	200		447	647
Group shareholders' equity	**4.614**	**0**	**828**	**5.442**
Minority capital and reserves	446		179	625
Minority profit (loss) for the period	(14)		(55)	(69)
Minority interests	**432**	**0**	**124**	**556**
Total Shareholders' equity	**5.046**	**0**	**952**	**5.998**
Long term debt	3.516			3.516
Convertible notes	2.500	(35)		2.465
Employees' benefits	574		(24)	550
Other non current liabilities	139		615	754
Total non current liabilities	**6.729**	**(35)**	**591**	**7.285**
Trade payables	4.539	(528)		4.011
Short term borrowings	1.902	3.792		5.694
Taxes payables	442			442
Other current liabilities	1.023			1.023
Total current liabilities	**7.906**	**3.264**	**0**	**11.170**
Total liabilities	**14.635**	**3.229**	**591**	**18.455**
Total liabilities and shareholders' equity	**19.681**	**3.229**	**1.543**	**24.453**

4.b.2 Reconciliation of the consolidated income statement for the year 2004

INCOME STATEMENT (Thousands of Euro)	**2004 Italian GAAP**	**Reclassification IFRS**	**Adjustments IFRS**	**2004 IFRS**
Sales and service revenue	18.811	(2.162)		16.649
Operating costs:				
Cost of materials	(8.648)	2.162		(6.486)
Services	(3.410)		(70)	(3.480)
Rent and leases	(286)			(286)
Payroll	(5.235)		23	(5.212)
Accruals and other costs	(120)	(51)	(1)	(172)
Other Revenue	775	51	147	973
Profit before depreciation and amortization, finance costs and taxes	**1.887**	**0**	**99**	**1.986**
Depreciation and amortization	(863)		334	(529)
Operating profit	**1.024**	**0**	**433**	**1.457**
Share of profit of associates	9			9
Finance costs	(501)		(16)	(517)
Finance income	84			84
Profit before taxes	**606**	**10**	**417**	**1.033**
Income tax expenses	(420)	(10)	(25)	(455)
Net profit (loss) for the year	**186**	**0**	**392**	**578**
Minority interest	**(14)**		**(55)**	**(69)**
Group net profit (loss) for the period	**200**	**0**	**447**	**647**

4.b.3 Reconciliation of the consolidated cash flow statement for the year 2004

CASH FLOW STATEMENT **Thousands of Euro**	**31/12/2004** **Italian GAAP**	**reclassification** **IFRS**	**Adjustments** **IFRS**	**31/12/2004** **IFRS**
Cash flows from operating activities:				
Group net profit (loss) for the year	**200**		**447**	**647**
Adjustments to reconcile Group net profit (loss) to net cash provided by operating activities:				
Minority interest	(14)		(55)	(69)
Depreciation and amortization	863		(334)	529
Provision for doubtful accounts	20		0	20
Share of profit of associates	(9)		0	(9)
Provision for employees' benefits	137		(7)	130
Deferred taxes	(19)	(29)	274	226
Change in current assets and liabilities				
Trade receivables	1.462	(3.356)		(1.894)
Other current assets	490	51	(62)	479
Inventory	(1.144)	(465)		(1.609)
Trade payables	598	29	401	1.028
Other current liabilities	24		0	24
Total adjustments and changes	**2.408**	**(3.770)**	**217**	**(1.145)**
Net cash provided by (used in) operating activities	**2.608**	**(3.770)**	**664**	**(498)**
CAH FLOW FROM INVESTING ACTIVITIES				
Disposal of property, plant and equipment	36		0	36
Financial income	0	84	0	84
Addition to property, plant and equipment	(341)	(1)	(657)	(999)
Addition of intangible assets	(346)	16	13	(317)
Net charge in financial assets	(10)	(16)	(20)	(46)
Acquisition of business net of cash acquired:	(1.441)		0	(1.441)
intangible assets	*(19)*		*(11)*	*(30)*
financial assets	*(11)*		*0*	*(11)*
current assets	*(1.831)*		*19*	*(1.812)*
funds for future risks and employees' severance indemnity	*0*		*0*	*0*
trade payables	*2.091*		*(3)*	*2.088*
consolidation difference	*(1.547)*		*16*	*(1.531)*
Minority interests	*(110)*		*(30)*	*(140)*
Loss carried forward	*(14)*		*9*	*(5)*
Net cash used in investing activities	**(2.102)**	**83**	**(664)**	**(2.683)**
CASH FLOW FROM FINANCING ACTIVITIES				
Share capital increase	163		0	163
Proceeds from long term debt	3.150	(366)		2.784
Reimbursement of long term debt	(2.121)	261	0	(1.860)
Factoring of trade receivables	0	3.792		3.792
Cash flow from financing activities	**1.192**	**3.687**	**0**	**4.879**
Effects of changes in exchange rates on cash	(40)		0	(40)
Increase (decrease) of cash and cash equivalents	**1.658**	**0**	**0**	**1.658**
Cash and cash equivalents at beginning of the period	**902**			**902**
Cash and cash equivalents at the end of the period	**2.560**			**2.560**

4.c Notes to the reconciliations of financial statements

The individual adjustments are presented in the tables above before taxes and minority interests, while the relative tax effects and the effects on minority interests are shown cumulatively as two separate adjusting items.

A commentary is presented below on the IFRS adjustments made to Italian GAAP amounts.

1. Business combinations

As mentioned above, the Group elected to apply the business combinations exemption granted by IFRS 1 and therefore did not apply IFRS 3 to business combinations that occurred prior to the transition date of January 1, 2004. The acquisitions of the 100% interest in Erim Développement S.A.S. and in Eurotech Finland Oy have been accounted for using the purchase method.

Moreover, according to IFRS 3, goodwill and differences on consolidation are no longer amortized systematically in the income statement but are subject to a test, carried out at least annually, in order to identify any impairment in value. To this end, cash generating units have been identified to which the relative goodwill has been allocated. Impairment tests have been carried out and have substantially confirmed the amounts recorded under Italian GAAP.

The impact of the application of IFRS 3 is the following:

- at December 31, 2004: an increase in total shareholders' equity of Euro 427 thousand (entirely attributable to the Parent Company), before a negative tax effect of Euro 187 thousand, due to an increase in intangible assets with a finite useful life (customer lists) and in tangible fixed assets amounting to Euro 570 thousand and Euro 10 thousand respectively, to a decrease in goodwill amounting to Euro 134 thousand and to the increase in other non current liabilities amounting to Euro 19 thousand; the total pre-tax income for the year reports an increase of Euro 260 thousand (entirely attributable to the Parent Company) due to the elimination of amortization of goodwill and differences on consolidation amounting to Euro 291 thousand, to the amortization of intangible assets with a finite useful life (customer lists) recognized as part of the allocation of the cost of the acquisition of the 100% interest in Erim Développement S.A.S. of Euro 30 thousand and to recognized provisions of Euro 1 thousand.

2. Development costs

Under Italian GAAP, applied research and development costs may alternatively be capitalized or charged to operations when incurred. The Eurotech Group has mainly expensed research and development costs when incurred. Capitalized research and development costs have been amortized over a maximum period of 5 years in accordance with the Italian Civil Code.

IAS 38 requires that research costs be expensed, whereas development costs that meet the criteria for capitalization must be capitalized and then amortized from the start of production over the economic life of the related products.

Under IFRS, the Group has capitalized development costs related to design and development of innovative products in the field of intelligent vision modules and systems for security, automotive, building automation and industrial control and in the field of miniaturized low-power computer modules and systems, net of related depreciation, using the retrospective approach in compliance with IFRS 1; capitalized development costs that do not meet the criteria for capitalization under IAS 38 have been written off. Moreover the Group has restated the carrying amount of capitalized development costs by amortizing such costs from the start of production over the economic life of the related products, using the retrospective approach in compliance with IFRS 1. This different accounting treatment has the following impact:

- at January 1, 2004: an increase in total shareholders' equity of Euro 766 thousand (of which Euro 502 thousand is attributable to the Parent Company) before a negative tax effect of Euro 285 thousand (of which Euro 187 thousand is attributable to the Parent Company) due to an increase in intangible assets of Euro 766 thousand as a result of the capitalization of development costs amounting to Euro 707 thousand, of the write off of capitalized development costs, that do not meet the criteria for capitalization under IAS 38, amounting to Euro 19 thousand and of the restatement of the carrying amount of capitalized development costs by amortizing such costs from the start of production over the economic life of the related products amounting to Euro 78 thousand;

- at December 31, 2004: an increase in total shareholders' equity of Euro 1,228 thousand (of which Euro 977 thousand is attributable to the Parent Company) before a negative tax effect of Euro 457 thousand (of which Euro 364 thousand is attributable to the Parent Company) due to an increase in intangible assets of Euro 1,228 thousand as a result of the capitalization of development costs amounting to Euro 1,158 thousand, of the write off of capitalized development costs, that do not meet the criteria for capitalization under IAS 38, amounting to Euro 15 thousand and of the restatement of the carrying amount of capitalized development costs by amortizing such costs from the start of production over the economic life of the related products amounting to Euro 85 thousand; the total pre-tax income for the year reports an increase of Euro 462 thousand (of which Euro 391 thousand is attributable to the Parent Company) due to the capitalization of development costs expensed under Italian GAAP amounting to Euro 409 thousand and to lower amortization amounting to Euro 53 thousand resulting from the effect of higher amortization of development costs capitalized in the opening IFRS balance sheet at January 1, 2004 and lower amortization deriving from the revision of the useful life of capitalized development costs, before a negative tax effect of Euro 172 thousand (of which Euro 146 thousand is attributable to the Parent Company).

3. Write off of start-up and expansion costs

In accordance with IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in shareholders' equity at the date of the transaction; the other start-up and expansion costs, since the requirements for their recognition in intangible assets have not been met, are charged to the income statement. The impact of these different accounting treatments is the following:

- at January 1, 2004: a decrease in total shareholders' equity of Euro 123 thousand (entirely attributable to the Parent Company), before a positive tax effect of Euro 46 thousand (for the recognition of deferred tax assets), due to a decrease in intangible assets of Euro 123 thousand;

- at December 31, 2004: a decrease in total shareholders' equity of Euro 122 thousand (entirely attributable to the Parent Company), before a positive tax effect of Euro 45 thousand (for the recognition of deferred tax assets), due to a decrease in intangible assets of Euro 122 thousand; the total pre-tax income for the year reports an increase of Euro 1 thousand due to lower amortization of Euro 57 thousand and higher purchases of external services of Euro 56 thousand before a relative negative tax effect of Euro 0.4 thousand.

4. Write off of other intangible assets

Under Italian GAAP, the Group capitalizes as intangible assets certain costs that IFRS require to be expensed when incurred, since the identifiability criterion under IAS 38 has not been met. This different accounting treatment has the following impact:

- at January 1, 2004: a decrease in total shareholders' equity of Euro 3 thousand (of which Euro 2 thousand is attributable to the Parent Company), before a positive tax effect of Euro 1 thousand (for the recognition of deferred tax assets), due to a decrease in intangible assets of Euro 3 thousand;

- at December 31, 2004: a decrease in total shareholders' equity of Euro 5 thousand (of which Euro 3 thousand is attributable to the Parent Company), before a positive tax effect of Euro 2 thousand (for the recognition of deferred tax assets), due to a decrease in intangible assets of Euro 5 thousand; the total pre-tax income for the year reports a decrease of Euro 2 thousand due to lower amortization of Euro 1 thousand and higher purchases of external services of Euro 3 thousand before a relative positive tax effect of Euro 1 thousand.

5. Write off of trademark registration costs

Under Italian GAAP, the Group capitalizes and amortizes over their estimated useful life the costs incurred for the registration of the trademarks that IAS 38 requires to be expensed when incurred, since related to internally generated trademarks. This different accounting treatment has the following impact:

- at January 1, 2004: a decrease in total shareholders' equity of Euro 19 thousand (of which Euro 17 thousand is attributable to the Parent Company), before a positive tax effect of Euro 7 thousand (for the recognition of deferred tax assets), due to a decrease in intangible assets of Euro 19 thousand;

- at December 31, 2004: a decrease in total shareholders' equity of Euro 22 thousand (of which Euro 19 thousand is attributable to the Parent Company), before a positive tax effect of Euro 8 thousand (for the recognition of deferred tax assets), due to a decrease in intangible assets of Euro 22 thousand; the total pre-tax income for the year reports a decrease of Euro 3 thousand due to lower amortization of Euro 7 thousand and higher purchases of external services of Euro 10 thousand, before a relative positive tax effect of Euro 1 thousand.

6. Land and buildings

As mentioned above, the Eurotech Group has elected to use the fair value of land and buildings at the date of transition to IFRS (January 1, 2004) as deemed cost. Moreover, in accordance with Italian GAAP, land appurtenant to buildings is depreciated together with the same buildings, while in accordance with IFRS it must be classified separately and no longer depreciated. The impact of the different accounting treatment is the following:

- at January 1, 2004: an increase in total shareholders' equity of Euro 268 thousand (of which Euro 214 thousand is attributable to the Parent Company) before a negative tax effect of Euro 100 thousand related to deferred taxes of the same amount (Euro 80 thousand is attributable to the Parent Company), due to an increase in net non current tangible assets of Euro 268 thousand equal to the difference between the fair value of the land and the building and their carrying value at the transition date;

- at December 31, 2004: an increase in total shareholders' equity of Euro 262 thousand (of which Euro 210 thousand is attributable to the Parent Company), before a negative tax effect of Euro 98 thousand related to deferred taxes of the same amount (Euro 78 thousand is attributable to the Parent Company), due to an increase in net non current tangible assets of Euro 262 thousand; the total pre-tax income for the year reports a decrease of Euro 6 thousand (Euro 5 thousand is attributable to the Parent Company), due to the combined effect of higher depreciation of buildings and elimination of depreciation of land, before a relative positive tax effect of Euro 2 thousand.

7. Factoring transactions

At the end of 2004 the Eurotech Group sold a significant portion of its trade accounts receivable through factoring transactions. Factoring transactions may be with or without recourse on the seller; certain factoring agreements without recourse imply a continuing significant exposure to the receivables cash flow.

Under Italian GAAP, all receivables sold through factoring transactions with recourse (recommended method) and without recourse have been derecognized.

IFRS allow for the derecognition of a financial asset when, and only when, the risks and rewards of the ownership of the assets are substantially transferred: consequently, all portfolios sold with recourse, and the majority of those sold without recourse, since risks and rewards have not been substantially transferred, have been reinstated in the IFRS balance sheet.

The impact of this treatment is an increase in net financial debt at December 31, 2004 of Euro 3,792 thousand attributable to the recording of a short term financial payable (advance received) of Euro 3,792 thousand, with an increase in trade accounts receivable for the same amount.

8. Deferred taxes

The recognition of deferred tax assets in accordance with IFRS, which were not recorded under Italian GAAP because the conditions of reasonable certainty were not met, determines under IFRS, at December 31, 2004, an increase in total shareholders' equity and in total net income of Euro 20 thousand (entirely attributable to the Parent Company), with the recognition of an asset for deferred taxes of the same amount.

9. Employee severance indemnities

Italian GAAP require recognition of the liability for employee severance indemnities ("TFR") based on the nominal liability matured to the end of the reporting period, in accordance with the statutory regulations in force; under IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Under IFRS, all actuarial gains and losses have been recognized at the date of transition to IFRS. The impact of this different accounting treatment is as follows:

- at January 1, 2004: an increase in total shareholders' equity of Euro 17 thousand (entirely attributable to the Parent Company) before a negative tax effect of Euro 6 thousand (to provide for deferred taxes), due to a decrease in the liability for employee severance indemnities of Euro 17 thousand;

- at December 31, 2004: an increase in total shareholders' equity of Euro 24 thousand (entirely attributable to the Parent Company), before a negative tax effect of Euro 8 thousand (to provide for deferred taxes), due to a decrease in the liability for employee severance indemnities of Euro 24 thousand; total pre-tax income increases by Euro 7 thousand as a result of lower personnel expenses of Euro 7 thousand, before a negative tax effect of Euro 2 thousand.

10. Convertible bond

In accordance with art. 2426 paragraph 7 of the Italian Civil Code, issue discounts are deferred and amortized over the loan period; under IFRS, any issue discount is recognized as a reduction of the loan. The impact of this different accounting treatment is a decrease in other current assets at December 31, 2004 of Euro 35 thousand, with a decrease in convertible bond for the same amount.

11. Government grants

According to Italian GAAP, government grants are recognized only when the favourable formal decision by the government authority is received and the conditions attaching to the grant have been fulfilled. The Eurotech Group has recognized government grants when obtaining probative documentation about their collectability. IAS 20 requires that government grants should be recognized only when there is a reasonable assurance that the entity will comply with the condition attaching to them and the grants will be received.

Under IFRS the Group has recognized grants related to assets and grants related to income when there was a reasonable assurance that the entity would have complied with the conditions attaching to them and the grants would have been received

This different accounting treatment has the following impact:

- at January 1, 2004: the recognition of a grant related to assets of Euro 363 thousand and of a grant related to income of Euro 38 thousand, which determined a decrease in intangible assets of Euro 363 thousand, a decrease in current liabilities of Euro 401 thousand and an increase in total shareholders' equity of Euro 38 thousand (Euro 20 thousand attributable to the Parent Company) before a negative tax effect of Euro 14 thousand (to provide for deferred taxes);
- at December 31, 2004: a decrease in total shareholders' equity of Euro 264 thousand (Euro 164 thousand is attributable to the Parent Company), before a positive tax effect of Euro 98 thousand related to deferred taxes (Euro 48 thousand is attributable to the Parent Company) due to a decrease in intangible assets of Euro 288 thousand as a result of the recognition of a grant related to assets in the opening balance sheet at January 1, 2004, net of the amount recognized in the profit and loss for the year, and of the increase in other current assets of Euro 24 thousand resulting from recognizing a grant related to income. The total pre-tax income for the year reports a decrease of Euro 302 thousand (Euro 149 thousand is attributable to the Parent Company) due to the combined effect of derecognizing a grant that was deducted from purchases of external services and recognizing a grant related to income, before a relative positive tax effect of Euro 112 thousand (Euro 56 thousand is attributable to the Parent Company).

12. Revenue recognition – Sales of components

Under Italian GAAP, the recognition of disposals is based primarily on the legal and contractual form of the operation (transfer of legal title).

Under IAS 18, when the seller maintains a continuous involvement in the assets being sold and the consideration agreed between the entity and the buyer is not collected, the transaction is not recognized as revenue.

Consequently, the sales of components made by the Group to outside contractors, that carry out their processing on the components and then sell the processed components to the Group, do not meet the criteria for revenue recognition.

The application of IAS 18 has the following impact:

- at January 1, 2004: a decrease in trade accounts payable of Euro 557 thousand and an increase in inventories of Euro 123 thousand set off by a decrease in trade accounts receivable of Euro 680 thousand;

- at December 31, 2004: a decrease in trade accounts payable of Euro 528 thousand and an increase in inventories of Euro 588 thousand set off by a decrease in trade accounts receivable of Euro 1,116 thousand; the income statement reports a decrease in revenues of Euro 2,162 thousand and a decrease in purchases of materials and semi-finished goods for the same amount.

13. Deferred tax assets

According to Italian GAAP, deferred tax assets are shown as part of current assets, whereas IAS 1 requires deferred tax assets to be shown as part of non current assets.

The different accounting treatment has the following impact:

- at January 1, 2004: a decrease in other current assets of Euro 202 thousand and an increase in other non current assets for the same amount;

- at December 31, 2004: a decrease in other current assets of Euro 218 thousand and an increase in other non current assets for the same amount .

Annex 2: Reconciliation of consolidated balance sheet at December 31, 2004 to consolidated balance sheet at January 1, 2005

The table below presents the consolidated balance sheet at December 31, 2004, restated following the Group's decision to adopt IAS 32 and IAS 39 accounting principles starting January 1, 2005.

BALANCE SHEET (Thousands of Euro)	31/12/2004	FTA IAS 32-39	01/01/2005 Restated
ASSETS			
Intangible assets	5.306		5.306
Property, plant and equipment	2.223		2.223
Equity investments	19		19
Deferred tax assets	238		238
Other non current assets	36		36
Total non current assets	**7.822**	**0**	**7.822**
Inventory	5.250		5.250
Contracts in progress	0		0
Trade receivables	8.402		8.402
Other current assets	419		419
Cash and cash equivalent	2.560		2.560
Totale current assets	**16.631**	**0**	**16.631**
Total assets	**24.453**	**0**	**24.453**
Share capital	1.247		1.247
Retained earnings	3.548	5	3.553
Net profit (loss) for the period	647		647
Group shareholders' equity	**5.442**	**5**	**5.447**
Minority capital and reserves	625		625
Minority profit (loss) for the period	(69)		(69)
Minority interests	**556**	**0**	**556**
Total shareholders' equity	**5.998**	**5**	**6.003**
Long term debts	3.516		3.516
Convertible notes	2.465	(18)	2.447
Employees' benefits	550		550
Deferred tax liabilities	654	(4)	650
Other non current liabilities	100		100
Total non current liabilities	**7.285**	**(22)**	**7.263**
Trade payables	4.011		4.011
Short term borrowings	5.694		5.694
Tax payables	442		442
Other current liabilities	1.023	17	1.040
Total current liabilities	**11.170**	**17**	**11.187**
Total liabilities	**18.455**	**(5)**	**18.450**
Total liabilities and shareholders' equity	**24.453**	**0**	**24.453**

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INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(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 subsidiaries (the EUROTECH Group) for the year ended December 31, 2005, comprising the consolidated balance sheet, the consolidated statements of income, changes in shareholders' equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements prepared by EUROTECH S.P.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, 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 consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The audit of the financial statements of certain consolidated subsidiaries, which represent 3.4% of consolidated total assets and 10.1% of consolidated revenues, is the responsibility of other auditors.

   For comparative purposes, the consolidated financial statements present the corresponding information for the prior year prepared in accordance with consistent accounting principles, adjusted to include the effects of IAS 32 and IAS 39, which have been applied from January 1°, 2005 in accordance with the exemption allowed by IFRS 1. In addition, the explanatory note to attachment 1 to the consolidated financial statements describes the effects of the transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, which were previously approved by management and published in the prospectus prepared for the listing of the shares of EUROTECH S.P.A. on the Italian Stock Exchange (MTAX-Star) and which have been audited by us. Reference should be made to our audit report dated September 2, 2005.

3. In our opinion, the consolidated financial statements present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of the EUROTECH Group as of December 31, 2005, and for the year then ended in accordance with IFRS as adopted by the European Union.

Treviso, Italy
March 31, 2006

Reconta Ernst & Young S.p.A.
Signed by: Claudio Passelli, Partner

AUDITORS REPORT ON THE CONSOLIDATED FINANCIAL STATEMENT AT DECEMBER 31, 2005

To the kind attention of Eurotech's shareholders

Our Board has audited the Group's consolidated financial statement as at December 31, 2005 prepared by the management pursuant to current regulations, as well as the Directors' Report and the tables and annexes.

These documents have been examined by the independent auditing firm RECONTA ERNST & YOUNG S.p.A., which in its report did not raise any objections nor made any negative remarks, and ascertained the correspondence between the financial statements, the account books submitted by the parent company and the data and information produced by the companies included in the consolidation area.

As concerns its contents and structure, and with regard to the adopted consolidation and valuation principles, the Group's consolidated financial statement has been drawn up in conformity with current regulations.

According to the statement, assets amount to Euro 52.886.000; consolidated shareholders' equity amounts to Euro 32.454.000 while earnings amount to Euro 1.064.000, both net of third party minority interests.

As the financials have been prepared in accordance with international accounting standards (IFRS), reconciliation tables have been provided where comparative data as at December 31, 2004, originally based on Italian accounting standards, have been restated to match IFRS.

No exceptional events have occurred such as to justify the non application of single law regulations concerning the accounting and drawing up principles adopted in the consolidated statement.

The Directors' Report presents a consistent description of the Group's operating results, balance sheet and financial position, and outlines the annual trend of the parent company and of its subsidiaries, as well as the relevant events ensuing the end of financial year 2005.

Our Board therefore raises no objections and certifies the regularity of the consolidated financial statement. We furthermore attest that the documents have been drawn up in accordance with current law regulations.

Amaro, April 1st, 2006