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PRESS RELEASE

# EUROTECH: BOARD OF DIRECTORS APPROVES CONSOLIDATED HALF-YEAR RESULTS AT 30 JUNE 2017

Amaro (UD), 7 September 2017

- Consolidated revenues: from €28.44 million to €22.00 million
- Consolidated gross profit: from €14.23 million to €9.87 million
- Consolidated EBITDA: from -€0.47 million to -€4.40 million
- Consolidated EBIT: from -€3.00 million to -€6.85 million
- Consolidated pre-tax result: from -€3.07 million to -€7.88 million
- Group net result: from -€2.81 million to -€7.02 million
- Net financial debt: €6.05 million
- Shareholders' equity pertaining to the Group: €92.65 million

The Board of Directors of Eurotech S.p.A. examined and approved the results of the first half of 2017 today.

The half-year that just ended was abnormal as it was affected by falling demand, with some traditional customers generating results lower than expectations, even compared to the same period of last year, starting from year-end 2016 and continuing into the early months of this year. Moreover, in the first six months, the other causes that have influenced the trend over the period, not shortening the effects outlined above, are attributable to the timing of the current negotiations, and in particular those related to the transport sector in the Italian area where the conclusion of supply contracts required more time than expected. The effects on sales will begin to appear in the second half. The upgrading of the sales structure in the US area since last April is showing its effects on the order and in the third and fourth quarters of the years will impact the sales.

In this situation, the Group has worked to further improve coordination between the various structures in the various geographical area, with the aim of increasing their efficiency and making the structures more effective to customers. The goal is to be prepared to respond more readily to customer demand with new products and technologies developed by the Group both in Embedded PC and IoT. This will reduce the time-to-market for the Group and for customers and thus improve return on investment as soon as market opportunities arise; that is when the acceleration phase in the adoption of new digital technologies will start and will enter completely on the 4th industrial revolution.

Since June, orders have increased in a steady trend as the value of backlog exceeds 25% the backlog level existing at the end of June last year, thus demonstrating the extraordinary peculiarity of the first few months of the year. A continuation of this trend of orders sees the end of the year positively. The persistence of this trend during the coming months will allow to start 2018 with a level of orders higher than at the end of 2016.

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The company continues to invest in development, marketing and sales activities in the various geographic areas. To implement its blueprint more strategically, important organizational changes have been instituted. The company considered the short terms effects that they would result due to their implementation times, but it is also aware of the positive outcomes that these changes will lead to get up to speed.

In the IoT segment, the Group continues to work on the construction of an indirect sales channel to be joined to the direct channel, which is today the main sales channel. The indirect channel will have the advantage of leveraging both the partner's customer base and the vertical competencies of the partners so that we can face a larger and varied market and where we believe that our modular supply of technological components can be even more valued. In this picture, the partnerships with VMware and RedHat fit perfectly.

The IoT market according to all the analysts is one of the most promising markets in terms of expected growth and the economic values that will be developed. These statements, in our case, appear to be confirmed as the number of opportunities the Group has been working on has doubled in the last 6 months. What we observe is that the transition from the POC (Proof of Concept) stage to the large-scale production phase takes longer than anticipated given the complexity of the digital transformation that companies must undertake.

Group revenues in the first half of 2017 totalled €22.00 million, compared to €28.44 million in the first half of 2016. The reduction in turnover, only slightly affected by the performance of the currencies in which the financial statements of the foreign companies are drawn up and the consequent translation of the local financial statements into the functional currency, the Euro, was caused by a reduction of the revenues in USA and European areas for which reasons have already been set. This missed turnover for the first six months is expected to be reasonably offset by higher sales in the second half due to the increase of orders starting in June.

The turnover generated by IoT products continues to grow over the period, although not yet with the expected rates. The Group POC's success rate (over 60%), stands at the high end of the market. The success of the POC shows that investment in technology and products is going in the right direction and revenue growth will be even faster when customers, who have completed the POC phase, will go to the large scale implementation phase.

With reference to the geographical areas of reference, during the half-year the Japanese area was the one where the biggest turnover was generated, with 43.8% of the total, despite a slight decrease compared to the turnover generated in the first half of 2016. The USA area made the same impact it did last year, although now it is the second most important area (it was the area that had generated the largest turnover in the first half of 2016). Lastly, the European area is awaiting business in the transport sector, whose slowness in materialising brings about results that are still unsatisfactory.

Gross profit in the period was €9.87 million, accounting for 44.9% of revenues, compared to 50.0% in the first half of 2016. Compared to the half-year of the previous year, the drop is related to the turnover level lower than that of the previous year, to several sales having margins below standard on strategic account for future development of the business and to some allocations made on the inventory figures to adapt their amount to the possible realisable value. These figures are expected to become absorbed with recovery of the turnover over the next six months in order to get a gross profit close to 50% at year-end.

In recent years, as well as in these six months of 2017, management paid close attention to reducing operating costs. During the first half of 2017, operating costs before adjustments decreased by €1.10 million (6.24%), falling from €17.58 million in the first half of 2016 to €16.48 million in the first half of 2017. This reduction in operating costs is mostly due to a reduction of the net absolute number of employees after measures were take to rationalise operational structures in general in addition to cutting costs for services deemed unnecessary during this stage of strategic focus. This reduction in operating costs made an impact on Group EBITDA.

EBITDA in the periods considered went from -€0.47 million in the first half of 2016 to -€4.40 million in the first half of 2017. EBITDA as a percentage of revenues was reported at -20.0% compared to -1.7% in the first half of 2016. The difference between one period and the other is due to the capital gains generated by the sale of the IPS Sistemi Programmabili S.r.l. subsidiary last year (€1.70 million), the reduced margin after turnover dropped in the comparative periods and the lower operating costs mentioned above.

EBIT came to -€6.85 million in the first half of 2017, compared with -€3.00 million in the first half of 2016. EBIT as a percentage of revenues was -31.2% in the first half, compared with -10.6% in the same period of 2016. This performance reflects the EBITDA performance described above as well as depreciation and amortisation recognised in the income statement in the first six months of 2017. Depreciation and amortisation derive from both operating assets becoming subject to depreciation in the first half and the non-monetary effects arising from price allocation relating to the acquisition of Advanet Inc. The effect on EBIT of the higher values attributed as a result of PPA was €1.22 million in the first half of 2017, compared with €1.19 million in the first half of 2016.

Affected by the performance of the currencies, financial management during the first six months of 2017 generated a loss of €0.91 million, compared with a loss of €0.14 million in the first six months of 2016. The foreign exchange differences due to the foreign currencies trend mostly contributed to this negative performance. Overall, in fact, foreign exchange differences had a negative effect on the period of €734 thousand (compared with a positive effect of €136 thousand in the first half of 2016), while financial management relating to interest had an effect of €174 thousand (€277 thousand in the first half of 2016).

A pre-tax loss of €7.88 million was registered for the first half of 2017 (compared with a loss of €3.07 million in the same period a year previously). This performance was influenced by the factors outlined above. The effect of PPA on the pre-tax result was €1.22 million in the first half of 2017 and €1.19 million in the first half of 2016.

The Group registered a net loss of €7.02 million in the first half of 2017, compared with a net loss of €2,81 million in the first half of 2016. Not only does it reflect the changes in the pre-tax result, but the performance also was caused by the effect of the tax burden on the Group's various units.

At 30 June 2017 the Group had net financial debt of €6.05 million. Here it should be mentioned that most of the cash flow historically occurs in the second half of the year, particularly due to the different distribution of turnover between the two six-month periods, and in this year the effect will be even more evident.

Working capital was slightly lower than the figure reported at 31 December 2016, and considerably lower than the figure posted in the first half of 2016. It amounted to €15.02 million, compared with €17.08 million at year-end 2016 and €16.75 million at 30 June 2016.

*Pursuant to the provisions set out by CONSOB, it is reported that the Consolidated Half-Year Financial Report at 30 June 2017 is at the disposal of whoever requests it at the company's registered office. The Report is also available on the Eurotech website at www.eurotech.com (investors section) and on the "1Info" Centralised Storage system at www.1info.it.*

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

**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 solutions, 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.

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*ANNEXES - FINANCIAL STATEMENTS*

## CONSOLIDATED INCOME STATEMENT

| CONSOLIDATED INCOME STATEMENT (€ '000) | 1H 2017 (b) | of which related parties | % | 1H 2016 (a) | of which related parties | % | change (b-a) amount | change (b-a) % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 22,003 | 370 | 100.0% | 28,439 | 931 | 100.0% | (6,436) | -22.6% |
| Cost of material | (12,130) | (418) | -55.1% | (14,209) | (552) | -50.0% | (2,079) | 14.6% |
| **Gross profit** | **9,873** | | **44.9%** | **14,230** | | **50.0%** | **(4,357)** | **-30.6%** |
| Services costs | (5,807) | (12) | -26.4% | (6,091) | (26) | -21.4% | (284) | -4.7% |
| Lease & hire costs | (898) | | -4.1% | (887) | | -3.1% | 11 | 1.2% |
| Payroll costs | (9,397) | | -42.7% | (10,219) | | -35.9% | (822) | 8.0% |
| Other provisions and costs | (377) | | -1.7% | (379) | | -1.3% | (2) | 0.5% |
| Other revenues | 2,208 | | 10.0% | 2,873 | 1,705 | 10.1% | (665) | -23.1% |
| *- of which non recurrent* | | | | *1,705* | *1,705* | | | |
| **EBITDA** | **(4,398)** | | **-20.0%** | **(473)** | | **-1.7%** | **(3,925)** | **n.s.** |
| Depreciation & Amortization | (2,456) | | -11.2% | (2,532) | | -8.9% | (76) | -3.0% |
| **EBIT** | **(6,854)** | | **-31.2%** | **(3,005)** | | **-10.6%** | **(3,849)** | **128.1%** |
| Finance expense | (1,314) | | -6.0% | (702) | | -2.5% | 612 | -87.2% |
| Finance income | 406 | 4 | 1.8% | 561 | | 2.0% | (155) | -27.6% |
| **Profit before tax** | **(7,878)** | | **-35.8%** | **(3,068)** | | **-10.8%** | **(4,810)** | **156.8%** |
| Income tax | 861 | | 3.9% | 259 | | 0.9% | (602) | -232.4% |
| **Net profit (loss) before minority interest** | **(7,017)** | | **-31.9%** | **(2,809)** | | **-9.9%** | **(4,208)** | **149.8%** |
| **Minority interest** | **0** | | **0.0%** | **0** | | **0.0%** | **0** | **n/a** |
| **Group net profit (loss)** | **(7,017)** | | **-31.9%** | **(2,809)** | | **-9.9%** | **(4,208)** | **149.8%** |
| **Base earnings per share** | **(0.205)** | | | **(0.082)** | | | | |
| **Diluted earnings per share** | **(0.205)** | | | **(0.082)** | | | | |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (€'000) | at June 30, 2017 | of which related parties | at December 31, 2016 | of which related parties |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Intangible assets | 84,806 | | 89,715 | |
| Property, Plant and equipment | 2,674 | | 2,993 | |
| Investments in affiliate companies | 0 | | 11 | |
| Investments in other companies | 167 | | 301 | |
| Deferred tax assets | 1,839 | | 1,465 | |
| Medium/long term borrowing allowed to affiliates companies and other Group | 92 | 92 | 95 | 95 |
| Other non-current assets | 618 | | 640 | |
| **Total non-current assets** | **90,196** | | **95,220** | |
| Inventories | 18,543 | | 19,337 | |
| Trade receivables | 9,591 | 606 | 15,813 | 1,037 |
| Income tax receivables | 403 | | 155 | |
| Other current assets | 1,990 | | 1,414 | |
| Other current financial assets | 84 | | 76 | |
| Cash & cash equivalents | 8,615 | | 9,186 | |
| **Total current assets** | **39,226** | | **45,981** | |
| **Non-current assets classified as held for sale** | **8** | | **769** | |
| **Total assets** | **129,430** | | **141,970** | |
| **LIABILITIES AND EQUITY** | | | | |
| Share capital | 8,879 | | 8,879 | |
| Share premium reserve | 136,400 | | 136,400 | |
| Other reserves | (52,627) | | (41,722) | |
| **Group shareholders' equity** | **92,652** | | **103,557** | |
| **Equity attributable to minority interest** | **0** | | **0** | |
| **Total shareholders' equity** | **92,652** | | **103,557** | |
| Medium-/long-term borrowing | 4,519 | | 3,475 | |
| Employee benefit obligations | 2,436 | | 2,437 | |
| Deferred tax liabilities | 3,279 | | 3,767 | |
| Other non-current liabilities | 709 | | 869 | |
| **Total non-current liabilities** | **10,943** | | **10,548** | |
| Trade payables | 9,215 | 153 | 13,459 | 300 |
| Short-term borrowing | 10,314 | | 8,210 | |
| Derivative instruments | 11 | | 12 | |
| Income tax liabilities | 183 | | 642 | |
| Other current liabilities | 6,112 | | 5,542 | |
| **Total current liabilities** | **25,835** | | **27,865** | |
| **Total liabilities** | **36,778** | | **38,413** | |
| **Total liabilities and equity** | **129,430** | | **141,970** | |

## 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, 2016 | 8,879 | 1,385 | 136,400 | 12,689 | ( 54,109) | ( 12) | ( 398) | 6,889 | ( 3,097) | ( 5,069) | 103,557 | - | 103,557 |
| 2016 Result allocation | - | - | - | - | ( 5,069) | - | - | - | - | 5,069 | - | - | - |
| Profit (loss) as at June 30, 2017 | - | - | - | - | - | - | - | - | - | ( 7,017) | ( 7,017) | - | ( 7,017) |
| - Performance Share Plan | - | - | - | - | 146 | - | - | - | - | - | 146 | - | 146 |
| *Comprehensive other profit (loss):* | | | | | | | | | | | | | |
| - Hedge transactions | - | - | - | - | | 1 | - | - | - | - | 1 | - | 1 |
| - Foreign balance sheets conversion difference | - | - | - | ( 1,129) | - | | | - | - | - | ( 1,129) | - | ( 1,129) |
| - Exchange differences on equity investments in foreign companies | - | - | - | - | - | - | - | ( 2,906) | - | - | ( 2,906) | - | ( 2,906) |
| Comprehensive result | - | - | - | *( 1,129)* | - | *1* | - | *( 2,906)* | - | *( 7,017)* | ( 11,051) | - | ( 11,051) |
| Balance as at June 30, 2017 | 8,879 | 1,385 | 136,400 | 11,560 | ( 59,032) | ( 11) | ( 398) | 3,983 | ( 3,097) | ( 7,017) | 92,652 | - | 92,652 |

## CONCISE CASH FLOW STATEMENT

| (€'000) | | at June 30, 2017 | at December 31, 2016 | at June 30, 2016 |
|---|---|---|---|---|
| Cash flow generated (used) in operations | A | (3,192) | (1,426) | (1,632) |
| Cash flow generated (used) in investment activities | B | (225) | (34) | 1,209 |
| Cash flow generated (absorbed) by financial assets | C | 2,949 | (566) | (570) |
| Net foreign exchange difference | D | (103) | (218) | 26 |
| Increases (decreases) in cash & cash equivalents | E=A+B+C+D | (571) | (2,244) | (967) |
| Opening amount in cash & cash equivalents | | 9,186 | 11,430 | 11,430 |
| Cash & cash equivalents at end of period | | 8,615 | 9,186 | 10,463 |

## NET FINANCIAL POSITION

| (€'000) | | at June 30, 2017 | at December 31, 2016 | at June 30, 2016 |
|---|---|---|---|---|
| Cash & cash equivalents | A | (8,615) | (9,186) | (10,463) |
| **Cash equivalent** | **B=A** | **(8,615)** | **(9,186)** | **(10,463)** |
| Other current financial assets | C | (84) | (76) | 0 |
| Derivative instruments | D | 11 | 12 | 17 |
| Short-term borrowing | E | 10,314 | 8,210 | 8,024 |
| **Short-term financial position** | **F=C+D+E** | **10,241** | **8,146** | **8,041** |
| **Short-term net financial position** | **G=B+F** | **1,626** | **(1,040)** | **(2,422)** |
| Medium/long term borrowing | H | 4,519 | 3,475 | 3,501 |
| **Medium-/long-term net financial position** | **I=H** | **4,519** | **3,475** | **3,501** |
| **(NET FINANCIAL POSITION) NET DEBT pursuant to CONSOB instructions** | **J=G+I** | **6,145** | **2,435** | **1,079** |
| Medium/long term borrowing allowed to affiliates companies and other Group companies | K | (92) | (95) | (90) |
| **(NET FINANCIAL POSITION) NET DEBT** | **L=J+K** | **6,053** | **2,340** | **989** |

## NET WORKING CAPITAL

| (€'000) | at June 30, 2017 (b) | at December 31, 2016 (a) | at June 30, 2016 | Changes (b-a) |
|---|---|---|---|---|
| Inventories | 18,543 | 19,337 | 20,792 | (794) |
| Trade receivables | 9,591 | 15,813 | 13,170 | (6,222) |
| Income tax receivables | 403 | 155 | 301 | 248 |
| Other current assets | 1,990 | 1,414 | 1,349 | 576 |
| *Current assets* | *30,527* | *36,719* | *35,612* | *(6,192)* |
| Trade payables | (9,215) | (13,459) | (12,114) | 4,244 |
| Income tax liabilities | (183) | (642) | (251) | 459 |
| Other current liabilities | (6,112) | (5,542) | (6,495) | (570) |
| *Current liabilities* | *(15,510)* | *(19,643)* | *(18,860)* | *4,133* |
| **Net working capital** | **15,017** | **17,076** | **16,752** | **(2,059)** |