EUROTECH
Imagine. Build. Succeed.

ANNUAL REPORT
2018

This document has been translated into English for the convenience of readers outside Italy. The original Italian document should be considered the authoritative version.

The financial statements included in this document are unaudited.

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EUROTECH S.p.A.
Registered offices: Via Fratelli Solari 3/A, Amaro (Udine), Italy
Share capital: €8,878,946 fully paid in
Tax code and
Udine Company Register no. 01791330309

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Letter to shareholders

Dear shareholders,

2018 was the year in which investments made in recent years began to be transformed into tangible economic results. The year confirmed from the first months the trend that had already started in the second half of 2017. All the geographical areas in which we operate – Europe, Japan and the USA – showed a good trend in orders, which remained strong throughout 2018.

This positive trend enabled us to achieve a turnover of 79 million euros for the year, with an EBITDA over 10% on revenues at over 8 million euros and a net profit of 5.7 million euros. We have also brought the financial position to a positive net cash of almost 1 million euros, thanks to a cash generation of approximately 6.6 million euros, and we have reduced working capital both in absolute terms and in percentage terms, bringing it to just under 20% of turnover.

The year also ended with a significant growth in orders, as it had already happened in 2017. At the end of 2018, the order book for 2019 shows an increase of 55% compared to the order book at the end of 2017 for 2018. This figure comprises two good news: we can aim to grow in double digit also in 2019 and we have more visibility than in the past on the medium-term trend of our business. All this allows us to work better from the point of view of production and delivery of orders, for the benefit of controlling both working capital and costs.

Results from 2018 continue to show the activation of the operating leverage following the increase of turnover and how the increase in turnover and first margin are moved on to the Ebitda. The turnover relating to the Internet of things (IoT) continued to grow in 2018, reaching around 10% of total turnover. However, already starting from 2019, we expect a further acceleration of the growth of IoT turnover, thanks to customers moving their projects to mass production after successfully completing their trials. Among the new references we have secured during the year, special mention should be made of DB Cargo, the largest European rail freight operator, who has chosen our IoT platform and our gateways for the creation of the digital twin of the locomotive for part of its fleet.

Our increasingly visible presence in the Industrial IoT field is witnessed by the results of a Gartner survey (in Germany, China, Japan and the USA) which places Eurotech among the top 10 suppliers that companies would choose for the implementation of an IoT platform, and the recognition of Frost & Sullivan that awarded Eurotech as a global leader in innovation for the IoT platform Everyware Cloud.

During 2018 the Group continued its investment strategy in product portfolio innovation, both in terms of hardware and software. As I also said last year, these investments want to position Eurotech, more and more and better and better, within the new technological paradigms that, in addition to the Internet of things, include Edge computing. Within this new classification of computing, our IoT gateways and High Performance Edge Computers are to be placed. In particular, HPECs are computers able to exploit outside the datacenters and near or inside the machines ("at the edge") the deep-learning algorithms that are the basis of the development of artificial intelligences. All these developments are allowing us to fully enter into the new phase of digital transformation and more precisely into the era of autonomy, in which even more investment in Industry 4.0 will flourish. To serve these new markets, Eurotech's product portfolio has been divided into three macro areas: Embedded Computers, Edge Computers and Software for the Internet of Things.

Last year I talked about the inevitability for companies to invest in digitalisation and it is precisely what we have finally begun to see materialize in 2018. In this regard, we have continued to expand our ecosystem of technological partners and system integrators, who will use our technologies in the digitization projects for their clients. Eurotech's technology components portfolio for Industry 4.0 is also modular and thus enables the activation of ecosystems that include also companies that in the past were only direct competitors. In this new era, whoever finds the way to collaborate wins, not who isolates himself: this is why we have invested heavily in a logic of open innovation that by definition is ecosystemic. We have thus shifted from competition to coopetition, with greater benefits for all. The attention to the issues of cybersecurity put into the realization of the IoT technological components is one of the added values of our technological proposal that is much appreciated by the market. Surely Eurotech today has the right technologies to satisfy the digitalization demand that the industrial market will require in the coming years.

In conclusion, in 2018 the efforts made to innovate our product portfolio have not only begun to bear the expected results, but they also positioned Eurotech among the market leaders as regards to Industry 4.0 and the digital transformation of companies. The markets that are opening up are new 'blue oceans' that transform, reshuffle and sometimes dismantle the old 'red seas' of computation, automation and telemetry, with important growth opportunities for those who understand the trends and innovate accordingly. I am convinced that Eurotech has all the credentials to face with optimism the years to come, now more than ever, given that the market is confirming the validity of the investments made and cash generation has returned to the expected levels.

Since we adopted an open innovation model for software components and a mostly fabless production model for hardware components we are lean and we have an organization that can scale the size of the business in a more agile way. A number of challenges remain to be overcome, including the full activation of the new service models with recurring subscriptions and the search and hire of new human resources equipped with the appropriate technical skills.

The wind has got up: we had prepared for this so we took off. But we are only at the beginning: we will continue with passion and dedication to work so that the wind of digital transformation is always in our sails, so as to take us on a great journey into the new blue oceans of the fourth industrial revolution.

18 March 2019

The Chief Executive Officer
signed Roberto Siagri

Profile of the Eurotech Group

Introduction to Eurotech

Eurotech is a global company with a strong international focus, which generates sales on three continents. It is a Group that has operating locations in Europe, North America and Japan, led and coordinated by the headquarters in Italy.

The technological paradigm followed by Eurotech is 'pervasive computing' or 'ubiquitous computing'. The pervasive concept combines three key factors: (1) miniaturisation of 'smart' devices, i.e. devices capable of processing information; (2) their spread in the real world – inside buildings and equipment, on board vehicles, worn by people, and disseminated in the environment; and (3) their ability to connect with each other in a network and communicating.

In this perspective, Eurotech carries out research and development activities aimed towards the production and sale of high capacity, low consumption miniaturized computers, that are easily connected together and to the "cloud" through the new paradigm, the Internet of Things (IoT).

The Group's catalogue is modular featuring different levels of integration hardware and software and it is structured as follows:

- base components: electronic processing and communication boards of varying proprietary formats, standard conformant (PC/104, Com-Express, VME, CompactPCI, etc.);
- high and very high performance, low energy consumption processing and communication sub-systems for fixed and mobile applications, made from base components and tertiary parts (product lines: BoltMAR, BoltCOR, DynaCOR, etc.);
- Ready to use devices and sensors made from components and subsystems with integrated specific software (product lines: ReliaGATE and DynaGATE for IoT Gateways, the BoltGATE line for Edge Computers, and as for smart sensors, the PCN and the ReliaSENS);
- software for base component cloud-integration, subsystems and devices: Everyware Software Framework (ESF) on Operational Technology (OT) and Everyware Cloud integration platform on the Information Technology (IT) side;
- personalized product solutions design to simplify their integration in customer products.

Eurotech offerings can be used for multiple applications, both traditional and those emerging. The Group's presence is strongest in the industrial manufacturing, transportation, medical, energy and defence sectors. What our customers share is a common need to find not just the right supplier, but a centre of technological competence and they recognize that Eurotech can provide the tools to innovate their products as well as their way of doing business. Our goal with our products is to reduce Time-to-Market and Total Cost of Ownership for our customers so that they can concentrate on their "core" business.

With the emergence of Industry 4.0 and the diffusion of artificial intelligence and collaborative robotics, much of the processing power that in the past moved from the "periphery" to the "centre" (Cloud computing) is now returning to the "periphery" (Edge computing). The Edge computing paradigm is revitalizing both the traditional embedded computer sector as well as the High Performance Computer (HPC) sector. More and more embedded computers will be in demand at the periphery, they must be connected to the cloud and the connection must be guaranteed by IoT platform software. Eurotech, a step ahead of the market, developed an IoT platform for industrial IoT, marketed as the Everyware Cloud and thanks to the open innovation model adopted for its development, is becoming a de-facto standard.

Regarding HPC, these instead must be re-shaped: they must start being miniaturised the way that personal computers were miniaturised in the 1990s in order to be used at the "periphery". The HPC moves therefore from the "centre" to the "periphery" to become HPEC (High Performance Embedded Computer). Thanks to the know-how acquired throughout HPC development and the design of HPC hot water, low pressure cooling, Eurotech is one of just a handful of companies that is able to offer very compact HPECs that are able to operate in very small spaces typical of mobile applications and is always ready to meet the changing needs of our customers.

Since its foundation in 1992, Eurotech has concentrated its expansion on four guiding principles, and while evolving over time have supported and continued to support growth and adaptation to the new market demands:

- Fabless production model
- Innovation for future sustainability
- Excellence within market standards
- Products that are always more interconnectable and easier to use.

Eurotech from the beginning adopted a fabless production model, characterized by a near total absence of production facilities. Along the value chain Eurotech is responsible for the research, development, engineering and marketing of products, delegating almost entirely production, in outsourcing, to contract manufacturers chosen each time based on market demands, complexity, and the quantity of the requested product

In order to excel and guarantee our customers a greater competitive advantage, an incremental and disruptive innovation system was activated, one that not only evolves current products, it intercepts new, latent requests not yet manifested by the market. Beyond its internal research activities Eurotech has established external ties with Universities and research Institutions to create a "knowledge network" meant to feed innovation and is a contributing factor in maintaining Eurotech's position as technological leader.

Eurotech has always aimed at excelling within industry standards. It understands that in order to provide its customers with solutions that perform and are open to the future, excellence cannot be achieved exclusively through proprietary solutions, but as much as possible with state-of-the-art solutions that adhere to existing standards and when not present, that contribute to the creation of such standards, as we have achieved in the Internet of Things (MQTT protocol and the Kura and Kapua open source projects).

Finally, for the company's sustainability and the scalability of the system, constant attention has been given to the progressive evolution of the offer by adding to it, devices that are increasingly integrated and easier to interconnect over the network and that also allow to follow, thanks to the IoT, business models with recurring revenues.

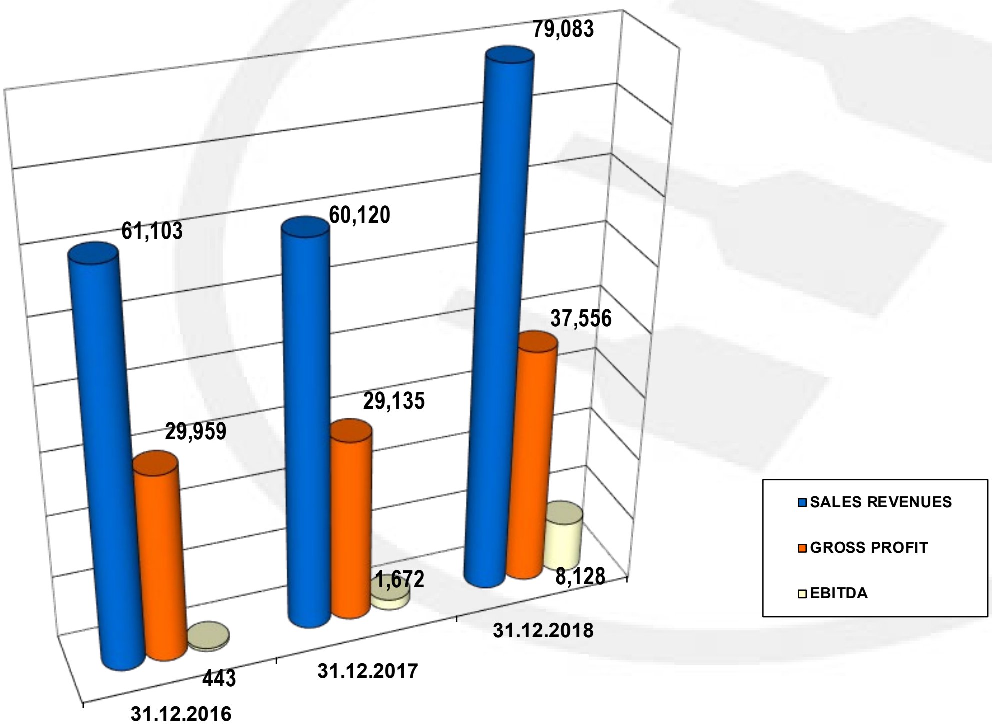
The Eurotech Group in numbers

Introduction

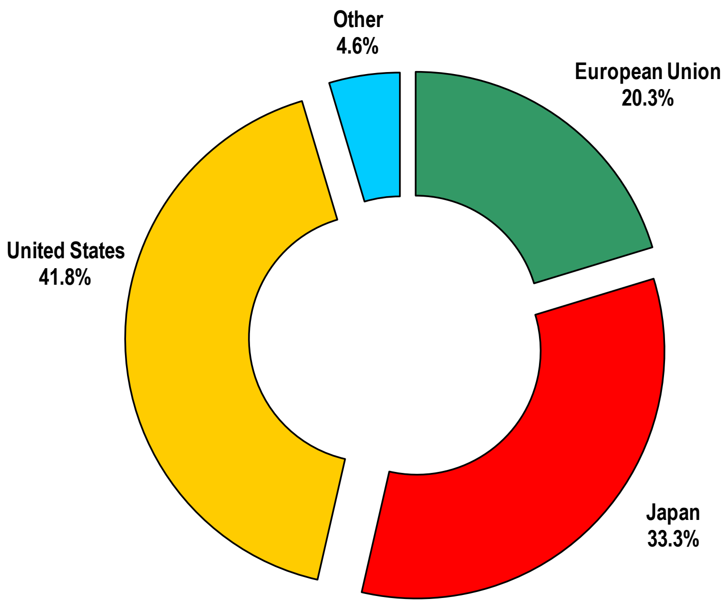
The Eurotech Group's business and financial results for FY2018 and comparative periods have been drawn up according to the international accounting and financial reporting standards (IASs/IFRSs) issued by the International Accounting Standards Board and endorsed by the European Union. Unless otherwise stated, data are expressed in thousands of euro.

Group business and financial results

(€'000)	FY 2018	%	FY 2017	%	FY 2016	%
OPERATING RESULTS						
SALES REVENUES	79,083	100.0%	60,120	100.0%	61,103	100.0%
GROSS PROFIT MARGIN	37,556	47.5%	29,135	48.5%	29,959	49.0%
EBITDA	8,128	10.3%	1,672	2.8%	443	0.7%
EBIT	5,844	7.4%	(2,985)	-5.0%	(5,565)	-9.1%
PROFIT (LOSS) BEFORE TAXES	5,624	7.1%	(4,561)	-7.6%	(5,125)	-8.4%
GROUP NET PROFIT (LOSS) FOR THE PERIOD	5,682	7.2%	(4,672)	-7.8%	(5,069)	-8.3%



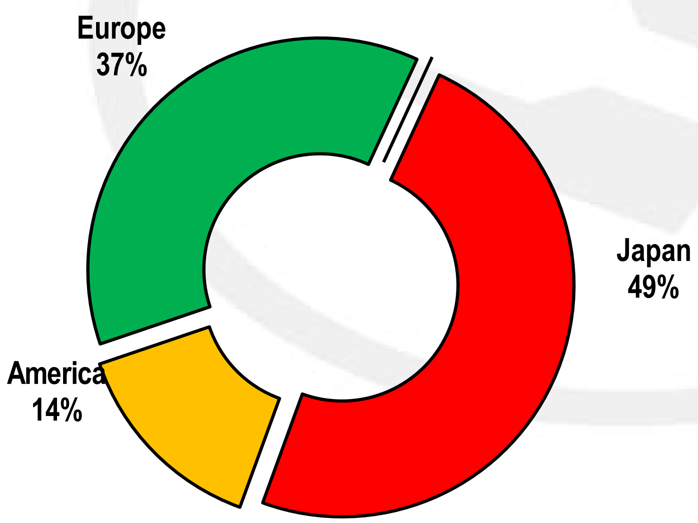
2018 sales revenues by geographical area



Group employees

	at December 31, 2018	at December 31, 2017	at December 31, 2016	at December 31, 2015
EMPLOYEES	302	294	321	341

2018 breakdown of employees by geographical area



Milestones in our history

1992-1994: the 'ideas factory'

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

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

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

1995-2000: from laboratory to industry

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

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

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

The HQ is moved to Amaro (Udine) and the company becomes a joint-stock company (S.p.A.).

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

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

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

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

2000 The US commercial branch is set up.

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

2001-2007: external growth and internationalisation

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

Development starts of the new generation of APEnext HPCs

2002 Acquisition of IPS S.r.l. of Varese, permitting extension of the product offering to the industrial sector.

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

2004 Eurotech acquires French company Erim (now Eurotech France S.a.s.), thus entering what is a strategic market for the Group.

2005 On 30 November, Eurotech S.p.A., the Parent Company of the Eurotech Group, is listed in the STAR (Segment for High Requirement Stocks) of the Milan stock market. The total number of shares on offer was 8,652,000; of these 7,450,000 were new shares, while 1,202,000 were existing shares put up for sale by the venture capital fund First Gen-e, which ceased to be a shareholder at the time of listing. The remaining 1,297,992 shares owned by First Gen-e prior to the IPO go to form the green shoe, wholly exercised in view of the very high subscription rate of investors. At the end of the IPO, the total number of shares rose to 18,625,296 and the net proceeds of the capital increase came to €25.3 million.

2006 Acquisition is completed of the Arcom Group, consisting of 100% of the share capital of the companies Arcom Control Systems Ltd. based in the UK (Cambridge) and Arcom Control Systems Inc. based in the US (Kansas City).

In June, Eurotech's Board of Directors decides to increase share capital by issuing ordinary shares for a total value of €109.2 million.

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

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

Eurotech unveils Janus, the world's first computing platform capable of achieving the astounding number of 8 PetaOps, i.e. 8 million billion operations per second.

Eurotech announces completion of the acquisition of 65% of the shares of Advanet, a Japanese company based in Okayama, and its subsidiaries Spirit 21, Vantec and Advanet R&D (together, the 'Advanet Group'). The purchase agreement also provided for a put & call mechanism for the remaining 35% of the shares of Advanet that was exercised in 2010/2011.

2008-2010: integration and synergies

2008 The innovative Catalyst Module is created, based on the brand new Intel® Atom™ processor.

On 1 July, the merger between ADS and Arcom is completed and Eurotech Inc. is officially created. This is a key step in the process of integration of the Eurotech Group after the major acquisitions carried out in the previous two years.

To strengthen the strategic partnership initiated in July 2006, in November Leonardo S.p.A. (formerly Finmeccanica S.p.A.) concludes the acquisition of 11.1% of the Share Capital of Eurotech.

Eurotech and Intel initiate a joint venture to develop HPC systems based on Intel processors that will satisfy the computing requirements of medical, industrial and scientific users.

2009 Eurotech joins PROSPECT e.V. as a member (PROmotion of Supercomputing and PEtaComputing Technologies), a leading European consortium for the development and use of next-generation supercomputers, headed by three institutions that are also among the biggest European supercomputer: the Jülich Supercomputing Centre, the Barcelona Supercomputing Centre and the Leibniz-Rechenzentrum Garching.

Eurotech joins the United Nations Global Compact.

2010 Eurotech announces the introduction of Aurora Au-5600, the "green" supercomputer with liquid cooling, based on the cutting edge Intel® Xeon® 5600 processor.

Eurotech signs a USD 7.5 million contract in the US with King County Metro Transit to install DuraMAR Mobile Access Routers in more than 1,000 buses in the Seattle area.

Eurotech obtains a USD 10 million contract to supply embedded computers for electronic ticketing systems from Cubic Transportation, the global leader in supplying complete solutions for managing the automatic payment of public transportation tickets.

Eurotech exercises the scheduled option to purchase another 25% of the Advanet Inc. capital and thus has 90% of the Japanese subsidiary.

Eurotech becomes Solution Technology Integrator for Cisco, thus getting access to technological and commercial resources of the American giant.

2011-today: towards the Internet of Things

2011 The ESF platform (Everyware™ Software Framework) by Eurotech is used in the reference designs for Machine-to-Machine (M2M) gateways based on Intel® Atom™ processes to significantly reduce the development cycle of applications and services based on the connection between devices. The reference platform for the M2M gateway based on Intel® Atom™ with Wind River Linux and Everyware Software Framework by Eurotech, allow developers to implement new services more quickly, easily and economically.

Eurotech acquires the remaining shares of Advanet Inc, equal to 10% of the share capital, and thus obtains 100% of the Japanese subsidiary.

Starting on 1 June, Dynatem Inc becomes part of the group, with registered offices in Mission Viejo, California.

Mondialpol Service S.p.A., the national operator in Italy of cash transport and counting services for Intesa Sanpaolo, decides to monitor activities in real time through cloud-ready equipment from Eurotech with cloud computing data management.

Eurotech and IBM donate the Message Queuing Telemetry Transport (MQTT) protocol to the Open Source Eclipse Foundation community with the declared intent of creating a new standard for the connectivity of the Internet of Things. Just like the HyperText Transfer Protocol (HTTP) allowed open communication through the Internet, the creation of an open messaging protocol can have the same impact on creating distributed intelligent systems. In this sense, the MQTT technology can represent the missing link necessary to inaugurate a new level of accessibility and connectivity between the systems in addition to allowing the creation of next generation Machine-to-Machine (M2M) solutions.

2012 Eurotech launched version 2.0 of its Everyware Cloud™. This cloud-based M2M platform is a base for transmission and management of M2M data in an industrial, logistical and transport context.

Eurotech unveiled the new gateway, industrial grade multi-service family designed to enable M2M applications in a broad variety of environments. Based on the Intel® Atom™ processor, it delivers communications, computation power, a middleware application framework and an integration platform for rapid implementation and immediate activation of M2M services.

2013 Eurotech expands distribution agreement with Avnet Electronics Marketing in North America to include M2M platform.

RTX, a provider of Internet Protocol (IP) based low-power wireless communication solutions, signs a partnership with Eurotech to help customers connect devices and send data to the cloud.

On 1 October Eurotech announces that it signed with Curtiss-Wright Controls, Inc. – a segment of Curtiss-Wright Corporation – for the sale of 100% of the share capital of Parvus Corporation, the American fully-owned subsidiary of the Eurotech Group specialised in embedded computers and COTS subsystems for the US Defence market. The consideration for the transaction has been set by the parties at USD 38 million (equal to approx. €28.1 million at current exchange rates), net debt free.

2014 Eurotech achieves the qualification of "Partner" supplier from John Deere in its "Achieving Excellence" programme. It is the highest supplier classification level.

Eurotech announces DynaCOR 30-10, the new Core i7 fanless rack mount computer ideal for critical environments.

Eurotech announces a new range of products IoT/M2M: the embedded module Catalyst BT, a native IoT/M2M module that supports the Eurotech scalable Everyware Device Cloud platform. It is also compatible with ESF (Everyware Software Framework); the rugged ReliaCELL cellular module specially designed for being integrated with multi-service gateways to ensure fast and highly reliable cellular connectivity in M2M applications; the ReliaSENS 18-12 environmental monitoring system connected to the cloud and equipped with high precision sensors to measure air pollution, with access to data in real time and the ReliaGATE 15-10 multi-service gateway for M2M applications, a sturdy and reliable gateway and edge controller for aggregating, processing and transferring data, ideal for M2M applications.

Everyware Software Framework (ESF) joins the Intel Software Stack for the Internet of Things (IoT), thus completing the validation of Everyware Software Framework (ESF) on the Intel® Gateway Solutions for the Internet of Things (IoT). By using ESF on devices and at the nodes of the sensor networks, the device and data management functions can be accessed via open, standard-based solutions to get maximum flexibility in the Internet of things and in the Machine-to-Machine (M2M) solutions.

Eurotech shares the open standard application framework for gateways designed for M2M services with the Eclipse community through the Eclipse Kura project, an open source incubator whose purpose is to implement an OSGi (Open Service Gateway initiative) container for M2M applications on services gateways.

Eurotech becomes Red Hat ISV Advanced Partner. The collaboration fortifies the offer of IT technologies available to M2M/IoT applications. Eurotech is extending its ecosystem on a global scale and is establishing new relationships with partners that share the same technological vision and propensity to innovate. This agreement opens up new opportunities in the vertical markets in which the Red Hat solutions play an important role and broadens the field of action of today's software technology.

2015 The collaboration agreement between Eurotech and InVMA Limited, a company specialised in the IoT and M2M field, offers the chance to combine capabilities and experience necessary for supplying customers a complete IoT/M2M solution that ranges from sensors and smart gateways to the Eurotech EC (Everyware Cloud) platform and highly flexible applications for any sector.

Eurotech and WebRatio announce the strengthening of their technological collaboration to develop Internet of Things (IoT) applications on the Enterprise level by integrating the complexity of the M2M/IoT operating technologies in a simple to use and simple to integrate Platform-as-a-Service (PaaS).

Collaboration between iNebula and Eurotech for emerging iNebula Connect, the first cloud service that offers a distributed and secure platform designed to support "smart objects", collect data, archive them and distribute them in a smart way with high value application workloads and to perform real time analyses.

Eurotech installs the Booster system to complete the installation of the DEEP system at the Jülich Supercomputing Centre (JSC) which started at the end of 2012 when the Cluster was put into operation.

Eurotech M2M technology is selected for interconnecting Ariston Thermo Group products. In this project, Eurotech provides Ariston Thermo Group with its technologies and expertise in M2M to consolidate the role of Ariston Thermo Group in the new Internet of Things paradigm, and it in fact is entering the big Italian industrial world with a flexible, scalable solution featuring an intuitive interface, with an immediate advantage not only for the end customer, but for service people and Ariston Thermo as well, which is in this way enabled to follow its product in real time starting from its very entry on the market.

The partnership agreement with Arkessa, global supplier of multi-network cellular connectivity, has the aim to deploy the best IoT solutions on a global scale. The integration between Everyware Cloud, the Eurotech platform for Device & Data Management, and the Arkessa connectivity management platform finally gives customers a single solution for managing their connected assets while exceptionally simplifying the implementation of IoT projects.

2016 Red Hat, Inc. and Eurotech announced a collaboration to simplify IoT integration and accelerate implementations of IoT projects. Red Hat and Eurotech have combined their complementary technologies with the intention of building an end-to-end architecture for IoT that will seek to bridge the gap between operational (OT) and information technology (IT).

Eurotech has signed a partnership agreement with Hitachi High-Technologies Europe GmbH (Hitachi High-Tech Europe), a subsidiary of Hitachi High-Technologies Corporation (Hitachi High-Tech, TSE:8036) with an emphasis on creativity and cutting-edge technology. The focus is on valuable industrial equipment and solutions that contain motors, compressors, generators and transmission systems that are found, as an example, in manufacturing machines and wind turbine systems.

In April Eurotech subscribed to a contract with King County Metro Transit to deliver its mobile access router to buses in the greater-Seattle area.

In June, the Company joined Dell IoT Solutions Partner Program as Associate Partner.

Red Hat and Eurotech announced the launch of a new, open source Eclipse Foundation project to manage IoT edge devices, from connectivity and configuration to application lifecycle. The co-sponsored project, Eclipse

Kapua, combines with the existing Eclipse Kura project to offer IoT developers and end users an open platform for end-to-end IoT implementations, helping them to avoid costly, proprietary lock-in and accelerate community-driven development. In November they announced the availability of the first code contribution for Eclipse Kapua, a modular platform providing the services required to manage IoT gateways and smart edge devices.

Eurotech has signed an Indirect Solutions Technology Integrator agreement with Cisco. This agreement enables Eurotech to offer purpose built devices, like industrial or transportation grade gateway systems, together with Cisco software worldwide.

2017 Eurotech onboards VMWARE technology for its own IoT systems, thereby allowing for improved assignment of the processing resources for a more efficient and deterministic environment for high performance industrial applications. This was the beginning of the collaboration between the two companies, which will continue to work together to integrate state of the art monitoring and management of near field nodes.

Fresenius Medical Care, a world renowned leader of products for dialysis and individuals with chronic kidney disease, chose the Eurotech IoT Gateway and the integration platform as the main components, in terms of both hardware and software, of its IoT project for connecting the medical devices it distributes globally.

Eurotech technology enters the autonomous driving sector with its “Aurora Hive” hot water cooled supercomputer.

2018 Eurotech expands its ecosystem with a co-opetition approach signing partnerships first with AAEON Technology Europe BV to integrate ESF (Everyware Software Framework) device and data management platform into AAEON’s Industrial-IoT gateways and then with Software AG to combine Cumulocity IoT platform with Eurotech’s ESF.

Eurotech continues to empower its open source strategy teaming with Cloudera and Red Hat to provide an open, modular, multi-cloud architecture with security features organically built-in to enable scalable and more secure end-to-end device management and analytics from the edge to the cloud. The architecture has been built on top of key open source projects and innovations out of the Eclipse Foundation and Apache Foundation. By bridging OT and IT, this open source-based architecture can help address the main aspects of managing an IoT infrastructure.

Eurotech complements its own ecosystem strategy by joining ITxPT, the Association of Information Technology for Public Transport, whos mission is to implement a European working standard for plug-and-play IT systems and components intended for public transport.

DB Cargo AG, the rail freight business unit of German national railway company Deutsche Bahn AG, selects Eurotech Edge Controllers, IoT Products and Services for its TechLOK project aiming at enabling a real time remote monitoring of DB Cargo fleet of locomotors.

Vision

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

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

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

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

"It will be a time when all human beings on our planet will be able to eloquently communicate with ubiquitous and smart technological systems, and use them on a daily basis to resolve a vast number of real and concrete human problems." (John Smart, founder and chairman of the Acceleration Studies Foundation)

"We will have true reality amplified. Computers will look at what you look at, will listen to what you say, and will be helpful. So, if you look at someone, little pop-ups will appear in your field of vision, reminding you who it is, giving you information about him, and reminding you that his birthday is next Tuesday." (Ray Kurzweil, American inventor and futurist)

Mission

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

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

"Invisible computers should help us to free our minds of unessential activities so as to reconnect us to the fundamental challenges that humans have always had: understanding the universe and our place within it."
(Mark Weiser, former head researcher at Xerox PARC)

"It is no longer about computers. It is about life."
(Nicholas Negroponte,
co-founder of MediaLab at MIT and the magazine WIRED)

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

Values

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

"A school can be founded on a group of theories, but a culture, a civilisation, a new way to live together among men can be founded on a group of values." (Ignazio Silone, Italian writer and politician)

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

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

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

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

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

Business model

The four key elements of the Eurotech model

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

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

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

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

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

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

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

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

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

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

Another trend shaping the way in which computers interact with each other and with people relates to the success of digital information and communication technologies, which are leading an irreversible revolution that will lead to profound changes both in society and in individuals. Everything around us will have to become more ‘intelligent’ and ‘interconnected’ so that it can be better managed and better used, increasing efficiency and reducing waste.

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

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

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

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

Strategic approach to innovation

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

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

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

Strategic approach to growth

In Eurotech, we quickly initiated an external growth strategy, with the aim of achieving critical mass (the so-called tipping point) on a fast-track basis. To rapidly grow, we should also rapidly enter new markets for us like the US or Japanese markets. Starting from scratch, without a customer base and without a brand reputation, increased risks and the time needed. We wanted to grow at a rate of 50% YoY and to maintain that pace we needed acceleration factors that could be found only by going beyond the original company's boundaries.

From 2006 to 2007, we completed three significant acquisitions, which allowed us to reach a global footprint and a company size that has today positioned us among the top 10 in the embedded computer market. This "change in scale" enables us, among other things, to look at growth from a new, stronger perspective.

Today our approach is based on three strategic guidelines.

The first of these is combined growth:

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

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

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

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

Strategic approach to the market

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

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

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

Products

The essence of Eurotech products

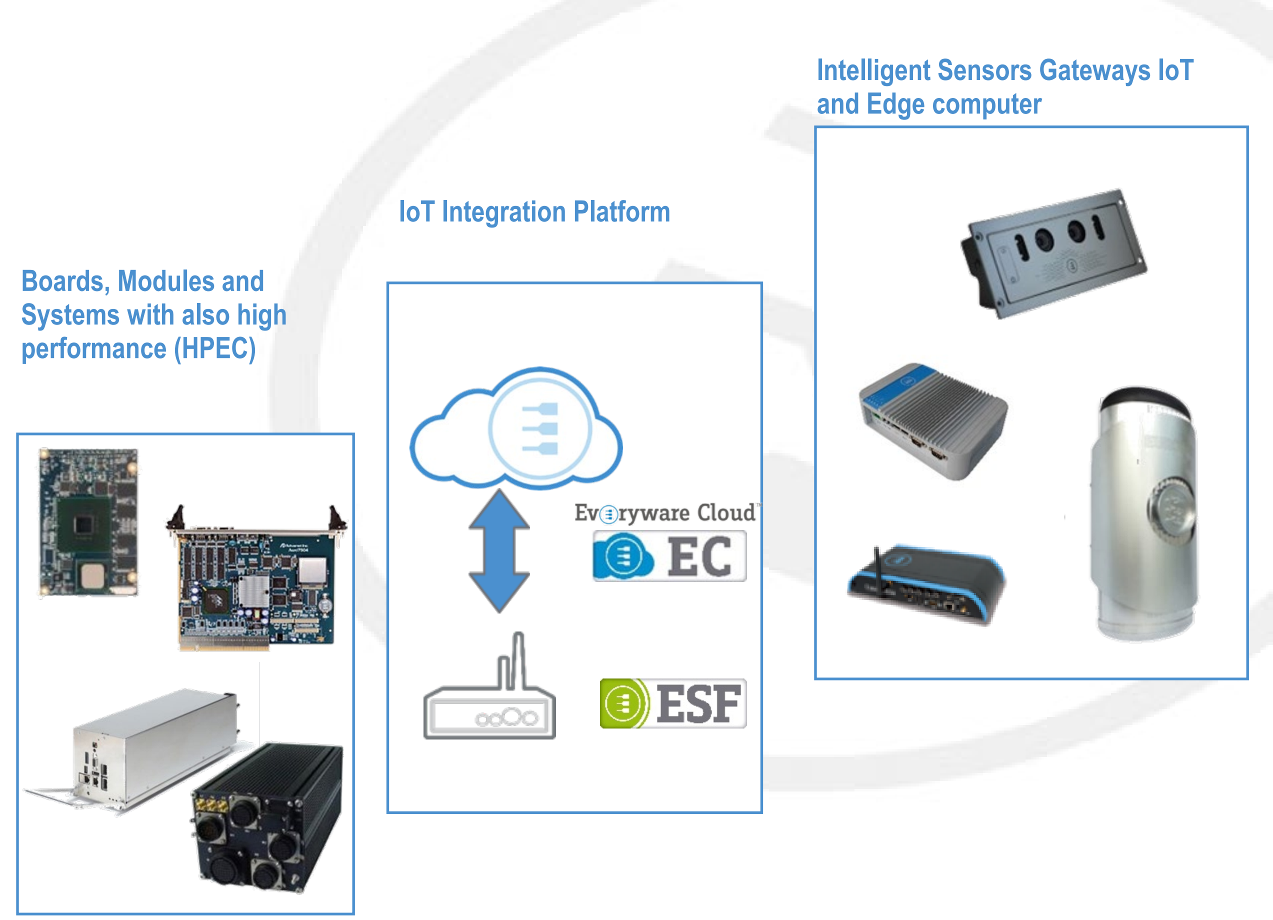
Embedded technology is the basic technology of Eurotech products. It is an enabling technology, in that it permits miniaturisation. It is the technology on which Eurotech based its foundation and that continues to be in the Group's DNA.

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

In each phase of our history we have constantly explored new ways of using computers. In more recent years it is their growing pervasiveness that has stimulated our creativity. The large and small scale interconnected calculators allow us to expand reality, not just visualise or virtualise it. The opportunity that computers provide to amplify our senses and reality lets us look at the world from a new angle.

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

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



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

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

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

Markets

Our typical Customer

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

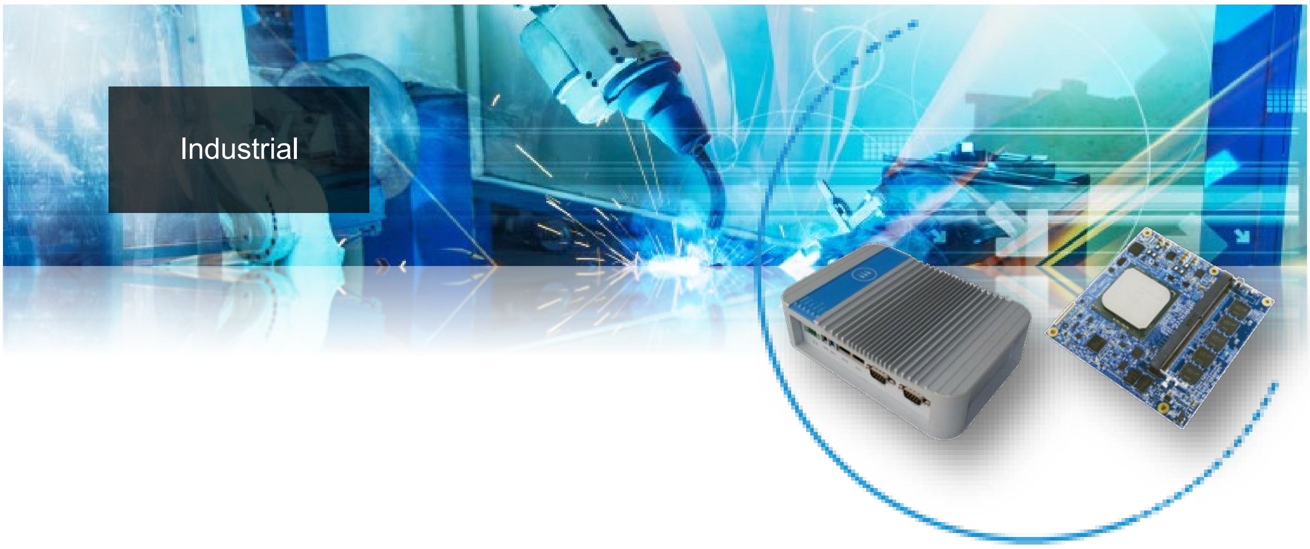
More specifically, our Customers feature increasingly demanding requirements in terms of:
- Low consumption and/or battery powered
- Minimum heat generation
- Compact formats and sizes
- Wired & Wireless connections
- Ease of integration within distributed ICT infrastructures
- Durability, for use in harsh environments and extreme environmental conditions
- Superior reliability
- Compliance with the most stringent market standards

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

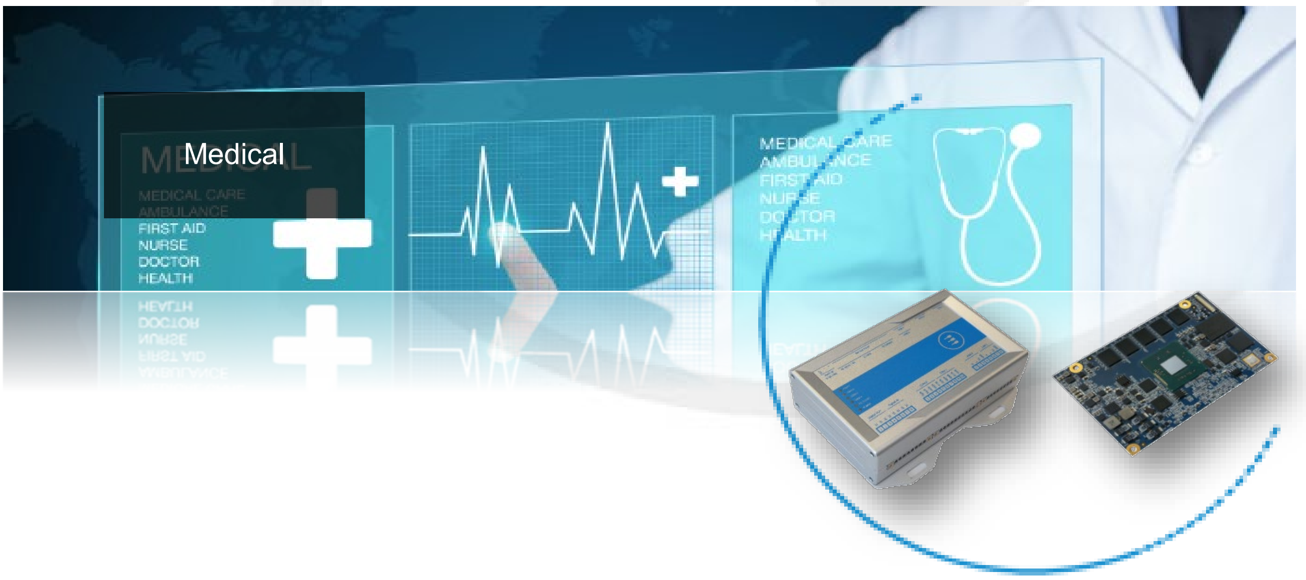
Applications

The Eurotech Group's NanoPC offering is structured in product lines and solutions, each dedicated to a specific market segments:
- Industrial
- Transportation
- Medical
- Energy
- Defence

Eurotech products and solutions share the same set of base technologies and are employed in many specific application environments, both conventional and emerging. Here are some examples:


Industrial


Transportation


Medical
FIRST AID
NURSE
DOCTOR
HEALTH


Energy


Defence

Corporate information

Board of Directors	
Chairman	Giuseppe Panizzardi [1,5]
Deputy Chairman	Roberto Siagri [6]
Deputy Chairman	Dino Paladin [1]
Director	Giulio Antonello [1,2,6]
Director	Riccardo Costacurta [1,2,3,4,5]
Director	Chiara Mio [1,2,3,4,5,6]
Director	Giorgio Mosca [1]
Director	Carmen Pezzuto [1,2,4]
Director	Marina Pizzol [1,3]

The Board of Directors currently in office was appointed by shareholders at the Annual General Meeting of 26 April 2017; it will remain in office until approval of the 2019 financial statements.

Board of Statutory Auditors	
Chairman	Gianfranco Favaro
Statutory auditor	Laura Briganti
Statutory auditor	Gaetano Rebecchini
Substitute statutory auditor	Clara Carbone
Substitute statutory auditor	Nicola Turello

The Board of Statutory Auditors currently in office was appointed by shareholders at the Annual General Meeting of 26 April 2017, and will remain in office until the approval of the 2019 financial statements.

Independent auditor	
	PricewaterhouseCoopers S.p.A.

The independent auditor was appointed for the period 2014-2022 by shareholders at the Annual General Meeting of 24 April 2014.

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

[1] Non-executive Directors.
[2] Independent Directors pursuant to the Corporate Governance Code issued by the Italian Corporate Governance Committee for Listed Companies.
[3] Member of the Control and Risks Committee
[4] Member of the Committee for transactions with related parties
[5] Member of the Remuneration Committee.
[6] Member of the Appointments Committee.

Information for shareholders

The ordinary shares of Eurotech S.p.A., the Parent Company of the Eurotech Group, have been listed in the STAR segment of the MTA Market run by Borsa Italiana since 30 November 2005.

Share capital of Eurotech S.p.A. at 31 December 2018

Share capital	€8,878,946.00
Number of ordinary shares (without nominal unit value)	35,515,784
Number of savings shares	-
Number of Eurotech S.p.A. treasury shares	887,020
Stock market capitalisation (based on the share's average price in December 2018)	€117 million
Stock market capitalisation (based on the share's relevant price at 31 December 2018)	€115 million

Performance of Eurotech S.p.A. shares

Absolute performance of EUROTECH S.p.A. shares
01.01.2018 – 31.12.2018

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

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

Management report

Introduction

The Eurotech Group's results in the 2018 financial year and the comparative period were drawn up according to the IASs/IFRSs issued by the International Accounting Standards Board and endorsed by the European Union. Unless otherwise stated, data are expressed in thousands of euro.

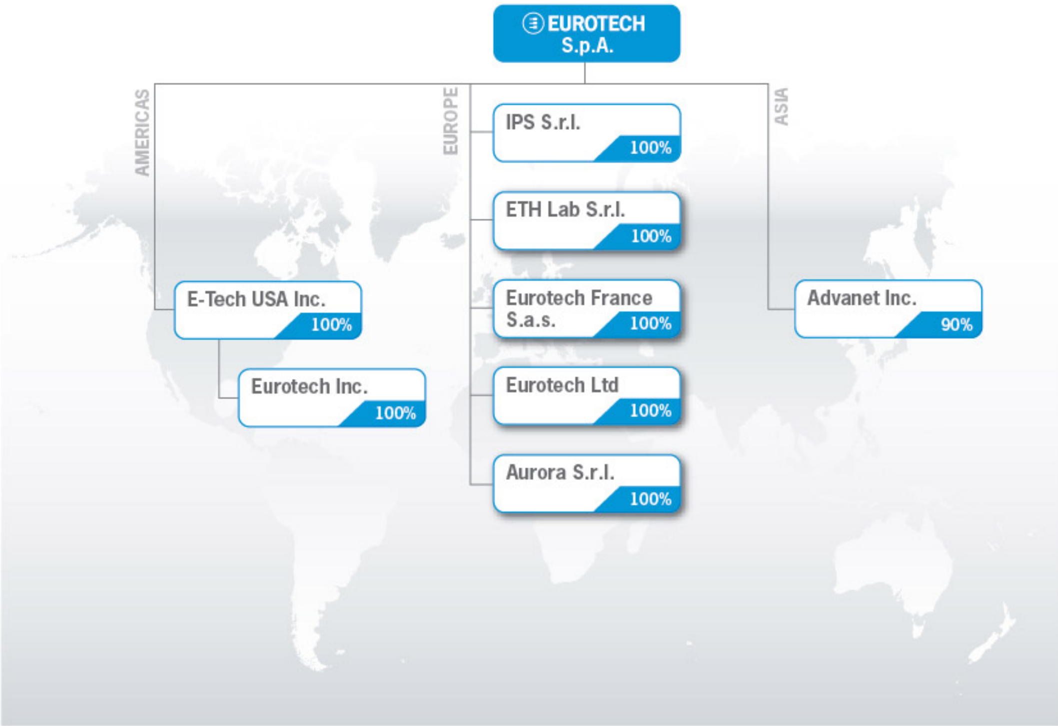
The Eurotech Group

The Eurotech Group operates in the sector of research, development, production and marketing of miniaturised, high performance and high energy efficiency computers for special uses named NanoPCs.
The Group's product offering consists of miniaturised electronic modules that can have high processing capabilities and very high energy efficiency and software platforms for Machine-to-Machine (M2M) integration currently targeting the industrial, transport, medical, energy and defence sectors.

At 31 December 2018, the Eurotech Group consisted of the following companies:

Company name	Assets	Share capital	Group share
Parent company			
Eurotech S.p.A.	Operates in the NanoPC segment with its main focus on the Italian market and in the HPC market at global level. In terms of organisation, it performs the role of coordinating holding company at corporate level	Euro 8,878,946	
Subsidiaries and companies consolidated on a line-by-line basis			
Aurora S.r.l.	Engineering company that mainly operates in the High Performance Embedded Computer market supplying services to support the parent company	Euro 10,000	100.00%
E-Tech USA Inc.	Holding company that controls 100% of Eurotech Inc.	USD 8,000,000	100.00%
EthLab S.r.l.	Handles research on the Group's behalf (since 2005)	Euro 115,000	100.00%
Eurotech France S.A.S.	Operates in the French market, with its main focus on IoT	Euro 795,522	100.00%
Eurotech Inc.	Operates in the US market in the NanoPC segment with a focus on the industrial, medical and transport sectors	USD 26,500,000	100.00%
Eurotech Ltd.	Operates mainly in the United Kingdom	GBP 33,333	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Operates in the Italian market under the IPS brand	Euro 51,480	100.00%
Advanet Inc.	Operates in the Japanese market with a focus on the industrial, medical and transport sectors	JPY 72,440,000	90.00% (1)

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


EUROTECH
S.p.A.
AMERICAS
EUROPE
ASIA
IPS S.r.l. 100%
ETH Lab S.r.l. 100%
Eurotech France S.a.s. 100%
Eurotech Ltd 100%
Aurora S.r.l. 100%
E-Tech USA Inc. 100%
Eurotech Inc. 100%
Advanet Inc. 90%

Operating performance

(€'000)		FY 2018	%	FY 2017	%
OPERATING RESULTS					
SALES REVENUES		79,083	100.0%	60,120	100.0%
GROSS PROFIT MARGIN	(*)	37,556	47.5%	29,135	48.5%
EBITDA	(**)	8,128	10.3%	1,672	2.8%
EBIT	(***)	5,844	7.4%	(2,985)	-5.0%
PROFIT (LOSS) BEFORE TAXES		5,624	7.1%	(4,561)	-7.6%
GROUP NET PROFIT (LOSS) FOR THE PERIOD		5,682	7.2%	(4,672)	-7.8%

(*) Gross profit margin is the difference between revenues from sales of goods and services and use of raw materials.
(**) Result before depreciation, amortisation and impairment of assets, valuation of equity investments in affiliates using the equity method, financial income and charges and income tax for the year (EBITDA).
(***) Result (EBIT) before valuation of equity investments in affiliates using the equity method, financial income and charges and income tax for the year.

2018 ended with Group turnover amounting to €79.08 million, representing a 31.5% increase over 2017. The increase would have been higher if the comparisons were made at constant exchange rates. At constant exchange rates, the turnover for 2017 would amount to €58.39 million compared to €60.12 million shown in the financial statements and the increase would have amounted to 35.4%. Indeed, the performance from one year to the next of the GBP/Euro, Yen/Euro and USD/Euro exchange rate upon translation of the financial statements (in terms of average annual exchange rates), affected the figures negatively by 0.9%, 2.9% and 4.5% respectively.

From the second half of 2017, and therefore for six quarters in a row, the Group generated interim results showing an EBITDA of over 9% and a pre-tax result that broke even or was positive, moreover for 5 quarters the net result was positive. Apart from this, the most encouraging aspect is the high level of orders already obtained for 2019, and it would be therefore reasonable to expect further growth in 2019, proving that the Group's strategy is paying off.

All geographic areas contributed towards the growth in revenues. In America, sales were up by 39.6% over the same period of the previous year; Japan recorded a 10.5% increase; there were good performances in Europe, especially by the Parent Company which grew 99.1% resulting in a total increase in the European area of 58.2%.
Even though Japan's business performance remained linked to the main local customers, it is attempting to expand sales to new customers, offering them new technology that can be developed internally, or that comes from other Group companies such as the IoT product line. This is an area where customers view products offered with interest, trying to understand how the potential of our solutions can meet their needs. There continues to be a certain pressure on prices, which in prior years resulted in decreased gross profit margin, especially in the low value added products, offset in part by continued improvements that management is trying to implement in the areas of direct impact such as production and the procurement of the components. The Japanese market continues to be a primary end market due to the importance of the companies headquartered there, and their relevance at both local and global level.

The American area has definitely driven growth in the Group thanks to the effects of the corrective actions taken at the beginning of 2017. Turnover grew by 39.6% compared to 2017 and there was also double digit growth in orders,

returning to levels that are similar to those before the global recession. The partnership with certain consolidated customers and the demonstration that we could satisfy their requirements led us to increase both turnover and orders.
The testing stage by the customers in the IoT business line is slower than expected, which translates into longer start-up times for the expected growth rates.

Europe, following the positive order book in 2017, was the area with highest growth even though not all companies in the group had the same growth levels. The potential in the area continues to be considerable, with regard to traditional products in the transport markets, for embedded systems with high computing capacity (HPEC) in the new sectors of Deep Learning and Artificial Intelligence and for the IoT product offer, whit a number of important customers who have already started the phase of implementation in volume of their projects. The new product lines that are now very innovative compared to traditional competitors allowed us to attract important industrial customers with recurring businesses in this area as well.

The strategy devised last year and set out in the approved business plan bore fruit this year, and will definitely bring benefits in subsequent years. The Embedded computing world is still the strategic area in which investments are made as they still provide most of the results, and more especially development of lines of products for the Edge Computing and IoT where we believe that considerable growth in turnover can be achieved in the next few years.
Even though the innovative actions in the embedded computier sector that the Group finalised in recent years were recognised as such by customers who trust Eurotech to reduce their time to market, the IoT sector is the one that is generating increasing changes in the industrial market in general thanks to the "Fourth industrial revolution" (Industry 4.0). Various analysts consider Eurotech to be one of the leaders due to its hardware product portfolio (particularly the gateways) and the IoT platform. Customers are using the IoT platform and Eurotech hardware to connect their machines and make innovations to their product ranges, carrying out experiments through the supply of those technologically innovative elements that give them a competitive edge in their respective markets.
The Eurotech brand's international positioning continues to be strategic, together with the creation and ongoing implementation of an ecosystem of partners in order to to make the offers of the hardware and software products more widely known and multiply the channels of business development.
Despite this position in the IoT world, and the desire of customers to innovate into the 4th industrial revolution, the customer implementation stage for projects ends up with longer internal experimentation stages longer than expected, delaying the predicted growth in the IoT sector. If concrete projects are implemented with big international customers, in different markets, it will definitively generate a positive impact on turnover in the upcoming quarters, impact based on the speed with which this new technology will be adopted by the customers themselves.

In order to be able to stay up to speed with the technological innovations and retain its competitive edge in the IoT market, Eurotech continues to invest, paying close attention to balancing resources against overall cost trends, managing the investments in connection with the total sales generated by the Group.

Prior to commenting on the income statement figures in more detail, we hereby specify that certain of these figures reflect the effects of recognising purchase price allocation[A] relating to the Advanet Inc. business combination and the write-down for impairment[B] of Eurotech France Sas.
Actual interim results and results calculated without taking into account the effect of purchase price allocation and costs arising from events and transactions that are not representative of normal business operations are summarised below:
- EBIT would be €6.06 million instead of €5.84 million;
- rather than €5.62 million, profit before taxes would have been €5.84 million;
- Group net profit would be €5.90 million rather than €5.68 million.

The gross profit margin amounted to €37.56 million, 47.5% as a percentage of turnover compared to 48.5% last year, slightly lower than forecast in the business plan. The continued maintenance of the gross profit margin close to 50% at

[A] More specifically, the effects resulting, for 2017 only, from accounting for the price allocation relating to the Advanet business combination can be summarised as follows:

- Amortisation/depreciation: €1,955 thousand due to higher amortisation of amounts allocated to intangible assets (particularly customer relations) and the write-downs on goodwill as indicated below;
- lower income taxes: €684 thousand resulting from the tax effect on adjustments made

[B] The profit and loss effect of the impairment on the Group (reflected in the amortisation/depreciation item), refers to Eurotech France Sas for both years; it resulted in the write-down of goodwill by €220 thousand in 2018 and €280 thousand in 2017.

year-end and during the quarters shows the constant capacity of the Group to manage to create and sell innovative products that meet market requirements. This amount is the result of the mix of products sold, which have different margins depending on the type of product, the application sectors and the geographic market outlets. The year which just ended was particularly busy from the standpoint of managing the purchase of materials since the difficulty in obtaining certain components in enough time for the deliveries scheduled led to an increase in stock and in the price of the raw materials themselves in certain cases.
The operating costs before adjustments for internal increases amounted to €32.78 million (41.4% as a percentage of revenues), with an increase of 3.6% over the €31.63 million (52.6% as a percentage of revenues) in 2017. This increase is related to the results obtained and the level of turnover obtained during the year. The lower percentage of operating costs on turnover (from 52.6% to 41.4%) shows the activation of operating leverage and proves that the structure is capable of absorbing the increase in turnover through increasing the efficiency of the organisation.

EBITDA improved by €6.46 million and amounted to €8.13 million, compared with -€1.67 million in 2017.
EBITDA in 2018 as a percentage of revenues was 10.3%, compared with 2.8% in 2017.

EBIT showed a net improvement in the period in question, amounting to €5.84 million compared to -€2.98 million in 2017, after having included amortisation/depreciation and impairment of the property, plant and equipment and intangible assets of €2.28 million compared to amortisation/depreciation and impairment of €4.66 million in 2017. EBIT as a percentage of revenues was 7.4% in 2018 compared to -5.0% in 2017.

The write-downs in 2018 refer exclusively to the write-down of a portion of the goodwill related to the Eurotech France SaS business unit, while the impairment tests on the product development costs did not result in the need for write-downs of the recognised cost.
Conversely, in 2018, depreciation and amortisation derive from both operating assets becoming subject to depreciation throughout 2018 while in 2017, the non-monetary effects resulting from the price allocation relating to the acquisition of Advanet Inc. were also included. The effect on EBIT of the higher values attributed as a result of purchase price allocation and the impairment of goodwill in 2018 was €0.22 million, compared with €2.23 million in 2017.

The net financial management in 2018 amounted to €0.22 million (€1.58 million in 2017), benefitting from a positive net exchange rate difference of €0.23 million (negative exchange rate change of €1.10 million in 2017). Interest rate financial management had an effect of €0.43 million (€0.36 million in 2017) due to an increase in interest rates on bank exposures. The financial management included management of the equity investments, generating a cost of €19 thousand.

The pre-tax profit for 2018 was €5.62 million (compared with a loss of €4.56 million in 2017). This performance was influenced by the factors outlined above. The impact on the pre-tax result of PPA and goodwill write-down was €0.22 million in 2018, compared with €2.23 million in 2017.

The Group net profit was €5.68 million compared with -€4.67 million in 2017.
This performance not only reflects the pre-tax profit result, but is due to the tax burden on the Group's various units (see Note 33 for more details) and the accounting, during the financial year, for the deferred tax assets on the tax losses used to cover the taxable income for the year and the part of tax losses that could be reasonably used in subsequent years based on convincing accounting evidence.
The total effects from price allocation and goodwill write-down had a €0.22 million effect on the Group's net result in 2018 (2017: €1.55 million).

The Group controls a "NanoPC" line which comprises a) miniaturised modules and electronic systems for industrial, transport, medical, energy and defence uses; b) machine to machine (M2M) platforms of Internet of Things (IoT) applications.
The segment reporting is presented on the basis of the geographic area in which the various Group companies operate and are currently monitored. This is defined by the location of goods and operations carried out by individual Group companies. The geographic areas identified within the Group are: North America, Europe and Asia.

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

(€' 000)	North America			Europe			Asia			Correction, reversal and elimination			Total		
	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change
Third party Sales	32,425	23,382		20,330	12,923		26,328	23,815		0	0		79,083	60,120	
Infra-sector Sales	831	439		5,190	3,209		199	181		(6,220)	(3,829)		0	0	
Total Sales revenues	33,256	23,821	39.6%	25,520	16,132	58.2%	26,527	23,996	10.5%	(6,220)	(3,829)	-62.4%	79,083	60,120	31.5%
Gross profit	11,376	8,800	29.3%	12,191	6,798	79.3%	14,279	13,669	4.5%	(290)	(132)	119.7%	37,556	29,135	28.9%
Gross profit margin - %	34.2%	36.9%		47.8%	42.1%		53.8%	57.0%					47.5%	48.5%	
EBITDA													8,128	1,672	386.1%
EBITDA margin - %													10.3%	2.8%	
EBIT													5,844	(2,985)	-295.8%
EBIT margin - %													7.4%	-5.0%	

North American revenues, including intersector revenues, significantly increased by 39.6%, from €23.82 million in 2017 to €33.26 million in 2018. This increase is a result of the commercial and marketing work started in 2017 and continued during 2018. The order folder continued to be significant, especially in the board&systems line of business, where, in addition to a consolidated recovery in customer orders, there was an increase in the opportunity conversion ratio by new customers who are interested in our products to reduce their time to market. With regard to the IoT business line, even more POC (Proof of Concept) created is being translated into orders.
The European business area is showing a significant recovery, increasing from €16.13 million in 2017 to €25.52 million in 2018, an overall increase in intersector revenues of 58.2%, the highest value in the last 5 years. Performance by the various operational units in the area has oscillated since Italy has been growing while the other two main European countries (Great Britain and France) where the Group operates have had some difficulties in converting orders in opportunities. Despite this, prospects for development and opportunities with new customers with large recurring orders are about to be finalised, which means that there will be further growth in this area. The continued evolution of the IoT industry and the growing interest of customers in technologies enabling digital transformation of enterprises, combined with demonstrations that Eurotech technology works well in major industrial contexts have increased the opportunities that we believe can be realised in the short term. Additionally, Eurotech's experience with the technology of high-performance computers (HPEC) in embedded environments contributed in recording good sales in 2018, which will also be consolidated in 2019.
Finally, in the Asia business area, there was growth of 10.5% to €26.58 million compared to the previous year with €24.00 million (amount including the intersector revenues), with supplies continuing to traditional customers who trust the technical capacity and knowledge of our engineers to keep the products up to date with technological changes.

The breakdown of revenues by type, which also in application of IFRS15 represents information on revenues broken down, shows an increase in revenues from services, both in absolute terms and percentage terms, compared to the majority of industrial revenues.

SALES BY TIPE	FY 2018	%	FY 2017	%
Industrial revenues	75,269	95.2%	57,691	96.0%
Services revenues	3,814	4.8%	2,429	4.0%
TOTALE SALES AND SERVICE REVENUES	**79,083**	**100.0%**	**60,120**	**100.0%**

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

BREAKDOWN BY GEOGRAPHIC AREA	FY 2018	%	FY 2017	%	var. %
European Union	16,048	20.3%	9,559	15.9%	67.9%
United States	33,061	41.8%	25,489	42.4%	29.7%
Japan	26,326	33.3%	23,814	39.6%	10.5%
Other	3,648	4.6%	1,258	2.1%	190.0%
TOTAL SALES AND SERVICE REVENUES	**79,083**	**100.0%**	**60,120**	**100.0%**	**31.5%**

On the basis of the breakdown of turnover by geographic area, there was a 29.7% increase in sales in the USA area, being the most important area. The US accounted for 41.8% of total annual turnover in 2018.
The Japanese area registered a 10.5% increase in turnover compared to 2017, continuing to be one of the most important areas, but with a percentage of 33.3% of consolidated turnover, compared to 39.6% in 2017.
In the European area, again with reference to customer location, the level of turnover increased by 67.9%. The percentage to the overall turnover of Europe grew compared to last year accounting from 15.9% to 20.3% of the total.
With reference to other geographic areas, there was a 190.0% increase due to certain sales in China and Southeast Asia. The other areas remain with the percentage to the whole amounting to less than 5%.

(€'000)	FY 2018	% of sales	FY 2017	% of sales	var. %
Purchases of raw materials, semi-finished and finished products	41,714	52.7%	31,103	51.7%	34.1%
Changes in inventories of raw materials	1,231	1.6%	185	0.3%	n.s.
Change in inventories of semi-finished and finished products	(1,418)	-1.8%	(303)	-0.5%	368.0%
TOTAL COST OF MATERIALS	**41,527**	**52.5%**	**30,985**	**51.5%**	**34.0%**

Consumption of raw and auxiliary materials and consumables, shown in the table above, increased during the period, from €30.98 million in 2017 to €41.53 million in 2018. A 34.0% increase in consumption was recorded in the period under review, in line with the 31.5% increase in turnover. The difference between the changes in consumption and turnover is the direct result of the mix of products sold, the difficulty in finding electronic components due to the prolonged scarcity worldwide and the write-downs on inventory figures. Costs for raw and auxiliary materials and consumables as a percentage of revenues rose from 51.5% in 2017 to 52.5% in 2018.

(€'000)	FY 2018	% of sales	FY 2017	% of sales	var. %
Service costs	12,269	15.5%	11,365	18.9%	8.0%
Rent and leases	1,594	2.0%	1,726	2.9%	-7.6%
Payroll	18,197	23.0%	17,804	29.6%	2.2%
Accruals and other costs	717	0.9%	734	1.2%	-2.3%
Cost adjustments for in-house generation of non-current assets	(2,314)	-2.9%	(2,231)	-3.7%	3.7%
Operating costs net of cost adjustments	**30,463**	**38.5%**	**29,398**	**48.9%**	**3.6%**

As a percentage of revenues, operating costs, net of cost adjustments for internal increases, fell from 48.9% in 2017 to 38.5% in 2018.
In absolute terms, net operating costs were slightly up by 3.6%, from €29.40 million in 2017 to €30.46 million in 2018. The increase in absolute terms is mainly due to the increase in costs for services and personnel to deal with the increase in turnover. The most significant cost categories refer to the costs for services supporting the various company activities, with particular reference to development and commercial costs and payroll costs.

The trend in service costs is shown below.

(€'000)	FY 2018	%	FY 2017	%	var. %
Industrial services	4,941	40.3%	4,718	41.5%	4.7%
Commercial services	2,797	22.8%	2,524	22.2%	10.8%
General and administrative costs	4,531	36.9%	4,123	36.3%	9.9%
Total costs of services	**12,269**	**100.0%**	**11,365**	**100.0%**	**8.0%**

Service costs increased 8.0% or €0.90 million, up from €11.36 million in 2017 to €12.27 million in 2018. This percentage to revenues continues to drop each year, and is currently at about 15.5%.

The costs for industrial services were up 4.7%, from €4.72 million in 2017 to €4.94 million in 2018. These costs are directly linked to both the quantity of products sold and their mix.

The costs for commercial services required to maintain the product portfolio increased due to the higher marketing costs incurred in order to communicate and make the most of the competitive advantage over competitors; these costs amounted to €2.80 million in 2018 (2017: €2.52 million), with a €273 thousand increase (10.8%).

Costs for general and administrative services were up 9.9% compared to the previous year, from €4.12 million in 2017 to €4.53 million in 2018.

The absolute value of leasing costs fell from €1.73 million in 2017 to €1.59 million in 2018. Since these costs are essentially fixed, due to the increase in turnover, their percentage to revenues amounted to 2.0% (2017: 2.9%).

In the period under review, payroll costs increased 2.2%. The difference is due to the increase in the number of employees in order to sustain the growth and the growth forecast for the upcoming years.

(€'000)	FY 2018	%	FY 2017	%	var. %
Wages, salaries and Social Security contributions	17,418	95.7%	16,980	95.4%	2.6%
Employees' leaving entitlement and other personnel provisions	354	1.9%	376	2.1%	-5.9%
Other costs	425	2.3%	448	2.5%	-5.1%
Total personnel expenses	**18,197**	**100.0%**	**17,804**	**100.0%**	**2.2%**
% impact on sales	**23.0%**		**29.6%**		

Payroll costs as a percentage of revenues stood at 23.0% in 2018, compared to 29.6% in 2017.

As shown in the table below, the number of Group employees at the end of the periods under review increased from 294 in 2017 to 302 in 2018. In terms of average number of employees, the values are quite similar: 302.4 units in 2017 and 300.0 units in 2018.

In the table below, staff on the management team and who head management teams at the individual subsidiaries (managers) has been extrapolated from the "office staff" item.

Employees	Average 2018	at December 31, 2018	Average 2017	at December 31, 2017
Manager	9.7	11	8.8	9
Clerical workers	273.0	272	277.1	268
Line workers	17.4	19	16.4	17
TOTAL	**300.0**	**302**	**302.4**	**294**

Total accrual and other costs are as follow:

(€'000)	FY 2018	%	FY 2017	%	var. %
Doubful debt provision	76	10.6%	80	10.9%	-5.0%
Other Provisions	14	2.0%	-	0.0%	n.s.
Other costs	627	87.4%	654	89.1%	-4.1%
Total accruals and other costs	**717**	**100.0%**	**734**	**100.0%**	**-2.3%**
% impact on sales	**0.9%**		**1.2%**		

The "doubtful debt provision" item refers to provisions made during the years under review to cover any trade receivables that cannot be collected.

During the year losses were incurred on receivables totalling €9 thousand, whereas the figure was €16 thousand on 31 December 2017.
As a percentage of revenues, other provisions and costs fell from 1.2% in 2017 to 0.9% in 2018.

(€'000)	FY 2018	%	FY 2017	%	var. %
Government grants	8	0.8%	756	39.1%	-98.9%
Sundry revenues	1,027	99.2%	1,179	60.9%	-12.9%
Total other revenues	**1,035**	**100.0%**	**1,935**	**100.0%**	**-46.5%**
% impact on sales	**1.3%**		**3.2%**		

The “Other income” item decreased by 46.5% in the reporting period, from €1.93 million in 2017 to €1.03 million in 2018. This reduction was mainly because grants were almost cut to zero in the 2018 accounts, even though some Group companies took part in programmes that had grants for operating expenses but the accounting had not yet been completed for these. Sundry revenues relate to the activities carried out to support some existing partnerships.

“Other revenues” fell from 3.2% in 2017 to 1.3% in 2018 as a percentage of total revenues.

(€'000)	FY 2018	%	FY 2017	%	var. %
Amortisation of intangile assets	1,480	64.8%	3,615	77.6%	-59.1%
Amortisation of property, plant and equipment	584	25.6%	762	16.4%	-23.4%
Write-down of fixed assets	220	9.6%	280	6.0%	-21.4%
Total amortisation and depreciation	**2,284**	**100.0%**	**4,657**	**100.0%**	**-51.0%**
% impact on sales	**2.9%**		**7.7%**		

Amortisation/depreciation fell from €4.38 million in 2017 to €2.06 million in 2018. This change is attributable to the smaller impact of the amortisation/depreciation of the price allocation, and particularly of that regarding Advanet Inc., whose effects ended in 2017, in addition to the different impact of the amortisation relating to the investments made in the period in issue and in the previous periods.
The write-down of fixed assets during the year of €220 thousand is related exclusively, as in 2017, to the impairment of goodwill of the Eurotech France Sas business unit.

Depreciation, amortisation and write-downs of assets as a percentage of revenues fell to 2.9% in 2018 from 7.7% in 2017.

Regarding the value of the equity investments in affiliated companies, costs or revenues were not accounted for in 2018 since the only affiliated company is in liquidation, and its value has been set to zero, while a cost of €3 thousand had been allocated to it in 2017 due to the negative valuation at equity of the affiliated company eVS embedded Vision Systems S.r.l.
Management of equity investments in 2018 relates to the combined effect of the write-down for €30 thousand on the Space Italy Network consortium to reduce the value of the quotas paid and the capital gains of €11 thousand made following sale of the company eVS embedded Vision Systems S.r.l., already classified as an asset held for sale; on the

other hand, the amount of €116 thousand referred entirely to the write-down on the company Kairos Autonomi Inc. in 2017.

(€'000)	FY 2018	FY 2017	change %
Exchange-rate losses	591	1,761	-66.4%
Interest expenses	410	394	4.1%
Expenses on derivatives	13	9	44.4%
Other finance expenses	42	41	2.4%
Financial charges	**1,056**	**2,205**	**-52.1%**

(€'000)	FY 2018	FY 2017	change %
Exchange-rate gains	824	664	24.1%
Interest income	24	37	-35.1%
Other finance income	7	47	-85.1%
Financial incomes	**855**	**748**	**14.3%**
Net financial income	**(201)**	**(1,457)**	**-86.2%**
% impact on sales	**-0.3%**	**-2.4%**	

The decrease in financial charges from €2.20 million in 2017 to €1.06 million in 2018 was due in particular to the reduction in the negative foreign exchange differences (of the US dollar, the Japanese yen and the UK pound) while the management of interest expense was in line with last year.

On the other hand, financial income increased from €0.75 million in 2017 to €0.85 million in 2018. The change is mostly due to the lower forex effect (USD, GBP and JPY) compared to the previous year.

Net charges from financial management as a percentage of revenues were -0.3% in 2018, compared with -2.4% in 2017.

(€'000)	FY 2018	% of sales	FY 2017	% of sales	var. %
Pre-tax result	5,624	7.1%	(4,561)	-7.6%	-223.3%
Income taxes	58	0.1%	(111)	-0.2%	-152.3%
Income taxes as a percentage of profit before taxes (effective tax rate)	**-1.0%**		**-2.4%**		

The Group had a pre-tax loss of -€4.56 million in 2017 compared to a pre-tax profit of €5.62 million in 2018. As already noted, this change is the effect of the performance of the turnover and gross profit margin, the trend in operating costs, other revenues and financial management. Income tax as a percentage of the pre-tax result in the period under review reflects tax trends at the consolidated companies, as well as the recognition of deferred tax assets to offset the tax charge for the year (since no companies had accounted for tax losses in the past), and the partial recognition of deferred tax assets on accumulated losses limited to the possible income forecast for future years. Therefore, a considerable part of the tax benefit on the accumulated losses was not accounted for since it was believed that the conditions for recognising it were not yet met.

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

(€'000)	FY 2018	% of sales	FY 2017	% of sales	var. %
IRES (Italian corporate income tax)	172	0.2%	224	0.4%	-23.2%
IRAP (Italian Regional business tax)	141	0.2%	9	0.0%	n.s.
Foreign current income taxes	1,476	1.9%	478	0.8%	208.8%
Total current income tax	**1,789**	**2.3%**	**711**	**1.2%**	**151.6%**
Net (prepaid) deferred taxes: Italy	(281)	-0.4%	(34)	-0.1%	n.s.
Net (prepaid) deferred taxes: Non-italian	(1,562)	-2.0%	(566)	-0.9%	176.0%
Net (prepaid) deferred taxes	**(1,843)**	**-2.3%**	**(600)**	**-1.0%**	**207.2%**
Previous years taxes	(4)	0.0%	0	0.0%	N/A
Previous years taxes	**(4)**	**0.0%**	**0**	**0.0%**	**N/A**
TOTAL INCOME TAXES	**(58)**	**-0.1%**	**111**	**0.2%**	**-152.3%**

With regard to current national taxes, Eurotech S.p.A. operates in a national tax consolidation scheme for Italian companies.

The Group registered a profit for the year of €5.68 million, compared with a loss of €4.67 million in 2017.

Statement of financial position

Non-current assets

(€'000)	at December 31, 2018	at December 31, 2017	Changes
Intangible assets	85,369	79,968	5,401
Property, Plant and equipment	2,579	2,436	143
Investments in other companies	160	144	16
Deferred tax assets	3,025	1,283	1,742
Medium/long term borrowing allowed to affiliates companies and other Group companies	87	83	4
Other non-current assets	654	618	36
Total non-current assets	**91,874**	**84,532**	**7,342**

The "Non-current assets" item increased from €84.53 million in 2017 to €91.87 million in 2018.
The change mainly reflects changes in intangible fixed assets arising from the different conversion ratio for financial statements in foreign currency, also due to the price allocations in the aggregated currency of the foreign entity, the investments made and amortisation of the amounts, and the change in the deferred tax assets that increased by €1.74 million due to recognition of the deferred tax assets in the year on the basis of the documentary evidence of the foreseeable future tax results of some Group companies. Of the €7.34 million change, €4.87 million is due to the foreign exchange effect.

The Group's main equity investments break down as follows:

(€'000)	at December 31, 2018	at December 31, 2017	Chg.
Intangible assets	2,533	2,166	367
Property, plant and equipment	704	306	398
Investments	23	0	23
TOTAL MAIN INVESTMENTS	**3,260**	**2,472**	**788**

Current assets

(€'000)	at December 31, 2018	at December 31, 2017	Changes
Inventories	21,998	17,821	4,177
Contracts in progress	86	412	(326)
Trade receivables	13,808	15,623	(1,815)
Income tax receivables	298	204	94
Other current assets	2,183	1,782	401
Other current financial assets	104	95	9
Cash & cash equivalents	13,196	6,745	6,451
Total current assets	**51,673**	**42,682**	**8,991**

The current assets item increased, from €42.68 million in 2017 to €51.67 million in 2018. The change is due to both an increase in the value of the stock due to the procurement needed to sustain a higher level of turnover, and an increase in cash and cash equivalents due to the generation of cash during the year.

Working capital

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

(€'000)	at December 31, 2018 (b)	at December 31, 2017 (a)	Changes (b-a)
Inventories	21,998	17,821	4,177
Contracts in progress	86	412	(326)
Trade receivables	13,808	15,623	(1,815)
Income tax receivables	298	204	94
Other current assets	2,183	1,782	401
Current assets	*38,373*	*35,842*	*2,531*
Trade payables	(14,411)	(13,088)	(1,323)
Income tax liabilities	(1,571)	(262)	(1,309)
Other current liabilities	(6,784)	(4,775)	(2,009)
Current liabilities	*(22,766)*	*(18,125)*	*(4,641)*
Net working capital	**15,607**	**17,717**	**(2,110)**

Net working capital decreased by €2.11 million. This decrease is the result of the combined effect of increased current assets and an even more marked increase in current liabilities. More specifically, there were net increases in inventories, contract work in progress and decreases in trade receivables in addition to an increase in all the current liabilities and therefore trade payables, income tax payables and other current liabilities. Net working capital as a percentage of turnover was 19.7%, much lower than the figure obtained at the end of 2017 (29.5%).

Net financial position

The Group's net financial position at 31 December 2018 was €0.93 million, compared with net financial debt of €5.65 million at 31 December 2017.

Net financial debt is an indicator of the financial structure and is defined as the sum of “Long-term loans”, “Current portions of long-term loans” and “Short-term loans”, net of “Cash and cash equivalents” and financial receivables included in “Non-current financial assets” and in “Current financial assets”. More generally speaking, net financial position (net financial debt) is determined by highlighting what is required in paragraph 127 of the CESR/05-054b recommendations that implement Regulation 809/2004/EC and in line with the CONSOB provisions of 26 July 2007 for defining net financial position after deducting the financial receivables and non-current securities.
The net financial position at the end of both periods is broken down in the schedule below.

(€'000)		at December 31, 2018	at December 31, 2017
Cash & cash equivalents	A	(13,196)	(6,745)
Cash equivalent	**B=A**	**(13,196)**	**(6,745)**
Other current financial assets	C	(104)	(95)
Derivative instruments	D	20	9
Short-term borrowing	E	8,125	10,720
Short-term financial position	**F=C+D+E**	**8,041**	**10,634**
Short-term net financial position	**G=B+F**	**(5,155)**	**3,889**
Medium/long term borrowing	H	4,312	1,844
Medium-/long-term net financial position	**I=H**	**4,312**	**1,844**
(NET FINANCIAL POSITION) NET DEBT pursuant to CONSOB instructions	**J=G+I**	**(843)**	**5,733**
Medium/long term borrowing allowed to affiliates companies and other Group companies	K	(87)	(83)
(NET FINANCIAL POSITION) NET DEBT	**L=J+K**	**(930)**	**5,650**

Existing financial liabilities of €7.80 million, plus current account overdrafts at year-end 2018 of €4.64 million, combine to form total debt toward banks of €12.44 million, of which €8.12 million is payable in the short term.

At 31 December 2018, the Group had complied with all the financial covenants contained in the existing loan agreements.

At 31 December 2017, the short-term borrowings item (in application of IAS 1.65) included the medium/long-term portion (€1.14 million) of two existing loans of which one of the covenants provided for in the respective loan agreements was not met based on the consolidated data on 31 December 2017. Eurotech had classified the portion of medium- to long-term loans which were to become payable beyond 12 months on 31 December 2017 based on the original due date as current.
In 2018, after obtaining a waiver from the bank that it has the two loans out with, it reclassified them on the basis of their natural due date.

(€'000)		at December 31, 2018	at December 31, 2017
Cash flow generated (used) in operations	A	10,577	(788)
Cash flow generated (used) in investment activities	B	(3,237)	(1,625)
Cash flow generated (absorbed) by financial assets	C	(905)	896
Net foreign exchange difference	D	16	(924)
Increases (decreases) in cash & cash equivalents	E=A+B+C+D	6,451	(2,441)
Opening amount in cash & cash equivalents		6,745	9,186
Cash & cash equivalents at end of period		13,196	6,745

Owing to the actions taken compared to the previous year, operations showed cash flows used of €10.58 million, compared with cash flows used of about €0.79 million in 2017.

Investment activity derives from the investments made in developing new products in the modules, embedded systems, and Internet of Things (IoT) platforms and internal investments in industrial, commercial and hardware equipment.

Finally, cash flows used from lending activities were mainly due to the repayment of short-term portions of medium-term loans offset by the opening of new loans to support investment activities.

Intragroup relations and transactions with related parties

Within the scope of transactions aimed at routine management of the business of the Eurotech Group and the search for new production and commercial synergies, the Group companies maintain reciprocal commercial relations whereby they sell products and services to some Group companies and buy products and services from the same companies. Relations between Group companies are governed by market conditions, taking into account the quality of the goods and services provided. The outstanding balances at the reporting date are not supported by guarantees, do not generate interest (except loans) and are settled in cash. No guarantees, whether given or received, exist in relation to related party receivables and payables. For the period ended 31 December 2018 the Group made no provision to a doubtful debt provision for sums owed by related parties, except for the €447 thousand write-down already made in 2010 on the receivable from affiliated company in liquidation Rotowi Technologies S.p.A. (formerly UTRI S.p.A.). This valuation is performed every year by examining the financial position of the related parties and the market in which they operate.
The Group companies also use the brands registered by the Parent Company. Specific contracts govern the uses of the brands.
Finally, some of the Group companies also have service relations with the Parent Company, which provides administrative, tax, corporate, business and strategic services for Eurotech Group subsidiaries. The reciprocal services and obligations between the subsidiaries and the Parent Company are governed by a specific master service contract.

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

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

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

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

Name	Nomination	Company	Possessory title	Share at January 1 or appointment	Share acquired in the period	Share disposed in the period	Share at the end of the period	of which shares at the end of the period indirectly
				at December 31, 2018				
Panizzardi Giuseppe	President	Eurotech	Ownership	-	-	-	-	-
Siagri Roberto	CEO	Eurotech	Ownership	760,370	56,000	(354,600)	461,770	336,770
Antonello Giulio	Director	Eurotech	Ownership	-	10,000	(10,000)	-	-
Costacurta Riccardo	Director	Eurotech	Ownership	-	-	-	-	-
Mio Chiara	Director	Eurotech	Ownership	-	-	-	-	-
Mosca Giorgio	Director	Eurotech	Ownership	-	-	-	-	-
Paladin Dino	Director	Eurotech	Ownership	2,583,477	263,859	-	2,847,336	-
Pezzuto Carmen	Director	Eurotech	Ownership	-	-	-	-	-
Pizzol Marina	Director	Eurotech	Ownership	-	-	-	-	-
Favaro Gianfranco	President of Board of Statutory Auditors	Eurotech	Ownership	-	-	-	-	-
Briganti Laura	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-
Rebecchini Gaetano	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-

Reconciliation statement of results for the year and shareholders' equity

The schedule below shows the reconciliation of net income and consolidated shareholders' equity of the Issuer at 31 December 2018 and 31 December 2017:

(€'000)	Profit (Loss) 12/31/2018	Shareholders' Equity 12/31/2018	Profit (Loss) 12/31/2017	Shareholders' Equity 12/31/2017
Financial report of the Parent Company	30,610	140,617	(4,003)	109,410
Group share of shareholders' equity and pro-quota value in consolidated companies	4,113	(93,049)	(1,132)	(69,945)
Differential arising from consolidation		49,257		46,291
Customer relationship	-	-	(1,954)	-
Trademark		8,415		7,843
Reversal of Impairment of equity transactions	(25,357)	-	250	-
Effect of valuing equity investments using th enet equity method	(6)	-	(2)	6
Elimination of unrealised internal profit on capitalizations	(89)	(253)	(75)	(164)
Exchange differences on equity investments in foreign companies	(1,645)	-	4,609	-
Stock option subsidiaries	(227)	-	(136)	-
Offset dividends	(1,704)	-	(3,051)	-
Tax effects on consolidation adjustments listed above	(13)	(2,945)	822	(2,744)
Consolidated financial statements	5,682	102,042	(4,672)	90,697

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

The Parent Company Eurotech S.p.A. held 887,020 treasury shares at the end of the reporting period. Treasury shares changed as follows in 2018:

	No. of shares	Face value of a share (Thousand of Euro)	% share capital	Carrying value (€'000)	Average unit value
Status as at 1 January 2018	1,319,020	330	3.71%	3,097	2.35
Purchases	-	-	0.00%	0	
Sales	-	-	0.00%	0	
Assignment-Performance share Plan	(432,000)	(108)	-1.22%	(1,014)	2.35
Status as at 31 December 2018	887,020	222	2.50%	2,083	2.35

Investments and research and development

At 31 December 2018, technical investments (tangible assets) in equipment and instruments amounted to €384 thousand, investments in property and other assets amounted to €320 thousand, investments to purchase user, software and know-how licenses amounted to €269 thousand.
During the period, the Group invested in industrial research and development and technological innovation for new products and improving current processes.
Research resulted in the development of new products/applications in the field of computers and embedded systems, high-integration and low-consumption computers, network appliances, software platforms and supercomputers. Research also led to improvements in the quality of products, the creation of new products, reduced manufacturing costs and a resulting increase in company competitiveness. During the period development costs for new products were capitalised for €2.26 million. About 37.1% relate to the development of new hardware products based on ultra-low power architectures; about 59.4% relate to software projects in the Edge computing segment and Internet of Things platform, and the remainder of about 3.6% was used for a range of purposes in both hardware and software, including projects launched in previous years.

Main risks and uncertainties to which the Group is exposed

Risks connected to general economic conditions

The global macroeconomic situation affects the statement of financial position, business performance and financial status of the Group. A recession involving the global economy continued in some countries that the Group operates in, with effects that differed depending on geographic areas. Even though there are signs of improvement in certain markets and certain countries, this recessionary phase cannot be considered to be over which could get worse after a weaker stage.
The Group's presence in various regions of the world however enables it to spread risk and to benefit from any positive situations arising in some regions in relation to or before other regions.

The Group's presence in sectors such as industry, trade and transportation, which are more affected by reduced consumption, may generate losses and risks of loss, above all in a scenario of considerable weakness of overall economic conditions.
Furthermore, leaving aside slow economic growth or recession, other economic conditions such as fluctuating raw material prices or their reduced availability or reduced spending on infrastructure may negatively affect the markets in which the Group operates, and may, in combination with other factors, have a significant impact on the Group's business outlook, operating performance and/or financial situation.
Moreover, the evolution of the Brexit process, as well as the political situation of some European countries such as Italy and Germany, could represent elements of instability for the European economy.

Risks connected to exchange rate and interest rate fluctuations

The Eurotech Group operates at global level and has invested in countries such as the US, Japan and the UK, deriving cash flows from these countries that are not consistent. In addition, the individual foreign subsidiaries tend to operate on their respective core markets with the respective functional currencies. Owing to these considerations, exchange rate hedging operations are not carried out, despite the fact that the consolidated financial statements are constantly affected by exchange rate fluctuations when the financial statements of companies outside the Eurozone are translated.
The Group is exposed via medium-term, variable-rate loans, particularly in Europe and to a lesser extent in Japan. The Group uses hedging instruments to mitigate the effects of interest rate variations on loans.
Steep exchange rate or interest rate fluctuations may have an impact on the Group's business performance and financial results.
For more information, see Note 35.

Risks connected to liquidity and required financial resources

In view of its current net financial position, the Group plans to meet requirements for expiring financial payables with available cash and cash flows from operations.
The Group believes that in order to generate positive cash flow its turnover must amount to at least as much as obtained in 2018 and continue to focus on operating expense in accordance with turnover.
The Group has to comply with financial parameters, particularly insofar as the net debt/EBITDA and debt/equity ratios. Failure to achieve the figures set out in loan agreements exposes the company to the risk of repayment or possible increased financial costs.
Group strategy is to maintain the available cash invested in at-sight or very short-term bank deposits, dividing the deposits between a sufficient number of selected banking counterparties operating in various regions.
Since the Group has implemented measures designed to maintain adequate levels of working capital and cash, any contraction in sales volumes may have a negative effect on the cash-generating capacity of the Group's operational units. The Group may therefore find it necessary to arrange further loans and/or refinancing of existing debt, including in unfavourable market conditions, with a general reduction in available financing sources and higher costs. Any difficulties in raising such financing could have a negative effect on the Group's business outlook, as well as on its operational results and/or its financial position.

Risks connected to management

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

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

With some exceptions, the Group's markets are competitive in terms of product quality, innovation, reliability and customer support.

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

Risks connected to customers

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

Risks connected to environmental policy

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

Risks connected to relations with employees and suppliers

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

Risks connected to development activity

The Group conducts major research and development projects that can last for more than 24 months. Development activities believed to be capable of producing future benefits in terms of revenues are posted as intangible fixed assets.

Not all development activities may lead to production at a level that allows for complete recoverability of the posted asset. When products related to capitalised development activities do not achieve the success expected, the impact on expected Group revenues and profits is determined, as well as whether the asset has to be written down.

Risks connected to the capacity to enrich the product portfolio and offer innovative products

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

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

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

Risks connected with the performance of the Group's operating results

This risk factor brings out the risks connected with investment in the Company's capital in consideration of the performance of the Group's operating result in recent years and of current conditions in certain markets.
It is difficult to foresee the Group's future performance in consideration of the sectors in which it operates. It is however evident that every external event, such as a significant drop in one of the major markets of relevant, the volatility of financial markets and the resulting deterioration of the capital market, the increase in cost of raw materials, unfavourable interest and exchange rate fluctuation, government policies, etc., might make a negative impact on the sectors in which the Group operates and negatively affect its prospects and activity, as well as affect its operating and financial results. The profitability of the Group's activities is also subject to risks tied to the fluctuation of interest rates, solvency and ability of the commercial counterparties to finance themselves, as well as to the overall economic conditions of the countries where the Group operates.

Disclosure on the environment and on personnel

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

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

Disclosure on sovereign exposure

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

Process of simplifying the standards based on Consob resolution no. 18079/2012

Pursuant to Art. 3 of Consob Resolution no. 18079 of 20 January 2012, Eurotech adheres to the simplification procedure provided for by Art. 70, paragraph 8, and 71, paragraph 1-bis of the Regulations adopted by Consob with its resolution no. 11971 of 14 May 1999 as amended and supplemented, therefore benefiting from the right to derogate from the obligations to disclose information documents provided for by Annex 3B of the aforesaid Consob Regulation at the time of significant transactions concerning mergers, spin-offs, increases in capital by way of contributions in kind, purchases and sales.

Events after the reporting period

No other significant events took place after the end of the year other than those indicated in Note 39.

Report on corporate governance and ownership structure

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

Off-statement of financial position Agreements

The information required by article 2427, paragraph 1 no. 9 of the Civil Code is hereby given that the Group has no agreements not disclosed in the statement of financial position.

Subsidiaries created and regulated according to the law of States outside the European Union

The Board of Directors hereby declares that conditions for listing exist pursuant to article 36 of Consob Regulation 16191/2007 (the “Stock Market Regulation”). In this regard, note that at 31 December 2018 the subsidiaries created and regulated under the laws of countries outside the European Union, pursuant to article 36, paragraph 2 of the above Regulation, are US companies Eurotech Inc. and E-Tech USA Inc. and Japanese company Advanet Inc., and that the requirements set out in paragraph 1 of said article are met for these subsidiaries.

Competitive scenario, outlook and future growth strategy

Thanks to the integration and strengthened relations between the Group's various companies, the global positioning of individual subsidiaries, as well as the Group's statement of financial position and financial solidity, the outlook for 2019 and the years to come is positive, even though market conditions in some sectors remain uncertain.

The Group will pursue strategic development in 2019, along guidelines similar to those adopted in the last few years. The implementation of the strategic plan specifically includes the following actions:

- the development and offering of new products/solutions with greater added value, with a particular focus on the creation of application-ready platforms and ready-to-use products;
- the focus on products/solutions that are closer to the "pervasive computing" and "cloud computing" paradigm;
- strengthening commercial activities, particularly with regard to indirect sales channels along with direct ones;
- heightened integration between individual Group companies, to (a) achieve greater operating effectiveness, (b) benefit from the economies of scale achievable, and (c) consolidate the Eurotech brand image;
- the continuous monitoring of opportunities for new acquisitions to extend the Group's presence in specific markets or as cross-selling catalysts between subsidiaries.

EUROTECH S.p.A.

Report on corporate governance and ownership structure

pursuant to Art. 123-*bis* of the Consolidated Law on Finance (TUF)

Issuer: EUROTECH S.p.A.

Website: www.eurotech.com

Reporting period: 2018

Report approval date: 15 March 2019

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* * *

GLOSSARY

Code/Corporate Governance Code: the Corporate Governance Code for listed companies, approved by the Corporate Governance Committee in July 2018 and promoted by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime and Confindustria; available online at www.borsaitaliana.it, under "Borsa Italiana - Regulations – Corporate Governance*"*.

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

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

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

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

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

CONSOB Market Regulation: regulations issued by CONSOB with resolution 20249 in 2017 (as subsequently amended), relating to markets.

CONSOB Related Party Regulation: regulations issued by CONSOB with resolution 17221 on 12 March 2010 (as subsequently amended), relating to transactions with related parties.

Report: the report on corporate governance and company structure that the companies are obliged to prepare, pursuant to Art. 123-*bis* of the TUF.

Consolidated Law on Finance/TUF: Legislative Decree No 58 of 24 February 1998 (Consolidated Law on Finance).

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

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

Stock Market Regulation: the regulation of the markets organised and managed by Borsa Italiana SpA. (as amended).

To our Shareholders,

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

The following Annual Report will provide you with mandatory information regarding actual implementation of the Corporate Governance Code for the financial year ended 31 December 2018.

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

1. ISSUER PROFILE

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

Eurotech is organised according to the traditional management and control model, with a Shareholders' Meeting, Board of Directors and Board of Statutory Auditors.

Note that the Issuer is qualified as an SME pursuant to Art. 1, paragraph 1, letter w-*quater*.1) of the TUF as from the 2014 financial year. Therefore, the capitalisation and turnover figures are listed in the following table:

AVERAGE CAPITALISATION 2018	AVERAGE CAPITALISATION 2017	AVERAGE CAPITALISATION 2016*	AVERAGE CAPITALISATION 2015*	AVERAGE CAPITALISATION 2014*	TURNOVER 2018**	TURNOVER 2017**	TURNOVER 2016*	TURNOVER 2015*	TURNOVER 2014*
87 million	49 million	48 million	65 million	71 million	79,083,000	60,120,000	61,103,000	65,551,000	63,898,000

2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-*BIS*, PARAGRAPH 1, TUF) AS AT 31 DECEMBER 2018

a) Share capital structure

As at 31 December 2018, the share capital was €8,878,946.00, fully subscribed and paid up, divided into 35,515,784 ordinary shares with no nominal value. At the date of this Report, the share capital had not changed since the end of the financial year.

At the date of this Report, the Company holds 887,020 treasury shares, equivalent to 2.498% of the current share capital.

The shares are indivisible and dematerialised.

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

Details and contents of the “2016 EUROTECH S.p.A. Performance Share Plan” are found in the relevant information document published on the website of the company (www.eurotech.com, Investors/Information for shareholders’ section).

b) Restrictions on the transfer of shares

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

c) Significant equity interests

Considering that the Issuer can be qualified as an SME, the threshold for notifying significant equity interests is 5% of the share capital with voting rights (see Art. 120, paragraph 2, last sentence, TUF).

As at 31 December 2018, Shareholders who directly or indirectly hold significant shares of the share capital of the Issuer through pyramid structures or cross holdings, according to the communications received pursuant to Art. 120 of the TUF, are the following:

SIGNIFICANT EQUITY INTERESTS

Reporting party	Direct Shareholder	% of ordinary capital	% of voting capital
Dino Paladin	Dino Paladin	5.178 %	5.178 %
Leonardo - Joint Stock Company	Leonardo - Joint Stock Company	11.084 %	11.084 %

d) Shares granting special rights

There are no shares which grant special control rights or special powers assigned to the shares.
The Bylaws of the Issuer contain no provisions regarding increased voting pursuant to Art. 127-*quinquies* TUF.

e) Employee shareholdings: voting mechanism

No system of employee shareholdings exists.

f) Restrictions on voting rights

There are no restrictions on voting rights.

g) Shareholder agreements

To the Issuer's knowledge, as at 31 December 2018 there are no shareholder agreements pursuant to Art. 122 of the TUF.

h) Change of control clauses and statutory provisions relating to PTOs

The Issuer and its subsidiaries have not entered into other significant agreements that take effect, are amended or terminate upon a change of control of the contracting company.

The Issuer's Bylaws do not depart from the passivity rule provisions pursuant to Art. 104, paragraphs 1 and 1-*bis* of the TUF, and do not require application of the neutralisation rules envisaged in Art. 104-*bis*, paragraphs 2 and 3 of the TUF.

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

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

The ordinary Shareholders' Meeting of Eurotech held on 20 April 2018 resolved, subject to revocation of the authorisation given by the Shareholders' Meeting held on 26 April 2017, to authorise the purchase and sale of treasury shares, pursuant to and in accordance with Articles 2357 and 2357-*ter* of the Italian Civil Code, as well as Art. 132 of the TUF and related implementing provisions, for the purposes indicated in the Report by the Board of Directors, and specifically:

1. to authorise, pursuant to and in accordance with Art. 2357 of the Italian Civil Code, the purchase, in one or more tranches, during a period of eighteen months from the date of the March resolution by the ordinary Shareholders' Meeting, of ordinary Eurotech shares that, taking into account the ordinary Eurotech shares held at any time by the Company and its subsidiaries, does not in total exceed the upper limit set out under applicable laws in force, at a price no higher than the highest price between the last independent transaction and the price of the highest current independent offer at the trading venues where the purchase is made, provided that the unit price is no lower than 15% less and no higher than 15% more than the official price recorded by the Eurotech share on the stock market trading day preceding each purchase transaction, in accordance with the trading conditions established in Art. 3 of the Delegated Regulation (EU) 2016/1052;
2. to authorise the Board of Directors, and its Chairman and Chief Executive Officer on its behalf, also separately, to purchase the shares under the conditions and for the purposes explained above, at the pace deemed most advantageous for the Company and through the methods established in the applicable provisions of CONSOB Issuer Regulation 11971/1999 (as subsequently amended), as required by Art. 132 of the TUF, conferring the broadest possible powers to carry out share purchase transactions pursuant to the resolution, as well as any other formality related to these purchases, including the delegation of tasks to intermediaries authorised pursuant to law and with the power to appoint special attorneys;
3. to authorise the Board of Directors, and the Chairman and Chief Executive Officer on its behalf, also separately, conferring the broadest possible powers to carry out the disposals pursuant to the resolution, as well as any other formality related to these purchases, including the delegation of tasks to intermediaries authorised pursuant to law and with the power to appoint special attorneys so that, pursuant to and in accordance with Art. 2357-*ter* of the Italian Civil Code, treasury shares purchased on the basis of this resolution or in the Company portfolio at any time, all or in part, all together or in several times, without time limits, also before having sold out, (i) by assignment to the beneficiaries of the "2016 EUROTECH S.p.A. Performance Share Plan" within the terms and at the conditions set forth in the Plan; (ii) residually, by using the treasury shares as consideration in extraordinary transactions, including equity exchanges with other parties, in transactions carried out in the interest of the Company; (iii) by designating any excess treasury shares with respect to those effectively serving the "2016 Eurotech S.p.A. Performance Share Plan" to other

purposes permitted by the legislation in force in the interest of the Company or, in any case, sell them on- or off-market, potentially also by selling real and/or personal rights, including but not limited to securities lending, in compliance with the legal and regulatory provisions currently in force and for the purposes set out in this resolution, using the terms, methods and conditions of disposal of the treasury shares deemed most advantageous for the Company; provided that (a) disposals carried out as part of extraordinary transactions, including equity exchanges with other parties, may take place at the price or value that is congruous and in keeping with the transaction, according to the characteristics and nature of the transaction and also taking account of market performance; and (b) disposals of the treasury shares of the "2016 Eurotech S.p.A. Performance Share Plan" take place within the terms and at the conditions envisaged by said plan; the authorisation relating to this point is granted without time limits;
(B) to ensure, in accordance with the law, that the purchases covered by this authorisation do not exceed the limits of distributable earnings and available reserves as recorded in the most recent annual report (also interim) approved at the time the transaction is carried out, and that, at the time of the purchase and sale of treasury shares, the necessary accounting information has been recorded, in compliance with the applicable laws and accounting standards."]

At the date of this Report, the Company owns 887,020 treasury shares, equivalent to 2.498% of the share capital (amounting to € 8,878,946.00, divided into 35,515,784 ordinary shares). The value of these shares is recorded in the financial statements at € 2,082,769

l) Management and Co-ordination

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

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For further information, pursuant to Art. 123-*bis* of the TUF, notice is hereby given that:

- information required by Art. 123-*bis*, paragraph 1, letter i) relating to agreements between the Company and the Directors that provide for compensation in the event of resignation or dismissal without just cause or in the event that the employment relationship ends due to a public purchase offer, is provided in Section 9 of the Report and in the remuneration report prepared pursuant to Art. 84-*quater* of the CONSOB Issuer Regulation available in accordance with legal requirements, on the Company's website www.eurotech.com in the "Investors" section;
- information required by Art. 123-*bis*, paragraph 1, letter l) relating to the appointment and replacement of Directors and amendments to the Company Bylaws, where these differ from the applicable laws and regulations as supplemented, is provided in Section 4.1 of the Report;
- information required by Art. 123-*bis*, paragraph 2, letter b) relating to the main features of the risk management and internal control systems is provided in Sections 10 and 11 of the Report;
- information required by Art. 123-*bis*, paragraph 2, letter c) relating to information on the operational mechanisms of the Shareholders' Meeting, its main powers, shareholder rights and how these are exercised, is provided in Section 16 of the Report;
- information required by Art. 123-*bis*, paragraph 2, letter d) and d-*bis*) relating to information on the composition and functioning of the management and supervisory bodies and their committees is provided in Sections 4, 6, 7, 8, 10, 13 and 14 of the Report.

3. *COMPLIANCE*

Eurotech has adopted the Corporate Governance Code by basically adapting to the principles contained therein, according to what is specified hereunder in this Report. The Code is available to the public on the website of Borsa Italiana at the address https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018clean.pdf

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

4. BOARD OF DIRECTORS

4.1. *Appointment and replacement*

Pursuant to Art. 14 of the Bylaws, the Board of Directors has no less than five and no more than eleven members. The Ordinary Shareholders' Meeting determines their number at the time of appointment. If the number of Directors has been set at a level lower than the maximum limit, the Shareholders' Meeting may increase this number during the Board's term. Directors must satisfy the requirements envisaged by law and other applicable measures, and a minimum number of Directors, corresponding to the legal minimum, must satisfy the independence requirements envisaged in Art. 148, paragraph 3 of the TUF, as well as in Art. 3 of the Code. With reference to the rules on the balance between genders in the composition of management bodies pursuant to Art. 147-*ter*, paragraph 1-*ter* of the TUF, as introduced by Law 120/2011, and the implementation provisions of CONSOB, the Board adapted the Bylaws to the aforesaid regulations pursuant to Art. 2365, paragraph 2 of the Italian Civil Code, and 19, paragraph 1, of the Bylaws at the 15 March 2013 meeting.

Note that, since it is listed on the STAR Segment of the MTA, the Issuer is obliged to have a sufficient number of Independent Directors on its Board of Directors in order to continue to qualify, and therefore to fulfil the criteria established by Art. IA.2.10.6 of the Stock Market Regulation, which make provision for: at least two Independent Directors for Boards of Directors with up to eight members; at least three Independent Directors for Boards of Directors with 9 to 14 members; and at least four Independent Directors for Boards of Directors with more than 14 members.

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

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

The lists that are submitted and signed by the shareholders must be lodged with the registered office of the Company and made available to anyone who requests them, at least 25 days before the single call of the Shareholders' Meeting, and will be subject to other forms of notice and filing methods in accordance with the laws in force. In particular, at least 21 days before the date of such meeting, the lists are made available to the public at the registered headquarters, on the Company's website and in any other manner set out in the CONSOB Regulation.

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

Only those shareholders who, either alone or together with other shareholders submitting lists, own a total of voting shares that represent at least 2.5% of the voting capital at the Ordinary Shareholders' Meeting, or representing any other percentage established by legal and regulatory provisions, may submit lists. By Management decision no. 13 of 24 January 2019 of the Head of the Corporate Governance Division, CONSOB set the minimum equity interest for submitting lists of candidates for the election of the Issuer's Board of Directors at 4.5% of the share capital.

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

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

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

The lists containing a number of candidates equal to or greater than three must be formed by candidates belonging to both genders so that at least one-third (however rounded up to the excess) belong to the less represented gender of the candidates.

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

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

The Board of Directors shall be elected as follows:

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

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

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

Moreover, if the election of candidates according to the aforementioned procedures does not ensure that the composition of the Board of Directors complies with the requirements in force concerning balance between genders, the candidate of the more represented gender elected last in progressive order on the list that won the highest number of votes shall be replaced by the first candidate of the less represented gender not elected on the same list in progressive order. This replacement procedure shall be followed until it is ensured that the composition of the Board of Directors complies with the regulations in force on balance between genders. Finally, if this procedure does not ensure the final result indicated above, the vacant position shall be filled by Shareholders' resolution passed with a relative majority, following the submission of candidates belonging to the less represented gender.

If a single list is submitted or if no list is submitted, the Shareholders' Meeting shall pass a resolution by legal majority, without complying with the procedure described above, without prejudice to compliance with regulations in force concerning balance between genders.

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

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

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

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

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

Plans for the succession of the Executive Directors

Considering the Issuer's size and organisational structure, as well as the practice to appoint the office of Executive Director to parties who have gained significant experience with the Company, the Board of Directors, during its meeting on 8 March 2019, considered that at present it is unnecessary to adopt a plan for the succession of the Executive Directors, however reserving the right to make further assessments in the future.

Amendments to the Company Bylaws

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

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

4.2. *Composition*

The Board of the Issuer was appointed by the Shareholders' Meeting held on 26 April 2017, which decided that the number of members of the management body would be 9 (nine).

The Board of Directors was appointed on the basis of the single majority list presented by the shareholder Leonardo S.p.A., also in the name and on behalf of the shareholder Roberto Siagri and Dino Paladin, pursuant to the current Bylaws in force and in compliance with the provisions of the shareholders' agreement in force between Leonardo S.p.A., Dino Paladin and Roberto Siagri governing the presentation of the majority list for the election of the corporate bodies of Eurotech by the Ordinary Shareholders' Meeting of 26 April 2017; this list obtained 9,659,666 favourable votes, equal to 96.503% of the voting capital.

For more information about the lists filed for the appointment of the management body, please refer to the Company's website at www.eurotech.com in the Investors section, where the curricula vitae of the Directors are also made available.

The Board of Directors will remain in office until the date of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2019.

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

Diversity criteria and policies

With regard to the company criteria and policies on diversity applied in relation to the composition of the Board of Directors in office with regard to factors such as age, gender, education and professional background (Art. 123-*bis*, letter d-*bis*, TUF), it is specified that: (i) the Company's Board of Directors includes three Directors belonging to the lesser represented gender, in compliance with regulations on gender balance; (ii) the Board is characterised by the diversity of its members, taking into account that the age of the Directors is between 50 and 64 years; (iii) the education and professional path of Directors currently in office guarantees a balanced combination of profiles and experience within the management body, suitable for ensuring the proper performance of the functions assigned to it.

In this regard, reference is also made to the Board's self-assessment and the results thereof, as described in Section 4.3 below.
The Board of Directors, in the explanatory report prepared pursuant to Art. 125-*ter* of the TUF, relating to the appointment of the Board of Directors and the Board of Statutory Auditors by the Shareholders' Meeting called to approve the financial statements as at 31 December 2019, will include the indications for shareholders - also pursuant to Criterion 1.C.1. letter h) of the Corporate Governance Code - regarding the diversity policy in the composition of the Company's corporate bodies.

Maximum number of positions allowed in other companies

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

The Board of Directors does not deem it necessary to impose preset limits on numbers of positions held by Eurotech Directors in the management and supervisory bodies of other companies. It is understood, however, that it is the duty of each Director to assess whether director/auditor positions held in other companies listed on regulated markets, financial, banking, insurance or large-scale companies is compatible with diligent performance of the tasks assumed as a Director of Eurotech.

It should be noted that at its meeting of 9 March 2018 and 8 March 2019, the Board, after reviewing the positions currently held by board members in other companies, decided that the number and nature of these positions do not interfere and are compatible with the effective performance of their roles as Directors of the Issuer.

The following table shows the positions held by Eurotech Directors at the date of this Report in other listed companies and in financial, banking, insurance or large-scale companies in accordance with Application Criterion 1.C.2. of the Corporate Governance Code:

Surname and First name	Company	Management and supervisory positions
Panizzardi Giuseppe	Eurotech S.p.A. World's Wing SA Bredamenarinibus S.p.A. Leonardo International S.p.A.	Chairman of the Board of Directors Director Chairman of the Board of Directors Director
Antonello Giulio	Eurotech S.p.A. Reno de Medici S.p.A. Azienda Agricola Riserva San Massimo Financiere Phone 1690 S.A.	Independent director Independent director Chairman of the Board of Directors Director
Costacurta Riccardo	Eurotech S.p.A.	Independent director
Mio Chiara	Eurotech S.p.A. Crédit Agricole FriulAdria SpA Danieli & C. Officine Meccaniche SpA Nice SpA O.V.S. Spa Servizi Italia SpA Piovan SpA Corà Domenico & Figli Spa Mcz Group SpA Bluenergy Group SpA Anteo Srl	Independent director Chairman of the Board of Directors Director Director Director Director Director Director Director Director Chief Executive Officer
Mosca Giorgio	Eurotech S.p.A.	Director
Dino Paladin	Eurotech S.p.A. Ditta Dott. Dino Paladin	Director Owner
Pezzuto Carmen	Eurotech S.p.A. Safilo Group Spa Piovan Spa Safilo Spa Safilo Industrial Srl Forno D'Asolo Spa Buona Compagnia Gourmet Srl Gradiente Sgr Spa Pizartprinting Spa Isoclima Spa Compar Spa	Independent director Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Statutory Auditor Statutory Auditor Statutory Auditor Statutory Auditor Statutory Auditor Statutory Auditor Statutory Auditor Statutory Auditor

	Aquafin Holding Spa	Statutory Auditor
	Gate Eleven Srl	Sole Auditor
	Santa Margherita Spa	Substitute Statutory Auditor
	Ca' del Bosco Srl - Azienda Agricola	Substitute Statutory Auditor
	S.M. Tenimenti Lamole e Vistarenni e San Disdagio Srl	Substitute Statutory Auditor
	Zignado Holding Spa	Substitute Statutory Auditor
	Exo Automotive Spa	Substitute Statutory Auditor
	Aquaspace Spa	Substitute Statutory Auditor
	Borgolon Spa	Substitute Statutory Auditor
	Multitecno Srl	Substitute Statutory Auditor
	M31 Spa	Substitute Statutory Auditor
	Tessilquattro Spa	Substitute Statutory Auditor
	Alessi Domenico Spa	Substitute Statutory Auditor
	Ca' Maiol Srl - Azienda Agricola	Substitute Statutory Auditor
	Ordine dei Dottori Commercialisti ed Esperti Contabili di Padova	Director
	Fondazione dei Dottori Commercialisti ed Esperti Contabili di Padova	Director
	Lucy's Line Srl	Independent Auditor
	Giovanni Zillo M.X. & C.S. R. L.	Independent Auditor
Pizzol Marina	Eurotech S.p.A.	Director
	Eurofighter Simulation Systems GmbH	Representative of the Shareholders' Meeting
Roberto Siagri	Eurotech S.p.A.	Chief Executive Officer
	Eth Lab Srl	Chairman of the Board of Directors and Chief Executive Officer
	Aurora Srl	Chairman of the Board of Directors and Chief Executive Officer
	Advanet Inc.	Director
	Eurotech Inc.	Chairman of the Board of Directors
	Eurotech France Sa	Chairman of the Board of Directors
	E-Tech USA Inc.	Chairman of the Board of Directors
	Nextra Gen Srl	Sole Director
	Comet Scarl	Director
	Ditedi - Distretto industriale delle Tecnologie Digitali Scarl	Director

Induction Programme

The characteristics of board reporting enable the Directors to obtain adequate knowledge of the field of activity in which the Issuer operates, of the company dynamics and their evolution, as well as the relevant regulatory and control framework.

The Chairman encourages the Directors to attend the meetings of the Board of Directors and Shareholders' Meetings, and promotes initiatives designed to enhance their knowledge of the situation and dynamics of the business, such as face-to-face meetings with key Group managers.

On 4 July 2018, a meeting was held with all Board of Directors and Statutory Auditors members, as well as some employees of the Parent Company, in which topics relating to market abuse were discussed in depth: inside information, insider registers and internal dealing. The duration of the meeting was 1 hour and 40 minutes.

4.3. *Role of the Board of Directors*

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

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

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

(i) simplified mergers and demergers, pursuant to Art. 2505, 2505-*bis*, 2506-*ter*, final paragraph of the Italian Civil Code;

(ii) establishment or closure of branch locations;

(iii) relocation of the Company's registered office within Italy;

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

(v) reducing the share capital following redemption;

(vi) amending the Company Bylaws in line with regulatory provisions;

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

The Board of Directors has also assumed exclusive responsibility, without prejudice to matters that cannot be delegated by law, for the following matters:

- examining and approving the strategic, business and financial plans of the Company and the corporate structure of the group that it heads; specifically, this includes examination and approval of the business plan and annual investment budget, as well as additions and/or changes to the same documents in an amount exceeding 20% of what was originally envisaged;
- monitoring general operating performance; while carrying out this function, the Board of Directors carefully assesses potential conflicts of interest, considers the information received from the Chief Executive Officers and periodically compares the results achieved with budget targets;
- monitoring the adequacy of the general organisational and administrative structure of the Company and Group put in place by the Chief Executive Officers;
- approval and amendment of the basic organisational structure of the Company and Group;
- programmes and proposals for new investments for amounts exceeding:
  - €500,000.00 for each investment in stationary plants;
  - €1,000,000.00 for each multi-year investment in research and development;
- sale and purchase of know-how;
- examining and approving transactions having a specific impact on operating results, equity and the financial position pursuant to the CONSOB regulations governing listed companies;
- purchase and sale of equity investments, mergers, transformations, demergers and/or transfers of holdings and business units. An equity investment for operating needs in consortia or consortium companies does not fall within the aforesaid requirement. Increases in capital of companies already held

that involve an investment of less than €100,000 and that do not involve increasing the share held are excluded.

- capital transactions, transformation, listing on the stock market, merger, spin-off, liquidation, execution of shareholders' agreements regarding direct subsidiaries;
- hiring, appointment or dismissal of executives and determination of their wages as regards Eurotech S.p.A. and the Italian subsidiaries;
- hiring, appointment or dismissal of the Chief Executive Officers (CEO) of foreign subsidiaries and determination of their wages;
- purchasing or selling property assets;
- entering into receivable and payable loan agreements even with subsidiaries, affiliates and other companies over the medium and long term and assuming lines of credit with any technical form of use for amounts exceeding €3,000,000.00 for each transaction;
- issuing fidejussory bonds and/or secured guarantees for third parties for amounts exceeding €3,000,000.00 for each transaction.

During the year the Board, in line with the recommendations of the Code:

- examined and approved the strategic, business and financial plans of the Issuer and the Group that the Issuer heads; and monitored their implementation;
- examined and approved the corporate governance system of the Issuer and the structure of the Group that the Issuer heads, drafting and adopting the Company's corporate governance rules and the Group's governance guidelines;
- assessed the adequacy of the organisational, administrative and general accounting structure of the Issuer and the strategically important subsidiaries put in place by the Chief Executive Officer, with a particular focus on the internal control system and the management of risks according to the procedures adopted by the Issuer in this regard. In carrying out these activities the Board received, according to individual cases, the support of the Internal Control and Risks Committee, the Internal Audit Officer and the Financial Reporting Manager, and made use of procedures and audits, including those set out in Italian Law 262/2005. During its meeting of 9 March 2018, the Board, on the basis of the calculations of the Internal Control and Risks Committee, assessed the organisational, administrative and general accounting structure of the Company and it strategically important subsidiaries pursuant to criterion 1.C.1, letter c) of the Code, and expressed a positive opinion on the internal control system and, more generally, on the corporate governance system of the Company and the Group that the Issuer heads;
- assessed, on at least a quarterly basis, overall operation performance, taking into account, in particular, the information received by the delegated bodies, and comparing the results achieved with projections on a regular basis;
- examined and approved in advance, in accordance with current regulations: (*i*) transactions of the Issuer and its subsidiaries with strategic, business, asset or financial importance for the Issuer; (*ii*) transactions in which one or more Directors have an interest on their own behalf or on behalf of third parties and (*iii*) more generally, related party transactions; for more information on the management of conflicts of interest and related party transactions of the Issuer, see Section 12 below.

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

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

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

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

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

Board meetings

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

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

The Board of Directors held 6 meetings during the year, on: 9 March, 13 March, 23 March, 14 May, 7 September and 13 November.

The meetings were minuted.

The Board meetings lasted for 1 hour and 33 minutes on average.

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

At least 7 Board of Directors meetings are planned for the current year, according to the calendar of Board meetings (four dates of which have already been communicated to the market and Borsa Italiana S.p.A. in accordance with regulatory provisions). In addition to the meetings held on 8 March and 15 March 2019 to approve the draft financial statements and the consolidated financial statements of the Group, the Board of Directors is scheduled to meet on the following dates:

- 14 May (approval of the first-quarter results to 31 March 2019);
- 5 September (approval of the first-half results to 30 June 2019);
- 13 November (approval of the third-quarter results to 30 September 2019);

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

Pursuant to Art. 16, paragraph 3 of the Bylaws, the Chairman of the Board coordinates the work of the Board of Directors and ensures that adequate information on the agenda of the meeting is given to all Directors. In particular, this information is always given in such a way as to allow the Board members to express an informed opinion on the matters submitted for examination by providing them documentation and information relating to the document drafts submitted for approval sufficiently in advance, with the sole exception being cases of particular and proven urgency.

Timeliness and completeness of the pre-meeting information is guaranteed by sending documentation at least 3 days before the date of the Board meeting. This deadline was normally met, and if in specific cases it was not possible to provide the necessary disclosure early enough in advance, the Chairman ensured that adequate in-depth analyses were made during the board meetings.

Board meetings may also be attended by managers of the Issuer and the Group that is now at the head in order to provide additional information on the items on the agenda. During the year, the Financial Reporting Manager attended all of the meetings.

On 8 March 2017, and with reference to the newly appointed management body, on 9 March 2018 and most recently on 8 March 2019, the Board of Directors of Eurotech carried out the annual assessment pursuant to Application Criterion 1.C.1(g) of the Corporate Governance Code, finding that the composition and functions of the Board of Directors and its Committees are appropriate for the operating and organisational requirements of the Company, [also in relation to the diversity policies and criteria envisaged by the Company in accordance with Article 2 of the Corporate Governance Code]. The presence of eight non-executive directors, including four Independent Directors, out of a total of nine Directors, ensures that Board of Directors committees have the right balance of members.

In compliance with the Corporate Governance Code, the assessment process concerned the financial year and it was performed based on a management body self-assessment questionnaire sent to all directors. The questionnaire - divided into different survey areas (i.e. composition, structure, size and operation of the Board, interaction with management, risk governance, composition and structure of the committees, etc.) and with the possibility to provide comments and recommendations - was filled in by all Directors and was examined by the Board during its 8 March 2017 meeting and with reference to the newly appointed management body, on 9 March 2018 and most recently on 8 March 2019. The self-assessment results showed that the Board effectively managed the issues for which they are responsible in 2018, with the involvement of all Directors, in a climate of expertise and collaboration on the issues regarding the company. No elements of weakness requiring the need to take immediate correction actions were found, but they will be analysed and considered in order to improve the work of the Directors, and make it more efficient.

4.4. *Delegated Bodies*

a) **<u>Chief Executive Officers</u>**

Roberto Siagri, Director, has full powers of representation and ordinary management with free power of signature, including those in the following (non-exhaustive) list, to carry out and supervise the organisation and management of the Company and its subsidiaries, and in particular as:

<u>Legal representative:</u>

- representation of the Company before any third party;

- representation of the Company, either actively or passively, before the Italian and foreign civil, penal, administrative and financial authorities, at every order and level of jurisdiction, including for judgements of revision and appeal, appointing and terminating as necessary lawyers, attorneys and experts, filing complaints and making applications to take part in proceedings as a civil party; settling and reconciling judgements and withdrawing from proceedings; submitting disputes for arbitration and carrying out all formalities related to arbitration judgements;

- promoting and pursuing actions in any judicial, civil, criminal and administrative venue, at any level of jurisdiction, whether as a plaintiff or as a defendant;

- filing of all reports or declarations that the Company must submit pursuant to law;

- delegation of authority and conferring special and/or general powers of attorney to establish acts or categories of acts within the scope of the powers conferred;

- as the Company's representative, discussion and settlement of all administrative matters before any authority and agency, ministry or state entity, signing petitions and appeals, requesting and collecting refunds;

- representation of the Company before all authorities, agencies or entities with jurisdiction over tax matters;

- filing of all reports or declarations that the Company must submit pursuant to law;

- signing and filing tax returns and declarations;

<u>Administrative and tax representative:</u>

- signing and submitting petitions, appeals, objections and reservations against tax assessments, arranging and defining practice in all tax matters, requesting and collecting refunds;

- participating in inspections by the tax police and all other authorities, signing the relevant reports;

- filing of all reports or declarations that the Company must submit pursuant to law;

- requesting, from any authorised entity, administrative and public safety licenses, particularly trade licenses, including registration thereof in their own name as the Company's legal representative in force;

<u>Representative to CONSOB and Borsa Italiana S.p.A.</u>

- representing the Company before CONSOB and at the market management companies, including in any proceedings that might have been filed with them, with the authority to draft notices and/or any other document pursuant to law and regulations;

- filing of all reports or declarations that the Company must submit pursuant to law;

<u>Trademarks and patents:</u>

- abandoning, limiting and expanding patents for inventions of ornamental, utility and industrial models, for factory and trade marks in Italy and at the international level, protecting them in administrative venues, carrying out all acts as necessary pursuant to current law, appointing correspondents for this purpose and granting them authority as necessary;

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

<u>Representation in associated companies:</u>

- the exercising of voting rights and representation of the Company at Shareholders' Meetings, in consortia or other entities in which the Company has equity interests, and the exercising of all the Company's other rights in relation to its interest in these other companies, consortia or other entities, delegating authority to third parties as necessary;

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

Employees:

• recruitment, suspension and termination of employees, with the exception of executives, executing the relevant agreements, defining remuneration, duties and any bonds, and satisfying all relevant obligations consequent upon administration of employment relationships;

• execution, amendment and termination of agreements with external consultants and freelance employees;

• representing the Company before trade unions, with the power to settle disputes;

• representing the company before all authorities, entities and institutes in regard to labour matters;

• representing the company before all social security and insurance institutions, satisfying the obligations imposed by applicable labour laws and regulations;

Contracts of sale and exchange:

• participation in tenders held by state agencies and public and private entities in Italy and abroad, for the supply of goods and services in general, submitting bids and, if the contract is awarded, signing and granting authority for signing the contracts for each individual tender or bid for amounts up to €5,000,000.00;

• execution and approval of all documents and agreements relating to the transfer of goods and provision of services, with the exception of capital assets, connected with the Company's activity, for a value of up to €5,000,000.00 and/or with a duration of three years or more;

• examination, amendment, approval and cancellation of contracts of sale and exchange, including those that envisage the receipt of commissions, finished and semi-finished products, raw materials and goods for performing corporate activities for a value of up to €5,000,000.00;

Agency agreements:

• amendment, approval and cancellation of agency, commercial licensing or sub-licensing, commission and bailment agreement;

Company management agreements:

• examination, amendment, approval, execution and termination of programmes and proposals for new investments for amounts up to:
  - €500,000 for each investment in stationary plants;
  - €1,000,000 for each multi-year investment in research and development;

• examination, amendment, approval, execution and termination of any document and agreement necessary for management of the Company whose individual value is less than €1,500,000/00 and whose duration is less than three years;

• amendment, approval, execution and termination of partnership agreements with universities and research institutes and joint venture agreements, except, in the latter case, where the Board of Directors is exclusively responsible for transactions with a specific impact on the operating results, equity and financial position pursuant to CONSOB regulations for listed companies;

- examination, amendment, approval, execution and termination of lease agreements, including finance leases and commercial leases and subleases for the use of goods in the amount of up to €500,000 and with a duration of up to nine years;

- requesting all forms of new loans and credit lines from banks, amending, approving and cancelling loans in euro and/or foreign currency, with the power to sign the related documentation for amounts of up to €3,000,000 for each loan and/or credit line, with a total annual limit of €5,000,000, excluding financial transactions in countries on the black list kept by the Ministry of Economic Affairs;

- executing all transactions with factoring companies, including the execution of agreements, sale of receivables and/or acceptance of sales by suppliers, the establishment of guarantees, collection orders, discounting and whatever else connected with factoring relationships;

- examination, amendment, approval, execution and cancellation of supply contracts in general, including service agreements, work agreements and similar provision of goods and all relevant and consequent acts for an amount equal to or less than €1,500,000.00 per single agreement, other than the sale of goods, provision of services and participation in tenders as described in the previous two points;

- definition of guidelines for cash pooling operations, such as, but not limited to, opening and closing of deposit accounts, swaps, negotiation of interest rates, the commencement and termination of operating mandates and, in general, all similar transactions;

- subscription of increases in capital of subsidiaries, affiliates and other companies already held that involve an investment of less than €100,000 and that do not involve increasing the share held are excluded;

<u>Vehicles:</u>

- representing the Company before all authorities and entities, signing all documents regarding the legal status of the transport vehicles and grant authorisations to drive Company owned vehicles to employees or third parties.

- the purchase, sale and exchange, up to a limit of €100,000/00, of any land transport vehicle, executing the related formalities with the competent public automotive registers, including the arrangement and cancellation of mortgages.

<u>Financial transactions and relations with banks:</u>

- within the limits of the granted credit lines, execution of any debit or credit transaction on the Company’s current accounts at banks and post offices in Italy and abroad, excluding countries on the black list published by the Ministry of Economic Affairs; issuing, endorsing and collecting bank cheques and having issued, endorsing and collecting banker’s drafts;

- issue, receipt and endorse bills of exchange; have issued, accept and endorse merchandise notes;

- execution or release of security deposits in cash or securities;

- depositing public or private securities with banks, in custodian, trust or pledge accounts; withdrawing them by issuing a receipt in release thereof;

- rental and cancellation of the rental of safe deposit boxes, with the power to open them and remove their contents;

- issuing bills of exchange and endorsements only to suppliers and for legal transactions, accepting bills only from suppliers and only if issued on legally compliant orders;

Administrative matters:

- collection of postal and telegraph money orders and issuance of the related receipts;

- collection of postal packets, registered and insured letters from any post office and issuance of the related receipts;

- giving and accepting security deposits;

- executing all customs clearance transactions, making and withdrawing the required deposits and all other matters with the Customs Offices, signing all documents as necessary;

Endorsement and collection of negotiable instruments:

- negotiate, sign and collect bills (paper and IOUs), promissory notes, cheques and any other trade instrument or bills, signing the relevant documents, endorsements and receipts;

- endorsement of bills, cheques and all other negotiable instruments for collection;

- filing protests, issuing orders to pay, taking preventive and enforcement measures and handling their revocation if necessary;

Correspondence and other documents:

- signing all company correspondence;

- issuing, signing and issuing receipts for invoices, debit and credit memoranda, and receiving them;

- signing and issuing waybills and transport bills, and receiving them;

Collection of receivables:

- demanding receivables, collection and withdrawal of cash and cash equivalents for any reason from any bank, entity or person, issuance of receipts and releases;

- issuance of bills to customers and other debtors;

- serving notices of placement in default and having bank protests issued;

- taking enforcement and preventive measures, obtaining injunctions, orders, attachments and seizures;

- filing bankruptcy petitions, representing the mandating Company in bankruptcy proceedings, filing the relevant credit claims, certifying their effective existence, voting in arrangement, collecting final and partial distributions, participating in procedures for arrangements with creditors and receivership and carrying out all acts involved in those procedures;

Special mandates:

• within the limits of their own powers, granting mandates and special powers of attorney to Company employees and third parties that authorise them to execute specific transactions and classes of actions in the name and on behalf of the Company, using the power of Company signature to do so and revoking these mandates as necessary;

• even if not expressly specified here, doing whatever else is appropriate and necessary on behalf of the principal, with no exceptions other than those specified, with the foregoing list of powers having to be considered examples but not mandatory. All of the foregoing authority is granted with promise of full ratification and approval and full exemption from liability for any party.

<u>Specific activities:</u>

• Execution, amendment and termination of agreements for the purchase of spaces and/or systems for advertising services and advertising, promotion and experimentation materials; agreements for the Company's advertising activity and market research;

• performance of all supervisory duties and implementation of statutory and regulatory provisions pertaining to listed companies and established by competent authorities;

• performing any activity deemed necessary for attending to relations with investors, the national and international press, and the market;

• overseeing the organisation of communication programmes, participating in events and fairs and whatever else is considered useful for the purpose of promoting the image of the Company;

• coordinating the research and development activities of the Company, and in particular:

  - taking those initiatives as necessary to realise corporate and group research and development programmes;
  - taking all measures as necessary to promote the study, design and completion of new products, exploiting the assistance of all members of the Company and Group organisation as defined in the Company and Group organisational chart, and using the creative talents and experience of all personnel;
  - coordinating Group research and development activities, reporting on these to the Executive Committee once a month;
  - monitoring public/publicly funded research projects, including international projects, and taking part in those of interest to the Company and the Group.

* * *

The Director Roberto Siagri also held the position of Chief Executive Officer under the previous Board mandate.

Executive Director Roberto Siagri is qualified as the company's Chief Executive Officer.

Note that the interlocking directorate situation provided for by criterion 2.C.5 of the Corporate Governance Code does not apply.

<u>b) Chairman of the Board of Directors</u>

Pursuant to Art. 25 of the Company Bylaws, the Chairman is the legal representative of the Company and has signing power for it. If the Chairman is absent or prevented from attending, these powers are exercised by the Vice Chairman or Vice Chairmen (if appointed), according to the provisions of the Bylaws. The Chief

Executive Officer(s), if appointed, is/are also legal representatives of the Company, within the limits of the delegated authority.

The Shareholders' Meeting of 26 April 2017 appointed Giuseppe Panizzardi as Chairman of the Company's Board of Directors. In the previous term of office, i.e. up until 26 April 2017, the position of Chairman of the Board of Directors was held by the Director Roberto Siagri.

Since the conditions pursuant to the Corporate Governance Code did not exist and, in particular, considering that the Chairman of the Board is not currently also the Chief Executive Officer of the company, the Lead independent director was not appointed pursuant to the Code.

The Chairman is not the controlling shareholder of the Issuer.

c) Executive Committee

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

Disclosure to the Board and to the Board of Statutory Auditors

As prescribed in Art. 19 of the Bylaws, the delegated bodies promptly reported on their activities, the general operating performance and business outlook, and the on most significant transactions in terms of scale and characteristics carried out by the Company and its subsidiaries to the Board of Directors and to the Board of Statutory Auditors at least quarterly during the Board meetings and in such a way as to allow the Board to express an informed opinion on the matters submitted for examination.

4.5. *Other executive directors*

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

4.6. Independent Directors

Pursuant to the combined provisions of Art. 147-*ter* (4) and 148 (3) of the TUF, in accordance with Art. 2.2.3(3)(l) of the Stock Market Regulation and Art. IA.2.10.6 of the Stock Market Regulation Instructions – both applicable to STAR-qualified issuers – and in accordance with Principle 3 of the Corporate Governance Code, the Board of Directors currently contains four Independent Directors – Chiara Mio, Giulio Antonello, Riccardo Costacurta and Carmen Pezzuto – who:

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

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

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

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

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

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

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

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

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

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

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

Satisfaction of the pre-requisites for independence set out in Art. 3 of the Corporate Governance Code and Art. 148 (3) (b) and (c) of the TUF by the Independent Directors currently in position was verified annually by the Board of Directors (both at its meeting on 26 April 2017 as announced to the market with the press release issued on the same date and in the meetings held on 9 March 2018 and 8 March 2019).

Upon presentation of the list for appointment of the current Board of Directors, as well as at the time of the annual verification of the continuing existence of the pre-requisites for independence of the Independent Directors, declarations attesting to the fulfilment of the requirements set out in the Corporate Governance Code for Independent Directors were deposited at the registered office of the Company.

On the basis of the statements of independence provided by the Independent Directors, they promised to maintain their independence during the term of office, and in any event to inform the Board of Directors of any situation that could compromise their independence. It should also be noted that pursuant to Art. 14, paragraph 2 of the corporate Bylaws of the Issuer, a Director's loss of the pre-requisites for independence set out in Art. 148, paragraph 3 of the TUF does not bring about forfeiture if the minimum number of Directors that according to current legislation must meet this requirement still meet said pre-requisites. The Board used the criteria set out in the Corporate Governance Code to carry out this assessment.

With particular reference to the Director Chiara Mio, the Board of Directors - on 26 April 2017, on 9 March 2018 and most recently on 8 March 2019 - decided not to apply criterion 3.C.1 point e) of the Corporate Governance Code (i.e. the criterion that states that a person who has held the position in the Company for more than nine years in the last twelve cannot be considered independent), so that the Company can continue to avail of the high professional profiles that over time have proved invaluable and suitable for operating within the complex regulatory and organisational framework of Eurotech.

The Board of Statutory Auditors, pursuant to Application Criterion 3.C.5 of the Corporate Governance Code, in their meeting of 9 March 2018 and most recently on 8 March 2019, verified the correct application of the criteria and procedures used by the Board of Directors to assess the independence of its members; the results of these checks carried out on 8 March 2019 will be included in the Statutory Auditors' Report to the Shareholders' Meeting, pursuant to Art. 153 of the TUF.

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

A meeting of the Independent Directors took place on 25 June 2018, during which the flow of information going to the Board of Directors and the activity of the various committees within the board were analysed.

The average duration of the meetings was 1 hour and 30 minutes.

4.7. *Lead Independent Director*

Since the conditions pursuant to the Corporate Governance Code did not exist and, in particular, considering that the Chairman of the Board is not currently also the Chief Executive Officer of the company, the appointment of a Lead Independent Director has not been envisaged.

5. HANDLING OF CORPORATE INFORMATION

5.1. *Inside information*

During the 2016 year, the company adopted a new "*Procedure for disclosing inside information to the public*" pursuant to Art. 17 of (EU) Regulation 596/2014 concerning market abuse (Market Abuse Regulation, "**MAR**") and the relevant rules for execution and implementation of the European Commission.

The "*Procedure for disclosing inside information to the public*" regulates the internal management and external disclosure of inside information (as defined by Art. 7 MAR) and confidential information (as defined by the procedure) regarding the Issuer and the Group companies. This internal procedure is first of all aimed at ensuring observance of the legal and regulatory provisions in force on the subject and to guarantee that the secrecy and confidentiality of the inside information is observed, as well as greater transparency when dealing with the public and adequate measures to prevent market abuse.

Specifically, the press releases required by current laws and regulations regarding inside information are prepared by the Investor Relations function assisted by the Corporate Communication function and are approved by the Chief Executive Officer or, if he/she is absent or impeded, by the other parties responsible for assessing the privileged nature of the information pursuant to the relevant procedure, and if deemed expedient or necessary, by the Board, for final approval before external release, following a declaration, if the text relates to accounting information, of the Financial Reporting Officer. These press releases are available on the storage mechanism indicated under paragraph 15 of this Report and on the website of the Issuer at www.eurotech.com, in the "Investors" section.

5.2. *Internal Dealing*

During the year, the Company adopted a new "*Procedure for compliance with internal dealing obligations*" pursuant to Art. 19 MAR and relevant European Commission execution and implementation rules.

Notices of material transactions pursuant to the Internal Dealing Procedure that were executed during the year were disclosed to the market in accordance with the Internal Dealing Procedure. This information is in any case available in the "Investors" section of the Company website at www.eurotech.com.

5.3. *Register of persons possessing inside information*

In compliance with Art. 18 MAR and the relevant European Commission execution and implementation rules, which establish the obligation for issuers or persons that act in their name and on their behalf to draw up, manage and update the register of persons with access to inside information, the Company (i) adopted, in the meeting of 24 March 2017, a new "Procedure for managing the Group Register of persons with access to inside information" and has (ii) established, also on behalf of all the companies of the Eurotech Group, the register of persons with access to inside information (pursuant to Art. 115-*bis* of the TUF and Art. 152-*bis et seq*. of the CONSOB Issuer Regulation) of the Group.

6. COMMITTEES WITHIN THE BOARD OF DIRECTORS

The Board set up all the committees required by the Corporate Governance Code for Related Party Transactions, namely the Appointments Committee, Remuneration Committee, the Control and Risks Committee and the Committee for Related Party Transactions. It should be noted that no committees other than those provided for by the Corporate Governance Code have been set up.

7. APPOINTMENTS COMMITTEE

In accordance with the provisions of the Code, the Board has set up an internal Appointments Committee.

The majority of the appointments committee are non-executive independent directors.

The committee members were appointed during the 26 April 2017 Board of Directors meeting, and they are Roberto Siagri (Executive Director), Giulio Antonello (Independent Director) and Chiara Mio (Independent Director and Chairman).

The Appointments Committee advances its opinions on its size and composition to the Board of Directors and puts forward recommendations regarding the professional figures whose presence on the board is considered advisable and regarding the topics described in the Art. 1.C.3 and 1.C.4 of the Corporate Governance Code, as well as regarding the maximum number of offices of director or statutory auditor that can be considered compatible with effective performance of the office of director in the Issuer and regarding the advisability to authorise exemptions from the provisions relating to competitors; it also proposes candidates for the office of Director to the Board of Directors in the case of co-option if it is necessary to replace Independent Directors.

No Committee meeting was necessary during the year.

At the time of this report, no meeting of the Committee is scheduled for the current 2019 year, taking into account that the next appointment of the Board of Directors will take place with the approval of the financial statements as at 31 December 2019 and therefore during the next year.

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

8. REMUNERATION COMMITTEE

In light of the provisions of Art. 2.2.3(3)(n) of the Stock Market Regulation, applicable to STAR-qualified issuers, and in accordance with the Corporate Governance Code, the Company set up a Remuneration Committee within its Board of Directors, which remains in office as long as the Board of Directors that appointed it is in office.

During its 26 April 2017 meeting, the Board of Directors appointed as committee members Chiara Mio (Chairman and Independent director), Riccardo Costacurta (Independent Director) and Giuseppe Panizzardi (Non-executive Director). The Directors Chiara Mio and Giuseppe Panizzardi have financial or remuneration policy experience.

In accordance with the Corporate Governance Code, this Committee may only carry out proposal and advisory functions. In particular, the Chief Executive Officers remain responsible for defining the policies and remuneration levels for senior management.

In accordance with Art. 2.2.3(3)(n) of the Stock Market Regulation and the Corporate Governance Code, the Committee exclusively comprises Non-Executive Directors, most of whom are independent.

The Remuneration Committee is responsible for:

- proposing the adoption of the Remuneration Policy for Directors and key management personnel;
- proposing or expressing opinions to the Board of Directors on the remuneration of Executive Directors and other Directors who hold specific positions and on the setting of any performance objectives related to any variable remuneration component, monitoring the implementation of decisions taken by the Board and verifying, in particular, the actual achievement of the performance objectives;
- periodically assessing the adequacy, overall consistency and practical application of the Remuneration Policy of Executive Directors, other Directors assigned special duties and key management personnel, availing itself with regard to the latter of information provided by the Chief Executive Officers; submitting proposals to the Board of Directors.

In particular, the Committee takes into due account the following in determining said remunerations: consistency with remunerations recognised in previous mandates, compliance with the commitments assumed and responsibilities of the positions held, professional qualifications possessed by the parties concerned, and the size of the Company, Group and respective prospects for growth.

During the year, the Remuneration Committee held 4 (four) meetings, on 27 February, 20 March, 14 May and 5 November, which were duly minuted. The meetings were aimed at assessing the achievement of the final balance of the variable Remuneration Plan at the Group level for the 2017 year, the proposals for fixed and variable remuneration for directors and for the chief executive officers for 2018, the proposal for the assignment of a third tranche of shares with reference to the "2016 EUROTECH S.p.A. Performance Share Plan", as well as the confirmation of the Remuneration Policy. The meetings were duly chaired by the Committee chairman. One or more members of the Board of Statutory Auditors always attended the meetings.

The meetings lasted 38 minutes on average.

A meeting was held on 15 February 2019 for the current financial year and at least one more meeting is planned for March 2019 as of the date of this Report.

In performing its functions, the Remuneration Committee has the power to access the information and business departments necessary for carrying out its duties and may also make use of external consultants, if deemed advisable, under the terms established by the Board of Directors.

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

Pursuant to Art. 6.C.6. of the Code, no Director shall attend the meetings of the Remuneration Committee in which proposals to the Board of Directors regarding their remuneration are put forward.

9. DIRECTORS’ REMUNERATION

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

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

The compensation of Non-Executive Directors is based on the commitment requested from each one, considering the participation of each on one or more committees. Their remuneration is not related to the operating results of the Company. The Non-Executive Directors are not beneficiaries of share-based incentive plans.

The Shareholders' Meeting of 26 April 2017 resolved €15,000 as the gross annual fee to be paid to each director for each of the financial years from 2017 to 2019, in addition to reimbursement of expenses and a termination indemnity (TFM - to pay only to directors with delegation of authority) that can be no higher than 10% of the total fee paid to the directors with delegation of authority for each year; said termination indemnity shall be paid in full at the time the current term of office ends. On 26 April 2017, the Board of Directors, having heard the opinion of the Board of Statutory Auditors, established the additional remuneration payable to the Chief Executive Officer, as well as to the members of the Board committees.

For further information on the Remuneration Policy adopted by the Issuer and on the remuneration received by the members of the Board of Directors during the financial year, please refer to Section I and Section II, respectively, of the Remuneration Report prepared pursuant to Art. 123-*ter* of the TUF and Art. 84-*quater* of the CONSOB Issuer Regulation, available in accordance with legal requirements on the Company’s website www.eurotech.com, in the “Investors” section.

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Incentive mechanisms for the Internal Audit Officer and Financial Reporting Manager

There are no incentive mechanisms for the Internal Audit Officer and Financial Reporting Manager.

10. CONTROL AND RISKS COMMITTEE

In accordance with Art. 2.2.3(3)(o) of the Stock Market Regulation, applicable to STAR-qualified issuers, and Application Criterion 7.C.2 of the Corporate Governance Code, the Board set up the Control and Risks Committee, which provides advice and makes proposals to the Board of Directors on the internal control and risk management system.

More specifically, this Committee, in assisting the Board of Directors:

a) assesses, together with the Financial Reporting Officer and consulting the Independent Auditor and the Board of Statutory Auditors, the correct application of accounting policies and, in the case of groups, their suitability for the preparation of the consolidated financial statements;

b) expresses opinions on specific issues regarding the identification of key business risks;

c) discusses, with the Internal Audit the evaluation of the internal control and risk management system and, if necessary examines the reports on topics of particular relevance to the Internal Audit function;

d) monitors the independence, adequacy, efficacy and efficiency of the Internal Audit function;

e) may request the Internal Audit to perform checks on specific operating areas, giving concomitant communication to the Chairman of the Board of Statutory Auditors;

f) reports also informally to the Board at least every six months, upon approval of the financial statements for the full-year and the half-year report, on its activity and the adequacy of the internal control and risk management system;

g) supports, by means of suitable preliminary activities, the assessments and decisions of the Board of Directors relating to the management of risks deriving from prejudicial facts of which the Board of Directors has become aware.

At its meeting of 26 April 2017, the Board of Directors appointed the following members of the Control and Risks Committee: Chiara Mio (Chairman), Marina Pizzol and Riccardo Costacurta, all of whom are Independent Non-Executive Directors. All the members of the Control and Risks Committee have appropriate accounting and financial experience.

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

The Control and Risks Committee held 6 meetings during the reporting period, on 29 January, 9 March, 20 April, 25 June, 7 September and 13 November, all chaired by the Committee chairman and all of which were duly minuted. The Committee kept the Board regularly informed of the issues dealt with.

The Control and Risks Committee meetings lasted about 1 hours and 53 minutes on average.

During the financial year, the Committee analysed the company's economic and financial performance and continued to monitor the risks in the current and successive reporting periods and information was exchanged periodically with the Board of Statutory Auditors, the Oversight Committee and with the planned Independent Auditor to allow any critical issues in the respective areas of responsibility to be brought up. At least five meetings are planned for the current financial year, on dates that will be set according to the requirements of the Company and the Control and Risks Committee. Two such meetings took place on 23 January and 8 March 2019.

Parties who are not members of the Control and Risks Committee may attend meetings at the invitation of the Committee Chairman. One or more members of the Board of Statutory Auditors also attended the meetings.

In performing its functions, the Control and Risks Committee had access to the information and business departments necessary to carry out its tasks. The Committee may also make use of, where deemed advisable, external consultants, under the terms established by the Board of Directors.

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

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

The Board of Directors defines the guidelines for the internal control and risk management system (construed as a set of processes designed to monitor the efficiency of corporate operations, the reliability of financial information, compliance with laws and regulations, and the protection of Company assets), including all risks that might be important in the perspective of medium to long-term sustainability in its assessments.

To this end, the Board, after consultation with the Control and Risks Committee:

(i) handles the prevention and management of Company risks relating to the Issuer and Group through the definition of control and risk management system guidelines that can ensure that these risks are properly identified and adequately measured, monitored, managed and assessed, also in view of protecting corporate assets and healthy and fair corporate management, in line with the identified strategic objectives;

(ii) assesses the adequacy of the internal control and risk management system on a periodic basis, and at least once annually, in relation to the characteristics of the company and risks assumed, as well as its efficacy;

(iii) assesses, consulting the Board of Statutory Auditors, the result set out by the Independent Auditor in the letter of suggestions, if any, and in the report to the Internal Control and Audit Committee ex. Article 11 of EU Regulation 537/2014 on key matters arising from the auditing of the accounts.

The Board also, at the proposal of the Director in charge of overseeing the functioning of the internal control system (the "**Delegated Director**") and after consultation with the Control and Risks Committee, as well as consulting the Board of Statutory Auditors:

(a) appoints and revokes the Internal Audit Officer;

(b) ensures that he or she has resources adequate for discharging his or her responsibilities;

(c) defines the remuneration in line with company policy.

The internal control and risk management system is therefore organised and managed by four bodies: the Board of Directors, the Delegated Director, the Internal Audit Officer and the Control and Risks Committee (see section 10 hereinabove).

On 13 November 2018 the Board of Directors, with the approval of the Control and Risks Committee and consulting the delegated director of the internal control and risk management system and the Board of Statutory Auditors, approved the new plan prepared by the Internal Audit officer for the 2019-2020 period.

Most recently, on 8 March 2019, the Board of Directors reviewed the adequacy, effectiveness and actual functioning of the internal control system as well as risk management with respect to the characteristics of the risk profile.

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

The Delegated Director:

(i) identifies the main corporate risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries, and submits these periodically to the Board of Directors for examination;

(ii) implements the guidelines defined by the Board of Directors, overseeing the design, implementation and management of the internal control and risk management system and constantly verifies its adequacy and efficacy;

(iii) deals with the adaptation of this system to the dynamics of the operating conditions and the legislative and regulatory landscape.

In order to carry out these functions, the Delegated Director relies on the assistance of the Internal Audit Officer.

The Delegated Director may also (i) require the Internal Audit to perform checks on specific areas of operation and compliance with the rules and internal procedures in the execution of business operations, notifying the

Chairman of the Board of Directors, the chairman of the Audit and Risk Committee and the Chairman of the Board of Auditors; (ii) report promptly to the Control and Risks Committee (or the Board of Directors) on problems and critical issues arising in the performance of their duties or of which they are aware, so that the Committee (or the Board) can take the appropriate measures. During the year it was not necessary to exercise that power.

On 26 April 2017, the Board of Directors appointed the Chief Executive Officer, Roberto Siagri, to the position of Delegated Director (he also held the position during the previous Board term).

11.2. *Internal Audit Officer*

Following the resignation of Stefano Bertoli, on 13 November 2018 the Board of Directors, on the proposal of the Delegated Director, after obtaining the favourable opinion of the Control and Risks Committee and after hearing the opinion of the Board of Statutory Auditors, appointed Tania Pinzano as the Internal Audit Officer.

The Internal Audit Officer is not in charge of any operating area and reports hierarchically to the Board.

The Internal Audit Officer is assigned the following duties:

(a) to assess, both continuously and in connection with specific requirements and in observance of the international standards, the operation and appropriateness of the internal control and risk management system using an audit plan approved by the Board of Directors that is based on a structured analysis plan that prioritizes the main risks;

(b) to inform, with periodic reports containing adequate information on his or her activity, the procedures followed to manage the risks and observance of the plans defined to reduce them. The periodic reports contain an assessment of the adequacy of the internal control and risk management system;

(c) to promptly prepare reports on particularly important events;

(d) to discuss the reports described under paragraphs (b) and (c) with the chairmen of the Board of Statutory Auditors, the Internal Control and Risks Committee and the Board of Directors, as well as with the Delegated Director of the internal control and risk management system;

(e) to assess the reliability of the information systems, including the accounting systems, as part of the audit plan.

During the year, the Internal Audit Officer, who held the position at the time, had direct access during the reporting period to all information useful for performing his duties.

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

No remuneration was allocated to the Internal Audit Officer other than what was paid as an employee of the Company.

During the year, the Internal Audit Officer, who held the position at the time, reported on his activities to the Control and Risks Committee, the Board of Statutory Auditors and the Delegated Director.

The main activities carried out during the year by the Internal Audit Officer, who held the position at the time, concern the analysis of business risks and the verification of company procedures with regard to the risks themselves.

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

The Organisation, Management and Control Model (the "**Model**"), previously approved on 29 March 2008 and amended on 11 November 2016, pursuant to Legislative Decree 231 of 8 June 2001, was updated on 7 September 2018.

The Model is based on the principles and guidelines set out in the:
a) Stock Market Regulation;
b) Corporate Governance Code;
c) Guidelines for drafting organisational, management and control models pursuant to Legislative Decree 231/01, approved by Confindustria on 7 March 2002, as subsequently amended in July 2014.

The Model makes provision for the following:

1. Oversight Committee
    a. Designation of an existing body or establishment of a new body
    b. Definition of the flow of information from and to the Oversight Committee

2. Identification of the principal areas at risk of criminal offences (Art. 24 and 25)
    a. Historical Analysis
    b. Identification of the principal corporate areas involved in possible cases of criminal offence
    c. Identification of the persons concerned

3. Risk assessment (Art. 24 and 25)
    a. Identification and assessment of existing controls
    b. Identification of any defects in controls

4. Other parts of the Model
    a. Code of Ethics
    b. Organisational system
    c. Delegations of authority, including power of signature
    d. Manual and IT procedures
    e. Management control system
    f. Information and training of personnel on the Model
    g. Disciplinary system
    h. Formalisation of the model summary document

5. Model monitoring
    a. Analysis of results and definition of corrective measures
    b. Assisting the Supervisory Body in:
        i. Defining an audit plan
        ii. Carrying out audits on the Model

The Oversight Committee, appointed by the Shareholders' Meeting on 26 April 2017, consisted of Stefano Fruttarolo (Chairman), Chiara Mio, Stefano Bertoli, all of whom held the same role in the prior board mandate as well. The Oversight Committee members all fulfil the relevant legal requirements. Following the resignation of Stefano Bertoli, Roberto Maggi, with proven experience in the field and in possession of the necessary requirements to hold the position, was appointed member of the Oversight Committee.

11.4. Independent auditor

The Ordinary Shareholders' Meeting of 24 April 2014, upon recommendation by the Board of Statutory Auditors also pursuant to Art. 13 of Legislative Decree No 39/2010, assigned auditing of the accounts for the period 2014-2022 to the auditing firm PricewaterhouseCoopers S.p.A.

11.5. *Financial Reporting Manager*

Pursuant to Art. 19, paragraph 4 of the Company Bylaws, the manager assigned to prepare the company's accounts (the "**Financial Reporting Manage**r") must be appointed by the Board of Directors of the Company following mandatory consultation with the Internal Control Committee. The Financial Reporting Manager must satisfy the professional requisites of specific expertise in administration and accounting and must be granted adequate powers and resources to perform the above functions. He/she must also be paid adequate compensation.

On 26 April 2017, the Board, with the approval of the Board of Statutory Auditors, reconfirmed Sandro Barazza, Administration and Finance Officer, as the Financial Reporting Manager. Upon appointment, the Board verified that he has the requisites required by law and the Bylaws.

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

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

Introduction

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

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

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

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

a) <u>General operating principles of the internal control and risk management system</u>

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

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

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

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

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

- identifying and assessing risks to business operations;
- defining and establishing policy, operating standards, procedures, systems and other tools to reduce the probability and/or impact of any risks to a minimum;
- issuing operating instructions for control processes and encouraging employees to carry out their tasks in a controllable and controlled way;
- maintaining the adequacy and efficiency of the control processes established.

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

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

b) <u>Internal control and risk management system in the financial disclosure process</u>

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

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

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

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

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

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

11.6. Coordination between the parties involved in the internal control and risk management

system

Coordination between the various parties involved in the internal control and risk management system (Board of Directors, Delegated Director, Internal Control and Risks Committee, Board of Statutory Auditors, Internal Audit Officer, Financial Reporting Manager and Independent Auditor) occurs through a continuous flow of information between these parties and the provision of regular meetings, which allows adequate visibility of business risks impending and managed in the Eurotech Group and of the issues raised and brought to the attention of the different supervision and control bodies.

On 8 March 2019, the Board of Directors, pursuant to the provisions of Criterion 7.C.1 of the Corporate Governance Code, expressed an opinion on the adequacy of the above methods of coordination between the various parties involved in the internal control and risk management system.

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

At its meeting of 12 November 2010, the Company's Board of Directors, with a prior positive opinion given by the Control and Risks Committee, adopted the Committee's Regulations on related party transactions and a dedicated procedure for related party transactions (the "**Related Party Procedure**"), adopted pursuant to CONSOB Regulation no. 17221 of 12 March 2010, as subsequently amended ("**Related Party Regulation**") and effective starting from 1 January 2011.

In meetings with resolutions concerning matters with regard to which one or more directors have interests, the same declare the interest and abstain from voting

As part of the annual verification of the Related-Party Procedure, pursuant to Art. 3 of said procedure and in accordance with CONSOB Communication no. DEM/10078683, the Board, most recently at its meeting of 13 November 2018, taking note of the Committee's opinion, approved the new Related Party Procedure.

The Related Party Procedure and the related annexes can be found on the Issuer's website at www.eurotech.com, in the "Investors/Corporate Governance" section.

In applying the Related Party Procedure, the Company also takes account of CONSOB communication DEM/10078683, published on 24 September 2010, which contains indications and guidelines for the implementation of the Related Party Regulation.

The Related Party Procedure governs the identification, approval and management of related party transactions. Specifically, the Related Party Procedure:

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

Committee for Related Party Transactions

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

The Committee for Related Party Transactions presently in office was appointed by the Board of Directors during its meeting of 26 April 2017. Its members are Chiara Mio (Chairman), Riccardo Costacurta and Carmen Pezzuto, all non-executive independent directors.

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

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

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

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

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

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

During the year, the Committee for Related Party Transactions held two meetings, on 25 June and 5 November 2018, which were duly minuted. The meeting concerned the analysis of the questionnaires received, checking that no significant transactions exist and annual assessment of the adequacy of the current Related Party Procedure. At the date of this Report, another meeting is scheduled for March 2019.

The meetings lasted 25 minutes on average.

During the year, the Committee for Related Party Transactions performed its duties in accordance with the Procedure.

13. APPOINTMENT OF STATUTORY AUDITORS

Pursuant to Art. 26 of the Bylaws, the Board of Statutory Auditors is comprised of three Statutory Auditors and two Substitute Auditors. Their term is for three financial years and expires on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their term. They may be re-elected. The Statutory Auditors must satisfy the requirements, including those governing the possession of various positions at the same time, envisaged by law and other applicable provisions. Pursuant to Art. 1(3) of Ministry of Justice Decree 162 of 30 March 2000, research, development, production and marketing of software, systems, and devices in the IT, electronic and electro-mechanical sectors must be considered strictly related to Company activities. With reference to the rules on the balance between genders in the composition of control bodies pursuant to Art. 148, paragraph 1-*bis* of the TUF, as introduced by Law 120/2011, and the implementation provisions of CONSOB, the Board adapted the Bylaws to the aforesaid regulations pursuant to Art. 2365, paragraph 2 of the Italian Civil Code, and 19, paragraph 1, of the Bylaws at the 15 March 2013 meeting.

In observance of the balance between genders regulations in force, the Board of Statutory Auditors is appointed based on the lists the Shareholders submit, in which the candidates are listed by progressive number. The list comprises two sections: one for candidates for the post of Statutory Auditor and the other for candidates for the post of Substitute Auditor.

The lists containing a number of candidates equal to or greater than three must be formed by candidates belonging to both genders so that at least one-third belong to the less represented gender (however rounded up to the excess) of the candidates for the office of Statutory Auditor and at least one-third (however rounded up to the excess) of the candidates for the office of Substitute Auditor.

Only those shareholders who, either individually or in combination with others, own voting shares equivalent to at least 2 (two) per cent of the voting capital at the Ordinary Shareholders' Meeting, or representing any other percentage that may be established or cited by statutory or regulatory provisions, may submit lists. By management decision no. 13 of 24 January 2019 of the Head of the Corporate Governance Division, CONSOB set the minimum equity interest for submitting lists of candidates for the election of the Issuer's control body at 4.5% of the share capital.

Ownership of the equity interest required, pursuant to the foregoing, for submission of the list, is declared according to the terms and methods provided for in the laws and regulations currently in force.

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

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

The lists must contain:

a) information on the identities of the Shareholders presenting the lists, indicating their total percentage equity interest;

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

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

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

The Statutory Auditors are elected as follows:

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

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

If the composition of the Board of Statutory Auditors is not ensured by following the procedures set out above, the necessary replacements of its Statutory Auditors will be made in compliance with the balance between genders regulations in force with candidates for the office of statutory auditor on the list that received the highest number of votes, following the progressive order of the candidates listed.

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

14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS

On 26 April 2017, the Ordinary Shareholders' Meeting appointed the Company's Board of Statutory Auditors, consisting of Gianfranco Favaro, Laura Briganti and Gaetano Rebecchini as Statutory Auditors, and Clara Carbone and Turello Nicola as Substitute Auditors, for a term of three financial years, and in any case until approval of the financial statements for the year ending 31 December 2019. The election took place on the basis of a single list submitted by the shareholder Leonardo S.p.A., also in the name and on behalf of its shareholder Roberto Siagri and Dino Paladin, which obtained 9,659,666 votes in favour, representing 96.503% of the voting capital (equal to 9,659,666 ordinary shares).

Table 3 attached to this Report lists the members of the Board of Statutory Auditors in office at the date of this Report.

For more information about the list filed for the appointment of the control body, please refer to the Company's website at www.eurotech.com, in the "Investors" section, where the curricula vitae of the Directors are also available.

The following table shows the other positions held by members of the Board of Statutory Auditors, at the date of this Report, at companies pursuant to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code.

First name and Surname	Company	Management and supervisory positions
Gianfranco Favaro	Eurotech S.p.A.	Chairman of the Board of Statutory Auditors
	Sinloc - Sistemi iniziative locali Spa	Chairman of the Board of Directors
	Casa dello Studente A. Zanussi Pordenone	Chairman
	Investitori Associati Consulenza SIM Spa	Director
	Fondazione Friuli	Vice Chairman
	AF Società di Amministrazione Fiduciaria Spa	Director
	I.R.S.E.	Director
	SI.GE.CO Srl	Director
	Energia Spa	Statutory Auditor
	Madia Spa	Statutory Auditor
	Tessaro Spa	Statutory Auditor
	Scarpis Srl	Statutory Auditor
	Creactives Spa	Statutory Auditor
	Croce Rossa Italiana - Comitato di San Vito al Tagliamento	Auditor of Accounts
	VET-UNI Società semplice	Liquidator
	Refel Spa	Member of Oversight Committee
	Ambiente e servizi Spa	Member of Oversight Committee
	Autopiù Spa	Substitute statutory auditor
	Subteck Spa	Substitute statutory auditor
	Tecnomek Spa	Substitute statutory auditor
	Un.art.servizi Srl	Substitute statutory auditor
Laura Briganti	Eurotech S.p.A.	Statutory Auditor
	Precisa Revisione S.r.l.	Chairman of the Board of Directors
	Gaiafin S.r.l.	Chairman of the Board of Directors
	Terre di Chiara S.r.l. agricola in liquidation	Chairman of co-liquidators
	G.V.F. Spa	Chairman of the Board of Statutory Auditors
	Sportur S.p.A.	Statutory Auditor
	FARE S.r.l.	Sole Auditor
	SANBON S.r.l.	Sole Auditor
Gaetano Rebecchini	Simmetrico Srl	Sole Auditor
	HR Services Srl	Statutory Auditor
	Stile Spa	Statutory Auditor
	AD Moving Spa	Statutory Auditor
	Eurotech SpA	Statutory Auditor
	Finugento Spa	Statutory Auditor

	Orienta Spa	Statutory Auditor
	Junior Spa	Statutory Auditor
	Sementi Dom Dotto Spa	Statutory Auditor
	Gedi Spa	Chairman of the Board of Statutory Auditors
	GLUHE Srl	Statutory Auditor
	APM Terminals Vado Ligure Spa	Statutory Auditor
	Taranto Logistica Spa	Statutory Auditor
	Imprebanca Spa	Director
	ERBO Spa	Chairman of the Board of Directors
	Relabor Srl	Director

For information on the significant administrative and supervisory duties vested in the members of the Board of Statutory Auditors pursuant to Art. 144-*duodecies et seq.* of the CONSOB Issuer Regulation, also see the figures published by CONSOB pursuant to Art. 144-*quinquiesdecies* of the CONSOB Issuer Regulation, in the 'Parties and Markets/Positions of members of the control bodies' section on the www.consob.it website.

With regard to the company policies on diversity applied in relation to the composition of the Board of Statutory Auditors in office (Art. 123-*bis*, letter d-*bis*), TUF), it is noted that: (i) one Statutory Auditor and one Substitute Auditor belong to the less represented gender, in compliance with the legislation on gender balance; (ii) without prejudice to compliance with the professional requisites laid down by law, the education and professional path of the members of the Board of Statutory Auditors currently in office guarantees the skills required for ensuring the proper performance of the functions assigned to it.

The Board of Statutory Auditors held 10 meetings during the financial year: 29 January, 7 March, 9 March, 13 March and 28 March, 20 June, 3 August, 7 September, 13 November and 3 December.

The average meeting duration was about two hours and 57 minutes.

For the current year there are at least 7 meetings scheduled, three of which were already held on 23 January 19 February and 8 March and others are scheduled on the following dates: 27 March, 13 June, 2 September and 13 November 2019.

At its meeting held on 8 March 2019 the Board of Statutory Auditors confirmed that its members still satisfied the requirement of independence in accordance with the TUF and the Corporate Governance Code. The results of this assessment will be included in the Statutory Auditors' Report to the Shareholders' Meeting, pursuant to Art. 153 of the TUF.

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

Attendance of the Chairman of the Board of Statutory Auditors and Auditors at the meetings of the Board of Directors and the characteristics of board reporting enabled the Auditors to obtain adequate knowledge of the Issuer business, its dynamics and trends, as well as the relevant regulatory framework. For further induction activities carried out by the Statutory Auditors, reference should be made to Section 4.2 of this Report.

In carrying out its duties, the Board of Statutory Auditors regularly collaborated with the Control and Risks Committee through contact with the Internal Audit Officer. For information on coordination procedures, please refer to Section 11 above.

Pursuant to Art. 27 of the Company Bylaws, the Board of Statutory Auditors performs the functions delegated to it by law and other applicable regulatory provisions. In the case of the listing of the Company's shares on an Italian regulated market, the Board of Statutory Auditors also exercises all other duties and powers envisaged by special laws. The Directors must report to it on a quarterly basis pursuant to Art. 150 of the TUF. The Board of Statutory Auditor meetings may also be held by conference call and/or video conference, provided that: a) the Chairman and the person taking the meeting minutes are present at the same meeting location; and b) all participants can be identified and can follow the discussion, receive, transmit and read documents, and orally participate in real time on all matters. If these requirements are satisfied, the meeting of the Board of Statutory Auditors is considered to be held at the location of the Chairman and person taking the minutes.

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

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It should be noted that Legislative Decree No 39/2010, as last amended by Legislative Decree No 135/2016, assigns the Board of Statutory Auditors with the functions of the Internal Control and Audit Committee (the "**Internal Control and Audit Committee**"), and in particular, it is responsible for:

- informing the competent body of the outcome of the statutory audit and sending it the additional report referred to in Art. 11 of Regulation No 537/2014, accompanied by any observations;
- monitoring the financial disclosure process and making recommendations or proposals to ensure its integrity;
- monitoring the efficacy of the company's internal quality control and risk management systems and, where appropriate, internal audit, as regards the financial disclosure of the audited entity, without violating its independence;
- monitoring the statutory audit of the separate and consolidated financial statements, also taking into account any results and conclusions of the quality controls carried out by CONSOB pursuant to Art. 26, paragraph 6, of Regulation No 537/2014, where available;
- verifying and monitoring the independence of the statutory auditors or firm of auditors in accordance with Articles 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Legislative Decree 39/2010 and Art. 6 of Regulation No 537/2014, in particular as regards the adequacy of the provision of services not related to auditing to the audited entity, in accordance with Art. 5 of said regulation;
- being responsible for the procedure for the selection of statutory auditors or firms of auditors and to recommend the statutory auditors or firms of auditors to be appointed in accordance with Article 16 of Regulation No 537/2014.

For further details on the activities carried out during the financial year by the Board of Statutory Auditors, reference should be made to the report on the monitoring activities of the Board of Statutory Auditors.

In particular, with reference to the provisions of Art. 19 of Legislative Decree 39/2010, during the year, it also exchanged information by participating in special meetings with the Auditing Company and the 231 Supervisory Body, and the attendance of the Board of Statutory Auditors at the meetings of the Control and Risks Committee has been identified as a "*modus operandi*", in order to be able to exchange information useful for discharging duties assigned by the regulations in accordance with the specific areas of competence.

15. SHAREHOLDER RELATIONS

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

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

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

They can also find the Company Bylaws, documentation provided for Shareholders' Meetings, communications related to Internal Dealing, this Report on corporate governance and any other document whose publication on the Issuer's website is mandatory under the applicable regulations. Remember that to transmit or to store the Regulated Information the Issuer has decided to use the authorised mechanism called “1info”, accessible at the website www.1info.it,

16. SHAREHOLDERS’ MEETING AND SHAREHOLDERS’ RIGHTS

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

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

Pursuant to Art. 6 of the Company Bylaws, Ordinary and Extraordinary Shareholders’ Meetings may be held via video-conference or tele-conference with participants in more than one location, whether adjoining or remote, provided that the principles of collective decision-making, good faith and parity of Shareholder treatment are respected.

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

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

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

Art. 127-*ter* of the TUF establishes that only shareholders with voting rights may submit questions on the agenda even before the Meeting. Questions received before the Meeting will be answered during the meeting at the latest. The Company will have the opportunity to provide a single answer to questions having the same content. The notice of call shall specify a period within which the questions submitted before the Meeting must be received by the Company. The term cannot be more than three days prior to the Meeting date in first or single call, or five days if the notice of call contemplates that the Company provide an answer to the questions received before the Meeting. In this case, the answers are given at least two days before the Meeting by publishing them in a special section of the Company's website.

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

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

As prescribed by Art. 10.2 of the Bylaws, the Chairman of the Shareholders' Meeting is responsible for ascertaining the identity and legitimacy of those present, confirming that the Shareholders' Meeting was duly convened, and confirming the presence of a quorum of shareholders necessary for valid resolution.

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

A Meeting was held on 20 April 2018, which 6 Directors attended.

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

According to the provisions of Art. 29 of the Bylaws, the net profits identified in the financial statements, minus the portion allocable to the legal reserve up to the legal limit, are allocated by resolution of the Shareholders' Meeting. Specifically, the Shareholders' Meeting, at the proposal of the Board of Directors, may resolve to create and increase other reserves. With regard to shareholders' rights that are not described in this Report, see the applicable laws and regulations currently in force.

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At its meeting of 9 March 2018, pursuant to Application Criterion 9.C.4 of the Code, the Board did not find it necessary to propose to the Shareholders' Meeting amendments to the Bylaws relating to the percentage established for the exercising of minority rights following the significant change in the market capitalisation of the shares of the Company, insofar as, pursuant to Art. 144-*quater* of the CONSOB Issuer Regulation, for the submission of lists for the appointment of members of the Board of Directors and Board of Statutory Auditors, Art. 14 and 26 of the Issuer's Bylaws stipulate respective thresholds of 2.5% and 2% of the voting capital or any different percentage established or prescribed by legal or regulatory provisions. Note in this regard that, with management decision No 13 of 24 January 2019 of the Head of the Corporate Governance Division, CONSOB set the minimum equity interest for submitting lists of candidates for the election of the management and Issuer's control bodies at 4.5% of the share capital.

17. OTHER CORPORATE GOVERNANCE PRACTICES

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

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

Eurotech has not made any changes to the corporate governance structure during the year, other than those specifically identified in this Report.

19. CONSIDERATIONS ON THE LETTER OF 21 DECEMBER 2018 FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

The letter of 21 December 2018 from the Chairman of the Italian Corporate Governance Committee to the Chairmen of the Boards of Directors of Italian listed companies was brought to the attention of the Issuer's Board of Directors at the meeting held on 8 March 2019.

The Board took note of the analyses and recommendations contained in the letter and identified an overall adequacy within the Company with respect to the indications relating to the quality of pre-meeting information (see Section 4.3 of this Report), remuneration policies (see the remuneration report prepared pursuant to Article 123-ter of the TUF), the establishment and functions of the appointments committee (see Section 7 of this Report), the quality of the independent directors (see Section 4.6 of this Report), as well as the content of the board review (see Section 4.3 of this Report).

With reference to the adoption of succession plans, reference should be made to the information already provided in this Report (see Section 4.1 of this Report).

TABLES

TABLE 1 - INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE

	No. of shares	% of the share capital	Listed	Rights and obligations
Ordinary shares	35,515,784	100%	MTA/STAR Segment	Every share entitles the shareholder to one vote. The rights and duties of shareholders are set out in Art. 2346 *et seq.* of the Italian Civil Code

TABLE 2 - STRUCTURE OF THE BOARD OF DIRECTORS AND THE COMMITTEES

BOARD OF DIRECTORS													**Control and risks committee**		**Remuneration Committee**		**Eventual Appointments Committee**		**Eventual Executive Committee**		**Committee for Related Party Transactions**	
Position	Members	Year of Birth	Date first appointed	In office since	In office until	List (M/m) *	Exec.	Non-exec.	Indep. of the Code	Indep. of the TUF	(%) **	Number of other positions ***	****	**	****	**	****	**	****	**	****	**
Chairman of the Board of Directors	Giuseppe Panizzardi	1963	24/04/2014	26/04/2017	Approval of financial statements at 31/12/2019	M		X			100	3			X	100						
Director and Chief Executive Officer	Roberto Siagri	1960	30/09/1992	26/04/2017:	Approval of financial statements at 31/12/2019	M	X				100	9					X	100				
Director	Chiara Mio	1964	05/05/2008	26/04/2017	Approval of financial statements at 31/12/2019	M		X	X	X	100	10	X	100	X	100	X	100			X	100
Director	Giorgio Mosca	1963	26/04/2017	26/04/2017	Approval of financial statements at 31/12/2019	M		X			100	0										
Director	Marina Pizzol	1969	14/05/2015	26/04/2017	Approval of financial statements at 31/12/2019	M		X			100	1	X	86								
Director	Dino Paladin	1954	24/04/2014	26/04/2017	Approval of financial statements at 31/12/2019	M		X			83	1										
Director	Riccardo Costacurta	1961	24/04/2014	26/04/2017	Approval of financial statements at 31/12/2019	M		X	X	X	100	0	X	100	X	100						
Director	Carmen Pezzuto	1967	26/04/2017	26/04/2017	Approval of financial statements at 31/12/2019	M		X	X	X	100	28									X	100
Director	Giulio Antonello	1968	24/04/2014	26/04/2017	Approval of financial	M		X	X	X	83	3					X	100			X	100

					statements at 31/12/2019																	
-------------------------------------DIRECTORS DEPARTED IN THE REPORTING PERIOD--------------------------------																						
Position	Name Surname																					
Number of meetings held during the year: Control and Risks Committee: 6 Remuneration Committee: 4 Appointments Committee: 0 Executive Committee: / Committee for Related Party Transactions 2																						
Specify the quorum required for presentation of the lists by the minority interest for election of one or more members (pursuant to Art. 147-*ter* TUF): 4.5%																						

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

TABLE 3 - STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Position	Members	Year of Birth	Date first appointed	In office since	In office until	List (M/m) *	Independence re. Code	** (%)	Number of other positions ***
Chairman	Favaro Gianfranco	1954	24/01/2014	26/04/2017	Approval of financial statements at 31/12/2019	M	X	83%	20
Statutory Auditor	Briganti Laura	1961	24/04/2014	26/04/2017	Approval of financial statements at 31/12/2019	M	X	100%	7
Statutory Auditor	Rebecchini Gaetano	1987	26/04/2017	26/04/2017	Approval of financial statements at 31/12/2019	M	X	100%	15
-------------------STATUTORY AUDITORS DEPARTED IN THE REPORTING PERIOD-----------------									
Indicate the required quorum for presentation of the lists at the time of the last appointment 4.5%									
Number of meetings held during the year: 10									

NB:
*This column indicates whether the member was elected from the majority list (M) or minority list (m). See Section 14 of the Report.
**This column indicates the percentage attendance of the Statutory Auditors at meetings of the Board of Statutory Auditors (no. of times attended/no. of meetings held during the effective mandate of the party concerned).
*****Indicates the total number of offices held at the companies pursuant to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code. For information on the significant administrative and supervisory duties vested in the members of the Board of Statutory Auditors pursuant to Art. 144-*duodecies et seq.* of the CONSOB Issuer Regulation, also see the figures published by CONSOB pursuant to Art. 144-*quinquiesdecies* of the CONSOB Issuer Regulation, in the 'Parties and Markets/Positions of members of the control bodies' section on the www.consob.it website.**

Consolidated financial statements at 31 December 2018 prepared according to international accounting standards

Consolidated statement of financial position

(€'000)	Notes	at December 31, 2018	of which related	at December 31, 2017	of which related
ASSETS					
Intangible assets	1	85,369		79,968	
Property, Plant and equipment	2	2,579		2,436	
Investments in other companies	3	160		144	
Deferred tax assets	33	3,025		1,283	
Medium/long term borrowing allowed to affiliates companies and other Group companies	34	87	87	83	83
Other non-current assets	4	654		618	
Total non-current assets		**91,874**		**84,532**	
Inventories	5	21,998		17,821	
Contracts in progress	6	86	86	412	412
Trade receivables	7	13,808	1,000	15,623	252
Income tax receivables	8	298		204	
Other current assets	9	2,183		1,782	
Other current financial assets	11	104	10	95	5
Cash & cash equivalents	10	13,196		6,745	
Total current assets		**51,673**		**42,682**	
Non-current assets classified as held for sale	12	**0**		**28**	
Total assets		**143,547**		**127,242**	
LIABILITIES AND EQUITY					
Share capital		8,879		8,879	
Share premium reserve		136,400		136,400	
Other reserves		(43,237)		(54,582)	
Group shareholders' equity	14	**102,042**		**90,697**	
Equity attributable to minority interest	14	**0**		**0**	
Total shareholders' equity	14	**102,042**		**90,697**	
Medium-/long-term borrowing	16	4,312		1,844	
Employee benefit obligations	17	2,465		2,343	
Deferred tax liabilities	33	3,035		2,816	
Other non-current liabilities	19	782		688	
Total non-current liabilities		**10,594**		**7,691**	
Trade payables	20	14,411	132	13,088	149
Short-term borrowing	16	8,125		10,720	
Derivative instruments	36	20		9	
Income tax liabilities	8	1,571		262	
Other current liabilities	21	6,784		4,775	
Total current liabilities		**30,911**		**28,854**	
Total liabilities		**41,505**		**36,545**	
Total liabilities and equity		**143,547**		**127,242**	

Consolidated income statement

(€'000)	Notes	FY 2018	of which related parties	FY 2017	of which related parties
Revenues from sales of products and services	F	79,083	808	60,120	1,111
Other revenues	28	1,035		1,935	
Cost of materials	23	(41,527)	-	(30,985)	(275)
Service costs	25	(12,269)	(1)	(11,365)	(23)
Lease & hire costs		(1,594)		(1,726)	
Payroll costs	26	(18,197)		(17,804)	
Other provisions and other costs	27	(717)		(734)	
current assets	29	2,314		2,231	
Depreciation & amortisation	30	(2,064)		(4,377)	
Asset impairment	30	(220)		(280)	
Operating profit		**5,844**		**(2,985)**	
Share of associates' profit of equity	32	0		(3)	
Subsidiaries management	32	(19)		(116)	
Finance expense	31	(1,056)		(2,205)	
Finance income	31	855	3	748	5
Profit before taxes		**5,624**		**(4,561)**	
Income tax	33	58		(111)	
Net profit (loss)		**5,682**		**(4,672)**	
Minority interest		**0**		**0**	
Group net profit (loss) for period		**5,682**		**(4,672)**	
Base earnings (losses) per share	15	**0.166**		**(0.137)**	
Diluted earnings (losses) per share	15	**0.166**		**(0.137)**	

Consolidated statement of comprehensive income

(€'000)	Notes	FY 2018	FY 2017
Net profit (loss) before minority inerest (A)		**5,682**	**(4,672)**
Other elements of the statement of comprehensive income			
Other comprehensive income to be reclassified to profit or loss insubsequent periods:			
Net profit/(loss) from Cash Flow Hedge	36	(11)	3
Tax effect		-	-
		(11)	*3*
Foreign balance sheets conversion difference		*3,406*	*(3,872)*
Exchange differences on equity investments in foreign	14	1,645	(4,609)
Tax effect		-	-
		1,645	*(4,609)*
After taxes net other comprehensive income to be reclassified to profit or loss in subsequent periods (B)		***5,040***	***(8,478)***
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains/(losses) on defined benefit plans for employees	17	36	(85)
Tax effect		(4)	27
		32	(58)
After taxes net other comprehensive income not being reclassified to profit orloss in subsequent periods (C)		***32***	***(58)***
Comprehensive net result (A+B+C)		**10,754**	**(13,208)**
Comprehensive minority interest		**-**	**-**
Comprehensive Group net profit (loss) for period		**10,754**	**(13,208)**

Statement of changes in consolidated shareholders' equity

(€'000)	Notes	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 december 31, 2017		-	-	-	-	-	-	-	-	-	(4,672)	(4,672)	-	(4,672)
- Performance Share Plan	18	-	-	-	-	348	-	-	-	-	-	348	-	348
Comprehensive other profit (loss):														
- Hedge transactions	36	-	-	-	-		3	-	-	-	-	3	-	3
Actuarial gains/(losses) on defined benefit plans for employees	17	-	-	-	-	-	-	(58)	-	-	-	(58)	-	(58)
- Foreign balance sheets conversion difference		-	-	-	(3,872)	-			-	-	-	(3,872)	-	(3,872)
- Exchange differences on equity investments in foreign companies		-	-	-	-	-	-	-	(4,609)	-	-	(4,609)	-	(4,609)
Comprehensive result		-	-	-	*(3,872)*	-	*3*	*(58)*	*(4,609)*	-	*(4,672)*	(13,208)	-	(13,208)
Balance as at December 31, 2017		8,879	1,385	136,400	8,817	(58,830)	(9)	(456)	2,280	(3,097)	(4,672)	90,697	-	90,697

(€'000)	Notes	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, 2017		8,879	1,385	136,400	8,817	(58,830)	(9)	(456)	2,280	(3,097)	(4,672)	90,697	-	90,697
2017 Result allocation		-	-	-	-	(4,672)	-	-	-	-	4,672	-	-	-
Profit (loss) as at December 31, 2018		-	-	-	-	-	-	-	-	-	5,682	5,682	-	5,682
Comprehensive other profit (loss):														
- Hedge transactions	36	-	-	-	-		(11)	-	-	-	-	(11)	-	(11)
Actuarial gains/(losses) on defined benefit plans for employees	17	-	-	-	-	-	-	31	-	-	-	31	-	31
- Foreign balance sheets conversion difference		-	-	-	3,406	-			-	-	-	3,406	-	3,406
- Exchange differences on equity investments in foreign companies	14	-	-	-	-	-	-	-	1,645	-	-	1,645	-	1,645
Total Comprehensive result		**-**	**-**	**-**	**3,406**	**-**	**(11)**	**31**	**1,645**	**-**	**5,682**	**10,753**	**-**	**10,753**
- Performance Share Plan	18	-	-	-	-	(422)	-	-	-	1,014	-	592	-	592
Balance as at December 31, 2018		8,879	1,385	136,400	12,223	(63,924)	(20)	(425)	3,925	(2,083)	5,682	102,042	-	102,042

Consolidated cash flow statement

CONSOLIDATED STATEMENT OF CASH FLOWS (€'000)	Notes	at December 31, 2018	of which related parties	at December 31, 2017	of which related parties
CASH FLOWS GENERATED BY OPERATIONS:					
Group net profit (loss) for period		**5,682**		**(4,672)**	
Adjustments to reconcile reported net profit with cash & cash equivalents generated (used) in operations:					
Depreciation & amortization intangible assets, property, plant and equipment	30	2,284		4,657	
Write-down of receivables	7	76		80	
Interest income	31	(24)		(37)	
Interest expenses	31	465		444	
Share of net profit of associate and non-consolidated subsidiaries		0		3	
Impairment of investments in other companies	3/32	30		116	
Gain from investments in associates copanies		(11)			
Income taxes (paid) get		(516)		(923)	
Stock Grant expenses	18	592		348	
Provision for (use of) cumulative inventory write-down	5	1,150		188	
Provision for (use of) long-term employee severance indemnities	17	153		(152)	
Provision for (use of) risk provision	19	94		(85)	
(Provision for) / use of deferred tax asset / Provision for (use of) deferred tax liability	33	(1,523)		(769)	
Changes in current assets and liabilities					
Trade receivables	7	2,265	(748)	110	785
Other current assets	8/9	(479)		(417)	
Inventories and contracts in process	5	(4,265)		916	
Trade payables	20	900	(17)	(371)	(151)
Other current liabilities	8/21	3,704		(224)	
Total adjustments and changes		**4,895**		**3,884**	
Cash flow generated (used) in operations		**10,577**		**(788)**	
CASH FLOW FROM INVESTMENT ACTIVITIES:					
Sales of tangible and intangible assets	1/2	28		17	
Interest income	31	24		37	
Purchase of intangible fixed assets	1	(2,533)		(2,166)	
Purchase of tangible fixed assets	2	(704)		(306)	
Decreases (Increases) other financial assets	11	(9)		(19)	
Net investments in long-term investments and non-current assets		(63)		43	
Cash flow generated (used) by non-current assets classified as held for sale		20		769	
Cash flow generated (used) in investment activities		**(3,237)**		**(1,625)**	
CASH FLOW FROM FINANCING ACTIVITIES:					
Loans taken	16	5,000		3,499	
Interest paid	31	(465)		(444)	
(Repaid) loans short and medium/long term	16	(5,440)		(2,159)	
Cash flow generated (absorbed) by financial assets		**(905)**		**896**	
Net foreign exchange difference		16		(924)	
Increases (decreases) in cash & cash equivalents		**6,451**		**(2,441)**	
Opening amount in cash & cash equivalents	10	**6,745**		**9,186**	
Cash & cash equivalents at end of period	10	**13,196**		**6,745**	

Explanatory notes to financial statements

A – Corporate information

The publication of the consolidated financial statements of Eurotech S.p.A. for the financial year ended 31 December 2018 was authorised by resolution of the Board of Directors on 15 March 2019. Eurotech S.p.A. is a joint stock company incorporated and domiciled in Italy. The Group has its registered office in Amaro (UD), Italy.
Eurotech is a group active in the research, development, and marketing of miniaturised computers and high-performance computers featuring high computing capacity. Moreover, within this business line it provides complete solutions or blocks of solutions and products for the Internet of Things through intelligent devices and an intelligent proprietary connectivity and communications platform. For more information, see Note F.

B – Reporting policies and IFRS compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and approved by the European Commission pursuant to article 6 of EC Regulation 1606/2002 of the European Parliament and European Council of 19 July 2002 by 31 December 2018, as well as with the measures enacted to implement article 9 of Legislative Decree 38/2005. IFRSs include all international accounting standards that have been revised (IAS) and all the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).
Consolidated financial statements are based on recognition at cost, except for derivative financial instruments, and the equity investments in other companies recognised at fair value and with the assumption that the company will continue as a going concern. The Group has assessed that, though the global economic environment is difficult, there are no material uncertainties (as these are defined in paragraph 25 of IAS 1) with regard to the business as a going concern, including in consideration of the actions taken the to address this situation, industrials flexibility, the existing order portfolio and the opportunities available.
The Group applied the content of CONSOB resolution 15519 of 27 July 2006 on the subject of financial statements.

The accounting standards applied are the same as those used at 31 December 2017, except for the following new or revised IFRSs or IFRICs, applied for the first time by the Group as of 1 January 2018.

The nature and impact of new standards/amendments are as follows:

Revenue from Contracts with Customers - IFRS 15 - The standard governs the recognition of revenue from contracts with customers. More specifically, IFRS 15 provides that revenue recognition is based on the following five steps:
1. identification of the contract with a customer;
2. identification of the performance obligations (the contractual obligations to transfer goods and/or services to the customer);
3. determination of the transaction price;
4. allocation of the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service; and
5. recognition of the revenue when a performance obligation is satisfied.

IFRS 15 also adds to the financial statements disclosures to be provided with reference to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.
With regulation no. 2017/1987 issued by the European Commission on 31 October 2017, the following clarifications regarding IFRS15 were also approved: These clarifications regarded:
1. identification of the contractual obligations;
2. the attribution of the role of principal or agent;
3. determination of when to recognise the income resulting from granting a licence.

The provisions of IFRS 15 and relative clarifications replace the accounting standards IAS 18 with regard to contracts for the sale of goods and services and IAS 11 with regard to construction contracts. With respect to presenting the impacts resulting from the first adoption of IFRS 15 in the financial statements, since the Group was not affected by the adoption of that standard, it did not record any effects in the financial statements.

Financial instruments - IFRS 9 -The series of changes made to the new standard replace the provisions of IAS 39 and IAS 22. More specifically, the new standard reduces the number of categories of financial assets provided for under IAS

39 and defines: (i) how to classify and measure financial assets based on the cash flow characteristics and the business model for managing the assets; (ii) a single model for the impairment of financial assets based on expected losses; (iii) how to apply hedge accounting and (iv) accounting for changes in creditworthiness when measuring liabilities at fair value. Since the Group was not affected by the adoption of that standard, it did not record any effects in the financial statements.
With respect to the new aspects introduced by IFRS 9, please note the following:

- the new way of classifying and measuring financial assets representing capital instruments did not lead to any amendments;
- the model for accounting for financial risk hedging currently used by the Group is consistent with the new provisions introduced by IFRS 9 on hedge accounting.

Classification and measurement of share based payments – IFRS 2 – The purpose of the published amendment is to resolve several issues relating to the recognition of share-based payments. In particular, this amendment introduces considerable improvements (i) in the measurement of share-based payments settled in cash, (ii) in their classification and (iii) in the recognition method in case of change from share-based payments settled in cash to share-based payments settled with equity instruments.

Foreign currency transactions and advance consideration – IFRIC 22 – the standard defines the exchange rate to use in recognising foreign currency transactions whose payment is made or received in advance. The application of that interpretation had no impact on the Group.

Annual Improvements to IFRSs – 2014-2016 Cycle - On 8 December 2016, the IASB made a number of amendments as part of the annual programme of improvements to the standards; Most of the amendments are clarifications or corrections of existing IFRSs, or amendments consequent to changes previously introduced to the IFRSs. The application of these amendments had no impact on the Group.

Accounting standards, amendments and interpretations not yet applicable and not yet early adopted by the Group:

Uncertainty over Income Tax Treatments - IFRIC 23 - On 7 June 2017, the IASB provided indications on how to reflect uncertainties on the income tax treatments of certain matters, when accounting for income tax treatments. The new interpretation is applicable from 1 January 2019.

Prepayment Features with Negative Compensation - IFRS 9 - On 12 October 2017, the IASB published the amendments to the standard, aimed at permitting measurement, at the amortised cost or at fair value through other comprehensive income (OCI), of financial assets characterised by a prepayment option with “negative compensation”. These amendments shall apply from 1 January 2019.

Leases – IFRS 16 – the standard replaces IAS 17 on leases, and results in considerable impacts on the financial statements of the lessees; the distinction between operating lease and financial lease was in fact eliminated and a single model for all leases that requires that an asset for the right to use and a liability for the lease be recognised was introduced. The new standard must be applied for the financial years starting on or after 1 January 2019. Early adoption is permitted (in accordance with the date of first application of IFRS 15) but the Group decided not to adopt it. In order to present the impacts resulting from the first adoption of IFRS 16 in the financial statements, the Group established that it would use the practical expedient provided under IFRS 16 paragraph C5 letter b) and paragraph C8, whereby the Group would recognise, on 1 January 2019 (date of initial adoption), a financial liability (estimated as about €4.61 million) corresponding to the current value of the remaining payments due for the leasing agreements in place on the date of first application, with an intangible asset of the same amount as the offsetting item to reflect the right to use the leased goods.

Investments in associates and joint ventures - IAS 28 - the published amendments are needed to clarify that IFRS 9 applies to long term loans to an associate or joint venture that actually form part of the net investment in the associate or joint venture. These amendments shall apply from 1 January 2019.

Annual Improvements to IFRSs - 2015–2017 Cycle - On 12 December 2017, the IASB made a number of amendments as part of the annual programme of improvements to the standards; Most of the amendments are clarifications or corrections of existing IFRSs, or amendments consequent to changes previously introduced to the IFRSs. These amendments shall apply from 1 January 2019.

Plan Amendment, Curtailment or Settlement - IAS 19 - On 7 February 2018, the IASB published the amendments to the standard, specifying the procedures to use to determine the costs relating to pension payments for the remaining applicable period if there were changes to a defined benefit plan. These amendments shall apply from 1 January 2019.

On 29 March 2018, the IASB published the revised version of the Conceptual Framework for Financial Reporting, and at the same time, published a document updating the references in the IFRSs to the previous Conceptual Framework, providing:

- an updated definition of the assets and liabilities;
- a new chapter on the areas of measurement, derecognition and disclosure;
- clarifications on certain drafting assumptions in financial statements such as the principle of prudence and that substance would prevail over form.

These amendments shall apply from 1 January 2020.

Business Combinations - IFRS 3 - On 22 October 2018, the IASB published the amendments to IFRS 3 to identify the criteria whereby an acquisition of a company or a group of assets would not, as such, satisfy the definition of business provided under IFRS 3. These amendments shall apply for business combinations made starting from 1 January 2020.

Amendments to IAS 1 and IAS 8 - On 31 October 2018, the IASB published the amendments to IAS 1 and IAS 8, clarifying the definition of “material information” in order to establish whether to add a disclosure to the financial statements or not. These amendments shall apply from 1 January 2020.

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

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

C – Discretionary evaluations and relevant accounting estimates

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

Discretionary evaluations

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

<u>Recognition of revenue – Sales of components –</u> According to directors, sales of components made by the Group to outsourcers (which use these components in their operations and subsequently resell their products to the Group) imply a continued relationship with the transferred assets and do not give rise to collection of the contracted consideration. Consequently, on the basis of IFRS 15, these transactions are not recognised as sales.

Uncertainty in the estimates

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

<u>Impairment of non-financial assets</u>

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

Specifically, goodwill and other intangible assets with an indefinite useful life (trademarks) are submitted to review at least annually and during the year to check for impairment; this check requires the Group to make an estimate of the

value in use of the cash generating unit to which goodwill and other intangible assets with a definite useful life are attributed, in turn based on the estimated cash flows expected from the unit, time-discounted at an appropriate rate.
At 31 December 2018, the book value of goodwill was €70,898 thousand (2017: €67,185 thousand). Further details are provided in Note 1.

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

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

Deferred tax assets

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

At 31 December 2018, unrecognised tax losses carried by the Parent Company based on fiscal consolidation were estimated at €42,548 thousand (2017: €44,793 thousand), which can be carried forward without limitation. In the Group as a whole, unrecognised tax losses came to €53,155 thousand (2017: €60,720 thousand), which can be carried forward without limitation.
The amount of tax losses from previous years, not previously recognised and used to reduce the current tax burden, amounted to €7.3 million.

Development costs

Development costs are capitalised as per the accounting standard described in Note E. Initial cost capitalisation is based on the Directors' assessment of the technical and economic feasibility of the project, normally when the project itself has reached a certain stage in the development plan and it is likely that the asset will generate future economic benefits. In order to determine capitalised amounts, Directors need to make assumptions about expected future cash flows from fixed assets, discount rates to be applied and periods in which benefits will accrue. On 31 December 2018 the best estimate of the book value of capitalised development costs was €5,755 thousand, of which €3,268 thousand are in progress (2017: €4,825 thousand, of which €2,667 thousand are in progress).

Other items subject to estimates

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

D – Scope of consolidation

The consolidated financial statements include the annual financial statements of the Parent Company, Eurotech S.p.A., and the Italian and foreign subsidiaries in which Eurotech directly or indirectly (through subsidiaries and affiliates) exercises control since it holds valid rights giving it the current capacity to manage significant assets, i.e. the assets that significantly affect returns of the investee.

The companies included in the basis of consolidation on a line-by-line basis at 31 December 2018 are as follows:

Company name	Registered offices		Share capital	Group share
Parent company				
Eurotech S.p.A.	Via Fratelli Solari, 3/A – Amaro (UD)	Euro	8,878,946	
Subsidiary companies consolidated line-by-line				
Aurora S.r.l.	Via Fratelli Solari, 3/A – Amaro (UD)	Euro	10,000	100.00%
EthLab S.r.l.	Via Dante, 300 – Trento	Euro	115,000	100.00%
Eurotech Inc.	Columbia (USA)	USD	26,500,000	100.00%
Eurotech Ltd.	Cambridge (UK)	GBP	33,333	100.00%
E-Tech USA Inc.	Salt Lake City (USA)	USD	8,000,000	100.00%
Eurotech France S.A.S.	Venissieux Cedex (France)	Euro	795,522	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Via Piave, 54 – Caronno Varesino (VA)	Euro	51,480	100.00%
Advanet Inc.	Okayama (Japan)	JPY	72,440,000	90.00% (1)

(1) The Group officially owns 90% of the company, but as Advanet holds 10% of the share capital in the form of treasury shares, it is fully consolidated.

Other companies held and not consolidated on a line-by-line basis:

Affiliated companies consolidated at equity		
Rotowi Technologies S.p.A. in liquidation (formerly U.T.R.I. S.p.A.)	Via del Follatolo, 12 – Trieste	21.31%
Other smaller companies valued at fair value		
Kairos Autonomi Inc.	Sandy (USA)	19.00%

The main changes with regard to subsidiaries and affiliates compared with 31 December 2017 are as follows:
- 31/01/2018 the Slovakian company ETH Devices S.r.o. was closed after having been placed in liquidation;
- 26/06/2018 the company eVS embedded Vision Systems S.r.l., previously classified as an asset held for sale, was sold.

The consolidated financial statements at 31 December 2018 did not contain significant transactions or unusual events apart from what is reported in the explanatory notes to the financial statements.

E – Accounting standards and policies

Accounting basis

The Consolidated Financial Statements consist of the Income Statement, the Statement of Financial Position, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes.
In the statement of financial position, assets and liabilities are classified in the statement of financial position according to the "current/non-current" criterion, with specific separation of the assets held for sale and the liabilities associated with assets held for sale, if any. Current assets, including cash and cash equivalents, are those held to be realised, sold or consumed within the normal operating cycle of the Group or within the twelve months following the end of the year. Current liabilities are those whose extinction is expected within the normal operating cycle of the Group or within the twelve months after the end of the year.
The income statement is classified based on the nature of the costs, while the cash flow statement is presented using the indirect method.

Consolidation policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Currency	Average 2018	As of December 31, 2018	Average 2017	As of December 31, 2017
British pound sterling	0.88471	0.89453	0.87667	0.88723
Japanese Yen	130.39588	125.85000	126.71120	135.01000
USA Dollar	1.18096	1.14500	1.12970	1.19930

Accounting policies

The accounting standards and policies applied to prepare the consolidated financial statements for the year ended 31 December 2018 are shown below.

Intangible assets

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

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

Business combinations and goodwill

<u>Business combinations from 1 January 2010</u>

Business combinations are booked using the purchase method. The purchase cost is measured as the sum of the payment made at fair value at acquisition date and the amount of any minority interest in the acquiree. For every business combination, the acquirer must value any minority interest in the acquiree at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquiree. Acquisition costs are paid and classified in administrative expenses.

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

Business combinations before 1 January 2010

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

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

Research and development costs

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

Development costs incurred with reference to a specific project are only capitalised when the Group can demonstrate (a) that it is technically practicable to complete the fixed asset so as to make it available for use or for sale; (b) that it intends to complete the fixed asset for use or for sale; (c) the way in which it will probably generate future benefits; (d) the availability of technical, financial and all other resources needed to complete the asset; and (e) its ability to reliably determine the costs attributed to the asset throughout its development.
Capitalised developed costs are amortised over the period in which all future expected revenues will occur.
During the development period, the asset is re-examined annually to verify potential impairment. After the initial posting, development costs are assessed at cost, minus any other amortisation or accumulated losses. Amortisation of the asset begins as soon as development is completed and the asset becomes available for use. If future economic benefits are no longer available, they will be written down in the year in which this occurs.
All other development costs are reported in the income statement in the period they are incurred.

Patents and trademarks

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

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

Other intangible assets

Other intangible assets purchased or produced internally are recorded as assets, in accordance with IAS 38 - Intangible Assets, when it is likely that the asset will generate future economic benefits and when the cost of the asset can be reliably determined.
Intangible assets with a definite useful life recognised within a business combination, such as customer relationships and order portfolios, are initially recognised at fair value at the date of acquisition, separately from goodwill, if this value can be reliably determined. After initial recognition, they are recognised net of related cumulative amortisation and of any impairment determined in the same way as for tangible assets. Customer relationships are amortised on a straight-line basis in a period of 5 to 10 years, while amortisation of the order book correlates to the processing of orders in the book at the time of acquisition.
Useful life is re-assessed annually, and any changes are applied prospectively as necessary.

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

Property, plant and equipment

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

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

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

Buildings	33 years
Plant and machinery	from 7 to 10 years
Industrial and commercial equipment	from 4 to 6 years

Production equipment	from 4 to 6 years
Furniture and fixtures	from 7 to 10 years
Electronic office equipment	from 3 to 5 years
Automobiles and motor vehicles	from 4 to 5 years

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

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

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

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

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

Equity investments in affiliates

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

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

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

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

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

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

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

Equity investments in other companies

Financial assets constituting equity investments in companies that are not affiliates or joint ventures (generally with a percentage ownership of less than 20%) are called investments in other companies and form part of the category of financial assets measured at fair value, that normally corresponds, upon first recognition, to the consideration paid for the transaction, including the directly attributable transaction costs.

Changes after measurement at fair value are recognised in the income statement (FVPL) or if an option provided for by the standard is exercised, in the statement of comprehensive income (FVOCI) under "Instruments at FVOCI reserve". For investments measured at FVOCI, impairment is never recognised in the income statement, or the accumulated profits or losses if the investments are sold; the dividends distributed by the investee are recognised in the income statement only when:

a) the Group obtains the right to receive the dividend payment;
b) it is probable that the financial benefits resulting from the dividend will accrue to the Group:
c) the amount of the dividend can be accurately measured.

Other non-current assets

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

Inventories

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

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

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

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

Contracts in progress

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

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

Financial assets

The Group classifies financial assets on the basis of the categories identified by IFRS 9:
- financial assets measured at amortised cost;
- assets measured at fair value through other comprehensive income (FVOCI);
- assets measured at fair value through profit or loss (FVTPL).

Financial assets measured at amortised cost
The financial assets that meet the following requirements are classified in this category: (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. It mainly involves trade receivables and loans. With the exception of trade receivables that do not contain a significant financial component, the other receivables and loans are initially recognised at their fair value on the financial statements. On the other hand, trade receivables that do not contain a significant financial component are recognised at the price defined for the relative transaction (determined in accordance with the provisions of the IFRS 15 standard Revenue from Contracts with Customers). When the assets are subsequently measured, those belonging to that category are measured at amortised cost, using the effective interest rate. Any write-down provision for those receivables is determined with the forward looking approach through a three-stage model: 1) recognition of the expected losses in the first 12 months from initial recognition of the credit assuming that the credit risk has not increased; 2) recognition of the lifetime expected credit losses if the credit risk increases significantly from the initial recognition of the credit; interest is calculated on the gross carrying amount; 3) recognition of any other lifetime expected credit losses when the loss occurs; the interest is recognised on a net basis (the amortised cost is revised since the Internal Rate of Return changes as there is a change in the cash flows due to the occurrence of the trigger event).

Financial assets measured at fair value through other comprehensive income (FVOCI)
The financial assets that meet the following requirements are classified in this category: (i) the asset is held within a business model whose objective is achieved by collecting the contractual cash flows that come from sale of the asset itself; and (ii) the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Capital instruments are also classified in this category (equity investments in which the Group does not have either control or significant influence) for which the Group applies the option given from the principle of measuring those instruments at fair value with an impact on the comprehensive income.
These assets are initially recognised in the financial statements at their fair value; upon subsequent measurement, the measurement made upon recognition is updated, and any variations in fair value are recognised in the Other components of the statement of comprehensive income. Any write-downs for impairment, interest income or profits or losses for exchange rate differences are recognised in the Profit or Loss for the year.

Financial assets measured at fair value through profit or loss (FVTPL)
All financial assets that do not meet the requirements, in terms of business model or cash flow characteristics, are classified in this category, for measurement at amortised cost or at fair value through other comprehensive income. They mainly include derivative instruments; this category also includes listed and non-listed capital instruments that the Group has not irrevocably decided to classify as FVOCI upon initial recognition or during transition. The assets that belong to this category are classified as current or non-current assets in accordance with their maturity date, and recognised at fair

value upon initial recognition. Upon subsequent measurement, the profits and losses resulting from changes in fair value are accounted for in the consolidated income statement in the period in which they are recognised.

Impairment
The measurement of impairment of the financial assets measured at amortised cost is carried out on the basis of a model based on the expected losses on the receivables. According to that model, the financial assets are classified at stage 1, stage 2 or stage 3 according to their credit quality compared to initial disbursement.
More specifically:
Stage 1: includes (i) the newly acquired credit exposures; (ii) the exposures that have not undergone significant impairment of the credit risk compared to the date of initial recognition and (iii) the exposures with low credit risk.
Stage 2: includes the credit exposures that have undergone significant impairment of the credit risk compared to the date of initial recognition, even though they are not impaired.
Stage 3: includes the impaired credit exposures.
For exposures that belong to stage 1, the overall impairment equals the expected loss calculated on a time period of up to one year. For exposures that belong to stages 2 or 3, the overall impairment equals the expected loss calculated on a time period equal to the entire duration of the relative exposure.
The criteria to determine the write-downs to make to the receivables is based on discounting the expected principal and interest flows to present values. In order to determine the current value of the flows, the basic elements are the identification of the estimated collections, the date of collection and the discount rate to apply. More specifically, the loss amount is obtained as the difference between the carrying amount and the current value of the estimated cash flows, discounted at the original interest rate of the financial asset.
These assets are classified as current assets apart from those with a maturity of more than 12 months which are included under non-current assets.

Derivatives
Derivative instrument agreements entered into by the Group aim at managing the exposure to interest rate risk mainly relating to loan contracts.
On the date of entering into the contract, the derivative instruments are initially accounted for at fair value, and if the derivative instruments are not accounted for as hedging instruments, the changes in fair value recognised after first recognition are treated as operating components or financial components of the profit/loss for the year in relation to the nature of the instrument. On the other hand, if the derivative instruments meet the requirements to be classified as hedging instruments, the subsequent changes in fair value are accounted for by following the specific criteria provided by IFRS 9 indicated below. For each derivative financial instrument identified as a hedging instrument, its relationship with the hedged position is recorded, including the risk management objectives, the hedging strategy and the assessment of the effectiveness of the hedge. The effectiveness of each hedge will be checked both when taking out each derivative instrument and during its life. Hedging is generally considered to be “effective” if, both at the beginning and during its life, the changes in the fair value for fair value hedges or the expected future cash flows for cash flow hedges of the hedged element are substantially offset by the changes in fair value of the hedging instrument.
When the hedge relates to changes in fair value of assets or liabilities recorded on the financial statements (fair value hedge), both the changes in fair value of the hedging instrument and the changes in the hedged position are charged to the income statement.
If the hedging aims to neutralise the risk of changes in future cash flows originating from the future execution of transactions considered to be highly probable at the date of the financial statements (cash flow hedge), the changes in fair value of the derivative instrument recorded after the first recognition are accounted for as components of the overall profits or loss, to the extent of the effective amount only. When the financial effects caused by the hedged positions become manifest, the reserve is reversed back to the income statement among the operational components. If the hedge is not perfectly effective, the change in fair value of the hedging instrument, with respect to the ineffective potion, will be immediately recorded on the income statement. If, during the life of a derivative instrument, there is no longer an expectation that the transaction the hedge was set up for will occur, the portion of “reserves” relating to that instrument will be immediately reversed back to that year’s income statement. On the other hand, if the derivative instrument is sold or can no longer be classified as an effective hedging instrument, the portion of “reserves” representing the changes in fair value of the instrument, which had been recognised up to that point, is maintained as a component of the overall Profit or Loss and reversed back to the Income Statement following the above-mentioned classification criteria, at the same time as occurrence of the economic effects of the transaction originally hedged. The fair value of listed instruments in public markets is determined by referring to the closing prices for the period. The fair value of unlisted instruments is measured by referring to financial measurement techniques: the fair value of interest rate swaps is measured by

discounting back the expected cash flows, while the fair value of the forward exchange rates is calculated on the basis of the market exchange rates on the applicable date and the expected rate differentials between the currencies involved.
The financial assets and liabilities measured at fair value are classified in the three hierarchical levels described below, on the basis of the relevance of the (input) information used to calculate their fair value. More specifically:
Level 1: financial assets and liabilities whose fair value is calculated on the basis of listed prices (not amended) on active markets for identical assets and liabilities;
Level 2: financial assets and liabilities whose fair value was calculated on the basis of other input besides the listed prices mentioned in Level 1, but that can be directly or indirectly observed (mainly: market exchange rates on the applicable date, the expected rate differentials between the currencies involved and volatility of the applicable markets, interest rates and the price of commodities);
Level 3: financial assets and liabilities whose fair value is calculated on the basis of input data that is not based on observable market data.
Financial assets are removed from the statement of financial position when the right to receive the cash flows from the instrument has come to an end, and the company has essentially transferred all the risks and benefits relating to the instrument and the relative control.

Treasury shares

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

Cash and cash equivalents

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

Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their book value will be recovered through their sale rather than their continuous use, and are represented separately from other assets and liabilities in the consolidated Statement of financial position.
Non-current assets and disposal groups classified as held for sale are recognised at either their carrying value or their fair value, whichever is lower, net of sales costs; the corresponding values in the statement of financial position for the previous year are reclassified.

Financial liabilities

Financial liabilities, including financial payables, trade payables, other payables and other liabilities besides the derivative instruments, are initially recognised at fair value, and afterwards measured at the amortised cost not including the repayments of principal already made.
The payables and other liabilities are classified as current liabilities unless the Group has the contractual right to discharge its obligations at least twelve months following the date of the financial statements. Financial liabilities are eliminated when they are discharged or when the specific obligation in the contract has been fulfilled, cancelled or expired.

Reverse factoring transactions

In order to guarantee facilitated access to credit for its suppliers, the Parent Company has set up factoring agreements, generally in the form of reverse factoring agreements. On the basis of the contractual structures in place, the supplier can assign, at its own discretion, the receivables owed from the Parent Company to a financial institution and collect the amount before it falls due; the supplier can also grant further extensions, agreed between the supplier and the Parent Company, to the payment terms provided for in the invoice. The extensions granted can be interest-bearing or non-interest bearing. Since the primary obligation is with the supplier, the relations between the parties stay the same and are therefore still classified under trade liabilities.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, part of a financial asset or part of a group of similar assets) is derecognised from the financial statements when:
- rights to receive the cash flows from the asset are extinguished;
- the Group holds the right to receive cash flows from the asset, but has undertaken a contractual obligation to pay for them in full and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and (a) has essentially transferred all the risks and benefits of ownership of the financial asset or (b) has not transferred nor retained the risks and benefits of the asset, but has transferred its control.

If the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor held all the risks and benefits or has not lost control of them, the asset is recognised in the Group financial statements to the extent of its residual involvement in the asset. Residual involvement which takes the form of a guarantee on the transferred asset is valued at the lesser of the initial carrying value of the asset and the maximum value of the amount that the Group could be required to pay.
If the residual involvement takes the form of an option issued and/or acquired on the transferred asset (including the options regulated by cash or similar), the amount of Group involvement corresponds to the amount of the transferred asset that the Group can re-acquire; however, in the case of a put option issued on an asset measured at fair value (including options regulated in cash or with similar dispositions), the measure of residual involvement of the Group is limited to the lesser between the fair value of the transferred asset and the strike price of the option.

Financial liabilities

A financial liability is derecognised from the financial statements when the obligation underlying the liability is extinguished, voided or completed.
If an existing financial liability is replaced by another by the same lender, at substantially different conditions, or the conditions of an existing liability are essentially changed, this exchange or change is treated like an accounting elimination of the original liability and a new liability is recorded, posting to the income statement any differences between the accounting values.

Employee benefit obligations

Benefits guaranteed to employees, paid concurrent to or subsequent to the cessation of the employment relationship through defined benefit plans or other long-term benefits (withdrawal indemnity) are recognised in the period when this right vests.

The Group implemented defined benefit and/or defined contribution pension plans, based on conditions and local practices in the countries where the Group operates.

Liabilities related to defined benefit programmes, net of any activities to service the plan, are determined based on actuarial assumptions and are recognised on an accrual basis consistent with the employment services necessary to obtain the benefits. The liabilities are valued by actuarial staff. Gains and losses arising from the actuarial calculation relating to the defined-benefit plan are fully recognised in the statement of comprehensive income in the period in which they occur. These actuarial gains and losses are immediately classified as retained earnings and are not reclassified in the income statement in successive reporting periods.

Pursuant to amendments to severance indemnities under Law 296 of 27 December 2006 (2007 Budget Law), the severance indemnities of Italian companies accrued at 1 January 2007 or at the date employees choose the option they will exercise are included in the defined benefit plan category, both in the event of option for supplementary pension and option for allocation to the treasury fund at INPS. The accounting treatment of severance indemnities is now similar to that used for other types of pension scheme contributions.

Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature or of a certain or probable existence, the amount or date of which was not identified at year-end. Provisions are recognised when there is a current obligation (legal or implicit) arising from a past event that necessitates an amount of resources to meet the obligation and a reliable estimate can be made of the amount of the obligation. When the Group believes that a provision to the reserve for risks and charges is partly or totally repaid, e.g. in the case of risks covered by insurance policies, the indemnity is only recognised as a separate item in the assets if, and only if, it is virtually certain. In this case, the cost of the provision in the income statement is stated net of the amount recognised for indemnity.
Provisions are booked at the representative value of the best estimate of the amount that the company would pay to extinguish the obligation, or to transfer it to third parties at the reporting date. If the effect of time-discounting the value of the cash is significant, provisions are determined by time-discounting expected future cash flows at a pre-tax discount rate that reflects the current market evaluation of the cost of money in relation to the time. When time-discounting is performed, the increase in the provision due as time passes is recognised as a financial charge.

Liabilities for decommissioning
An accrual for decommissioning expenses was made against costs that some foreign operations will incur in future periods for the decommissioning, demolition, dismantling and removal of some fixed assets at the end of their useful life. A credit to the plant and machinery entry was stated as a contra entry.
Decommissioning costs are carried at the present value of expected costs needed to settle the obligation, by using estimated cash flows and a pre-tax discount rate that reflects the specific risks related to the decommissioning liability.
The unwinding of the discount is recognised in the income statement as it occurs. Estimated cash flows are revised annually and adjusted as appropriate. Any change in cost estimates or in the discount rate applied is used to reduce the costs of the asset.

Grants

Grants made by public bodies are recognised at fair value when it is reasonably certain that they will be received and the conditions provided for obtaining them are met.
If grants relate to cost components, they are recognised as revenues but are consistently spread out over the periods so that they refer to the costs they are intended to offset. If the grant is related to any activity or development activity whose value is recognised as a fixed asset, it directly reduces the value of the fixed assets.

Operating grants (granted in order to provide immediate self-financing to the business or as compensation for expenses and losses incurred in a prior financial year) are fully recognised in the income statement at the time when the conditions for posting are met.

Leasing

A contractual agreement is defined as a lease (or containing a leasing transaction) according to the substance of the agreement and requires an assessment of whether fulfilment of the agreement depends on the use of one or more specific assets and if the agreement transfers the right to use this asset. A review is carried out after the start of the agreement only if one of the following conditions appears:

a) there is a change in the agreement conditions, other than renewal or extension of the agreement;
b) a renewal option is exercised or an extension is granted, unless the terms of the renewal or extension are not initially included in the terms of the lease transaction;
c) there is a change in the conditions whereby adaptation depends on a specific activity; or
d) there is a substantial change in the asset.

When a re-examination is carried out, the accounting treatment of the lease will begin or cease on the date at which the circumstances that have given rise to the review for scenarios a), c) or d) change and at the date of renewal or extension for scenario b).
Financial lease agreements that transfer to the Group all the risks and benefits associated with ownership of the leased asset are capitalised from the start date of the lease agreement at the fair value of the leased asset, or at the present value of lease payments if this is lower. Lease payments are apportioned between principal and interest in order to apply a constant periodic rate of interest on the remaining balance of the liability (principal). Financial charges are charged to the income statement. Capitalised leased assets are depreciated on the shorter of the estimated useful life of the asset and the duration of the lease agreement, if it is not reasonably certain that the Group will obtain ownership of the asset at the end of the agreement.

Lease agreements in which the lessor essentially retains all the risks and benefits typical of ownership are classified as operating leases. Lease payments are charged to the income statement on a straight-line basis according to the duration of the agreement.

Assignment of stock grants to employees

The Group granted incentive plans based on instruments representing capital, on the basis of which the Group receives services from its employees, consultants or directors with delegation of authority in exchange for stock grants (units). The fair value of the services received is recognised as a labour cost. The total amount of the cost is determined based on the fair value of the granted units and a shareholders' equity reserve is its contra entry.
The total cost is recognised throughout the period rights are accrued (vesting period), which is the period during which all service conditions established for accrual of the rights must be met. The Group reviews the estimates based on the number of options expected to accrue on the basis of the accrual, and not the market, conditions on every reporting date. The effect of any changes from the original estimates is recognised in the consolidated income statement with contra entry in shareholders' equity.

Revenues and costs

Recognition of revenues

Revenues from contracts with customers are recognised on the basis of the temporary transfer of control of the goods and/or services to the customer. If the transfer of control is made while the item is being built or when the services are being provided, the revenue is recognised 'over time', i.e. as the activity gradually progresses; on the other hand, if control is not transferred while the item is being built or the services are being given, the revenue is recognised 'at a point in time', i.e. at the time of final delivery of the item or upon completion of provision of the services. In order to assess progress of the orders 'over time', the Group has chosen the progress percentage criteria measured with the cost-to-cost method. When it is probable that the total costs of the order for its entire life exceed the total revenues corresponding to the total life, the potential loss is recognised immediately in the income statement.
In the case of contracts where the fees are expressed in a different currency besides the operating currency, the conversion to functional currency of the revenue accrued to the applicable financial statements date is carried out: i) at the invoicing exchange rate in effect for the invoiced portion and at the exchange rate at the end of the period for the portion still to invoice; or ii) for hedging transactions, at the hedging exchange rate (in the case of hedging against exchange rate risks)
The portion of fees held back by the principal, or in any case subject to repetition in accordance with the contractual clauses since they are subject to fulfilling obligations after delivery are not acquired.

Interest

Interest income and expenses are recognised according to interest accrued on the net value of related assets and liabilities using the effective interest rate (the rate that discounts all future cash flows based on the expected useful life of the financial instrument to equal the net carrying amount of the financial asset).

Dividends

Dividends are reported when the shareholders' right to receive payment is established.

Income tax

Current tax assets and liabilities for the period and for all prior periods are carried at the amount expected to be recovered or to be paid to the tax authorities pursuant to tax legislation in force. Tax rates and fiscal provisions used to calculate the amount are as issued or substantially issued at the reporting date of 31 December 2018.
Current taxes relating to elements recognised directly in equity are recognised directly in equity and not in the income statement.

Deferred tax liabilities are calculated using the liability method on temporary differences at the reporting date between tax amounts related to assets and liabilities and the amounts recognised in the financial statements.
Deferred tax liabilities are recognised with regard to all taxable temporary differences, except for:

- when deferred tax liabilities arise from initial posting of goodwill or an asset and liability in a transaction which is not a business combination and which, at the time of the transaction, does not have an effect on income in the financial year calculated for the financial statements, nor on the income or loss calculated for tax purposes;
- with reference to taxable temporary differences associated with equity investments in subsidiaries, affiliates and joint ventures, in the event that recharging temporary differences can be controlled and it is likely that it will not take place in the foreseeable future.

Deferred tax assets are recognised against tax losses carried forward to the extent that the company is likely to earn taxable income in the future which can make applicable the use of deductible temporary differences and fiscal losses carried forward, unless:

- the deferred tax asset related to temporary deductible differences arises from the initial recognition of an asset or liability in a transaction that is a business combination and which, at the time of the transaction, does not influence the profit for the year calculated for the purposes of the financial statements or gains or losses calculated for fiscal purposes;
- in the case of taxable temporary differences associated with equity investments in subsidiaries, affiliates and joint ventures, tax assets are recognised in the amount that temporary differences might be used in the immediate future and that there is adequate taxable income against which the temporary differences can be used.

The recoverability of deferred tax assets is reviewed at the end of every year and is reduced if it is unlikely that sufficient income will be earned in the future to allow all or part of this credit to be used. Unrecognised deferred tax assets are reviewed annually at year-end and are recorded to extent to which taxable profit is likely to be sufficient to allow these deferred tax assets to be recovered.
Since some Group companies have a history of operating losses in past years, the Group recognises a deferred tax asset deriving from unused tax losses or tax credits only to the extent that the taxable temporary differences are sufficient or there is convincing documentary evidence that sufficient taxable income will be available against which unused tax losses or tax credits can be used.
Deferred tax assets and liabilities are recognised based on the tax rates expected to be applied during the year when these activities are realised or these liabilities extinguished, taking into account the rates in force and those issued or allocated at year-end.
Deferred tax assets and liabilities related to items posted to equity are directly recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and liabilities and deferred income tax referring to the same taxable object and the same tax authorities.

F – Segment information

The Group only considers one sector of significant activity: the "NanoPC" sector Information shall therefore be provided on the only sector identified, organised on a geographic basis. The geographic areas are produced in relation to the various group entities and based on the criteria with which they are currently monitored by top management.
The Group's geographic areas are defined according to the localisation of Group assets and operations. The ones identified in the Group are: Europe, North America and Asia.
Management monitors Gross profit margin of the individual business units separately for the purposes of resources allocation and performance assessment.

(€' 000)	North America			Europe			Asia			Correction, reversal and elimination			Total		
	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change	FY 2018	FY 2017	% YoY Change
Third party Sales	32,425	23,382		20,330	12,923		26,328	23,815		0	0		79,083	60,120	
Infra-sector Sales	831	439		5,190	3,209		199	181		(6,220)	(3,829)		0	0	
Total Sales revenues	33,256	23,821	39.6%	25,520	16,132	58.2%	26,527	23,996	10.5%	(6,220)	(3,829)	-62.4%	79,083	60,120	31.5%
Gross profit	11,376	8,800	29.3%	12,191	6,798	79.3%	14,279	13,669	4.5%	(290)	(132)	119.7%	37,556	29,135	28.9%
Gross profit margin - %	34.2%	36.9%		47.8%	42.1%		53.8%	57.0%					47.5%	48.5%	
EBITDA													8,128	1,672	386.1%
EBITDA margin - %													10.3%	2.8%	
EBIT													5,844	(2,985)	-295.8%
EBIT margin - %													7.4%	-5.0%	

The sales performance broken down by geographic area set out in the table above shows increases in all the applicable areas.
The table below shows assets and investments in the Group's individual business segments at 31 December 2018 and 31 December 2017.

(€'000)	North America		Europe		Asia		Correction, reversal and elimination		Total	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Assets and liabilites										
Segment assets	42,313	35,378	74,766	68,498	71,798	68,170	-45,490	-44,948	143,387	127,098
Investments in subsidiaries non consolidated, associate & other companies	115	109	45	35	0	0	0	0	160	144
Total assets	**42,428**	**35,487**	**74,811**	**68,533**	**71,798**	**68,170**	**-45,490**	**-44,948**	**143,547**	**127,242**
Segment liabilities	51,086	46,834	21,696	20,130	14,190	14,481	-45,467	-44,900	41,505	36,545
Total liabilities	**51,086**	**46,834**	**21,696**	**20,130**	**14,190**	**14,481**	**-45,467**	**-44,900**	**41,505**	**36,545**
Other segment information										
Investments in tangible assets	4	3	259	110	441	193	0	0	704	306
Investments in intangible assets	436	1,536	1,804	520	293	110	0	0	2,533	2,166
Depreciation & amortisation	716	979	1,123	1,141	445	2,537	0	0	2,284	4,657

G - Composition of the principal asset entries

1 – Intangible assets

The following table shows the changes in the historical cost and accumulated amortisation of intangible assets in the reporting period:

(€ '000)	DEVELOPMENT COSTS	GOODWILL	SOFTWARE TRADEMARKS PATENTS	ASSETS UNDER CONSTRUCTION & ADVANCES	OTHER INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS
Purchase or production cost	10,849	74,551	20,547	2,713	28,357	137,017
Previous years' impairment	(778)	(7,366)	(7,252)	(46)	(128)	(15,570)
Previous years' amortisation	(7,913)	-	(5,343)	-	(28,223)	(41,479)
OPENING BALANCE	2,158	67,185	7,952	2,667	6	79,968
Purchases	137	-	269	2,127	-	2,533
Disposals	(882)	-	(1)	-	(1,544)	(2,427)
Other changes	181	4,221	819	30	1,842	7,093
Impairment in period	-	(220)	-	-	-	(220)
Transfers	1,556	-	-	(1,556)	-	-
Amortisation in period	(1,401)	-	(79)	-	-	(1,480)
Reversal of cumulative amortisation	882	-	1	-	1,410	2,293
Decreases in cumulative impairment	-	-	-	-	128	128
Other changes in cumulative impairment	-	(288)	(489)	-	-	(777)
Other changes in cumulative amortisation	(144)	-	244	-	(1,842)	(1,742)
TOTAL CHANGES	329	3,713	764	601	(6)	5,401
Purchase or production costs	11,841	78,772	21,634	3,314	28,655	144,216
Impairment	(778)	(7,874)	(7,741)	(46)	-	(16,439)
Cumulative amortisation	(8,576)	-	(5,177)	-	(28,655)	(42,408)
CLOSING BALANCE	2,487	70,898	8,716	3,268	-	85,369

The change in the intangible assets item is due to their increase following the change in exchange rates, other changes items (net value €4,574 thousand), to amortisation for the period (€1,480 thousand), as well as the investments made for €2,533 thousand and the write-downs recorded during the period, totalling €220 thousand.

Investments refer primarily to recognition of development costs by the Group companies and the costs incurred for net software licenses.
The other changes item refers to the exchange differences accrued on the opening balances of the values expressed in foreign currency, particularly in relation to "goodwill" and "trademarks" which include the value defined at the time of allocation of the price of the acquisitions, in addition to the reversal of intangible assets entirely amortised during the previous year.

In 2018 the Group also spent about €6.6 million in costs for research and development of numerous projects regarding product and process innovations that will allow, also in the future, to maintain a market leadership position in all high technology segments.

The trademarks item reflects write-downs on the ADS and Arcom trademarks following the decision made by Eurotech management in the last months of 2008 to no longer use these trademarks.
The "Advanet" trademark, which was booked at the time of acquisition of the Advanet Group, is still defined by management as an asset with an indefinite life, as its use for commercial and production purposes has no time limits, considering its characteristics and its position on the Japanese market. As a result, it is not subject to amortisation, but instead to annual impairment tests.

Goodwill refers to the higher value paid, when fully consolidated subsidiaries were acquired, in excess of the fair value of the assets and liabilities acquired. Goodwill is not subject to amortisation but is subject to annual impairment tests.
At the end of 2018, following the impairment test, the goodwill relating to the SBU Eurotech France was partially written down by €220 thousand.

The increased development costs relative to internal activities carried out by the Group during the year are capitalised net of any contributions received. These fixed assets with a definite useful life are amortised on a straight-line basis based on the life cycle of the products developed, which is estimated at three to five years, beginning from the date of completion of the relevant development project. This asset is subject to impairment tests whenever loss of value is indicated.

The "software, trademarks, patents and licences" item mainly includes the costs incurred to implement what became the Group's sole information system. Software is amortised on a straight-line basis over three financial years. The increase during the year is mainly due to costs incurred for the purchase of several software licenses.

The "assets in progress" item of €3,268 thousand is entirely made up of development costs (internal payroll, materials and services) related to new products in M2M and Internet of Things, and to the NanoPC modules and systems, which were still in the project stage at year-end or for which production had not yet been launched.

Book value of goodwill and the trademarks allocated to each of the cash generating units:

In order to carry out the annual impairment test, the posted individual goodwill and trademarks with an indefinite useful life acquired through business combinations were allocated to their respective cash flow generating units, corresponding to the legal entity or Group of companies to which they refer to test for impairment.

Cash generating units	at December 31, 2018		at December 31, 2017	
	Goodwill	Trademark with an indefinite useful life	Goodwill	Trademark with an indefinite useful life
Advanet Inc.	44,312	8,415	41,306	7,843
Eurotech Inc. (ex Applied Data Systems e ex Arcom Inc.)	21,428	-	20,461	-
Eurotech Ltd. (ex Arcom Ltd.)	4,882	-	4,922	-
Eurotech France S.a.s.	186	-	406	-
Other	90	-	90	-
TOTAL	70,898	8,415	67,185	7,843

The recoverable amounts of the individual CGUs were calculated according to their value in use, which was determined using the discounted cash flow (DCF) method. The projected discounted cash flows set out in the 2019-2023 operating and financial plan, approved by Parent Company directors by resolution of 8 March 2019, were used to calculate the relative value, while cash flows beyond the time horizon set out in the plan, and for the purposes of calculating terminal value were extrapolated using the perpetual annuity method, based on flows not dissimilar to those contained in the third year of the approved plan. The plans were prepared in the respective functional currencies, and the consequent recoverable values were uniformly compared with the book values in foreign currency allocated to the various cash generating units. Sensitive elements of the approved operating and financial plan were, if necessary, taken into account in calculating recoverable value.

The growth rate “g” used to calculate terminal value was 1.5% (2017: 1.5%), less than the average long-term growth rate for the various core markets. The discount rate (WACC – Weighted Average Cost of Capital) applied to prospective cash flows is different depending on the different percentages of the main business lines in the Plan in the various years, so it was weighted annually. The WACC therefore varies within a range of 5.51% to 12.49%, calculated according to the country where the individual companies operate and the debt structure over the various years of each company and net of tax effects.
The key parameters used for impairment tests are as follows:

	ITA	JAP	USA	FRA	UK
Risk free	3.95%	0.08%	2.91%	2.81%	1.41%
Total Market Premium	5.50%	6.00%	6.00%	6.50%	6.50%
Beta unlevered	from 0.91 to 1.13	from 0.91 to 1.13	from 0.91 to 1.13	from 0,91 to 1.12	from 0,91 to 1.14
WACC	from 8,91% to 12,49%	from 5,51% to 9,29%	from 8,33% to 12,04%	from 8,68% to 12,39%	from 7,31% to 11,31%

Regarding the risk free, the average yields for 2018 of 10 year government bonds in the countries of reference were used. For France and Italy, in consideration of the current macroeconomic environment and the indications emerging from a credit practices and national and international doctrine, it was considered necessary to apply corrective factors in considering the risk free rate, since the rates offered by government securities is currently influenced externally by actions and interventions of non-monetary nature. The methodology adopted (“WACC Unconditional Adjusted”), is supported by an external consulting firm and is consistent with the one used last year. It provides for usage of a risk free nominal rate that incorporates the country risk normalised by the monetary policies applied by central banks and calculated as the sum of the return of the 10 year government bond in countries with AAA rating (e.g. USA), expressed to consider the inflation differential between the reference country and the USA, and the risk premium of the specific country, determined by the spread between the Credit Default Swaps (CDS) of the reference country and the CDSs of the USA (i.e. those of the country with AAA rating).
The unlevered beta used differs slightly between the business Board&System and the IoT business; for all the CGUs considered, it corresponds to the average beta observed by Bloomberg for listed companies that are comparable to the Parent Company in terms of the main business lines of the Parent Company itself. For calculation of the WACC for the CGUs, this Beta factor was considered in the re-levered version, taking into consideration the leverage effect from the average ratio of the debt and equity of the sector and the tax rate of the CGU reference country.
Taking account of the assumptions underlying the 2019-2023 operating and financial plans, re-analysed conservatively for each CGU by the Parent Company directors in an analysis of internal sensitivity and use of the main parameters identified for the single markets of relevant, the values in use coming from the impairment tests performed showed no need to reduce the value of goodwill and trademarks with indefinite life, except for the goodwill of Eurotech France S.a.s., which was written down by €220 thousand.
For some CGUs, with regard to the values relative to the IoT business line, for all CGUs the highest WACC was used by virtue of the additional risk premium of 3.5%to reflect the general riskiness of a business that is still being developed.
The WACC used for each CGU was calculated in consideration of the specific weighting between the Board & Systems business line and the IoT business line, based on their contribution to the Gross Profit of the CGU.
Please note that recoverability of the net values of intangible assets regarding the acquisition of the CGU Eurotech France, appears to be bound upon on the occurrence of any changes in the key assumptions used to estimate them.
Recoverability of the values of intangible assets regarding the acquisition of the other CGUs, appears to be conditional upon on the occurrence of possible changes in the key assumptions used to estimate them. The higher book values compared to the recoverable values is reflected differently for each CGU.
Other conditions being equal, the WACC of the Terminal Value that would bring about an impairment situation should be equal to or higher than 12.1% for Eurotech Ltd., 22.4% for Eurotech Inc. and 7.6% for Advanet Inc.
Furthermore, management believes that the long-term growth estimate for 2018 of 1.5%, the same as for 2017, is far below estimates for the reference embedded PC markets (European, Japanese and U.S.).
Generally, the directors also assumed in their assessments that on the basis of the current external indicators (particularly Eurotech’s stock market performance and market capitalisation) that there were no risks of impairment of the net assets, as noted on a number of occasions. These indicators show how the amounts recognised can be recovered.

In evaluating the recoverability of the book values upon testing for impairment, in addition to the write-down on the Eurotech France CGU, there was no additional impairment found since the total recoverable value was higher than the book value of the asset. The value of the existing orders, orders included in the portfolio, ongoing opportunities, stakeholder relations and products currently in the portfolio, as well as products developed, particularly in recent years for the IoT market, are regarded by the Directors as important factors to justify the current amounts considered, also represented by the external indicators and therefore not changing the amounts posted.

2 – Property, plant and equipment

The table below shows changes in the historical cost and accumulated depreciation and the value of the assets in the period under review:

(€ '000)	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL & COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION & ADVANCES	LEASED ASSETS	TOTAL PROPERTY, PLANT & EQUIPMENT
Purchase of production cost	1,654	5,556	4,868	5,746	2	129	17,955
Depreciation	(41)	-	-	-	-	-	(41)
Previous year's depreciation	(523)	(5,315)	(4,523)	(5,069)	-	(48)	(15,478)
OPENING BALANCE	**1,090**	**241**	**345**	**677**	**2**	**81**	**2,436**
Purchases	13	93	291	287	-	20	704
Disposals	-	(6)	(75)	(188)	-	(48)	(317)
Other changes	-	270	159	130	-	-	559
Depreciation in period	(37)	(81)	(190)	(243)	-	(33)	(584)
Reversal of cumulative depreciation	-	6	75	186	-	28	295
Other changes in cumulative amortisation	-	(249)	(144)	(121)	-	-	(514)
TOTAL CHANGES	**(24)**	**33**	**116**	**51**	**-**	**(33)**	**143**
Purchase or production cost	1,667	5,913	5,243	5,975	2	101	18,901
Depreciation	(41)	-	-	-	-	-	(41)
Cumulative depreciation	(560)	(5,639)	(4,782)	(5,247)	-	(53)	(16,281)
CLOSING BALANCE	**1,066**	**274**	**461**	**728**	**2**	**48**	**2,579**

The land and buildings item, amounting to €1,066 thousand, includes the carrying value of the land and buildings owned by subsidiary I.P.S. Sistemi Programmabili S.r.l. (located in Caronno Varesino (Varese) including land) and the value of the property (Amaro (Udine) site, including land and improvement costs) where the Parent Company's production site is located.
The increases of €93 thousand in plant and machinery, €291 thousand in industrial and commercial equipment and €287 thousand in other fixed assets refer mainly to equipment replacement and new assets required to make the operations of the individual Group companies more efficient and effective.
The fixed assets under lease item includes all contract for automobiles used by the parent company.

The "other changes" item refers to exchange differences accrued on the opening balances of the values at cost and cumulative depreciation.

3 – Equity investments in affiliates and other companies

The table below shows changes in equity investments in affiliates and other companies in the reporting period:

	at December 31, 2018						
(€'000)	INITIAL VALUE	INCREASES	DECREASES	WRITE-UPS /WRITE-DOWN	OTHER	EOP VALUE	% OWNERSHIP
Investments in associate companies (valuation using the equity method):							
Rotowi Technologies S.r.l. in liquidazione (ex U.T.R.I. S.p.A.)	-	-	-	-	-	-	21.32%
TOTAL INVESTMENTS IN ASSOCIATE COMPANIES	**-**	**-**	**-**	**-**	**-**	**-**	
Investments in other companies (valuation at fair value on the Profit&Loss):							
Consorzio Ecor' IT	2	-	-	-	-	2	
Consorzio Aeneas	5	-	-	-	-	5	
Consorzio Ditedi	11	8	-	-	-	19	7.69%
Inasset S.r.l.	0	-	-	-	19	19	0.38%
Consorzio Rete Space Italy	15	15	-	(30)	-	-	
Kairos Autonomi	110	-	-	-	4	114	19.00%
Others	1	-	-	-	-	1	
TOTAL INVESTMENTS IN OTHER COMPANIES	**144**	**23**	**-**	**(30)**	**23**	**160**	

At 31 December 2018 Eurotech owned the following investments in affiliates consolidated at equity:

- Rotowi Technologies S.p.A. (Formerly UTRI S.p.A.) = 21.32%, following a series of share purchases in 2007 and 2008. This affiliate presented a debt restructuring plan in 2010 pursuant to article 182-bis of the Budget Law, which led to a non-recoverability valuation for the booked value. The carrying value had therefore already been fully written down in 2010.

The closing dates of the financial statements and the financial years of the affiliate coincide with those of the Parent Company.

The schedule below shows the values of the assets, liabilities, revenues and annual results of equity investments in affiliates at 31 December 2017, as operating and financial information for year-end 2018 is not yet available:

(€'000)	At December 31, 2018			At December 31, 2017			
	Rotowi Tech.	evS	TOTAL	Rotowi Tech.	evS	Vantron	TOTAL
Share of the Associate's balance sheet:	(*)	(****)		(**)	(**)(^)	(***)	
Current assets	157	0	157	159	108	0	267
Non current assets	0	0	0	0	18	0	18
Current liabilities	(52)	0	(52)	(51)	(61)	0	(112)
Non current liabilities	(745)	0	(745)	(746)	(30)	0	(776)
Net assets	**(640)**	**0**	**(640)**	**(638)**	**35**	**0**	**(603)**
Revenue	0	0	0	0	290	0	290
Profit (Loss)	(2)	0	(2)	(34)	11	0	(23)
Carrying amount of the investment	**0**	**0**	**0**	**0**	**8**	**0**	**8**

(*) FY2017
(**) FY2016
(***)Transferred on 2.05.2017
(****)Transferred on 26.06.2018
(^) Reclassified as held for sale

With respect to the other businesses, the equity investment in Inasset S.r.l. which was classified under assets held for sale in 2017, was reclassified under the equity investments in other companies on the basis of the most recent decisions of the Parent Company's Board of Directors since the shares of the company were no longer considered to be capable of being sold.

4 – Other non-current assets

The schedule below shows the breakdown of other non-current assets at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Other non-current receivables	654	618
TOTAL OTHER NON CURRENT ASSETS	**654**	**618**

Other non-current receivables mainly comprise security deposits that do not accumulate interest; they are in line with the previous year. The increase is essentially due to a forex effect on the values expressed in JPY.

5 – Inventories

The schedule below shows the breakdown of inventories at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Raw & auxiliary materials and consumables - gross	8,834	8,144
Inventory write-down provision	(2,581)	(1,848)
Raw & auxiliary materials and consumables - net	**6,253**	**6,296**
Work in process and semi-finished goods - gross	2,644	2,604
Inventory write-down provision	(148)	(147)
Work in process and semi-finished goods	**2,496**	**2,457**
Finished poducts and goods for resale - gross	15,320	11,043
Inventory write-down provision	(2,475)	(2,043)
Finished products and goods for resale - net	**12,845**	**9,000**
Advances	**404**	**68**
TOTAL INVENTORIES	**21,998**	**17,821**

Inventories at 31 December 2018 amounted to €21,998 thousand (€17,821 thousand at 31 December 2017), net of inventory write-down provision totalling €5,204 thousand. The net increase in the inventory write-down provision of €1,166 thousand is the result of the combined effect of the allocations for adjustment of the components and the products held by the Group which have a risk of technical obsolescence and slow movement and the usage following specific scrappings.

The following table shows the changes in inventory impairment in the periods under review:

CHANGES IN CUMULATIVE INVENTORY WRITE-DOWN PROVISION - € '000	at December 31, 2018	at December 31, 2017
OPENING BALANCE	**4,038**	**4,248**
Provisions	1,888	670
Other changes	16	(398)
Utilisation	(738)	(482)
CLOSING BALANCE	**5,204**	**4,038**

The “other changes” item refers to changes in the write-down provisions due to foreign exchange differences.

The raw materials inventory write-down provision of €2,581 thousand refers to obsolete or slow moving materials, whose full posted value some Group companies do not expect to recover. The increase for the year amounted to €733 thousand.
The finished products write-down provision of €2,475 thousand, which covers the risk of slow turnover in certain standard and custom finished products, increased by €432 thousand to reflect the possible recovery value of obsolete products or the slow turnover of several standard and custom finished products.

6 – Work in progress

The schedule below shows information related to work in progress at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Contract revenues recognised as revenue in the period	444	412
Contract costs bome as at balance-sheet date	189	297
Profits recognised as at balance-sheet date	**255**	**115**
Down payments received	771	0
Contract costs and proits recognised as at balance-sheet date	444	412
Revenues recognised in previous periods	412	0
Gross amount owed by customer for contractual work	**856**	**412**
Gross amount owed to customer for contractual work	**85**	**-**

7 – Trade receivables

The schedule below shows the breakdown of trade receivables and the respective doubtful debt provision at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Trade receivables - customers	13,113	15,430
Trade receivables medium/long term - customers	0	285
Trade receivables - realted paties	1,000	252
Doubtful debt provision	(305)	(344)
TOTAL TRADE RECEIVABLES	**13,808**	**15,623**

Trade receivables falling due within 12 months are normally non-interest bearing and generally fall due at 90/120 days. Trade receivables decreased by €1,815 thousand compared to 31 December 2017. The receivables include €491 thousand in bank receipts presented subject to collection, but not yet due at the end of the period.

Receivables are shown net of a doubtful debt provision of €305 thousand. Changes in doubtful debt provision in the years under review were as follows:

CHANGES IN CUMULATIVE DOUBTFUL DEBT PROVISION - € '000	at December 31, 2018	at December 31, 2017
OPENING BALANCE	**344**	**452**
Provisioning	76	80
Other changes	1	(23)
Utilisation	(116)	(165)
CLOSING BALANCE	**305**	**344**

Provisions of €76 thousand made during the year were necessary to adjust the value of individual receivables on the basis of their expected losses.
Utilisation of the doubtful debt provision is the result of uncollectable receivables partially or totally covered by the relevant provision.
Group policy is to specifically identify the individual receivables to be written down, and the allocations made therefore reflect a specific write-down. “Other changes” includes the effect of translating financial statements in foreign currency.

At 31 December 2018, trade receivables that were past due but not written down were as follows:

			Overdue but not write-off				
€ '000	Total	Not overdue	< 30 days	30 - 60 days	60 - 90 days	90 - 180 days	Over 180 days
2018	13,808	10,008	3,165	289	189	132	25
2017	15,623	12,762	1,689	753	143	229	47

Receivables more than 180 days due represented 0.2% of trade receivables at 31 December 2018, a lower amount compared to the 0.3% relating to 2017. The Directors believe that though contained, the amount is still recoverable notwithstanding the extension of collection granted.

8 – Tax receivables and payables

Receivables for income taxes represent receivables from individual governments for direct taxation (IRES and income taxes in various countries) which should be recovered within the next year as well as receivables for withholdings made by the US companies following payment of interest charges on intragroup loans and dividends distributed to the Parent Company by Advanet Inc. Compared to 31 December 2017, the value increased by €94 thousand, from €204 thousand in 2017 to €298 thousand in 2018.

Income tax payables are made up of current taxes relating to the year still to liquidate and represent the amounts that the companies must pay to the tax authorities of the respective countries. These payables are calculated according to the tax rates currently in force in each country. Payables for foreign taxes amounted to €1,522 thousand (2017: €198 thousand), while Italian tax payables amounted to €49 thousand (2017: €64 thousand).

Income tax payables and receivables are offset if there is a legal right to do so.

9 – Other current assets

The schedule below shows the composition of other current assets at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Amounts receivable for grants	1	37
Advance payments to suppliers	506	215
Tax receivables	887	894
Other receivables	10	35
Accrued income and prepaid expenses	779	601
TOTAL OTHER CURRENT ASSETS	**2,183**	**1,782**

Grants receivable relate to grants that will reasonably be received by Parent Company Eurotech SpA by the end of the following year for the development of new products and technologies carried out in previous years.

Tax receivables mainly comprise receivables for indirect tax (VAT). VAT receivables do not bear interest and are generally settled with the competent tax authority on a monthly basis.

Prepaid expenses relate to costs borne in advance for bank charges, maintenance fees, utilities, services and insurance.

10 – Cash & cash equivalents

The table below shows the composition of cash and cash equivalents at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Bank and post office deposits	13,177	6,725
Cash and valuables in hand	19	20
TOTAL CASH & CASH EQUIVALENTS	**13,196**	**6,745**

Bank deposits are mostly on demand and are remunerated at a variable rate of interest. The fair value of cash and cash equivalents is €13,196 thousand (€6,745 thousand at 31 December 2017).
The item shows a €6,451 thousand increase compared to 31 December 2017.

The increase is due to both the cash generation during the year and the existing cash and cash equivalents following the loans obtained before year-end.

11 – Other financial assets and liabilities

The amount recorded of €104 thousand comprises €90 thousand of a three year insurance policy, €4 thousand relative to 100 shares of Banca Popolare Friuladria and €10 thousand in interest accrued on the loan granted to Kairos Autonomi Inc., which will be repaid in the next year.
The Parent Company also holds 2,500 shares of Veneto Banca Holding S.c.a.r.l. which were purchased in 2012 and completely written down in 2016, in order to adjust the value to the market value which currently amounts to €0.1.

12 – Assets classified as held for sale

Regarding the amounts recorded last year, after the sale in June 2018 of the shares of the company eVS embedded Vision System S.r.l., the remaining amount of €19 thousand refers to the shares held in Inasset S.r.l. was reclassified to equity holdings in other companies following the decision of the Board of Directors of the Parent Company not to sell that company any more.

13 – Net financial position

The table below shows the Group's net financial position at 31 December 2018 and 31 December 2017:

(€'000)		at December 31, 2018	at December 31, 2017
Cash & cash equivalents	A	(13,196)	(6,745)
Cash equivalent	**B=A**	**(13,196)**	**(6,745)**
Other current financial assets	C	(104)	(95)
Derivative instruments	D	20	9
Short-term borrowing	E	8,125	10,720
Short-term financial position	**F=C+D+E**	**8,041**	**10,634**
Short-term net financial position	**G=B+F**	**(5,155)**	**3,889**
Medium/long term borrowing	H	4,312	1,844
Medium-/long-term net financial position	**I=H**	**4,312**	**1,844**
(NET FINANCIAL POSITION) NET DEBT pursuant to CONSOB instructions	**J=G+I**	**(843)**	**5,733**
Medium/long term borrowing allowed to affiliates companies and other Group companies	K	(87)	(83)
(NET FINANCIAL POSITION) NET DEBT	**L=J+K**	**(930)**	**5,650**

The Group's net financial position at 31 December 2018 was €930 thousand compared with a net financial debt of €5,650 thousand the previous year.

At 31 December 2018, the loans payable reflected their natural repayment dates since the company honoured all the covenants existing at 31 December 2018.

The following table shows the reconciliation between the statement of financial position for liabilities arising from financing activities and the cash flow statement (IAS 7).

(€'000)	at January 1, 2018	Cash flows	Business combinations	Fair value changes	Exchange differences	Other non monetary transactions	at September 30, 2018
Short and Medium-/long-term borrowing	12,564	(440)	-	-	313	-	12,437
Medium/long term borrowing allowed to affiliates companies and other Group companies	(83)	-	-	-	(4)	-	(87)
Other current financial assets	(95)	(4)	-	(5)	-	-	(104)
Derivative instruments	9	-	-	11	-	-	20
Total Liabilities arising from financing activities	**12,395**	**(444)**	**0**	**6**	**309**	**0**	**12,266**

(€'000)	at January 1, 2017	Cash flows	Business combinations	Fair value changes	Exchange differences	Other non monetary transactions	at December 31, 2017
Short and Medium-/long-term borrowing	11,685	1,340	-	-	(461)	-	12,564
Medium/long term borrowing allowed to affiliates companies and other Group companies	(95)	-	-	-	12	-	(83)
Other current financial assets	(76)	(19)	-	-	-	-	(95)
Derivative instruments	12	-	-	(3)	-	-	9
Total Liabilities arising from financing activities	**11,526**	**1,321**	**0**	**(3)**	**(449)**	**0**	**12,395**

14 – Shareholders' equity

The schedule below shows the composition of shareholders' equity at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Share capital	8,879	8,879
Share premium reserve	136,400	136,400
Other reserves	(43,237)	(54,582)
Group shareholders' equity	**102,042**	**90,697**
Equity attributable to minority interest	**0**	**0**
Total shareholders' equity	**102,042**	**90,697**

The share capital at 31 December 2018 was made up of 35,515,784 ordinary shares, wholly subscribed and paid up, with no nominal value.

The balance of the Issuer's legal reserve at 31 December 2018 was €1,385 thousand.

The share premium reserve, which relates entirely to the Parent Company, is shown at a total amount of €136,400 thousand.

The positive translation reserve of €12,223 thousand is generated by inclusion in the consolidated financial statements of the statement of financial positions and income statements of US subsidiaries Eurotech Inc. and E-Tech USA Inc., as well and of UK subsidiary Eurotech Ltd. and Japanese subsidiary Advanet Inc.

The item "Other reserves" was negative by €63,924 thousand and, as well as other reserves, consisted of the Parent Company's surplus reserve, formed by losses carried forward, allocations of retained earnings from prior years and other reserves of different origin. The change in the year is to be attributed to allocation of the 2017 results and to the recognition of the Performance Share Plan as described in Note 18.
The cash flow hedge reserve, which includes cash flow hedge transactions pursuant to IAS 39, was negative for €20 thousand and increased by €11 thousand gross of the tax effect, and was not recorded due to the absence of the relative prerequisites.
The foreign exchange reserve in which – based on IAS 21 – foreign exchange differences relating to intragroup foreign-currency loans that constitute part of a net investment in foreign operations are recognised, was positive by €3,925 thousand, gross of the related tax effect, and was again not recorded due to the absence of the prerequisites. This reserve was increased by €1,645 thousand during the year.

The parent company Eurotech S.p.A. held 887,020 treasury shares at the end of the year (at the end of 2017 it held 1,319,020). The changes, as indicated in note at page 46, relate to the allocation of shares following the Performance Share Plan.

15 – Base and diluted earnings (losses) per share

Base earnings (losses) per share (EPS) are calculated by dividing the income of the year pertaining to ordinary shareholders of the Parent Company by the average weighted number of ordinary shares in circulation during the year, net of own shares.

No equity transactions were reported in FY 2017 and 2018 that diluted earnings per share.

The schedule below shows earnings for the period and information on the shares used to calculate base and diluted EPS.

	at December 31, 2018	at December 31, 2017
Net income (loss) attributable to parent company shareholders	5,682,000	(4,672,000)
Weighted average number of ordinary shares including own shares	35,515,784	35,515,784
Own shares	(1,224,332)	(1,319,020)
Weighted average number of ordinary shares except own shares	34,291,452	34,196,764
Weighted average number of ordinary shares except own shares for share diluted	34,291,452	34,196,764
Net income (loss):		
- per share	0.166	(0.137)
- per share diluted	0.166	(0.137)

16 – Borrowings

The schedule below shows the breakdown of medium- to long-term financial payables at 31 December 2018:

LENDER	COMPANY	BALANCE ON 31.12.2017	BALANCE ON 31.12.2018	SHORT TERM within 12 months	Total Medium and long-term	Mid term Over 12 months	Long term Over 5 years
CURRENT OUTSTANDINGS - (a)		5,429	4,638	4,638	-	-	-
Public entity	Eurotech S.p.A.	391	231	154	77	77	-
Non-banking financial companies	Eurotech S.p.A.	37	45	13	32	32	-
Finance Lease non-real estate	Eurotech S.p.A.	75	35	24	11	11	
Finance Lease non-real estate	Eurotech Inc	28	19	9	10	10	-
TOTAL OTHER FINANCINGS		531	330	200	130	130	-
Unsecured loans	Eurotech S.p.A.	3,902	5,976	2,308	3,668	3,668	-
Unsecured loans	Advanet Inc.	2,628	1,468	954	514	514	-
Unsecured loans	EthLab S.r.l.	74	25	25	-	-	-
TOTAL BANK DEBT - (c)		6,604	7,469	3,287	4,182	4,182	-
TOTAL OTHER FINANCING AND BANK DEBT - [(b) + (c)]		7,135	7,799	3,487	4,312	4,312	-
TOTAL DEBT - [(a) + (b) + (c)]		12,564	12,437	8,125	4,312	4,312	-

Bank overdrafts

Bank overdrafts are not backed by unsecured or secured guarantees and include uses with the technical form of “subject to collection” and non-recourse liquidations. The amount includes, only for 2018, financial liabilities as reverse factor of €233 thousand.

Other loans

Other loans refer to:

- a residual debt to public entities (Ministry of Education, Universities and Research) for a total of €231 thousand (€77 thousand of which medium- to long-term) for future instalment payments to pay back two facilitated loans based on research activity already completed in previous years;
- a residual debt of €45 thousand (€32 thousand of which medium- to long-term) for future instalment payments on some loans for the purchase of company cars;
- a total residual debt of €35 thousand (€11 thousand of which medium- to long-term) for instalments on some lease agreements which have been recognised as finance leases and relating to the purchase of cars for company use;
- a residual debt of €19 thousand (€10 thousand of which medium- to long-term) for future instalment payments on a lease agreement signed by the American subsidiary Eurotech Inc., which has been recognised as a finance lease and relates to the purchase of a server for the production facility in Columbia (USA).

Bank loans

Bank loans refer mainly to:

- some loans granted in 2015 and 2017 to Advanet Inc. by a local bank for a total remaining amount of €1,468 thousand (€514 thousand of which medium-long term), to boost the Japanese company's working capital;
- a loan of an additional €25 thousand granted to EthLab S.r.l. to acquire patents and know-how;
- some loans granted to the Parent Company by various banks for a total remaining amount of €5,976 thousand (of which €3,668 thousand medium- to long-term) mainly to support the Group R&D investments or to boost the working capital of the Parent Company.

In order to manage interest rate risk, unsecured loans were entered into on a fixed-rate basis or were fully or partially covered by IFRS.

Some of the unsecured loans in place, for a residual amount of €3.14 million at 31 December 2018, have covenants attached, defined with reference to the consolidated financial statements at the end-date of each year, regarding the ratio of net financial debt to shareholders' equity, the ratio of net financial debt to EBITDA, interest expense and taxes adjusted by extraordinary and non-recurring capital gains / capital losses, the value of shareholders' equity and the ratio between gross operating results and revenues.

All the covenants were easily honoured at 31 December 2018.

All bank loans out are denominated in euros apart from the loans granted to the Japanese subsidiary which are in Japanese Yen.

17 – Employee benefits

The schedule below shows the breakdown of employee benefits at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Employees' leaving indemnity	277	302
Foreing Employees' leaving indemnity	2,092	1,950
Employees' retirement fund	96	91
TOTAL EMPLOYEES' BENEFITS	**2,465**	**2,343**

Defined benefit plans

The Group has defined benefit pension plans both in Italy and Japan, and these require contributions to a separately managed fund.
As a result, the expected return of the assets servicing the defined-benefit plan was not booked to the income statement. The interest on the net liabilities of the defined-benefit plan (not including the plan assets) was, however, booked to the income statement. Interest is calculated using the discount rate used to measure the net assets or liabilities of the pension plan.
In addition, the past service cost (not vested) can no longer be deferred to the future vesting period. All past service costs are instead recognised in the income statement at the date of the plan's amendment or at the date of recognition of the related restructuring costs or cessation of the employment relationship, whichever is earlier. With the move to IAS 19R, past service costs are recognised immediately in the income statement if the benefits vest immediately with the introduction or modification of the pension plan.

The schedule below shows the breakdown of defined benefit plans at 31 December 2018 and 31 December 2017:

	Defined benefit plans			
	Italy		Japan	
(€ '000)	at December 31, 2018	at December 31, 2017	at December 31, 2018	at December 31, 2017
Liabilities at start of period	302	300	1,950	2,040
Cost relating to present service	10	14	145	150
Finance expense	8	5	10	10
Other changes	0	0	173	(214)
Benefits paid out	(17)	(40)	(180)	(98)
Actuarial loss (gain) reconised	(26)	23	(6)	62
Liabilities at end of period	277	302	2,092	1,950

The defined benefit plans in force in Italy refer exclusively to employee severance indemnity. With adoption of the International Accounting Standards (IAS), and especially IAS 19, employee severance indemnity is considered a defined benefit obligation whereby the liability is measured based on actuarial techniques. Pension plans in Japan are also considered as such and following the business combination the company valued the relative liability pursuant to IAS 19.

Also, pursuant to the 2007 Budget Law, severance indemnities accrued as of 1 January 2007 or as of the option date to exercise by the employees are included in the category of defined benefit plans, both in the event of option for supplementary retirement and option for allocation to the treasury fund at INPS. The accounting treatment of severance indemnities is now similar to that used for other types of pension scheme contributions.

The key assumptions used in determining the current value of severance indemnities are illustrated below:

Actuarial assumption	Defined benefit plans			
	Italy		Japan	
	at December 31, 2018	at December 31, 2017	at December 31, 2018	at December 31, 2017
Discount Rate	3.49%	2.28%	0.50%	0.50%
Expected rates of future wages and salary increases	3.00%	3.00%	1.00%	1.00%
Expected rates of staff turnover	6.38%	8.00%	1.00%	1.00%
Duration	18	22	19	19

The schedule below summarises the change in the current value of the severance indemnities at the end of the period; as indicated in the accounting standards, these values might not correspond to the booked liability.

	Defined benefit plans			
	Italy		Japan	
(€ '000)	at December	at December	at December	at December
Projected benefit obligation at January 1,	302	300	1,950	2,040
Current Service cost	10	14	145	150
Interest cost	8	5	10	10
Other changes	0	0	173	(214)
Pensions paid	(17)	(40)	(180)	(98)
Recognized actuarial gains or losses	(26)	23	(6)	62
Projected benefit obligation at December 31	277	302	2,092	1,950

The following is the reconciliation of the current value of the obligation and the liability booked and the summary of the cost components recorded in the income statement.

	Defined benefit plans			
	Italy		Japan	
(€ '000)	at December	at December	at December	at December
Projected benefit obligation	277	302	2,092	1,950
Unrecognized actuarial gains or losses	0	0	0	0
Provisions for pensions charged to balance sheet	277	302	2,092	1,950
Current Service cost	10	14	145	150
Interest cost	8	5	10	10
Recognized actuarial gains or losses	(26)	23	(6)	62
Costs charged to income statement	(8)	42	149	222

Employee severance indemnity reserve

The employee retirement reserve refers to the charge that the subsidiary Eurotech France S.A.S. must pay employees if they are still employed by the subsidiary when they reach retirement age.

With adoption of IFRS, the indemnity falls into the category of other long-term benefits to employees to be booked according to IAS 19.

Results are recognised immediately in the income statement.

The schedule below shows the breakdown of the employee retirement reserve at 31 December 2018 and 31 December 2017:

EMPLOYEES' RETIREMENT FUND on €'000	at December 31, 2018	at December 31, 2017
JANUARY 1,	**91**	**97**
Provision	5	2
Utilization	-	(8)
RESERVE AT THE END OF THE PERIOD	**96**	**91**

18 – Share-based payments

On 22 April 2016, the Shareholders' Meeting of the company approved adoption of an incentive plan for only parties who have a directorship position and/or an employment contract and/or a freelance collaboration or consultancy agreement with Eurotech S.p.A. or one of its Subsidiaries and who have key functions in the Group organisation chart; the plan is called "2016 EUROTECH S.p.A. Performance Share Plan". (hereinafter "PPS 2016")
PPS 2016 provides that the beneficiaries identified by the Company's Board of Directors be assigned the right (the so-called Unit) to receive Eurotech S.p.A. shares free of charge provided that on the Assignment Date they maintain a Relation with the Company or one of the Subsidiaries. The Units assigned are subject to a retention period lasting 2 (two) years starting from the respective Assignment Date; during the Retention Period, the assigned Units cannot accrue unless the contract is terminated as a good leaver (for example: dismissed by the company not for just cause, death, the Beneficiary's retirement and loss of the condition of Subsidiary by the employer company of the Beneficiary).
The Board of Directors assigned 56,000 units to beneficiaries during 2018, either directly or through the Chief Executive Officer.

	Year 2018			Year 2017		
	No. Units granted	Value of the assign units (€/000)	Value of the units for teh period (€/000)	No. Units granted	Value of the assign units (€/000)	Value of the units for teh period (€/000)
Perfornance Share Plan 2016						
Nr. Unit at the begining of the period	889,000	1,174	516	432,000	542	271
Nr. Unit Granted during period	162,000	374	90	457,000	632	77
Nr. Unit Cancelled during period	(15,000)	(23)	(13)	-	-	-
Nr. Unit assigned during period	(432,000)	(542)	-	-	-	-
Nr. Unit Outstanding at the end of the period	604,000	983	593	889,000	1,174	348

The total cost of the units assigned in 2018 was €374 thousand, and this cost is recognised along the 24-month vesting period. At the reporting date the company had recorded a cost of €593 thousand in the income statement, whose contra entry was recognised in shareholders' equity. From the beginning of the plan it has been recognised in profit and loss and amounts to €1,001 thousand.

19 – Provisions for risks and charges

The schedule below shows the breakdown of the provisions for risks and charges at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Selling agents' commission fund	69	66
Director termination fund	97	54
Guarantee reserve	302	277
Busting depreciable asset	314	291
TOTAL FUNDS FOR COSTS AND FUTURE RISKS	**782**	**688**

Supplementary customer indemnity provision

The "supplementary customer indemnity" provision is allocated based on the amounts envisaged by legislation and collective economic agreements regarding situations of interruption in the mandate given to agents. The effect of time-discounting the share of liabilities that will be liquidated beyond the next year is not expected to be significant.

Cumulative provision for directors' termination indemnity

The "cumulative provision for directors' termination indemnity" refers to the indemnity recognised for directors with powers set out in by the bylaws of the Company or its subsidiaries. This indemnity is generally paid at the end of the mandate of the Board in office and is provisioned for periodically for the relevant share. During 2017, end of mandate compensation was paid to the Parent Company's CEO.

Product warranty provision

The product warranty provision is allocated based on the expectations of the charge to incur for non-fulfilment of the warranty commitment on products sold at year-end.

Asset disposal reserve

The asset disposal reserve was allocated in response to an obligation for future costs that a number of Japanese companies of the Group will incur in future years for the disposal, demolition, disassembly, and removal of a number of assets, and improvements to leased property, at the end of their useful lives or of the lease agreement.

The schedule below shows the changes in the reserve for risks and charges in the years under review:

SELLING AGENTS' COMMISSION FUND on €'000	at December 31, 2018	at December 31, 2017
JANUARY 1,	66	62
Provision	3	4
RESERVE AT THE END OF THE PERIOD	69	66

DIRECTOR TERMINATION FUND on €'000	at December 31, 2018	at December 31, 2017
JANUARY 1,	54	117
Provision	41	38
Other	2	(2)
Utilization	-	(99)
RESERVE AT THE END OF THE PERIOD	97	54

GUARANTEE RESERVE on €'000	at December 31, 2018	at December 31, 2017
JANUARY 1,	277	375
Provision	14	-
Other	13	(67)
Utilization	(2)	(31)
RESERVE AT THE END OF THE PERIOD	302	277

BUSTING DEPRECIABLE ASSET on €'000	at December 31, 2018	at December 31, 2017
JANUARY 1,	**291**	**315**
Provision	2	3
Other	21	(27)
RESERVE AT THE END OF THE PERIOD	**314**	**291**

20 – Trade payables

The schedule below shows the composition of trade payables at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Third parties	14,279	12,939
Related companies	132	149
TOTAL TRADE PAYABLES	**14,411**	**13,088**

Trade payables at 31 December 2018 came to €14,411 thousand, increasing by €1,323 thousand compared with 31 December 2017. Trade payables are non-interest bearing and, on average, are settled 90-120 days after invoice date.

21 – Other current liabilities

The schedule below shows the composition of other current liabilities at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Social contributions	703	492
Other	4,095	2,907
Advances from customers	471	237
Grants advances	733	733
Other tax liabilities	290	304
Accrued expanses	492	102
TOTAL OTHER CURRENT LIABILITIES	**6,784**	**4,775**

Social security payables

Social security payables refer to amounts due for social security contributions accrued and pertaining to the year.

Advances for contributions

Advances for contributions refer to prepayments made upon requests for contributions that were already accounted for and to be accounted for.

Other payables

The schedule below shows the breakdown of other payables at 31 December 2018 and 31 December 2017:

(€'000)	at December 31, 2018	at December 31, 2017
Employees	1,317	812
Vacation pay	876	807
Directors	560	279
Statutory auditors	229	189
Other	1,113	820
TOTAL OTHER PAYABLES	**4,095**	**2,907**

Amounts payable to employees refer to salaries and wages for the month of December 2018 and payable in the following month, as well as bonuses awarded to some categories of employees. Liabilities for holidays and leaves of absence refer to holidays and leaves accrued and not used by employees at the reporting dates. These recent payables include related contributions.

22 – Commitments and guarantees

Operating lease commitments – Group as tenant
The Group has entered into operating lease agreements for some buildings, used as operating offices for the Company and some of its subsidiaries, for industrial equipment and for some vehicles. Property leases have an average life of between 6 and 9 years, with renewal provisions. Renewals are an option that each company has on the property it holds.

Operating leases on industrial equipment have an average term of five years.
Operating leases of motor vehicles have an average life of 3 years.

In 2018, an operating lease agreement was renewed on the property designated as administrative and technical offices for the Parent Company. This operating lease agreement has a term of 6+6 years beginning on 1 September 2018, and stipulates that the Company can rescind with advance notice of 12 months to the lessor. The agreement also includes a purchase option on the property object of the agreement. This option can be exercised at any time. The acquisition price will be determined by an expert appointed by the parties or by the court, and in any event, the price calculated must make relevant to the provisions regarding how to determine sale prices of industrial buildings in force for industrial development consortia, especially Tolmezzo. The pricing mechanism is such that it is believed that there is no reasonable certainty that the option will be exercised.

Future leases in relation to non-rescindable operating lease agreements in force at 31 December 2018 are as follows:

(€'000)	at December 31, 2018	at December 31, 2017
Within 12 months	954	861
Over 12 months but within five years	2,870	2,169
Over 5 years	184	-

Costs for operating leases totalling €1.49 million were recorded in the income statement during the year.

Warranties
The Eurotech Group had potential liabilities at 31 December 2018 deriving from sureties of €385 thousand granted by a number of credit institutions to Group companies.

H - Breakdown of key income statement items

For a note on trends in income statement items, and in particular on the basis of IFRS15 relating to the different breakdown of revenues, see the consolidated report on operations at 31 December 2018.

23 – Costs of raw & auxiliary materials and consumables used

(€'000)	FY 2018	FY 2017
Purchases of raw materials, semi-finished and finished products	41,714	31,103
Changes in inventories of raw materials	1,231	185
Change in inventories of semi-finished and finished products	(1,418)	(303)
TOTAL COST OF MATERIALS	**41,527**	**30,985**

The costs of raw and auxiliary materials and consumables show an increase related to the increase in sales performance, and also influenced by the write-downs on the inventory.

24 – Other operating costs

(€'000)	FY 2018	FY 2017
Service costs	12,269	11,365
Rent and leases	1,594	1,726
Payroll	18,197	17,804
Accruals and other costs	717	734
Cost adjustments for in-house generation of non-current assets	(2,314)	(2,231)
Operating costs net of cost adjustments	**30,463**	**29,398**

25 – Service costs

(€'000)	FY 2018	FY 2017
Industrial services	4,941	4,718
Commercial services	2,797	2,524
General and administrative costs	4,531	4,123
Total costs of services	**12,269**	**11,365**

Service costs in the periods reviewed recorded an increase due to the higher spending related to the increase in sales performance and the investments that the Group is making to support its strategies.

26 – Payroll costs

(€'000)	FY 2018	FY 2017
Wages, salaries and Social Security contributions	17,418	16,980
Employees' leaving entitlement and other personnel provisions	354	376
Other costs	425	448
Total personnel expenses	**18,197**	**17,804**

Payroll costs, in the period being analysed, showed an increase related to the increase in the workforce in 2018, and recognition of wages for €593 thousand relating to the pro-rata temporis portion of the Performance Share Plan cost as explained in Note 18 (in 2017, the amount recognised at cost was €348 thousand).

As shown in the table below, the number of Group employees increased at the end of the periods under review, rising from 294 in 2017 to 302 in 2018.

Employees	Average 2018	at December 31, 2018	Average 2017	at December 31, 2017
Management	3.4	4	3.0	3
Clerical workers	279.3	279	282.9	274
Line workers	17.4	19	16.4	17
TOTAL	**300.0**	**302**	**302.4**	**294**

27 – Other provisions and costs

(€'000)	FY 2018	FY 2017
Doubtful debt provision	76	80
Other Provisions	14	-
Other costs	627	654
Total accruals and other costs	**717**	**734**

The amounts in the "doubtful debt provision" item refer to provisions made to the respective reserve to represent receivables at their realisable value. The "provisions" item relates exclusively to the write-down of receivables that are recognised under "other receivables" and are therefore not trade receivables.
Losses on receivables, which fall under the "miscellaneous operating expenses" item, amounted to €9 thousand at 31 December 2018 while they amounted to €16 thousand last year.

28 – Other revenues

(€'000)	FY 2018	FY 2017
Government grants	8	756
Sundry revenues	1,027	1,179
Total other revenues	**1,035**	**1,935**

Contributions mainly relate to research and development activities which receive funding from local governments and training delivered to employees.
Sundry revenues consist mostly of income received from companies with which there is a partnership for joint development of the business and for the usage of funds allocated in previous year, which are no longer necessary.

29 – Cost adjustments for internally generated non-current assets

At 31 December 2018, cost adjustments for internally generated non-current assets (equal to €2,314 thousand) related to the cost incurred internally for the development of new circuit boards for a high-performance, low-consumption processor (€834 thousand); the cost incurred by the Parent Company and subsidiary Eurotech Inc. for new Cloud platform products (€1,336 thousand); €64 thousand mainly pertaining to payroll costs borne by the subsidiary Advanet Inc.; and €80 thousand for new development projects.
Total adjustments for internal increases comprise €794 thousand in payroll costs (2017: €1,084 thousand), €1,327 thousand in service costs (2017: €963 thousand), €193 thousand in materials costs (2017: €184 thousand).

30 – Amortisation, depreciation and write-downs

(€'000)	FY 2018	FY 2017
Amortisation of intangile assets	1,480	3,615
Amortisation of property, plant and equipment	584	762
Write-down of fixed assets	220	280
Total amortisation and depreciation	**2,284**	**4,657**

Amortisation of intangible assets relates mainly to the development costs and customer relations of Advanet Inc. Depreciation of property, plant and equipment relates to the depreciation through use of some capital assets. Amortisation relating to PPA that refers entirely to customer relationships, ended its impact in 2017 for €1,954 thousand since the amount had fallen to zero.

Asset write-downs comprise €220 thousand to the write-down of part of the goodwill of Eurotech France S.a.s.. Even in the 2 previous years, the goodwill of Eurotech France S.a.s. had been written down by €280 thousand in 2017 and €365 thousand in 2016

31 – Financial income and charges

(€'000)	FY 2018	FY 2017
Exchange-rate losses	591	1,761
Interest expenses	410	394
Expenses on derivatives	13	9
Other finance expenses	42	41
Financial charges	**1,056**	**2,205**

(€'000)	FY 2018	FY 2017
Exchange-rate gains	824	664
Interest income	24	37
Other finance income	7	47
Financial incomes	**855**	**748**

The performance in financial operations is influenced on an annual basis by exchange rate management which had a net gain of €233 thousand in 2018 (2017: a loss of €1,097 thousand). Exchange rate performance is influenced by the booking of realised and unrealised gains and losses on the main foreign currents in which the Group operates (USD, GBP and JPY). The unrealised exchange differences totalled €279 million.
The interest expense was slightly up due to a slight increase in bank interest rates due to the rating assigned to the Group.

Income from the management of interest income and other financial income was down following the reduction in cash and cash equivalents that the group kept in the accounts during the year, and other income that was not repeated in 2018 compared to 2017.

32 – Valuation and management of investments

Management of investments

The amount of €19 thousand can be attributed to the higher amount collected than the amount that had been recorded in the financial statements, from the sale of the eVS embedded Vision Systems S.r.l. shares.
The amount recorded in 2017 of €116 thousand is due to the write down of Kairos Autonomi Inc. which was not yet generating positive results. Even though shareholders' equity in the company was negative in 2018, it is believed that the amount recorded can be recovered.

33 – Income tax for the period

Income taxes were positive and came to €58 thousand in 2018, whereas they totalled €111 thousand in 2017.

(€'000)	FY 2018	FY 2017
Pre-tax result	5,624	(4,561)
Income taxes	58	(111)

The schedule below shows the breakdown in income taxes, distinguishing current taxes from deferred tax assets and liabilities and taxes related to Italian legislation from foreign taxes of Group companies:

(€'000)	FY 2018	FY 2017
IRES (Italian corporate income tax)	172	224
IRAP (Italian Regional business tax)	141	9
Foreign current income taxes	1,476	478
Total current income tax	**1,789**	**711**
Net (prepaid) deferred taxes: Italy	(281)	(34)
Net (prepaid) deferred taxes: Non-italian	(1,562)	(566)
Net (prepaid) deferred taxes	**(1,843)**	**(600)**
Previous years taxes	(4)	0
Previous years taxes	**(4)**	**0**
TOTAL INCOME TAXES	**(58)**	**111**

Income taxes totalled €58 thousand at 31 December 2018 (of which current taxes of €1,789 thousand and net deferred tax assets of -€1,843 thousand) compared with total taxes of €111 thousand at 31 December 2017 (of which current taxes of €711 thousand and net deferred tax assets of -€600 thousand), representing a change of €169 thousand.
The deferred tax assets relate to taxes on the tax losses used in the year by certain companies in the Group, and those accounted for the first time in 2018 on the basis of convincing documentary evidence to support a taxable income for future years, again by some of the Group companies.

The entire tax effect resulting from the tax losses of the companies was not accounted for.

The Group sustained tax losses in past years, and in 2018, for some companies in the Parent Company and the subsidiaries EthLab S.r.l., E-Tech USA Inc., Eurotech Inc., I.P.S. Sistemi Programmabili S.r.l. and Eurotech France SA, for which deferred tax assets of €53.2 million (2017: €60.7 million) were not recognised, to be accumulated within the deadlines applicable in each country to offset future taxable profits of the companies in which these losses arise. No deferred tax assets were recognised in relation to these losses as the prerequisites for using them to offset taxable profits in the coming years do not exist at this time.

At 31 December 2018, there were no deferred tax liabilities, posted or unposted, for taxes on the undistributed earnings of certain subsidiaries or affiliates because there are no assumptions regarding distribution.

I – Other information

34 – Related-party transactions

The consolidated financial statements include the financial statements of Eurotech S.p.A., its subsidiaries and its affiliates shown in the schedule below:

Name	Location	Currency	% of ownership 31.12.2018	% of ownership 31.12.2017
Subsidiaries				
Aurora S.r.l.	Italy	Euro	100.00%	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Italy	Euro	100.00%	100.00%
ETH Lab S.r.l.	Italy	Euro	100.00%	100.00%
Eurotech France S.A.S.	France	Euro	100.00%	100.00%
Eurotech Ltd.	UK	GBP	100.00%	100.00%
E-Tech Inc.	United States	USD	100.00%	100.00%
Eurotech Inc.	United States	USD	100.00%	100.00%
ETH Devices S.r.o. in liquidation (3)	Slovakia	Euro	-	100.00%
Advanet Inc.	Japan	Yen	90.00% (1)	90.00% (1)
Affiliated companies				
eVS embedded Vision Systems S.r.l.	Italy		-	24.00%
Rotowi Technologies S.p.A. in liquidation (ex U.T.R.I. S.p.A.) (2)	Italy		21.32%	21.32%

(1) The percentage of formal possession is 90%, but due to the possession by Advanet of 10% of the share capital in the form of treasury shares, it is fully consolidated

(2) Company in liquidation

(3) Liquidation completed in 2018

The following table shows relationships with related parties (in the period in which they were related), not eliminated on consolidation.

RELATED PARTIES	Revenues to related parties	Interest to related parties	Purchases from related parties	Financial receivables to related parties	Receivables from related parties	Contracts in progress	Payables from related parties	
Associated companies								
eVS embedded Vision Systems S.r.l.	-	-	1	-	-	-	-	(*)
Total	-	-	1	-	-	-	-	
Other related parties								
Leonardo Group	808	-	-	-	1,000	86	132	
Kairos Autonomi	-	3	-	97	-	-	-	
Total	808	3	-	97	1,000	86	132	
Total with related parties	808	3	1	97	1,000	86	132	
% impact on line item	1.0%	0.4%	0.0%	50.8%	7.2%	100.0%	0.9%	

(*) Value of transactions up to the date of sale of investment

The following is information on equity investments held in the company and its subsidiaries by members of the management and supervisory bodies, general managers and managers with strategic responsibilities, as well as by their spouses not legally separated and their minor children, directly or via companies controlled, trustee companies or via an interposed third party, as shown by the shareholder register, notifications received and other information acquired from the members of the management and supervisory bodies, general managers, and strategically accountable managers in compliance with the requirements of article 79 of Consob Regulation 11971/99 as subsequently amended and Annex 3C of the same regulation.

		at December 31, 2018						
Name	Nomination	Company	Possessory title	Share at January 1 or appointment	Share acquired in the period	Share disposed in the period	Share at the end of the period	of which shares at the end of the period indirectly
Panizzardi Giuseppe	President	Eurotech	Ownership	-	-	-	-	-
Siagri Roberto	CEO	Eurotech	Ownership	760,370	56,000	(354,600)	461,770	336,770
Antonello Giulio	Director	Eurotech	Ownership	-	10,000	(10,000)	-	-
Costacurta Riccardo	Director	Eurotech	Ownership	-	-	-	-	-
Mio Chiara	Director	Eurotech	Ownership	-	-	-	-	-
Mosca Giorgio	Director	Eurotech	Ownership	-	-	-	-	-
Paladin Dino	Director	Eurotech	Ownership	2,583,477	263,859	-	2,847,336	-
Pezzuto Carmen	Director	Eurotech	Ownership	-	-	-	-	-
Pizzol Marina	Director	Eurotech	Ownership	-	-	-	-	-
Favaro Gianfranco	President of Board of Statutory Auditors	Eurotech	Ownership	-	-	-	-	-
Briganti Laura	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-
Rebecchini Gaetano	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-

35 – Financial risk management: objectives and criteria

The Group's financial instruments, other than derivative contracts, include bank loans in the various technical forms, financial leases, short-term and at-sight bank deposits. These instruments are intended to finance Group operations. The Group has several other receivable and payable financial instruments at its disposal, such as trade receivables arising from operations and liquidity. The Group also had transactions in derivatives, mainly swap or collar transactions on interest rates. The objective is to manage interest rate risks caused by Group transactions and by its sources of finance.

In accordance with Group policies, no speculative derivatives have been entered into.

The main risks generated by Group financial instruments are interest rate risks, exchange risks, liquidity risks and credit risks. The Board of Directors has reviewed and agreed to the policies for managing these risks, as summarised below.

Interest rate risk
Group exposure to the risk of interest rate fluctuations mainly involves medium-term obligations taken on by the Group, featuring variable interest rates linked to various indices. In previous years, the Group signed interest rate swap contracts providing for recognition of a variable rate against payment of a fixed rate. The contracts are designated to hedge changes in the interest rates in place on some loans. Group policy is to maintain between 30% and 60% of its loans at a fixed rate. At 31 December 2018, about 62.5% of Group loans were at fixed rates (compared with about 63.7% in 2017). As for the loan in place at the Japanese company, it was taken up at fixed rate since it is more advantageous than those at variable rate.

Exchange rate risk
In view of the significant investment transactions in the US, Japan and the UK, with substantial foreign currency cash flows from business and financial operations, the Group's financial statements could be significantly affected by changes in the USD/EUR, JP¥/EUR and GBP/EUR exchange rates. During the year, no foreign exchange hedges were executed because of the uneven USD, GBP and JP¥ flows, particularly taking into account that the individual subsidiaries tend to operate in their respective functional currencies in their respective core markets.

About 75.2% of sales of goods and services (2017: 81.6%) and 69.3% (2017: 72.2%) of the cost of goods purchases and the operating costs of the Group are denominated in a different currency from the functional currency used by the Parent Company to draw up these financial statements.

Product and component price risk
Group exposure to price risk is not significant.

Credit risk
The Group trades only with known and reliable customers. The Group's policy is to check the creditworthiness grade of customers that request extended payment arrangements. In addition, the balance of receivables is monitored during the year so that the amount of non-performing positions is not significant. Maximum risk exposure is shown in Note 7. Only some receivables from key customers are insured.
Financial assets, recorded by trading date, are recognised in the financial statements net of write-downs calculated according to the risk of counterparty default, taking into account the information available on the customer's level of solvency and historical data.
There is no significant concentration of credit risk in the Group, even if in the last 2 years, a single customer generated revenues equal to 15.1% of Group revenues in 2018 and equal to 19.6% of Group revenues in 2017. Two customers in 2018 generated individual turnover that was over 10% of the Group's turnover, amounting to a total of 25.5% of the Group's revenues.
Credit risk concerning other Group financial assets, which include cash and equivalents and financial instruments, presents a maximum risk equal to the book value of these assets in the event of insolvency of the counterparty.

Liquidity risk
The objective of the Group is to strike a balance between maintenance of funds and flexibility through the use of overdrafts, loans, and finance leases, as well as via equity financing in the market.
Group policy states that no more than 40% of loans must fall due within 12 months.
At 31 December 2018, 44.7% of Group financial payables will accrue within one year (2017: 58.2%), based on the balances of the original plans. The values for 2017 were different from those shown in the financial statement balances, as, due to informal agreements with banks, the risk of early repayment is not believed to exist.
Considering the current net financial position and the structure of working capital, the risk that the Group will be unable to honour its financial liabilities is limited. The Company systematically controls liquidity risk by analysing a specific reporting system and the economic environment; the uncertainties that are a periodic feature of the financial markets require a particular focus on liquidity risk management. With this in mind, initiatives have been taken to generate financial resources with business operations and to maintain an adequate level of available liquidity, to ensure a normal level of operations and to respond to the strategic decisions of the next few years. The Group therefore plans to respond to the requirements of payables falling due and planned investments via flows from business operations, available cash and, as necessary, via bank loans and other forms of funding.

€ '000	Less 12 months	1 to 2 years	3 to 5 years	Total
Borrowings	8,092	3,457	834	12,383
Trade payables and other liabilities	21,195	-	-	21,195
Finance Lease	33	21	-	54
Fianancial derivatives	7	4	9	20
Total as of December 31, 2018	**29,327**	**3,482**	**843**	**33,652**

Capital management
The aim of Group capital management is to ensure that adequate levels of the capital indicators are maintained in order to sustain the business and achieve maximum value for shareholders.

The Group manages the capital structure and modifies it according to changes in economic conditions. Group policy does not currently include the distribution of dividends. To maintain or upgrade the capital structure, the Group may reimburse capital or issue new securities.
No change was made to the objectives, policies, or procedures during the years 2017 and 2018.
The Group will periodically verify its capital using a debt/capital ratio, i.e. the ratio of net debt to total equity plus net debt. Currently, given the decidedly unstable global financial situation, it is not easy to obtain financing from lending institutions, although the parameters set by management policy remain valid.
Group policies should aim to maintain the debt/capital ratio at between 20% and 40%. Group net debt includes interest-bearing loans and payables for investments in shareholdings, net of cash and cash equivalents. Capital includes the capital attributable to Parent Company shareholders, net of undistributed net profits.

(€'000)	at December 31, 2018	at December 31, 2017
Other current and non current financial assets	(191)	(178)
Financial assets hel for sales	0	0
Derivative instruments	20	9
Borrowing	12,437	12,564
Cash & cash equivalents	(13,196)	(6,745)
Net financial position	**(930)**	**5,650**
Group Equity	102,042	90,697
Group Equity	**102,042**	**90,697**
EQUITY AND NET FINANCIAL POSITION	**101,112**	**96,347**
Net financial position on Equity	**-0.9%**	**6.2%**

36 – Financial instruments

Measurement of fair value and relative hierarchical valuation levels
All financial instruments recognised at fair value are classified within the following three categories:
Level 1: market price
Level 2: valuation techniques (based on observable market data)
Level 3: valuation techniques (not based on observable market data).

The fair value of derivatives and of loans obtained has been calculated by discounting expected cash flows to present value applying prevailing interest rates. The fair value of the other financial assets was calculated by using market interest rates. As IFRS 13 requires, for each of the financial assets and liabilities the company analysed the effect of their measurement at fair value. The measurement process refers to Level 3 of the fair value hierarchy, except for trading in derivatives as described in greater detail hereunder, and revealed no considerable differences compared to the book values at 31 December 2018 and on the respective comparison figures.

At 31 December 2018, the Group held the following financial instruments measured at fair value:

(€'000)	Notional value at December 31, 2018	Fair value at December 31, 2018 (debit)	Fair value at December 31, 2018 (credit)	Notional value at December 31, 2017	Fair value at December 31, 2017 (debit)	Fair value at December 31, 2017 (credit)
Cash flow hedge						
Contracts Interest Rate Swap (IRS)	3,328	0	(20)	1,610	0	(9)

All the assets and liabilities measured at fair value at 31 December 2018 are at Level 2 of the fair value measurement scale. In addition, during 2018 there were no transfers from Level 1 to Level 2 or Level 3, or vice versa.

Financial instruments by category

As required by IFRS 7, the financial instruments are listed by category below:

at December 31, 2018

(€'000)	Financial assets at fair value through profit or loss	Financial assets at fair value through equity	Financial assets and receivables carried at amortized cost	Total
Asstes as per balance sheet				
Trade and other receivables exluding pre-payments	-	-	13,808	**13,808**
Other non current financial assets	-	-	-	**-**
Other current financial assets	4	-	100	**104**
Cash & cash equivalents	-	-	13,196	**13,196**
Total	**4**	**-**	**27,104**	**27,108**

(€'000)	Financial liabilities at fair value through profit or loss	Financial liabilities at fair value through equity	financial liabilities carried at amortized cost	Total
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities	-	-	12,383	**12,383**
Finance lease liabilities	-	-	54	**54**
Derivative financial instruments		20	-	**20**
Trade and other payables exluding non-financial liabilities	-	-	14,411	**14,411**
Total	**-**	**20**	**26,848**	**26,868**

at December 31, 2017

(€'000)	Financial assets at fair value through profit or loss	Financial assets at fair value through equity	Financial assets and receivables carried at amortized cost	Total
Asstes as per balance sheet				
Trade and other receivables exluding pre-payments	-	-	15,623	**15,623**
Other non current financial assets	-	-	-	**-**
Other current financial assets	4	-	91	**95**
Cash & cash equivalents	-	-	6,745	**6,745**
Total	**4**	**-**	**22,459**	**22,463**

(€'000)	Financial liabilities at fair value through profit or loss	Financial liabilities at fair value through equity	financial liabilities carried at amortized cost	Total
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities	-	-	12,482	**12,482**
Finance lease liabilities	-	-	82	**82**
Derivative financial instruments	-	9	-	**9**
Trade and other payables exluding non-financial liabilities	-	-	13,088	**13,088**
Total	**-**	**9**	**25,652**	**25,661**

Fair value of financial assets and liabilities does not differ significantly from the carrying amount.

Interest rate risk

Interest on financial instruments classified as variable-rate instruments is recalculated periodically during the financial year. Interest on financial instruments classified as fixed-rate instruments is kept constant until the maturity date of the instruments concerned.

Hedging

Cash flow hedges

At 31 December 2018, the Group held five IRS contracts (of a notional contractual value of €5.0 million) of which two were signed during the year; all five contracts are designated as interest rate risk hedging instruments.

Interest rate swap contracts	Due date	Fixed rate	Floating rate	Market value (€'000)
Euro 315.045,30	29 May 2020	0.35%	Euribor 3 months	(2)
Euro 508.837,99	29 May 2020	0.00%	Euribor 3 months	(1)
Euro 85.289,00	21 January 2019	0.37%	Euribor 3 months	0
Euro 2.000.000,00	29 December 2023	0.25%	Euribor 3 months	(17)
Euro 418.471,00	26 January 2021	0.01%	Euribor 3 months	0
				(20)

Interest rate swap contract conditions were negotiated to coincide with the conditions of the underlying commitments.

The accounting treatment of these financial instruments entailed a decrease in equity of €11 thousand and decreased the cash flow hedge reserve as a direct reduction of equity to €20 thousand.

37 – Potential liabilities

There are no significant potential liabilities to report except for what is stated in Note 19.

38 - Information requested on the basis of law no. 124/2017

With reference to the requirements under law no. 124/2017, article 125, the grants received by the companies governed by Italian law only that belong to the Group are presented on the basis of the "cash method":

		at December 31, 2018	
COMPANY	LENDING INSTITUTION	PROJECT DESCRIPTION	RECEIVED AMOUNT
Eurotech S.p.A.:			
	Fondimpresa	Training	2
	European Community	Contrex Project - Design of embedded mixed-criticality Control systems under consideration of Extra-functional properties	36
	GSE	Photovoltaic system	6
			-
		RECEIVED GRANTS	44

39 – Events after the reporting period

No significant events took place after the closing of the consolidated financial statements at 31 December 2018.

Amaro, 15 March 2019

On behalf of the Board of Directors
Chief Executive Officer
Roberto Siagri

Annex I - Information provided pursuant to Art. 149-duodecies of the Consob Issuer Regulation

The schedule below has been prepared in accordance with Art. 149-duodecies of the Consob Issuers' Regulation and shows the amounts paid in 2018 for the auditing services.

(€)	Service provider	Eurotech Group entity	2018 fees
Audit			
	PricewaterhouseCoopers S.p.A.	Parent company - Eurotech S.p.A.	123,623
	Network PricewaterhouseCoopers	Subsidiaries	72,932
TOTAL			**196,555**

During 2018, no services were provided other than the accounting audit.

Certification of the Consolidated financial statements pursuant to 154-bis of Legislative Decree 24.02.1998, no. 58

Amaro, 15 March 2019

1. We the undersigned, Roberto Siagri, the Chief Executive Officer and Sandro Barazza, the Financial Reporting Manager of Eurotech SpA, hereby attest, pursuant to Art. 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, to:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the financial statements in financial year 2018.

2. Valuation of the adequacy of the administrative and accounting procedures for the formation of the condensed financial statements at 31 December 2018 is based on a model Eurotech defined in line with the CoSO framework (document in the CoSO Report) and also takes into account the document “Internal Control over Financial Reporting – Guidance for Smaller Public Companies”, both prepared by the Committee of Sponsoring Organizations of the Treadway Commission that represent a generally accepted reference framework on the international level.

3. We furthermore attest that:

   3.1 The consolidated financial statements at 31 December 2018:
   - were prepared in compliance with the international accounting standards (IFRSs) recognised in the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
   - correspond to the results in the corporate books and accounting records;
   - provide a fair and true representation of the assets, liabilities, financial position and profit or loss of the Issuer and of all its consolidated companies.

   3.2 The management report includes a fair review of the development and performance of the business and the situation of Eurotech as the Issuer and of all its consolidated companies, together with a description of the principal risks and uncertainties that they face.

Chief Executive Officer
Roberto Siagri

Financial Reporting Manager
Sandro Barazza

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Eurotech SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Eurotech Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated cash flow statement for the year then ended, and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Eurotech SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Valuation of the recoverability of goodwill and intangible assets with indefinite useful life *Note G - 1 of the explanatory notes to the consolidated financial statements "Intangible assets"* As described in the annual consolidated financial statements, as of 31 December 2018 the Eurotech Group recorded goodwill totaling Euro 70.898 thousand and trademarks with indefinite useful life totaling Euro 8.415 thousand (together representing 55% of consolidated total assets). The assessment of any impairment loss on the assets recorded in the consolidated financial statements ("impairment test") is performed at least annually by the Company. The valuation of the recoverable amount of goodwill and trademarks with indefinite useful life has been assessed considering the value in use. The cash flows applied derive from the 2019-2023 operating and financial plan approved by the Board of Directors on 8 March 2019. We focused on this area as the determination of the recoverable value implied a high degree of evaluation and professional judgement as a result of several factors, including forecast of the Group's future performance and, accordingly, the estimation of the expected cash flows, as well as the discount rate of the cash flows applied.	We obtained the impairment tests and the documentation used by the management to determine the recoverable value in compliance with IAS 36 and we performed, also with the support of experts belonging to the PwC network, the following audit procedures: • understanding and evaluation of the method adopted by the management to determine the value in use of the cash generating units (CGU) where goodwill and intangible assets with indefinite useful life have been allocated; • examination of the cash flow projections as per the 2019 – 2023 operating and financial plan, by means of interviews with management of the Company in order to understand the planned business strategies and critical analysis relating to the assumptions underlying the new operating and financial plan; • review of the consistency between the evaluation method adopted and the standard evaluation procedures; • verification of the reliability of the calculations in the model; • check of the reasonableness of the main assessment parameters used (discount rate, perpetual growth rate); • sensitivity analysis on the parameters above, and; • examination of the correct evaluation of the assets and liabilities book value of each CGU, including the goodwill and the intangible assets allocated, used for the comparison with the recoverable value. Finally, we evaluated the complete and correct disclosure provided in the explanatory notes to the consolidated financial statements.

Valuation of the recoverability of capitalized development costs included within assets

Note G – 1 of the explanatory notes to the consolidated financial statements "Intangible assets"

The Eurotech Group's strategy is based on the research and development of new technological and application solutions able to give a competitive advantage to its customers. This implies that the Eurotech Group will allocate financial resources to the research and development of such solutions. As of 31 December 2018, Development costs capitalized in the consolidated financial statements, either within Development costs or within Assets under construction and advances, amounted to Euro 5.755 thousand (representing 4% of the consolidated total assets).

We focused on this matter because the determination of the recoverable value of capitalized development costs entailed a high degree of evaluation and professional judgement with reference to future cash flows deriving from the estimated sales of reference products.

We obtained the supporting documents relating to the development costs incurred together with the analysis carried out by the management to evaluate their recoverable value, and we carried out the following audit procedures:

- on a sample basis, check of compliance with the IAS 38 requirements to capitalize such costs as assets on the balance sheet;
- interviews with the Company management and analysis of the documents available to evaluate the technical feasibility and marketability of the products to be manufactured, the sales forecasts derived from the operating and financial plan and the consistency of the estimates with any orders already acquired;
- examination of the amortization criteria and of the expected useful life of such costs.

Valuation of the recoverability of inventories

Note G - 5 of the explanatory notes to the consolidated financial statements "Inventories"

Inventories as of 31 December 2018 recorded in the consolidated financial statements of the Eurotech Group amounted to Euro 21.998 thousand, representing 15% of consolidated total assets.

We focused on the recoverability of inventories as:

- the value of inventory represents a significant portion of total assets;
- The sector where the Eurotech Group operates is characterized by a high degree of technological development which might entail the risk of a fast inventory obsolescence;

We performed an understanding and evaluation of the methodology adopted by the management to assess the recoverable value of the inventories.

We obtained the calculation made by the Company to estimate the inventory obsolescence provision and we analyzed the solutions adopted.

An independent assessment was made in order to evaluate the consistency of the inventory obsolescence provision set out in the financial statements.

- the slow moving rates of some items included within final inventories might affect the Group's ability to recover their carrying value;
- in previous years the Group recorded material returns on goods by some customers;
- the assessment of the recoverable amount of the inventories' value requires management to apply a high degree of professional judgment.

We performed validity tests on a sample basis and we held interviews with the management to understand the reasonableness of the estimates relating to the value of the inventory recorded in the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Parent Company Eurotech SpA or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 24 April 2014, the shareholders of Eurotech SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2014 to 31 December 2022.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Eurotech SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Eurotech Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Eurotech Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Eurotech Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Udine, 28 March 2019

PricewaterhouseCoopers SpA

Signed by

Maria Cristina Landro
(Partner)

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