

## **EUROTECH: BOD APPROVES 2016 DRAFT ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS**

Amaro (UD), 13 March 2017

- Consolidated revenues: from €65.55 million to €61.10 million
- Consolidated gross profit: from €32.98 million to €29.96 million
- Consolidated EBITDA: from -€0.95 million to €0.44million
- Consolidated EBITDA: from -€6.60 million to -€5.56million
- Consolidated pre-tax result: from -€6.16 million to -€5.12 million
- Group net result: from -€6.22 million to -€5.07 million
- Net financial debt: €2.34 million, compared to €022 million at 31/12/2015
- Shareholders' equity pertaining to the Group: €103.56 million
- Eurotech S.p.A.: net result from €3.69 million to -€1.26 million

Today the Board of Directors of Eurotech S.p.A. examined and approved the Draft Annual and Consolidated Financial Statements at 31 December 2016 that will be submitted to the Annual General Meeting of Shareholders.

Group turnover in 2016 was €61.10 million, compared to €65.55 million in 2015. The 6.8% decrease is due to sales performance in the various geographical areas in addition to the change in the yen/euro and US dollar/euro exchange rate during the translation phase of the financial statements from one year to the next.

Although it demonstrated growth due to exchange rate performance, the Japanese area was significantly influenced by sales to the big local players that facing difficulties in exports have reduced orders and are still suffering the economic trend of the global economy. The price pressure that was noticed in this area in recent years involved a decline in its gross profit margin, above all in the low added value products. This was partly mitigated by the corrective measures management applied to production and the component procurement phase. Moreover, the sales actions carried out particularly in the second half of the year both with already existing customers and new ones increased the generation of opportunities to the full benefit of the years to come. The market is still very promising and interesting, because the customers have important businesses in both the Asian area and worldwide.

The USA area recorded a decline because it switched from concluding the supply of some personalised products tied to orders and projects acquired in past years to new projects with both new customers and those already consolidated in the embedded (board & system) and IoT divisions. This partial misalignment in time between the phase-out of end-of-life projects and the phase-in of new projects was partly caused by the changes introduced in the sales structure, which was heavily updated and that is still not operating at full capacity at the beginning of 2016.

More specifically, the customer testing phase in the IoT market is extending beyond the normal expectations of local management and is postponing the growth outlook that the local market had demonstrated by a few quarters.

The European area continues to have businesses tied to single opportunities and with limited volumes, while finding large customers with recurring businesses proves to be difficult. The area's potential is still undoubtedly high for the type of customers residing in the area, but the single European companies have had to expand their area of action and seize opportunities in other EMEA countries outside their national borders.

The investments that Eurotech made during the year in the strategic areas singled out in the multi-year plan led to important recognitions and agreements with qualified international partners like Red Hat and Hitachi. None of these efforts yet reflect on the volume of turnover, which is still smaller than expected and definitely less than the efforts and investments spent.

If on the one hand the Group strengthens its position in the embedded computing world by keeping up innovation in the traditional computing boards and subsystems business, on the other development of the M2M/IoT platforms gave important results as they are able to attract the attention of international customers as well as recognitions around the globe.

Today a lot of potential customers are using the IoT platform and Eurotech hardware (gateways in particular) to connect their machines, and they are realising that Eurotech solutions allow them to innovate their product ranges by supplying those technologically innovative elements that give them a competitive edge in their respective markets.

Industry analysts certainly identify the IoT with what the so-called "Fourth industrial revolution" (Industry 4.0) is based on, and this is where Eurotech can be considered a market leader owing to its hardware and software products.

The brand's international positioning and the creation and ongoing implementation of an ecosystem of partners is the starting point for developing this new business that numerous market analyses indicate as being highly promising.

It is important to remind that this historical era of evolution of the new big IoT market where the customers' implementation of projects goes through a testing stage, followed by pilot implementations that are then gradually extended to somewhat extend the time needed for the expected revenues to be generated, must be faced. This is generating growth in turnover that follows an exponential rather than linear curve, therefore slow in the beginning but with a prospect of sizeable growth as soon as the critical mass is reached.

By virtue of the progress of the strategy's implementation, more tangible results in terms of order book are expected in the quarters to come, whereas the impact on turnover will be seen afterwards due to the curve of adoption of the new IoT technologies by the customers described above.

In order to be able to stay in line with the technological innovations and retain its competitive edge in the IoT market, Eurotech continues to invest paying close attention to the overall performance of costs balancing the investments in connection with growth path of sales.

During this stage, management is paying close attention to the overall performance of costs and to their control in order to achieve that level of operating costs that makes it possible to break even as soon as possible.

The gross profit margin, slightly lower than was forecast in the plan, came in at 49.0%, compared to 50.3% last year. This percentage is the result of the mix of products sold, which have different margins depending on the type of product, the sectors in which they are used and the geographic markets, in some of them, and more specifically in the Japanese area, is manifest the effect of a certain price pressure in the embedded sector.

Management of materials purchasing is still of primary importance in order to keep the competitiveness useful to not lose the margins necessary to attain the set goals.

One other element the received much of management's attention in this year is lowering operating costs. Before adjustments for internal increases, operating costs decreased in absolute value by €2.42 million, from €37.34 million (57.0% as a percentage of revenues) to €34.92 million (57.1% as a percentage of revenues). This decrease in operating results is consequent to a cut in costs for services and reducing the net absolute number of employees, with qualified personnel recruited only for positions strictly connected with the strategic vision, and reduction abroad of personnel mainly assigned to production with a view to use specialised outsourcers more extensively. This reduction in costs made an impact on Group EBITDA.

Overall, the Group's structure can still sustain higher levels of sales from the traditional embedded business than those achieved in recent years, additional and new skills will be added in the new M2M/IoT segment based on its growth path, which the Group expects to generate returns in the next few years.

EBITDA improved by €1.39 million and amounted to €044 million, compared with -€0.95 million in 2015. EBITDA in 2016 as a percentage of revenues was 0.7%, compared with -1.4% in 2015. The difference between the two periods is due not only to the reduction in operating costs described above, but also to the capital gain of €1.705 million made from the sale of the security and traffic business unit of the subsidiary IPS Sistemi Programmabili S.r.l.

EBIT improved in the periods in question, rising from -€6.60 in 2015 to -€5.56 million in 2016. EBIT as a percentage of revenues changed from -€10.1% in 2015 to -€9.1% in 2016.

EBIT in 2016 was affected by the write-downs and amortisation recording during the year and the performance of the EBITDA commented on above.

The 2016 write-downs refer mainly to the product development costs that did not achieve the market success initially forecast amounting to €0.34 million and to the write-down of the related portion of goodwill by the Eurotech France Sas business unit of €0.36 million.

On the contrary, depreciation and amortisation derive from both operating assets becoming subject to depreciation throughout 2016 and the non-monetary effects arising from price allocation relating to the acquisitions of Advanet Inc. The effect on EBIT of the higher values attributed as a result of purchase price allocation in 2016 was €2.83 million, compared with €2.68 million in 2015.

The financial result was affected by foreign exchange differences caused by the trend in foreign currencies, as well as by the net financial position performance. Overall, foreign exchange differences had a positive effect on the period of €0.61 million (compared with a positive effect of €0.81 million in 2015), while financial management relating to interest had an effect of €0.43 million (€0.59 million in 2015).

The Group booked a pre-tax loss of €5.12 million in 2016 (compared with a loss of €6.16 million in 2015). This performance was influenced by the factors outlined above. The impact on the pre-tax result of PPA was €2.83 million in 2016, compared with €2.68 million in 2015.

The Group net result was -€5.07 million, compared with -€6.22 million in 2015.

At 31 December 2016 the Group had a net financial debt of €2.34 million, compared to the figure at year-end 2015 of €0.22 million.

Group shareholders' equity, the same as the consolidated shareholders' equity as there are no minority interests, amounts to €103.56 million (2015: €105.34 million).

#### ***Annual Financial Statements of the Parent Company Eurotech S.p.A.***

Revenues of the Parent Company Eurotech S.p.A. totaled €9.80 million, compared to €10.52 million in 2015. The net loss was €1.26 million, compared with a profit of €3.69 million in 2015. The shareholders' equity of Eurotech S.p.A. at 31 December 2016 is €113.07 million, compared to €114.28 million in 2015. The Parent Company shows a net financial position in 2016 of €33.62 million, up compared to the 2015 figure, which amounted to €32.64 million.

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*Pursuant to Art. 154 bis, paragraph 2 of the Italian Consolidated Law on Finance (TUF), the Corporate Financial Reporting Manager, Sandro Barazza, certifies that the information on accounts disclosed in this press release corresponds to the document results, books and accounting records of the company.*

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*The Board also approved the Corporate Governance Report that also contains the information on the ownership structure pursuant to Art. 123 bis of the Italian Consolidated Law on Finance (TUF), which will be published within the time frame and according to the methods required by current regulations.*

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*In compliance with the requirements of the new provisions of paragraphs 1 and 1 bis of Art. 154 of the Italian Consolidated Law on Finance (TUF), the annual financial report, which includes the draft annual financial statements, the consolidated financial statements, the report on operations, the Corporate Governance Report and the certification of the financial reporting manager, together with the reports of the independent auditor and the board of statutory auditors, will be published by and no later than 31 March 2017.*

## **THE EUROTECH GROUP**

Eurotech (ETH:IM) is a multinational that designs, develops and supplies Internet of Things solutions, complete with services, software and hardware, to the leading system integrators and to large and small companies. By adopting Eurotech's solution, customers gain access to the most recent open-source software stacks and standards, flexible and sturdy multiservice gateways and sophisticated sensors in order to collect data from the field and make them usable for corporate processes. In collaboration with a large number of partners of a world ecosystem, Eurotech contributes toward building the vision of the Internet of Things by supplying complete solutions or single "best-in-class" blocks, from managing devices and data to the connectivity and communication platform as well as from the smart peripheral devices to the smart objects, with business models appropriate for the world of modern enterprise. For more information on Eurotech, please visit [www.eurotech.com](http://www.eurotech.com).

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**ANNEXES - FINANCIAL STATEMENTS**
**CONSOLIDATED INCOME STATEMENT**

(€/000)	FY 2016	%	FY 2015	%
<b>Revenues from sales of products and services</b>	61,103	100.0%	65,551	100.0%
Cost of materials	(31,144)	-51.0%	(32,568)	-49.7%
<b>Gross profit</b>	<b>29,959</b>	<b>49.0%</b>	<b>32,983</b>	<b>50.3%</b>
Service costs	(12,333)	-20.2%	(13,501)	-20.6%
Lease & hire costs	(1,788)	-2.9%	(1,800)	-2.7%
Payroll costs	(19,856)	-32.5%	(20,775)	-31.7%
Other provisions and other costs	(942)	-1.5%	(1,268)	-1.9%
Other revenues	5,403	8.8%	3,413	5.2%
<b>Profit before depreciation and amortization (EBITDA)</b>	<b>443</b>	<b>0.7%</b>	<b>(948)</b>	<b>-1.4%</b>
Depreciation & amortisation	(5,257)	-8.6%	(5,443)	-8.3%
Asset impairment	(751)	-1.2%	(211)	-0.3%
<b>Operating profit (EBIT)</b>	<b>(5,565)</b>	<b>-9.1%</b>	<b>(6,602)</b>	<b>-10.1%</b>
Share of associates' profit of equity	52	0.1%	165	0.3%
Subsidiaries management	214	0.4%	6	0.0%
Finance expense	(1,295)	-2.1%	(1,573)	-2.4%
Finance income	1,469	2.4%	1,841	2.8%
<b>Profit before taxes</b>	<b>(5,125)</b>	<b>-8.4%</b>	<b>(6,163)</b>	<b>-9.4%</b>
Income tax	56	0.1%	(60)	-0.1%
<b>Net profit (loss) of continuing operations before minority interest</b>	<b>(5,069)</b>	<b>-8.3%</b>	<b>(6,223)</b>	<b>-9.5%</b>
<b>Minority interest</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
<b>Group net profit (loss) for period</b>	<b>(5,069)</b>	<b>-8.3%</b>	<b>(6,223)</b>	<b>-9.5%</b>
<b>Base earnings (losses) per share</b>	<b>(0.148)</b>		<b>(0.182)</b>	
<b>Diluted earnings (losses) per share</b>	<b>(0.148)</b>		<b>(0.182)</b>	

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(€'000)	at December 31, 2016	at December 31, 2015
<b>ASSETS</b>		
Intangible assets	89,715	89,682
Property, Plant and equipment	2,993	3,325
Investments in affiliate companies	11	161
Investments in other companies	301	308
Deferred tax assets	1,465	1,351
Medium/long term borrow ing allow ed to affiliates companies and other Group	95	0
Other non-current assets	640	608
<b>Total non-current assets</b>	<b>95,220</b>	<b>95,435</b>
Inventories	19,337	20,198
Trade receivables	15,813	15,715
Income tax receivables	155	180
Other current assets	1,414	1,650
Other current financial assets	76	76
Cash & cash equivalents	9,186	11,430
<b>Total current assets</b>	<b>45,981</b>	<b>49,249</b>
<b>Non-current assets classified as held for sale</b>	<b>769</b>	<b>769</b>
<b>Total assets</b>	<b>141,970</b>	<b>145,453</b>
<b>LIABILITIES AND EQUITY</b>		
Share capital	8,879	8,879
Share premium reserve	136,400	136,400
Other reserves	(41,722)	(39,942)
<b>Group shareholders' equity</b>	<b>103,557</b>	<b>105,337</b>
<b>Equity attributable to minority interest</b>	<b>0</b>	<b>0</b>
<b>Total shareholders' equity</b>	<b>103,557</b>	<b>105,337</b>
Medium-/long-term borrow ing	3,475	3,401
Employee benefit obligations	2,437	2,127
Deferred tax liabilities	3,767	4,572
Other non-current liabilities	869	940
<b>Total non-current liabilities</b>	<b>10,548</b>	<b>11,040</b>
Trade payables	13,459	14,381
Short-term borrow ing	8,210	8,316
Derivative instruments	12	8
Income tax liabilities	642	866
Other current liabilities	5,542	5,505
<b>Total current liabilities</b>	<b>27,865</b>	<b>29,076</b>
<b>Total liabilities</b>	<b>38,413</b>	<b>40,116</b>
<b>Total liabilities and equity</b>	<b>141,970</b>	<b>145,453</b>

### **STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(€'000)	Share capital	Legal reserve	Share premium reserve	Conversion reserve	Other reserves	Cash flow hedge reserve	Actuarial gains/(losses) on defined benefit plans reserve	Exchange rate differences reserve	Treasury shares	Profit (loss) for period	Group shareholders' equity	Equity attributable to Minority interest	Total shareholders' equity
Balance as at December 31, 2015	8,879	1,200	136,400	10,601	(47,761)	(8)	(372)	5,718	(3,097)	(6,223)	105,337	-	105,337
2015 Result allocation	-	185	-	-	(6,408)	-	-	-	-	6,223	-	-	-
2016	-	-	-	-	-	-	-	-	-	(5,069)	(5,069)	-	(5,069)
- Performance Share Plan	-	-	-	-	60	-	-	-	-	-	60	-	60
<i>Comprehensive other profit (loss):</i>													
- Hedge transactions	-	-	-	-	-	(4)	-	-	-	-	(4)	-	(4)
Actuarial gains/(losses) on defined benefit plans for	-	-	-	-	-	-	(26)	-	-	-	(26)	-	(26)
- Foreign balance sheets conversion difference	-	-	-	2,088	-	-	-	-	-	-	2,088	-	2,088
- Exchange differences on equity investments in foreign companies	-	-	-	-	-	-	-	1,171	-	-	1,171	-	1,171
Comprehensive result	-	-	-	2,088	-	(4)	(26)	1,171	-	(5,069)	(1,840)	-	(1,840)
Balance as at December 31, 2016	8,879	1,385	136,400	12,689	(54,109)	(12)	(398)	6,889	(3,097)	(5,069)	103,557	-	103,557

### **CONCISE CASH FLOW STATEMENT**

(€'000)	at December 31, 2016	at December 31, 2015
Cash flow generated (used) in operations	(1,350)	(3,503)
Cash flow generated (used) in investment activities	(586)	(459)
Cash flow generated (absorbed) by financial assets	(642)	419
Net foreign exchange difference	(216)	869
Increases (decreases) in cash & cash equivalents	(2,794)	(2,674)
Opening amount in cash & cash equivalents	11,430	14,104
Cash & cash equivalents at end of period	8,636	11,430



### NET FINANCIAL POSITION

(€'000)		at December 31, 2016	at December 31, 2015
Cash & cash equivalents	A	(9,186)	(11,430)
<b>Cash equivalent</b>	<b>B=A</b>	<b>(9,186)</b>	<b>(11,430)</b>
Other current financial assets	C	(76)	(76)
Derivative instruments	D	12	8
Short-term borrow ing	E	8,210	8,316
<b>Short-term financial position</b>	<b>F=C+D+E</b>	<b>8,146</b>	<b>8,248</b>
<b>Short-term net financial position</b>	<b>G=B+F</b>	<b>(1,040)</b>	<b>(3,182)</b>
Medium/long term borrow ing	H	3,475	3,401
<b>Medium-/long-term net financial position</b>	<b>I=H</b>	<b>3,475</b>	<b>3,401</b>
<b>(NET FINANCIAL POSITION) NET DEBT pursuant to CONSOB instructions</b>	<b>J=G+I</b>	<b>2,435</b>	<b>219</b>
Medium/long term borrow ing allow ed to affiliates companies and other Group companies	K	(95)	0
<b>(NET FINANCIAL POSITION) NET DEBT</b>	<b>L=J+K</b>	<b>2,340</b>	<b>219</b>

### NET WORKING CAPITAL

(€'000)	at December 31, at December 31,		
	2016 (b)	2015 (a)	Changes (b-a)
Inventories	19,337	20,198	(861)
Trade receivables	15,813	15,715	98
Income tax receivables	155	180	(25)
Other current assets	1,414	1,650	(236)
<b>Current assets</b>	<b>36,719</b>	<b>37,743</b>	<b>(1,024)</b>
Trade payables	(13,459)	(14,381)	922
Income tax liabilities	(642)	(866)	224
Other current liabilities	(5,542)	(5,505)	(37)
<b>Current liabilities</b>	<b>(19,643)</b>	<b>(20,752)</b>	<b>1,109</b>
<b>Net working capital</b>	<b>17,076</b>	<b>16,991</b>	<b>85</b>