

ANNUAL REPORT

2017



25 years
 **EUROTECH**

*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,

2017 can be defined as a two speed year. Contrary to forecasts, it did not begin well and all the areas in which we operate, experienced, in the first months of the year, a decline in orders resulting in turnover for the first semester far below expectations. Everything unexpectedly started to change for the better starting in June. Orders took off in all geographic areas. The positive effect brought in a turnover of 38.10 million euro in the second half of the year with an Ebitda of 6.1 million euro and a net profit of 2.3 million euro and this the year ended with a turnover of 60.1 million euros, with an Ebitda of 1.7 million euro. These numbers reveal that, in terms of turnover, the second half of 2017 was 63.4% compared to figures which in previous years never exceeded 58%.

Results from 2017 indicate continued improvement in Ebitda which rose from 0.4 million euro in 2016 to 1.7 million euro, which represented 2.8% of revenues despite turnover falling to historic exchange rates of 1.6% with respect to 2016 (conversely it would show an increase of 1.6% at constant exchange rates). The improvement in Ebitda can largely be accredited to two factors: the Group's continued focus on core business and its future evolutions, the second can be attributed to increased cost containment achieved through specific actions targeting operational efficiency.

The year ended with an important growth in orders such that our order portfolio was increased by 30% with respect to year end 2016. The second semester of the year marked a turning point for the company and the expected transition was realized. Renewed confidence in the market and future performance and the resulting investments and increase in orders by our customers, combined with companies increasingly adopting our technologies for their digital transformation is finally visible. Turnover associated with the Internet of Things (IoT) continues to build thanks to IoTs decisive growth and we await mass production following past and ongoing development. With the establishment of IoT there are three sources of revenue on which Eurotech can count: hardware components of field gateways, field software components that make gateways intelligent and flexible and finally, services from the field and cloud integration software platforms. Given the dynamics of revenue development in the IoT context, we expect that the income from gateways and software represent, in the short term, the most important element of turnover of the IoT business line, as we bide the growth in services which is directly related to the number of connected devices.

Throughout 2017 the Group continued to invest in research and development; on the hardware front, in the secure and high performance embedded PC, and in the IoT gateways that can be employed globally, on the software front, mainly Everyware-IoT, the on-field device side and cloud side. These investments firmly establish Eurotech's position in the new IoT paradigm and within Industry 4.0. Our presence in the IoT sphere is always more apparent and it is no false modesty when we claim that we are an important technology player, perhaps one of the most relevant at even the global level. This is allowing us to increase our technological partnerships that now go beyond RedHat and Hitachi to include Vmware. It is through these partnerships that we expect to expand business opportunities in the IoT framework as well as Industry 4.0 and, the effects can already be felt.

The numbers are finally starting to show the immeasurable value gained in terms of knowledge and technology and, in keeping with themes from the past, it is being transformed from potential energy or rather, intangible value, into kinetic energy, and in other words, into financial results. The effects from the investments companies must make and will make in order to join the fourth industrial revolution are finally being felt and the opportunities that we are witnessing are very promising for future growth. The open-innovation model implemented for our IoT technology architecture is a success. As I expressed in my previous letter, our efforts in the IoT field are aimed at those companies facing their digital transformations and new business models. Enabling them is even more simple and inexpensive than ever and, without requiring companies to possess specific expertise or deliver costly, upfront investments. In order to achieve this, allow our technology to reach an increasingly elevated number of businesses, it remains a priority to build an indirect sales channel not only for our technology partners but, also for system integrators and consultants that deal in digital transformation.

I would like to repeat what I said last year and the year before: the Internet of Things is nothing other than the real and concrete realization of our vision of the pervasive computer, a vision that has led us since our birth in 1992. IoT is nothing more than a cheap and simple way to connect computers and the machines that contain them thanks to the cloud and technologies that offer benefits from a new approach to writing applications, taking advantage of the economies of scale of the app-economy. Data becomes the new center of gravity and it is for this reason that we speak

of big-data and data analytics. This allows a smooth interoperability between all of the computerized and interconnected “things” thus permitting a flexible development of software and its equally simple and widespread fruition. In this scenario one of the advantages that our technological components have is that besides being easy to use, they are safe as well. Today security is of primary importance in contrary to just a few years ago.

All of this combines with our renown competence in high performance computers designed for data centers and basic research which are now finding their place in the industrial sector. In order to meet this demand we transformed the HPC (High Performance Computer) to become HPEC (High Performance Embedded Computer) or better, a more compact, industrial strength HPC. Enormous calculation power made available using limited space, that is right in line with the new demands from the world of robotics and artificial intelligence, big-data used in factories or autonomous vehicles. Thanks to our technologies we are able to bring the power of big data centers to factories and to the driverless automobile, thereby transforming the computer on-the-field to a true supercomputer. We have paired the miniaturized personal computer with the miniature data center. This change in paradigm is totally in agreement with the continuous movement of technology from the center to the periphery that has always followed the evolution of computer software and hardware. Today, thanks to always more powerful field devices, the processing previously destined in the cloud, returns to the periphery, also known as the Edge and thus, the term Edge Computing was born. Without Edge Computing there can't be the smart factory or autonomous vehicles or robotics.


This is the era of the algorithm, artificial intelligence and of digital twins that are enabled by the Internet of Things. Therefore all of our technologies support the digital transformation and industry 4.0. According to research by PWC investments by global manufacturing companies until 2020 will be around 900billion dollars a year.

Eurotech has the right technology to satisfy the demand for digitalization that the industrial market will require over the next few years. It also has the technology that responds to the needs of those industries that are working in advanced robotics and autonomous vehicles.

Last year I ended my letter with a metaphor that recalled the wind and sails and I said that the winds were rising. This year I would like to end my letter apprising all that the winds have risen and Eurotech has set sail.

13 March 2018

signed Roberto Siagri
CEO



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 catalog 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: DuraCOR, 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 Cloud platform software;
- 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 defense sectors. What our customers share is a common need to find not just the right supplier, but a center 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 "center" (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 be miniaturized, like in the 90s when the Personal Computer was miniaturized, in order to be utilized at the "periphery". The traditional HPC moves from the "center" 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 intercept 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 its ability to adapt the business model and add new ones, constant attention has been given to the development over time of base products, to follow their technological evolution such that each new evolution adds to the device, making it more integrated and easier to connect to a network thereby allowing, thanks to IoT, the possibility to follow business models with recurring revenues.

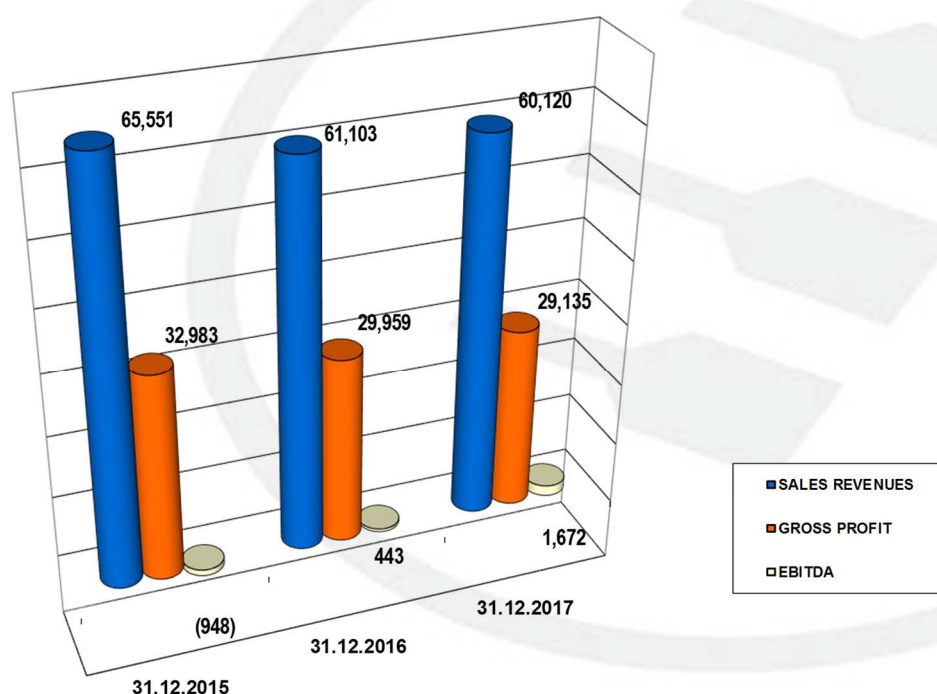
The Eurotech Group in numbers

Introduction

The Eurotech Group's business and financial results for FY2017 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 2017 | % | FY 2016 | % | FY 2015 | % |
|--|---------|--------|---------|--------|---------|--------|
| OPERATING RESULTS | | | | | | |
| SALES REVENUES | 60,120 | 100.0% | 61,103 | 100.0% | 65,551 | 100.0% |
| GROSS PROFIT MARGIN | 29,135 | 48.5% | 29,959 | 49.0% | 32,983 | 50.3% |
| EBITDA | 1,672 | 2.8% | 443 | 0.7% | (948) | -1.4% |
| EBIT | (2,985) | -5.0% | (5,565) | -9.1% | (6,602) | -10.1% |
| PROFIT (LOSS) BEFORE TAXES | (4,561) | -7.6% | (5,125) | -8.4% | (6,163) | -9.4% |
| GROUP NET PROFIT (LOSS) FOR THE PERIOD | (4,672) | -7.8% | (5,069) | -8.3% | (6,223) | -9.5% |

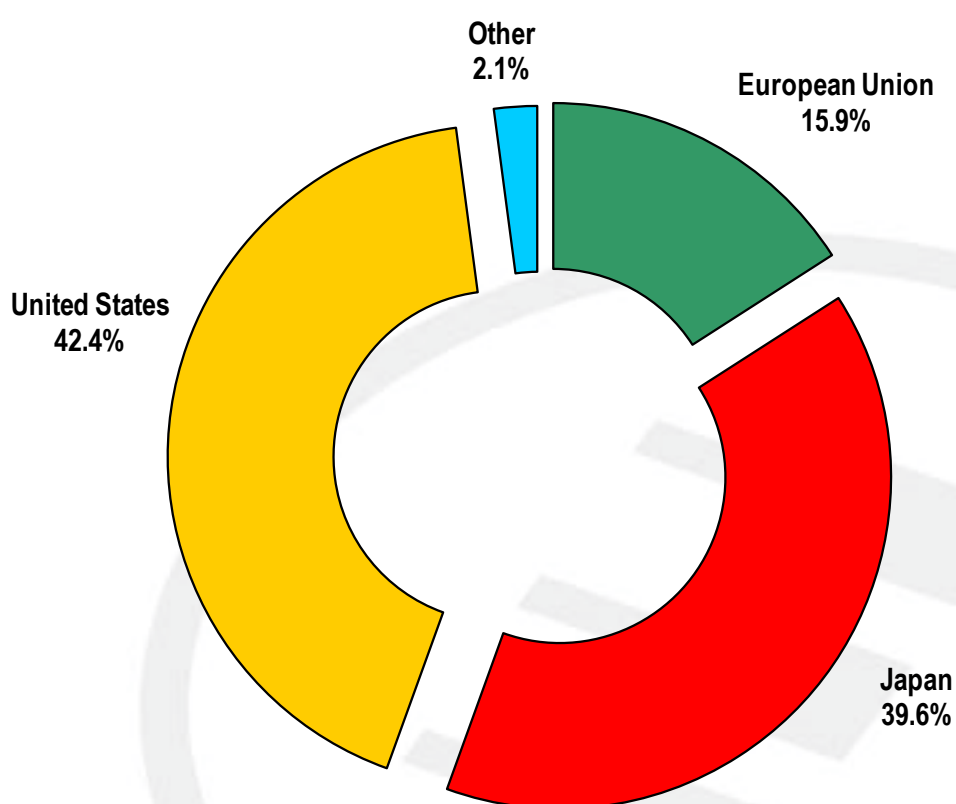


Revenues by business lines

Until 2016, the Group had two distinct business lines which were the NanoPC and the High Performance Computer (HPC) lines. In 2017, the HPC business line was merged into the NanoPC line since the know-how developed and the innovative technologies which had previously essentially been used for research (research centres and universities) have become available and can be used in various industrial sectors, particularly the automotive sector for autonomous driving.

In 2016, the sales of the HPC division were €296 thousand or 0.5% of the Group's total turnover, but from 2017 this sub-division will cease to be.

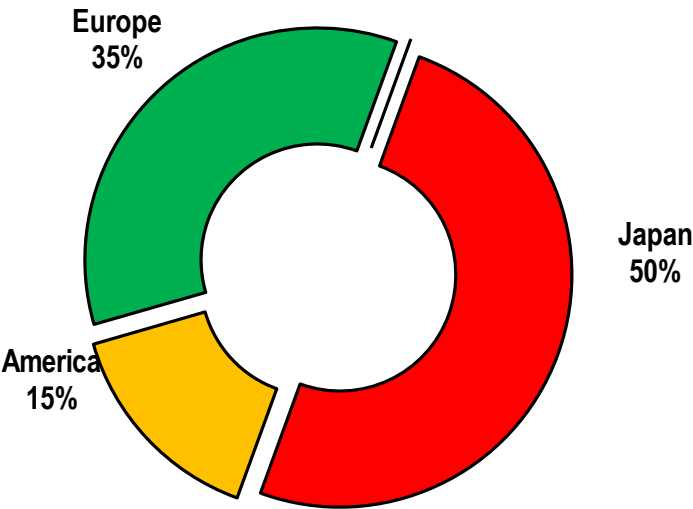
2017 sales revenues by geographical area



Group employees

| | at December 31, 2017 | at December 31, 2016 | at December 31, 2015 | at December 31, 2014 |
|-----------|----------------------|----------------------|----------------------|----------------------|
| EMPLOYEES | 294 | 321 | 341 | 365 |

2017 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 DurMAR 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.

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 ReliaGate family, industrial grade multi-service gateway 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 subscribes a contract with King County Metro Transit to deliver its mobile access router to buses in the greater-Seattle area.

In June, the Company joins 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.



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 of 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 to 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" concerning the exponential increase in the number of transistors that it is possible to place in an integrated circuit) and a consequent reduction in the number of players in the value chain.

Consequently, the distance from the end-user was also decreasing and this meant that the business approach had to adapt accordingly. Boards changed from being finished products to become increasingly often system components. Given the increase in system complexity and the increasing standardisation of functions, hardware and operating system have increasingly become an inseparable combination. Today, from mere hardware we have progressed to application-ready platforms (ARPs), consisting of enclosures that encapsulate hardware, the operating system and middleware, an essential element today for those who want to transfer XML, SOAP, web service, and SOA applications to platforms with different architectures.

In future, with the increase in function standardisation, the move will increasingly be towards addition to such platforms of even more software and of possible accessories, to create ready-to-use (R2U) devices. A further effect of the progressive integration of systems is the changing prospects for man/machine interaction: while in the beginning, the low degree of integration put the focus on machines, it has now shifted to human needs and necessities. Thanks to advances in miniaturisation, the computer is becoming increasingly integrated with man and the real world: from the desk-bound PC we have moved to increasingly portable computers, including wearable computers and networks of miniaturised sensors able to make our surroundings 'intelligent'. There is now therefore a need to create systems and interfaces enabling man not to notice interaction with machines (seamless interface): 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 possibility offered by computers to generate enhanced-reality situations enables us to look at the world from a different angle. This combination of the direct and indirect sales models goes well with the evolution of our product offering. the superior strength of the Eurotech brand attracts resellers and intermediaries that find in our offering increasing availability of ready-to-use products: i.e., devices that benefit from the particular features of the indirect channel more than boards or systems and that pave the way to commercial partnerships in which Eurotech provides computing and communication platforms that can enable and support the applications or services of the partner.

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

Products

The essence of Eurotech products

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

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

Secondly, the dimension of communication has been added to that of computing. In each phase of our history we have constantly explored new ways of using computers. In more recent years it is their growing pervasiveness that has stimulated our creativity. Computers interconnected on a large and small scale enable us to amplify reality, not only to visualise or virtualise it.

Today the possibility offered by computers to generate enhanced-reality situations enables us to look at the world from a different angle. This combination of the direct and indirect sales models goes well with the evolution of our product offering. 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.

Boards, Modules and Systems with also high performance (HPEC)



IoT Integration Platform



Intelligent Sensors Gateways IoT and Edge computer



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

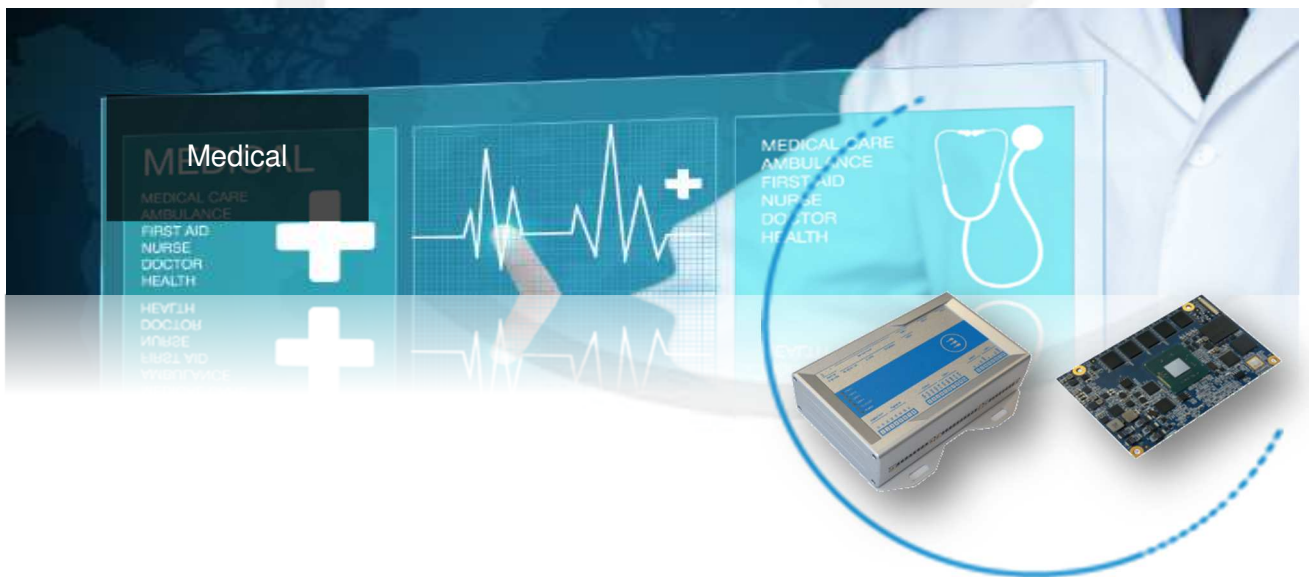
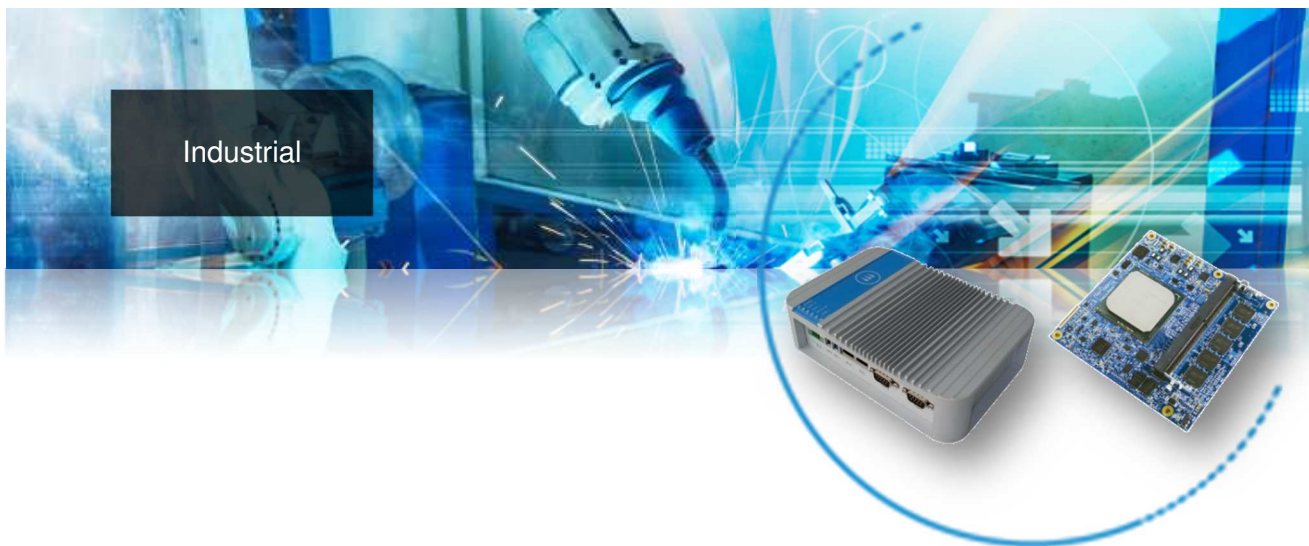
Besides these functional requirements, our Customers also seek in Eurotech a centre of technological competence. They want to reduce their time-to-market and their total cost of ownership and focus on their core businesses. They often need solutions for mission-critical applications, supply of which 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.

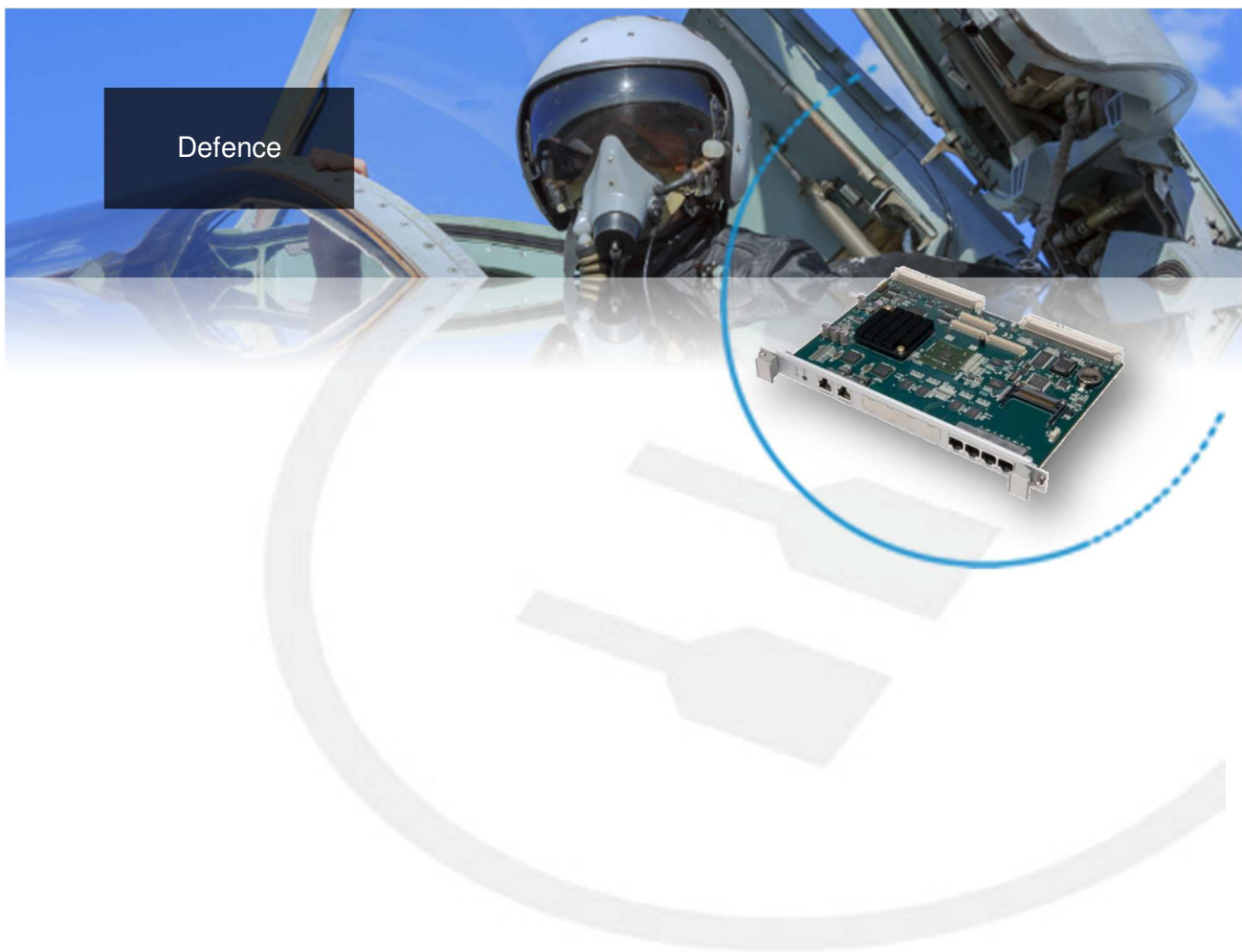
Applications

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:





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 2017

| | |
|---|---------------|
| 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 | 1,319,020 |
| Stock market capitalisation (based on the share's average price in December 2017) | €48 million |
| Stock market capitalisation (based on the share's relevant price at 31 December 2017) | €48 million |

Performance of Eurotech S.p.A. shares

Absolute performance of EUROTECH S.p.A. shares
01.01.2017 – 31.12.2017

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 2017 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.

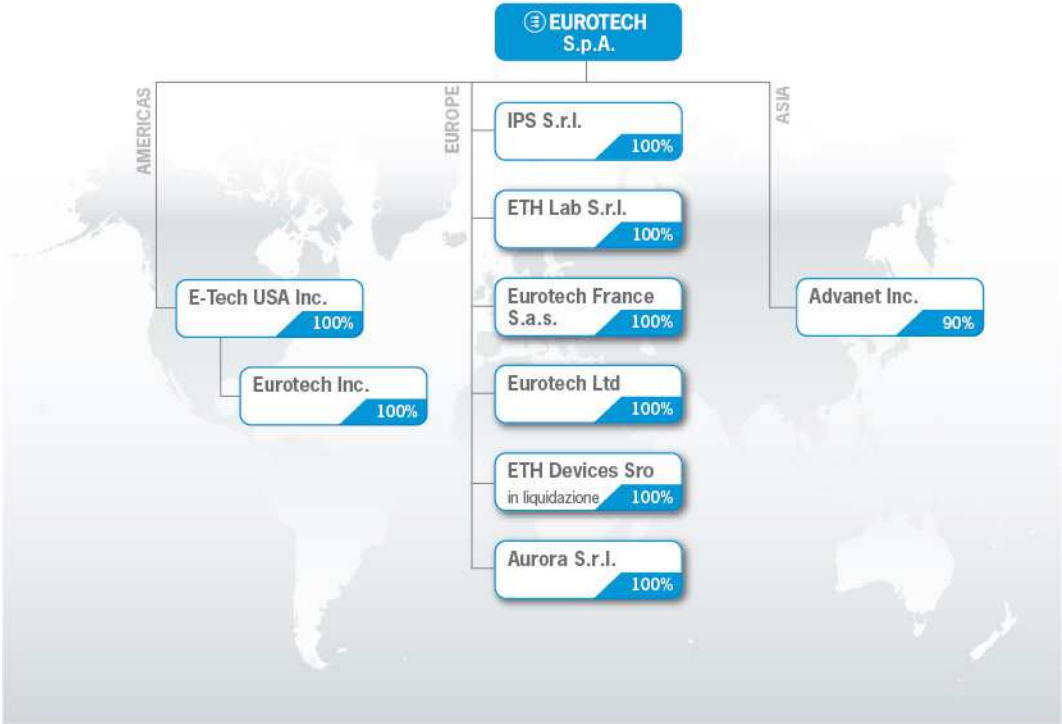
From 2017 on, only one business area will apply, named "NanoPC", while up to 2016 there were two businesses: "NanoPC" and "HPC".

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 2017, the Eurotech Group consisted of the following companies:

| Company name | Assets | Share capital | Group share |
|--|---|----------------|-------------|
| <i>Parent Company</i> | | | |
| 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 | |
| <i>Subsidiaries and companies consolidated on a line-by-line basis</i> | | | |
| 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% |
| ETH Devices S.r.o. under liquidation | Operates in the Eastern European market, mainly in the handheld devices segment | Euro 10,000 | 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.



Operating performance

| | (€'000) | FY 2017 | % | FY 2016 | % |
|--|---------|---------|--------|---------|--------|
| OPERATING RESULTS | | | | | |
| SALES REVENUES | | 60,120 | 100.0% | 61,103 | 100.0% |
| GROSS PROFIT MARGIN | (*) | 29,135 | 48.5% | 29,959 | 49.0% |
| EBITDA | (**) | 1,672 | 2.8% | 443 | 0.7% |
| EBIT | (***) | (2,985) | -5.0% | (5,565) | -9.1% |
| PROFIT (LOSS) BEFORE TAXES | | (4,561) | -7.6% | (5,125) | -8.4% |
| GROUP NET PROFIT (LOSS) FOR THE PERIOD | | (4,672) | -7.8% | (5,069) | -8.3% |

(*) Gross profit is the difference between revenues from sales of goods and services and use of raw materials.

(**) Result before depreciation, amortisation and impairment of assets, valuation of equity interests in affiliates using the equity method, financial income and charges and income tax for the year (EBITDA).

(***) Result (EBIT) before valuation of equity interests in affiliates using the equity method, financial income and charges and income tax for the year.

Group turnover in 2017 reached €60.12 million which, when compared to the 2016 turnover at constant exchange rates, shows an increase of 1.7%. At constant exchange rates, the turnover for 2016 would amount to €59.13 million compared to €61.10 million shown in the financial statements. 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 7.0%, 5.4% and 2.1% respectively.

The result achieved in the second half of the year was encouraging, with a turnover of €38.12 million and an EBITDA of €6.07 million (15.9% of revenues) compared to a negative EBITDA of €4.40 million of the first half. This not only demonstrates that the Group recovered after an anomalous first half year compared to the historical trend, but highlights how the organization structure can obtain, with the right mix of products, results exceeding 15% in terms of EBITDA.

Though appearing to have decreased on account of the currency effect, the Japan area actually grew slightly at constant exchange rates. The business in this area continues to be linked to major local players which, during the year, felt the improving of an economic trend towards the end of the year. The expansion of the customer base continued throughout the entire year and we are expecting results beginning in 2018, based on the opportunities that have been secured. The area is also interesting because of the development of IoT. There continues to be a certain pressure on prices, which in prior years resulted in decreased gross profit, especially as regards low value added products. The actions of management on production and procurement of components mitigated this effect. The market is still very promising and interesting, because the customers have important businesses in both the Asian area and worldwide.

The US area had two-speed during the year; in the first half of the year, orders and revenues were much below expectations and the previous year, while in the second half of the year, also due to the corrective actions implemented after March, managed to close the year with a turnover of 3.6% higher than in 2016 and with orders that allow us to look at 2018 with optimism. Though the increases in the orders received during 2017 by both new customers and consolidated clients, could continue to generate increased sales in 2018 as well.

We note moreover that, the customer testing phase in the IoT market is extending beyond the normal expectations of local management and is postponing the growth that had been expected.

Orders in the European area for 2018 delivery were good, whether they were from traditional or new customers and the effects will be visible in 2018. The customers of the European area are today, much more fragmented compared to the customers in the USA and Japan. The potential in the area is certainly high, both for embedded systems with high computing capacity (HPEC) and for the IoT product offer. The new product lines that are today very innovative compared to traditional customers, should allow us to attract important customers with recurring businesses in this area as well. The proof of this lies in the increasing number of customers that use the platform each year, requiring POC realisation.

The investments that Eurotech continues to make in the strategic areas, identified in the previous business plans and confirmed by what has recently been approved, led to increased acknowledgment and agreements with important International partners such as Red Hat, Hitachi, VMware. The results from the second half of the year highlight how the strategies implemented were correct and that the efforts will be reflected into results as early as 2018.

On the one hand, the Group is consolidating its position in the embedded computing while maintaining the innovation on the traditional business of computer boards and high-performance sub-systems, while on the other the development of IoT platforms has proved to be very successful insofar as attracting the attention of customers of international calibre who rely on our technological solutions.

All the sector analyses now speak of how IoT will change the world as we know it through the "Fourth Industrial Revolution" (Industry 4.0).

Eurotech is considered a leader in this sector due to its hardware product portfolio (particularly the gateways) and the IoT platform. Currently many potential customers are using the IoT platform and Eurotech hardware to connect their machines, and they are testing Eurotech solutions that allow them to innovate their product ranges by supplying those technologically innovative elements that give them a competitive edge in their respective markets.

Management believes that the Eurotech brand's international positioning and the creation and ongoing implementation of an ecosystem of partners is the starting point for developing this new business that numerous market analyses indicate extremely promising.

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

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

During this stage, management is paying close attention to the overall performance of costs and monitoring thereof in order to achieve that level of operating costs that will allow break even, based on the performance of sales in the next year.

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 allocations^A relating to the Advanet Inc. business combination and the write-down for impairment of ^B 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 €-0.75 million instead of €-2.98 million;
- rather than €-4.56 million, the net Group result would have been €-2.33 million;
- Group net profit would be €-3.12 million rather than €-4.67 million.

The gross profit margin, slightly lower than was forecast in the plan, came in at 48.5%, compared to 49.0% last year. This percentage 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. Indeed, in the first half of the year, the profitability was 44.9%

^A More specifically, the effects of recognising PPA relating to the Advanet business can be summarised as follows:

- Amortisation: €1,955 thousand (€2,466 thousand in 2016), due to higher amortisation of amounts allocated to intangible assets (particularly customer relations) and to the write-downs on goodwill;
- lower income taxes: €684 thousand (€1,103 thousand for 2016) 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 €280 thousand in 2017 and €365 thousand in 2016.

(at the end of the nine months it stood at 47.8%), while in the second half of the year the value was 50.5%, which is more in line with the plan figures.

Again, in terms of profitability, procurement management is of major importance when the objective is to maintain a competitive edge even when prices are under pressure or to recover some profitability.

The management's focus remained on containing operating costs for the entire year, to ensure that we broke even as soon as possible. Before adjustments for internal increases, operating costs decreased by 9.42% - in absolute value by €3.29 million, from €34.92 million in 2016 (57.1% as a percentage of revenues) to €31.63 million (52.6% as a percentage of revenues) in 2017. This decrease in operating costs is the result of some cost curbing in relation to service costs and the personnel structure, while awaiting sales to recover. The reduction of the absolute number of employees is due to a certain amount of streamlining of the work force in the US area that mainly took place at the beginning of the year, to be followed by recruitment of qualified staff only for positions closely related to the strategic vision in place. In absolute terms, a part of the cost reduction is due to the currency effect which affected total operating costs by 2.63% in 2017. The cost cuts above affected the Group's EBITDA.

The Group's structure, with minor adaptations in the sales & marketing and research & development areas, continues to be able to support the sales levels generated by the business, whether in the traditional embedded form or IoT, higher compared to prior years. Any additional and new skills will progressively be added in various areas, in line with the growth the Group expects to achieve in the medium-long term.

EBITDA improved by €1.23 million to reach €1.67 million, as compared to €0.44 million in 2016; this figure included a non-recurring amount of €1.70 million from the capital gains realised by the sale of the security and traffic business unit that belonged to subsidiary IPS Sistemi Programmabili S.r.l.. Net of these non-recurring revenues, the result is decidedly encouraging since our efforts resulted in an almost €3 million improvement from one year to the next (comment in note 37).

EBITDA in 2017 as a percentage of revenues was 2.8%, compared with 0.7% in 2016.

The operating result (EBIT) improved in the periods in question, rising from -€5.56 million in 2016 to -€2.98 million in 2017. EBIT as a percentage of revenues was -€5.0% in 2017 compared to -€9.1% in 2016.

EBIT in 2017 was affected by the year's write-downs and amortisation and the performance of the EBITDA commented on above.

The write-downs in 2017 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 further write-downs of the recognised cost.

Conversely, depreciation and amortisation derive from both operating assets becoming subject to depreciation throughout 2017 and the non-monetary effects arising from price allocation relating to the acquisitions of Advanet Inc. The effect on EBIT of the higher values attributed as a result of purchase price allocation and the impairment of goodwill in 2017 was €2.23 million, compared with €2.83 million in 2016.

Following the currency fluctuations in 2017, the financial operations were significantly affected by the exchange differences affecting the currencies of the countries in which the Group operates, as was the net financial position. Overall, foreign exchange differences had a positive effect on the period of €1.10 million (compared with a positive effect of €0.61 million in 2016), while financial management relating to interest had an effect of €0.36 million (€0.43 million in 2016). It should be noted that a large part of the exchange differences that resulted in net losses during the period are relative to unrealised losses and profits (€1.14 million) which, depending on the performance of exchange rates could generate different results in 2018.

The pre-tax loss for 2017 was €4.56 (compared with a loss of €5.12 million in 2016). This performance was influenced by the factors outlined above. The impact on the pre-tax result of PPA and goodwill write-down was €2.23 million in 2017, compared with €2.83 million in 2016.

The Group net result was -€4.67 million, compared with -€5.07 million in 2016.

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).

Price allocation and goodwill write-down had a €1.55 million effect on the Group's net result in 2017 (2016: €1.73 million).

As indicated in the explanatory notes to the consolidated financial statements (note F), in prior years the Group had two business lines which were the Nano PC and the HPC (High Performance Computer) lines. From 2017, due to the low volumes developed in the last few years and the changed corporate strategy regarding the HPC business, we have combined the two divisions and applied the know-how generated over these years to the Supercomputers to create embedded products with similar characteristics but of significantly smaller size.

Following this reorganisation, the only business line that the Group follows is the “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 therefore no longer presented on the basis of product segments, but is limited to 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 regions identified within the Group are: Europe, North America and Asia.

Changes in revenues and margins for individual geographical area and the relative changes in the periods under review are set out below^c.

| (€ '000) | North America | | | Europe | | | Asia | | | Correction, reversal and elimination | | | Total | | |
|-------------------------|---------------|---------|--------------|---------|---------|--------------|---------|---------|--------------|--------------------------------------|---------|--------------|---------|---------|--------------|
| | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change |
| Third party Sales | 23,382 | 22,479 | | 12,923 | 13,446 | | 23,815 | 25,178 | | 0 | 0 | | 60,120 | 61,103 | |
| Infra-sector Sales | 439 | 519 | | 3,209 | 3,940 | | 181 | 198 | | (3,829) | (4,657) | | 0 | 0 | |
| Total Sales revenues | 23,821 | 22,998 | 3.6% | 16,132 | 17,386 | -7.2% | 23,996 | 25,376 | -5.4% | (3,829) | (4,657) | 17.8% | 60,120 | 61,103 | -1.6% |
| Gross profit | 8,800 | 8,414 | 4.6% | 6,798 | 7,432 | -8.5% | 13,669 | 14,437 | -5.3% | (132) | (404) | -67.3% | 29,135 | 29,879 | -2.5% |
| Gross profit margin - % | 36.9% | 36.6% | | 42.1% | 42.7% | | 57.0% | 56.9% | | | | | 48.5% | 48.9% | |
| EBITDA | | | | | | | | | | | | | 1,672 | 443 | 277.4% |
| EBITDA margin - % | | | | | | | | | | | | | 2.8% | 0.7% | |
| EBIT | | | | | | | | | | | | | (2,985) | (5,565) | -46.4% |
| EBIT margin - % | | | | | | | | | | | | | -5.0% | -9.1% | |

North American revenues, including intersector revenues, increased by 3.6%, from €23.00 million in 2016 to €23.82 million in 2017. These changes are attributable to the recovery of sales in the industrial and transport sectors with regard to traditional customers who increased their volumes as a result of the better market conditions. At the beginning of the year, growth was slowed because of the failure to implement these projects and the transition phase involving completed products or products under completion and new projects; the generation of sales in the IoT sector is strictly correlated with the opportunities attached to the ability of customers to implement the new IoT technologies on a large scale. The wait to expedite the existing orders in the transport sector continues to grow longer beyond all possible forecasts, and even if the project continues to be alive and current, no definitive times can be given as to when our efforts will be reflected in turnover.

The Europe business area has dropped from €17.38 million in 2016 to €16.13 million in 2017, which represents a 7.2% drop, including the intersector revenues; this is an indication of how the operating units located in the area have suffered the effects of the economic situation in the major European countries (Italy, Great Britain, France) in which the Group operates. The vacillating performance marking order acquisition results from the opportunities created with traditional and other customers, mainly in the embedded industrial, transport and defence sectors, while acquiring customers with large recurring orders is proving more time consuming. On the other hand, the evolution of the IoT sector and the demonstrations of the technology at work in major industrial contexts have increased the opportunities that we believe can be realised in the short term. We are receiving more and more POC (Proof of Concept) requests from new customers who require services and integration of products in the IoT sector. The use of supercomputer technology in embedded applications has made it possible to prove usefulness in the automotive sector, which we expect to perform well in terms of sale in 2018.

Finally, though sales in the Asia business area have decreased (from €25.38 million) to €24.00 million - including the intersector revenues) compared to last year due to the foreign exchange effect from conversion of the Euro into Yen, they essentially remained constant with traditional customers who use the technical skills of our engineers to develop products based on new technological concepts.

^c The 2016 figures have therefore been amended compared to those published last year, as they represent the geographical areas and include the HPC business line, which had been excluded previously.

The breakdown of revenues by type shows a slight increase in revenues from services compared to the majority of industrial revenues.

| SALES BY TYPE | FY 2017 | % | FY 2016 | % |
|--|---------------|---------------|---------------|---------------|
| Industrial revenues | 57,691 | 96.0% | 57,726 | 94.5% |
| Services revenues | 2,429 | 4.0% | 3,377 | 5.5% |
| TOTALE SALES AND SERVICE REVENUES | 60,120 | 100.0% | 61,103 | 100.0% |

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

| BREAKDOWN BY GEOGRAPHIC AREA | FY 2017 | % | FY 2016 | % | var. % |
|---|---------------|---------------|---------------|---------------|--------------|
| European Union | 9,559 | 15.9% | 9,682 | 15.8% | -1.3% |
| United States | 25,489 | 42.4% | 21,743 | 35.6% | 17.2% |
| Japan | 23,814 | 39.6% | 24,937 | 40.8% | -4.5% |
| Other | 1,258 | 2.1% | 4,741 | 7.8% | -73.5% |
| TOTAL SALES AND SERVICE REVENUES | 60,120 | 100.0% | 61,103 | 100.0% | -1.6% |

The US accounted for 42.4% of total annual sales in 2017. Based on the breakdown of the turnover by geographic area, we note an increase in turnover of 17.2%. rendering this the most significant area, not only in terms of the increased sales of the US company but also due to certain sales made to US customers by Europe based companies. The US accounted for 42.4% of total annual sales in 2017.

The Japanese area registered lower turnover compared to 2016 but continues to be one of the most important areas affecting the consolidated financial statements by 39.6% as compared to 40.8% in 2016.

In the European area, again with reference to customer location, turnover decreased by 1.3% and the area is still affected by stagnated demand. The effect of Europe on the total turnover remains essentially unchanged from last year at 15.9%.

Finally, turnover in other geographic areas decreased, as in consideration of the cyclical nature of certain products the various Group companies found it less profitable to generate turnover mainly in Southeast Asia and China.

| (€'000) | FY 2017 | % of sales | FY 2016 | % of sales | var. % |
|---|---------------|--------------|---------------|--------------|--------------|
| Purchases of raw materials, semi-finished and finished products | 31,103 | 51.7% | 30,102 | 49.3% | 3.3% |
| Changes in inventories of raw materials | 185 | 0.3% | 584 | 1.0% | -68.3% |
| Change in inventories of semi-finished and finished products | (303) | -0.5% | 458 | 0.7% | -166.2% |
| TOTAL COST OF MATERIALS | 30,985 | 51.5% | 31,144 | 51.0% | -0.5% |

Consumption of raw and auxiliary materials and consumables, shown in the table above, decreased from €31.14 million in 2016 to €30.98 million in 2017. A 0.5% drop in consumption was recorded in the period under review, in line with the 1.6% decrease in turnover. The difference between the changes in consumption and turnover is the direct result of the mix of products sold and the write-downs on inventory figures. Costs for raw and auxiliary materials and consumables as a percentage of revenues rose from 51.0% in 2016 to 51.5% in 2017.

| (€'000) | FY 2017 | % of sales | FY 2016 | % of sales | var. % |
|--|---------------|--------------|---------------|--------------|---------------|
| Service costs | 11,365 | 18.9% | 12,333 | 20.2% | -7.8% |
| Rent and leases | 1,726 | 2.9% | 1,788 | 2.9% | -3.5% |
| Payroll | 17,804 | 29.6% | 19,856 | 32.5% | -10.3% |
| Accruals and other costs | 734 | 1.2% | 942 | 1.5% | -22.1% |
| Cost adjustments for in-house generation of non-current assets | (2,231) | -3.7% | (2,070) | -3.4% | 7.8% |
| Operating costs net of cost adjustments | 29,398 | 48.9% | 32,849 | 53.8% | -10.5% |

As a percentage of revenues, other operating costs, net of cost adjustments for internal increases, increased from 53.8% in 2016 to 48.9% in 2017.

In absolute terms, net operating costs were down significantly by 10.5%, from €32.85 million in 2016 to €29.40 million in 2017. The decrease in absolute terms is mainly due to the cost-cutting measures the individual companies took. Although lower than in the past, costs for services supporting the various company activities continue to be considerable, with particular relevant to development and commercial costs and payroll costs.

The trend in service costs is shown below.

| | FY 2017 | % | FY 2016 | % | var. % |
|----------------------------------|---------------|---------------|---------------|---------------|--------------|
| (€'000) | | | | | |
| Industrial services | 4,718 | 41.5% | 4,917 | 39.9% | -4.0% |
| Commercial services | 2,524 | 22.2% | 2,863 | 23.2% | -11.8% |
| General and administrative costs | 4,123 | 36.3% | 4,553 | 36.9% | -9.4% |
| Total costs of services | 11,365 | 100.0% | 12,333 | 100.0% | -7.8% |
| % impact on sales | 18.9% | | 20.2% | | |

Service costs decreased 7.8% or €0.97 million, down from €12.33 million in 2016 to €11.36 million in 2017. This item continues to drop each year as a percentage of revenues, and is currently at about 18.9%.

Industrial costs were down 4.0%, from €4.92 million in 2016 to €4.72 million in 2017.

The costs for commercial services requires to maintain the product portfolio constantly up to date technologically dropped due to the streamlining of the personnel and the implementation of more cost efficiency measures; these costs were €2.52 million in 2017 (2016: €2.86 million), with a €339 thousand reduction (11.8%).

The costs for general and administrative services continues to drop and after decreasing by 11.2% last year, they dropped by a further 9.4% compared to last year. Moving from €4.55 million in 2016 to €4.12 million in 2017.

Leasehold improvement costs accounted for around 2.9% of revenues, recording constancy in the two years compared in terms of both percentage and absolute value.

In absolute value they fell from €1.79 million in 2016 to €1.73 million in 2017.

In the period under review, payroll costs decreased 10.3%. The difference is due to the actions taken in the first half of 2017, when, due to the streamlining of the US structure, there were changes to render it more efficient and in line with the Group's strategy.

| | FY 2017 | % | FY 2016 | % | var. % |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| (€'000) | | | | | |
| Wages, salaries and Social Security | 16,980 | 95.4% | 18,898 | 95.2% | -10.1% |
| Severance indemnities | 376 | 2.1% | 410 | 2.1% | -8.3% |
| Other costs | 448 | 2.5% | 548 | 2.8% | -18.2% |
| Total cost of personnel | 17,804 | 100.0% | 19,856 | 100.0% | -10.3% |
| % impact on sales | 29.6% | | 32.5% | | |

Payroll costs as a percentage of revenues increased to 29.6% in 2017, from 32.5% in 2016.

As shown in the table below, the number of Group employees at the end of the periods under review fell from 321 in 2016 to 294 in 2017. In terms of average number of employees, the values are quite similar: 325.7 units in 2016 and 303.1 units in 2017.

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 2017 | at December 31, 2017 | Average 2016 | at December 31, 2016 |
|------------------|--------------|----------------------|--------------|----------------------|
| Manager | 8.8 | 9 | 10.8 | 10 |
| Clerical workers | 277.1 | 268 | 292.6 | 287 |
| Line workers | 16.4 | 17 | 22.3 | 24 |
| TOTAL | 302.4 | 294 | 325.7 | 321 |

Total accrual and other costs are as follow:

| (€'000) | FY 2017 | % | FY 2016 | % | var. % |
|---------------------------------------|-------------|---------------|-------------|---------------|---------------|
| Doubtful debt provision | 80 | 10.9% | 187 | 19.9% | -57.2% |
| Other Provisions | - | 0.0% | 96 | 10.2% | -100.0% |
| Other costs | 654 | 89.1% | 659 | 70.0% | -0.8% |
| Total accruals and other costs | 734 | 100.0% | 942 | 100.0% | -22.1% |
| % impact on sales | 1.2% | | 1.5% | | |

The "doubtful accounts" 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 €16 thousand, whereas the figure was €28 thousand on 31 December 2016.

As a percentage of revenues, other provisions and other costs fell from 1.5% in 2016 to 1.2% in 2017.

| (€'000) | FY 2017 | % | FY 2016 | % | var. % |
|-----------------------------|--------------|---------------|--------------|---------------|---------------|
| Government grants | 756 | 39.1% | 1,306 | 39.2% | -42.1% |
| Sundry revenues | 1,179 | 60.9% | 2,027 | 60.8% | -41.8% |
| Total other revenues | 1,935 | 100.0% | 3,333 | 100.0% | -41.9% |
| % impact on sales | 3.2% | | 5.5% | | |

The "Other income" item increased by 41.9% in the reporting period, from €3.33 million in 2016 to €1.93 million in 2017. The reduction is mainly due to the non-recurring capital gain of €1.70 million in 2016, from the sale of the business unit that belonged to the subsidiary IPS Sistemi Programmabili S.r.l., as described in note 37. Moreover, in 2017 lower European and domestic operating grants were received, though this was partially offset by other revenues from activities carried out in support of certain existing partnerships.

"Other revenues" rose from 5.5% in 2016 to 3.2% in 2017 as a percentage of total revenues.

| (€'000) | FY 2017 | % | FY 2016 | % | var. % |
|---|--------------|---------------|--------------|---------------|---------------|
| Amortisation of intangible assets | 3,615 | 77.6% | 4,315 | 71.8% | -16.2% |
| Amortisation of property, plant and equipment | 762 | 16.4% | 942 | 15.7% | -19.1% |
| Write-down of fixed assets | 280 | 6.0% | 751 | 12.5% | -62.7% |
| Total amortisation and depreciation | 4,657 | 100.0% | 6,008 | 100.0% | -22.5% |
| % impact on sales | 7.7% | | 9.8% | | |

Amortisation fell from €5.26 million in 2016 to €4.38 million in 2017. This change is attributable to the smaller impact of the amortisation 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 €280 thousand is related exclusively to the impairment of goodwill of the Eurotech France Sas business unit.

Depreciation, amortisation and impairment of assets as a percentage of revenues rose from 7.7% in 2017 from 9.8% in 2016.

The write down of the equity investment in associated companies resulted in a cost of €3 thousand arising from the negative valuation at equity of the associated company eVS embedded Vision Systems S.r.l., as compared to revenues of €52 thousand in 2016.

The item Management of Investment in 2017 refers entirely to the write-down of Kairos Autonomi Inc. which is not generating positive results; conversely, in 2016 the positive value of €214 thousand broke down as €122 thousand of capital gains from the sale of the investment in the associated company Emilab S.r.l. and €91 thousand from the partial reimbursement of the loan to Rotowy Technologies S.p.A. (formerly U.T.R.I. S.p.A.) which had been written down in prior years and €1 thousand of dividends received from InAsset S.r.l..

| | FY 2017 | FY 2016 | change % |
|---|-----------------|--------------|---------------|
| (€'000) | | | |
| Exchange-rate losses | 1,761 | 780 | 125.8% |
| Interest expenses | 394 | 390 | 1.0% |
| Other current financial assets impairment | 0 | 76 | n/a |
| Expenses on derivatives | 9 | 10 | -10.0% |
| Other finance expenses | 41 | 39 | 5.1% |
| Financial charges | 2,205 | 1,295 | 70.3% |
| (€'000) | | | |
| Exchange-rate gains | 664 | 1,386 | -52.1% |
| Interest income | 37 | 21 | 76.2% |
| Other finance income | 47 | 62 | -24.2% |
| Financial incomes | 748 | 1,469 | -49.1% |
| Net financial income | (1,457) | 174 | n.s. |
| % impact on sales | -2.4% | 0.3% | |

The increase in financial expense from €1.29 million in 2016 to €2.20 million in 2017 was particularly due to the increase in the negative foreign exchange differences relating to trends in the US dollar, the Japanese yen and the UK pound and because write-downs of current assets were not necessary, while interests payable are in line with last year.

Financial income also showed a reduction, down from €1.47 million in 2016 to €0.75 million in 2017. The change is mostly due to the lower forex effect (USD, GBP and JPY) compared to the previous year

Net charges from financial operations as a percentage of revenues were -2.4% in 2017, compared with 0.3% in 2016.

| | FY 2017 | % of sales | FY 2016 | % of sales | var. % |
|---|--------------|------------|-------------|------------|---------|
| (€'000) | | | | | |
| Pre-tax result | (4,561) | -7.6% | (5,125) | -8.4% | -11.0% |
| Income taxes | (111) | -0.2% | 56 | 0.1% | -298.2% |
| Income taxes as a percentage of profit before taxes (effective tax rate) | -2.4% | | 1.1% | | |

The Group had a pre-tax loss of -€5.12 million in 2016 (compared with a loss of -€4.56 million in 2017). As already noted, this change is the effect of the performance of the turnover and gross profit, 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 lack of recognition of deferred tax assets on the accrued reportable losses of each company, since to date the prerequisites for recognition do not exist.

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

| | FY 2017 | % of sales | FY 2016 | % of sales | var. % |
|---|--------------|--------------|----------------|--------------|----------------|
| (€'000) | | | | | |
| IRES (Italian corporate income tax) | 224 | 0.4% | 494 | 0.8% | -54.7% |
| IRAP (Italian Regional business tax) | 9 | 0.0% | 7 | 0.0% | 28.6% |
| Foreign current income taxes | 478 | 0.8% | 925 | 1.5% | -48.3% |
| Total current income tax | 711 | 1.2% | 1,426 | 2.3% | -50.1% |
| Net (prepaid) deferred taxes: Italy | (34) | -0.1% | (318) | -0.5% | -89.3% |
| Net (prepaid) deferred taxes: Non-italian | (566) | -0.9% | (1,158) | -1.9% | -51.1% |
| Net (prepaid) deferred taxes | (600) | -1.0% | (1,476) | -2.4% | -59.3% |
| Previous years taxes | 0 | 0.0% | (6) | 0.0% | -100.0% |
| Previous years taxes | 0 | 0.0% | (6) | 0.0% | -100.0% |
| TOTAL INCOME TAXES | 111 | 0.2% | (56) | -0.1% | -298.2% |

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

The Group registered a loss of €4.67 million, compared with a loss of €5.07 million in 2016.

Statement of financial position

Non-current assets

| (€'000) | at December 31, 2017 | at December 31, 2016 | Changes |
|---|-------------------------|-------------------------|-----------------|
| Intangible assets | 79,968 | 89,715 | (9,747) |
| Property, Plant and equipment | 2,436 | 2,993 | (557) |
| Investments in affiliate companies | 0 | 11 | (11) |
| Investments in other companies | 144 | 301 | (157) |
| Deferred tax assets | 1,283 | 1,465 | (182) |
| Medium/long term borrowing allowed to affiliates companies and other Group companies | 83 | 95 | (12) |
| Other non-current assets | 618 | 640 | (22) |
| Total non-current assets | 84,532 | 95,220 | (10,688) |

The “Non-current assets” item decreased from €95.22 million in 2016 to €84.53 million in 2017.

The change mainly reflects changes in tangible assets arising from the different conversion ratio for financial statements in foreign currency, also due to the price allocations in the currency of the foreign entity combined with the investments made and depreciation. Of the €10.7 million change, €8.2 million is due to the foreign exchange effect.

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

| (€'000) | at December 31, 2017 | at December 31, 2016 | Chg. |
|-------------------------------|-------------------------|-------------------------|---------------|
| Intangible assets | 2,166 | 1,991 | 175 |
| Property, plant and equipment | 306 | 697 | (391) |
| Investments | 0 | 15 | (15) |
| TOTAL MAIN INVESTMENTS | 2,472 | 2,703 | (231) |

Current assets

| (€'000) | at December 31, 2017 | at December 31, 2016 | Changes |
|--------------------------------|-------------------------|-------------------------|----------------|
| Inventories | 17,821 | 19,337 | (1,516) |
| Contracts in progress | 412 | 0 | 412 |
| Trade receivables | 15,623 | 15,813 | (190) |
| Income tax receivables | 204 | 155 | 49 |
| Other current assets | 1,782 | 1,414 | 368 |
| Other current financial assets | 95 | 76 | 19 |
| Cash & cash equivalents | 6,745 | 9,186 | (2,441) |
| Total current assets | 42,682 | 45,981 | (3,299) |

The current assets item decreased, from €45.98 million in 2016 to €42.68 million in 2017. The decrease is due to the reduction of the inventory values on account of the sales in the second part of the year and the ongoing streamlining taking place and the decreased cash and cash equivalents due to absorption by operations.

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, 2017 (b) | at December 31, 2016 (a) | Changes (b-a) |
|----------------------------|--------------------------------|--------------------------------|------------------|
| Inventories | 17,821 | 19,337 | (1,516) |
| Contracts in progress | 412 | 0 | 412 |
| Trade receivables | 15,623 | 15,813 | (190) |
| Income tax receivables | 204 | 155 | 49 |
| Other current assets | 1,782 | 1,414 | 368 |
| Current assets | 35,842 | 36,719 | (877) |
| Trade payables | (13,088) | (13,459) | 371 |
| Income tax liabilities | (262) | (642) | 380 |
| Other current liabilities | (4,775) | (5,542) | 767 |
| Current liabilities | (18,125) | (19,643) | 1,518 |
| Net working capital | 17,717 | 17,076 | 641 |

Net working capital increased by €641 thousand. This increase is the result of the combined effect of reduced current assets and an even more marked decrease in current liabilities. More specifically, there were net decreases in inventories, contract work in progress and increases in other current assets, in addition to a reduction in trade payables, income tax payables and other current liabilities. Net working capital as a percentage of turnover was 29.5%, higher than the figure obtained at year-end 2016 (27.9%).

Net financial position

The Group's net debt at 31 December 2017 was €5.65 million, compared with a net debt of €2.34 million at 31 December 2016.

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, 2017 | at December 31, 2016 |
|--|----------------|-------------------------|-------------------------|
| Cash & cash equivalents | A | (6,745) | (9,186) |
| Cash equivalent | B=A | (6,745) | (9,186) |
| Other current financial assets | C | (95) | (76) |
| Derivative instruments | D | 9 | 12 |
| Short-term borrowing | E | 10,720 | 8,210 |
| Short-term financial position | F=C+D+E | 10,634 | 8,146 |
| Short-term net financial position | G=B+F | 3,889 | (1,040) |
| Medium/long term borrowing | H | 1,844 | 3,475 |
| Medium-/long-term net financial position | I=H | 1,844 | 3,475 |
| (NET FINANCIAL POSITION) NET DEBT pursuant to CONSOB instructions | J=G+I | 5,733 | 2,435 |
| Medium/long term borrowing allowed to affiliates companies and other Group companies | K | (83) | (95) |
| (NET FINANCIAL POSITION) NET DEBT | L=J+K | 5,650 | 2,340 |

Existing financial liabilities of €7.13 million, plus current account overdrafts at year-end 2017 of €5.43 million, combine to form total debt toward banks of €12.56 million, of which €10.72 million is payable in the short term.

The short-term borrowings item contains 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.

Therefore, on the basis of application of the provisions of IAS 1.65, Eurotech 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.

For other existing loans which are subject to covenants, no reclassification was necessary despite the fact that one of the covenant parameters was not fulfilled, due to their natural expiration within 12 months.

| (€'000) | | at December 31, 2017 | at December 31, 2016 |
|---|-----------|-------------------------|-------------------------|
| Cash flow generated (used) in operations | A | (788) | (1,426) |
| Cash flow generated (used) in investment activities | B | (1,625) | (34) |
| Cash flow generated (absorbed) by financial assets | C | 896 | (810) |
| Net foreign exchange difference | D | (924) | 26 |
| Increases (decreases) in cash & cash equivalents | E=A+B+C+D | (2,441) | (2,244) |
| Opening amount in cash & cash equivalents | | 9,186 | 11,430 |
| Cash & cash equivalents at end of period | | 6,745 | 9,186 |

Owing to the actions taken compared to the previous year, operations showed cash flows used of €0.79 million, compared with cash flows used of about €1.43 million in 2016.

Investment activity derives from the investments made in developing new products in the modules, embedded systems, Machine to Machine (M2M) and Internet of Things (M2M / IoT) platforms and internal investments in industrial, commercial and hardware equipment.

Finally, cash flows 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.

In 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 2017 the Group made no provision to a doubtful debt reserve for sums owed by related parties, except for the €447 thousand write-down already made in 2010 on the receivable from associate company in liquidation Rotowi Technologies S.p.A. (ex 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. 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 n. 34 of the consolidated financial statements.

Based on the information received from Group companies, in addition to what was described in relation with the sale of the activities of the subsidiary IPS, no unusual or atypical transactions took place as defined by Consob in its notice 6064293 of 28 July 2006.

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

| | | | | at December 31, 2017 | | | | | |
|------------------------|--|----------|------------------|-----------------------------------|------------------------------|------------------------------|--------------------------------|---|--|
| 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 | 1,306,030 | - | (545,660) | 760,370 | 585,370 | |
| Antonello Giulio | Director | Eurotech | Ownership | - | - | - | - | - | |
| Barazza Sandro | Director up to April 26, 2017 | Eurotech | Ownership | 2,000 | - | | 2,000 | - (*) | |
| Costacurta Riccardo | Director | Eurotech | Ownership | - | - | - | - | - | |
| De Toni Alberto Felice | Director up to April 26, 2017 | Eurotech | Ownership | 6,000 | - | - | 6,000 | - (*) | |
| Mio Chiara | Director | Eurotech | Ownership | - | - | - | - | - | |
| Paladin Dino | Director | Eurotech | Ownership | 2,400,605 | 182,872 | - | 2,583,477 | - | |
| Pizzol Marina | Director | Eurotech | Ownership | - | - | - | - | - | |
| Pezzuto Carmen | Director from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |
| Mosca Giorgio | Director from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |
| Siciliotti Claudio | President of Board of Auditors up to April, 26 2017 | Eurotech | Ownership | 10,000 | - | - | 10,000 | - (*) | |
| Cignolini Michela | Statutory Auditor up to April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |
| Pingaro Giuseppe | Statutory Auditor up to April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |
| Favaro Gianfranco | President of Board of Statutory Auditors from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |
| Briganti Laura | Statutory Auditor from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |
| Rebecchini Gaetano | Statutory Auditor from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - | |

(*) Shares owned at the end of office

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 2017 and 31 December 2016:

| (€'000) | Profit (Loss) 12/31/2016 | Shareholders' Equity 12/31/2017 | Profit (Loss) 12/31/2016 | Shareholders' Equity 12/31/2016 |
|---|-----------------------------|------------------------------------|-----------------------------|------------------------------------|
| Financial report of the Parent Company | (4,003) | 109,410 | (1,260) | 113,075 |
| Group share of shareholders' equity and pro-quota value in consolidated companies | (1,132) | (69,945) | (1,627) | (66,539) |
| Differential arising from consolidation | | 46,291 | | 50,356 |
| Customer relationship | (1,954) | - | (2,466) | 2,007 |
| Trademark | | 7,843 | | 8,582 |
| Reversal of Impairment of equity transactions | 250 | - | 2,598 | - |
| Effect of valuing equity investments using the net equity method | (2) | 6 | (133) | 9 |
| Elimination of unrealised internal profit on capitalizations | (75) | (164) | (89) | (89) |
| Exchange differences on equity investments in foreign companies | 4,609 | - | (1,170) | - |
| Stock option subsidiaries | (136) | - | (13) | - |
| Offset dividends | (3,051) | - | (1,962) | - |
| Tax effects on consolidation adjustments listed above | 822 | (2,744) | 1,053 | (3,844) |
| Consolidated financial statements | (4,672) | 90,697 | (5,069) | 103,557 |

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

The Parent Company Eurotech S.p.A. held 1,319,020 treasury shares at the end of the reporting period. Treasury shares changed as follows in 2017:

| | No. of shares | Face value of a share (Thousand of Euro) | % share capital | Carrying value (€'000) | Average unit value |
|-------------------------------|---------------|---|-----------------|---------------------------|--------------------|
| Status as at 1 January 2017 | 1,319,020 | 330 | 3.71% | 3,097 | 2.35 |
| Purchases | - | - | 0.00% | 0 | |
| Status as at 31 December 2017 | 1,319,020 | 330 | 3.71% | 3,097 | 2.35 |

Investments and research and development

At 31 December 2017, technical investments (tangible assets) in equipment and instruments amounted to €131 thousand, investments in property and other assets amounted to €175 thousand, investments to purchase user, software and know-how licenses amounted to €6 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 €2.16 million. About 33.8% relate to the development of new products based on Intel's new, ultra-low power architectures. About 57.8% relate to software projects in the Cloud computing segment, and the remainder of about 8.4% 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. In 2017, a recession that involved the global economy continued with effects that differed depending on a geographical areas in which the Group operates. Though there are signs of improvement, this recessionary phase cannot be considered as concluded.

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 materials prices or reduced spending on infrastructure may negatively affect the markets in which the Group operates,

and may, in combination with other factors, have a significant impact on the Group's business outlook, operating performance and/or financial situation.

Risks connected to exchange rate and interest rate fluctuations

The Eurotech Group operates at global level and has invested in countries such as the US, Japan and the UK, deriving cash flows from these countries that are not consistent. In addition, the individual foreign subsidiaries tend to operate on their respective core markets with the respective functional currencies. Owing to these considerations, exchange rate hedging operations are not carried out, despite the fact that the consolidated financial statements are 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 it must maintain its turnover higher than that of recent years and in particular in 2017 and continue to focus on the rationalisation of its operating structures implemented in previous years.

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 market conditions.

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 Regulations 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 Agreement

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 2017 the subsidiaries created and regulated under the laws of countries outside the European Union, pursuant to article 36, paragraph 2 of the above Regulation, are US companies Eurotech Inc., Parvus Corp. and E-Tech USA Inc. and Japanese company Advanet Inc., and that the requirements set out in paragraph 1 of said article are met for these subsidiaries.

Competitive scenario, outlook and future growth strategy

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 2018 and the years to come is positive, even though market conditions in some sectors remain uncertain.

The Group will pursue strategic development in 2018, 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.

WEB site: www.eurotech.com

Reporting period: financial year 2017

Report approval date: 13 March 2018

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GLOSSARY

Code/Corporate Governance Code: the Corporate Governance Code for listed companies, approved by the Corporate Governance Committee in July 2015 and promoted by Borsa Italiana S.p.A., 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 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 S.p.A.

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

Stock Market Regulation: the regulation of the markets organised and managed by Borsa Italiana S.p.A. (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 2017.

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: 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. 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.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, TUF) AS AT 31 DECEMBER 2017

a) Share capital structure

As at 31 December 2017, 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 1,319,020 treasury shares, equivalent to 3.714% 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

Note that the Issuer is qualified as an SME pursuant to Art. 1, paragraph 1, letter w-*quater*.1), TUF since it falls within the parameters provided for by this regulation. Therefore, the threshold for notifying significant equity interests pursuant to Art. 120 TUF is 5% of the share capital with voting rights (see Art. 120, paragraph 2, last sentence, TUF).

As at 31 December 2017, 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 - Società per Azioni | Leonardo - Società per Azioni | 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 2017 there are no shareholder agreements pursuant to Art. 122 of the TUF.

It is noted that Leonardo – Società per Azioni ("**Leonardo**"), Dino Paladin ("**Paladin**") and Roberto Siagri ("**Siagri**") and jointly with Leonardo and Paladin, the "**Parties**") have signed an agreement (the "**Agreement**") containing significant shareholders' provisions pursuant to Art. 122 of the TUF, aimed the governing the presentation of majority lists for the election of Eurotech's corporate bodies by the ordinary Shareholders' Meeting of 26 April 2017.

The Agreement aggregated a total of 7,585,968 ordinary shares of Eurotech, representing 21.359% of the share capital of Eurotech, held as follows: (i) 3,936,461 shares, equal to 11.084% of the share capital, by

Leonardo; (ii) 2,583,477 shares, equal to 7.274% of the share capital, by Dino Paladin; and (iii) 1,066,030 shares, equal to 3.002% of the share capital, by Siagri, also through subsidiary NEXTRA GEN S.r.l.

Pursuant to the Agreement, the Parties have agreed - in view of the Meeting - to

- (i) present, within the terms of the law and in accordance with Eurotech's bylaws, the lists for election of the corporate bodies of Eurotech, consisting of candidates selected by the same Parties, and
- (ii) vote in favour of the aforementioned lists in the Meeting.

The Agreement remained in effect until the date in which the Shareholders' Meeting of 26 April 2017 as held and, therefore, as at the date of this Report, may be considered terminated.

The key information on the shareholders' agreement is published on the website of the Company at www.eurotech.com/it – Investors/Corporate Governance section.

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 S.p.A., pursuant to Articles 2357 and 2357-ter of the Italian Civil Code, and Art. 132 of the TUF and the related implementation provisions, on 26 April 2017, resolved:

(A) to revoke the resolution authorising the disposal of treasury shares, voted by the ordinary Shareholders' Meeting of 22 April 2016, effective from the date of the resolution;

(B) 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 Italian Legislative Decree no. 58/1998 and applicable regulatory provisions, for the purposes indicated in the Report by the Board of Directors, and specifically:

1. to authorise, pursuant to 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 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) no. 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, they may sell treasury shares purchased on the basis of the 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;

(C) 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 1,319,020 treasury shares, equivalent to 3.714% of the share capital (amounting to €8,878,946.00, divided into 35,515,784 ordinary shares), recorded in the financial statements at €3,097,127.

1) Management and Co-ordination

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

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 <http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2015.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 4 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. With resolution 20273 of 24 January 2018, 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) 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 passes a resolution by legal majority, without complying with the procedure described above, compliance with the balance between genders regulations in force being understood.

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 9 March 2018, 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 based on the single majority list presented by the shareholder Leonardo S.p.A., also in the name and on behalf of shareholder Roberto Siagri and Dino Paladin, pursuant to the current bylaws and commitments undertaken upon stipulation of the Agreement, and it obtained 9,659,666 votes in favour, equal to 96.503% of the voting capital. 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.

For more information on 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.

Table 2 attached to this Report lists the members of the Board of Directors in office until the ordinary Shareholders' Meeting of 26 April 2017 and 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 policies

With regard to the company's diversity policies in relation to the composition of the Board of Directors in office with regard to aspects such as age, gender composition and training and professional path (Art. 123-*bis*, letter d-*bis*, TUF), it should be noted that: (i) the Company's Board of Directors has 3 Directors belonging to the less represented gender, in compliance with the regulations on gender balance; (ii) the Board is characterised by age diversity of its members, with Directors between 50 and 64 years of age; (iii) the training and professional path of the Directors currently in office ensures a balanced combination of profiles and experience within the administrative body suitable to ensure the proper performance of its functions.

The Board of Directors will include in the explanatory reports prepared pursuant to Art. 125-*ter* of the TUF, regarding 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, some indications for shareholders - also pursuant to criterion 1.C.1., letter h) of the Corporate Governance Code - on the policy of diversity 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.

Note that at the meeting of 8 March 2017 and, for the newly appointed board, of 9 March 2018, 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 31 December 2017 and at the date of this Report (for Directors whose mandates expired during the year, at 31 December 2016) 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:

| Name and surname | Company | Management and supervisory positions |
|---|---|---|
| Roberto Siagri | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Chairman of the board of directors |
| | E –Tech USA Inc. (USA) (Eurotech Group) | Chairman of the board of directors |
| | Advanet Inc. (Japan) (Eurotech Group) | Director |
| | ETHLab S.r.l. (Eurotech Group) | Chairman of the board of directors |
| | Eurotech France S.A. (Eurotech Group) | Chairman of the board of directors |
| | Eurotech Inc. (USA) (Eurotech Group) | Chairman of the board of directors |
| | DITEDI – Distretto Industriale delle Tecnologie Digitali S.c.a.r.l. | Vice Chairman of the Board of Directors |
| | Aurora S.r.l. (Eurotech Group) | Chairman of the Board of Directors |
| | Nextra Gen S.r.l. | Sole Director |
| | COMET S.c.r.l. – Pordenone (PN) | Director |
| Alberto Felice De Toni (in office until 26 April 2017) | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director |
| | ILCAM S.p.A. (Italia – Cormons (GO)) | Director |
| | Fondazione CRUi (Italy – Rome (RM)) | Director |
| | Ferriere Nord S.p.A. (Italy – Osoppo (UD)) | Director |
| Sandro Barazza (in office until 26 April 2017) | IPS - Sistemi Programmabili S.r.l. (Eurotech Group) | Chairman of the Board of Directors and Executive Director |
| | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director - Financial Reporting Manager |
| | Eurotech Inc. (USA) (Eurotech Group) | Director |
| | Aurora S.r.l. (Eurotech Group) | Executive Director |
| | E-Tech USA Inc. (Eurotech Group) | Director |
| | Eurotech Ltd (UK) (Eurotech Group) | Director |
| | Advanet Inc. (Japan) (Eurotech Group) | Executive Director |
| | Eurotech France S.A. (Eurotech Group) | Director |
| Chiara Mio | Crédit Agricole FriulAdria SpA | Chairman of the Board of Directors |
| | Danieli & C. Officine Meccaniche SpA | Director |
| | Eurotech SpA | Director |
| | Mcz Group SpA | Director |
| | Nice SpA | Director |
| | Bluenergy Group SpA | Director |
| | O.V.S. SpA | Director |
| | CISSET | Director |
| | Anteo Srl | Chief Executive Officer |
| Marina Pizzol | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director |

| | | |
|----------------------------|---|---|
| | Eurofighter Simulation Systems GmbH – (Hallbergmoos Germany) | Director |
| Giuseppe Panizzardi | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Chairman of the Board of Directors |
| | Bredamenarinibus S.p.A. | Chairman of the Board of Directors |
| | World's Wing SA | Director |
| Dino Paladin | Company Dott Dino Paladin (Italy - Padua and Trieste) | Owner |
| | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director - Vice Chairman |
| | Kaleao Limited (Cambridge – UK) | Member of the Board of Directors |
| Giulio Antonello | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director |
| | Go Internet SpA | Director |
| | Reno de Medici SpA (Italy, Milan) | Director |
| | Financiere Phone 1690 S.A. | Director |
| Riccardo Costacurta | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director |
| Giorgio Mosca | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Director |
| Carmen Pezzuto | SAFILO GROUP S.P.A. Padua * | Chairman of the Board of Statutory Auditors |
| | SAFILO S.P.A. Padua | Statutory Auditor |
| | SAFILO INDUSTRIAL S.R.L. Padua | Statutory Auditor |
| | DIGITALIA S.P.A. Padua | Statutory Auditor |
| | FDAH S.P.A. Milan | Statutory Auditor |
| | FORNO D'ASOLO S.P.A. Maser (TV) | Statutory Auditor |
| | BUONA COMPAGNIA GOURMET S.R.L. Milan | Statutory Auditor |
| | GRADIENTE SGR SPA Padua | Statutory Auditor |
| | PIXARTPRINTING SPA Quarto d'Altino (VE) | Statutory Auditor |
| | ISOCLIMA S.P.A. Este (PD) | Statutory Auditor |
| | FINANZIARIA INDUSTRIALE S.P.A. Este (PD) | Statutory Auditor |
| | GATE ELEVEN S.R.L. Limena (PD) | Sole Auditor |
| | FLUENCE ITALY S.R.L. Padua | Sole Auditor |
| | “ORDINE DEI DOTTORI COMMERCIALISTI ED ESPERTI CONTABILI DI PADOVA” Padua | Director |
| | Director “FONDAZIONE DEI DOTTORI COMMERCIALISTI ED ESPERTI CONTABILI DI PADOVA” Padua | Director |
| | EUROTECH SPA Amaro (UD) | Director |
| | LUCY'S LINE S.R.L. Rossano Veneto (VI) | Audit |
| | GIOVANNI ZILLO M.X. & C.S.R.L. Milan | Audit |

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.

A meeting was held on 26 June 2017 with all Board of Directors and Board of Statutory Auditors members attending, during which the key data, historical development and various business units of the Company were explained. The duration of the meeting was 4 hour and 30 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.

On 26 May 2017, the Company's Board of Directors assumed exclusive responsibility for the following matters, in addition to the resolutions indicated above and without prejudice to matters that cannot be delegated by law:

- 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 (five hundred thousand/00) for each investment in stationary plants;
 - €1,000,000.00 (one million/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 (one hundred thousand) 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 (three million/00) for each transaction;
- issuing fidejussory bonds and/or secured guarantees for third parties for amounts exceeding €3,000,000.00 (three million/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 on at least an annual basis, the adequacy of the organisational, administrative and general accounting structure of the Issuer and the strategically important subsidiaries put in place by the Chief Executive Officer, with a particular focus on the internal control system and the management of risks according to the procedures adopted by the Issuer in this regard. In carrying out this activity the Board received, according to individual cases, the support of the Internal Control 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 its 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 9 (nine) meetings during the year, on: 8 March, 13 March, 24 March, 26 April, 12 May, 26 June, 5 September, 7 September and 13 November.

The meetings were minuted.

The Board meetings lasted for 1 hour and 6 minutes on average.

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

At least 7 (seven) 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 9 March and 13 March 2018 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 2018);
- 7 September (approval of the first-half results to 30 June 2018);
- 13 November (approval of the third-quarter results to 30 September 2018);

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 course of the year, the Financial Reporting Manager attended all of the meetings.

On 8 March 2017 and, for the newly appointed management body, 9 March 2018, 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. 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, for the newly management body, 9 March 2018. The self-assessment results showed that the Board effectively managed the issues for which they are responsible in 2017, 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) Chief Executive Officers

The Board meeting held on 26 April 2017 granted Roberto Siagri, Director, full powers of representation and ordinary management with free power of signature, including those in the following (non-exhaustive) list, to carry out and supervise the organisation and management of the Company and its subsidiaries:

Legal representative:

- representation of the Company before any third party;
- representation of the Company, either actively or passively, before the 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;

Administrative and tax representative:

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

Representative to CONSOB and Borsa Italiana S.p.A.:

- 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;

Trademarks and patents:

- filing, 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.

Representation in associated companies:

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

Employees:

- recruitment, suspension and termination of employees, with the exception of executives, executing the relevant agreements, defining remuneration, duties and any bonds, and satisfying all relevant obligations consequent upon administration of employment relationships;
- execution, amendment and termination of agreements with external consultants and freelance employees;
- 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;
- representation of the Company before all social security and insurance institutions, satisfying the obligations imposed by applicable labour laws and regulations;

Contracts of sale and exchange:

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

Agency agreements:

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

Company management agreements:

- examination, amendment, approval, execution and termination of programmes and proposals for new investments for amounts up to:
 - €500,000 (five hundred thousand/00) for each investment in stationary plants;
 - €1,000,000 (one million/00) 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 (one million five hundred thousand/00) and whose duration is less than three years;
- examination, amendment, approval, execution and termination of partnership agreements with universities and research institutes and joint venture agreements, except, in the latter case, where the Board of Directors is exclusively responsible for transactions with a specific impact on the operating results, equity and financial position pursuant to CONSOB regulations for listed companies;
- examination, amendment, approval, execution and termination of lease agreements, including finance leases and commercial leases and subleases for the use of goods in the amount of up to €500,000.00 (five hundred thousand/00) and with a duration of up to nine years;

- requesting all forms of new loans and credit lines from banks, amending, approving and cancelling loans in euro and/or foreign currency, with the power to sign the related documentation for amounts of up to €3,000,000.00 (three million/00) for each loan and/or credit line, with a total annual limit of €5,000,000.00 (five million/00), 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 (one million five hundred thousand/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 (one hundred thousand/00) and that do not involve increasing the share held are excluded;

Vehicles:

- representing the Company before all authorities and entities, signing all documents regarding the legal status of the transport vehicles and granting authorisations to drive Company owned vehicles to employees or third parties;
- the purchase, sale and exchange, up to a limit of € 100,000/00 (one hundred thousand/00), of any land transport vehicle, executing the related formalities with the competent public automotive registers, including the arrangement and cancellation of mortgages;

Financial transactions and relations with banks:

- within the limits of the granted credit lines, execution of any debit or credit transaction on the Company's current accounts at banks and post offices in Italy and abroad, excluding countries on the black list published by the Ministry of Economic Affairs; issuing, endorsing and collecting bank cheques and having banker's drafts issued, endorsed and collected;
- issuance, receipt and endorsement of bills of exchange; have merchandise notes issued, accepted and endorsed;
- 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:

- negotiation, signing and collection of 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 providing 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, registration of court mortgages and claims on merchandise, including the merchandise held at third party locations, and revoking those acts;
- filing bankruptcy petitions, representing the mandating Company in bankruptcy proceedings, filing the relevant credit claims, certifying their effective existence, voting in 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 his 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.

Specific activities:

- execution, amendment and termination of agreements for the purchase of spaces and/or systems for advertising services and advertising, promotion and experimentation materials; agreements for the Company's advertising activity and market research;
- performance of all supervisory duties and implementation of statutory and regulatory provisions pertaining to listed companies and established by competent authorities;
- performance of 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.

* * *

Director Roberto Siagri held the office of Chief Executive Officer in the prior board mandate as well.

Executive Director Roberto Siagri qualifies at 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.

b) Chairman of the Board of Directors

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 meeting of 26 April 2017 appointed Giuseppe Panizzardì as Chairman of the Board of Directors of the Company. In the prior board mandate and, therefore, until 26 April 2017, the office of Chairman of the Board of Directors was held by Director Roberto Siagri.

Since the requirements of the Corporate Governance Code are not met and, in particular, considering that the Chairman of the Board is not currently also the Chief Executive Officer, no Lead independent director has been 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 twelve 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, c) of the TUF by the Independent Directors currently in position was verified 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 annually, most recently at the meeting held on 9 March 2018.

Upon presentation of the list for appointment of the current Board of Directors, as well as during annual assessment of the continued possession of independence pre-requisites by 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 by-laws 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 Director Chiara Mio, the Board of Directors - on 26 April 2017 and, most recently, on 9 March 2018 - deemed not to apply criterion 3.C.1 point e) of the Corporate Governance Code (i.e., the criterion whereby an individual in office within the Company for over nine of the last twelve years cannot be considered independent), so that the Company may continue to avail itself of professionals of high standing who have proven to be valuable for the Company and suited to operating within Eurotech's complex regulatory and organisational framework.

The Board of Statutory Auditors, pursuant to application criterion 3.C.5 of the Corporate Governance Code, verified the correct application of the criteria and procedures used by the Board of Directors to assess the

independence of its members during its meeting of 9 March 2018; the results of this audit 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 13 November 2017, during which the role of Lead Independent Director, the flow of information going to the Board of Directors and the activity of the various committees within the board were analysed.

The meeting lasted 60 minutes.

4.7. Lead Independent Director

Since the requirements of the Corporate Governance Code are not met and, in particular, considering that the Chairman of the Board is not currently also the Chief Executive Officer, on 26 April 2017, the Board of Directors, in assigning powers, deemed that it was not necessary to appoint a Lead Independent Director.

5. HANDLING OF CORPORATE INFORMATION

5.1. Inside information

At its meeting of 14 March 2014, the Company's Board of Directors updated the "Procedure for managing inside information" adopted by the Board of Directors on 12 November 2010.

During the year 2016, 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.

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5.2. Internal Dealing

With regard to the management of the disclosure obligations set out in the Internal Dealing regulations, pursuant to Art. 114, paragraph 7 of the TUF and Art. 152-*sexies*, 152-*septies* and 152-*octies* of the CONSOB Issuer regulation, in force for listed companies since 1 April 2006, the Company's Board of Directors resolved on 28 March 2006 to adopt the procedure for compliance with internal dealing obligations, designed to ensure maximum transparency and consistency of information disclosed to the market, most recently updated at the 14 March 2014 board meeting.

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

Specifically, regarding the obligation of listed issuers, the parties that control them and the persons that act in their name or on their behalf to set up and maintain a register of persons with access to inside information, pursuant to Art. 115-*bis* of the TUF and Art. 152-*bis* et seq. of the CONSOB Issuer Regulation (the “**Register**”), the Company’s Board of Directors resolved to establish the Register and approved the “Procedure for managing the register of persons with access to inside information,” in effect since 1 April 2006. The Board of Directors then set up the Group Register of persons with access to inside information, which replaced the register kept at Eurotech on behalf of all Eurotech Group companies. The aforementioned procedure was subject to revision at the Board meeting of 14 March 2014.

In the meeting of 24 March 2017, the company adopted a new *“Procedure for managing the Group Register of persons with access to 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.

6. COMMITTEES WITHIN THE BOARD OF DIRECTORS

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

7. APPOINTMENTS COMMITTEE

In compliance with the provisions of the Code and considering that the bylaws contain the list voting system for the appointment of the Management Body, the Board has formed an Appointments Committee.

The majority of the appointments committee members 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). All of the current members of the Committee held the same office in the prior board mandate as well (Independent Director Giulio Antonello from 14 May 2015).

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 cooption if it is necessary to replace Independent Directors.

During the course of the year, the Committee held a meeting on 13 March 2017, in order to submit to the Board of Directors a proposal with regard to the qualitative and quantitative composition of the newly appointed management body. The meeting lasted 30 minutes.

Minutes of the meeting were regularly drawn up, and the Committee informed the Board of the topics discussed at the next meeting. As of the date of this report, no meeting of the Committee is envisaged for the year 2018.

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

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

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). All of the current members of the Committee held the same office in the prior board mandate as well (Non-executive director Giuseppe Panizzardi from 14 May 2015).

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 3 (three) meetings, on 21 March, 26 April and 7 September, which were duly minuted. The first meeting concerned the assessment of achievement of the final balance of the variable Remuneration Plan at the group level for the year 2016, the proposals for fixed and variable remuneration for directors and for the chief executive officers for 2017 and the proposal for assignment of a second tranche of shares under the “2016 EUROTECH S.p.A. Performance Share Plan”, as well as confirmation of the remuneration policy. In the second meeting, the remuneration proposal discussed in the committee’s prior session was confirmed, based on the new appointments and on the recommendation of the Shareholders’ Meeting. The proposal for assignment of the second tranche of the “2016 EUROTECH S.p.A. Performance Share Plan” was discussed in the third meeting. The meetings were duly chaired by the Committee chairman.

The meetings lasted 23 minutes on average.

For the current year, a meeting was held on 27 February 2018 and, at the moment, at least one other meeting is envisaged for the March 2018.

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.

The Directors Chiara Mio and Giuseppe Panizzardi have financial or remuneration policy experience.

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. The 26 April 2017 meeting of the Board of Directors, after receiving the opinion of the Board of Statutory Auditors, established the additional remuneration for the Chief Executive Officer, as well as for the members of the internal committees.

For additional 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 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.

Incentive mechanisms of the Internal Audit Officer and Financial Reporting Manager

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

10. CONTROL AND RISKS COMMITTEE

The Board originally set up the Control and Risks Committee on 2 September 2005 with the functions established by the Corporate Governance Code.

In accordance with Art. 2.2.3(3)(o) of the Stock Market Regulation, applicable to STAR-qualified issuers, and Art. 7.C.2 of the Corporate Governance Code, the Control and Risks Committee provides advice and 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) evaluates, 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 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, with adequate preliminary investigation, 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 of the current members of the Committee held the same office in the prior board mandate as well (Independent Director Marina Pizzol from 14 May 2015).

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.

All the members of the Control and Risks Committee have appropriate accounting and financial experience. The Control and Risks Committee held 7 (seven) meetings during the reporting period, on 10 February, 26 April, 26 May, 26 June, 7 August, 7 September and 20 November, all chaired by the Committee chairman and all of which were duly minuted. The Committee duly informed the Board on the topics discussed.

The Control and Risks Committee meetings lasted about 2 hours and 4 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 have already been held, on 28 January and 9 March 2018.

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 always 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 his 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 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 above section 10).

On 13 March 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 plan prepared by the Internal Audit officer for the period 2018-2019.

Most recently on 9 March 2018, 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 periodically submits them 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 checking its adequacy and effectiveness;
- (iii) handles the adaptation of this system to the operating conditions and legislative and regulatory framework.

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

Furthermore, the Delegated Director (i) may require 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 Control and Risks Committee and the Chairman of the Board of Auditors; (ii) promptly reports to the Control and Risks Committee (or Board of Directors) in regard to problems and critical issues that have emerged in conducting his activities or of which he has become aware, so that the committee (or Board) may take the appropriate initiatives. During the year it was not necessary to exercise these powers.

On 26 April 2017, the Board of Directors designated CEO Roberto Siagri as Delegated Director, role that he also held during the previous board mandate.

11.2. Internal Audit Officer

The functions of the Internal Audit Officer are carried out by Stefano Bertoli, appointed by the Board of Directors on 26 April 2017 on the proposal of the Delegated Director, with the approval of the Control and Risks Committee and consulting the Board of Statutory Auditors.

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) checking, 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 prioritises the main risks;
- (b) informing, 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) promptly preparing reports on particularly important events;
- (d) discussing 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) checking the reliability of the information systems, including the accounting systems, as part of the audit plan.

The Internal Audit Officer 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 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 concern the analysis of business risks and auditing of corporate procedures regarding those risks.

11.3. Organisation model pursuant to Legislative Decree 231/2001

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

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 of 26 April 2017, consists of Stefano Fruttarolo (Chairman), Chiara Mio and 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.

11.4. Independent auditor

The Ordinary Shareholders' Meeting of 24 April 2014 assigned auditing of the accounts for the period 2014-2022 to PricewaterhouseCoopers S.p.A., upon recommendation by the Board of Statutory Auditors, also pursuant to Art. 13 of Italian Legislative Decree 39/2010.

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 Manager**") 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) General operating principles of the internal control and risk management system

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) Internal control and risk management system in the financial disclosure process

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 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) Roles and responsibilities within the internal control and risk management system

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 actors 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 9 March 2018, the Board of Directors, in accordance with the provisions of criterion 7.C.1 of the Corporate Governance Code, issued an adequacy judgment with regard to the aforementioned methods of coordination among the various parties involved in the internal control and risk management system.

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

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

At its meeting of 12 November 2010, the Company's Board of Directors, with a 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.

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.

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.

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, in its last meeting of 13 November 2017, conducted an assessment of the need to revise the Related Parties Procedure in the belief that it is sufficient for the operational structure of the Issuer, having taken into account the absence of major changes in the ownership structure of the Issuer and having demonstrated the effectiveness of the procedure in practical application.

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

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 in office until 26 April 2017 consisted of independent directors Chiara Mio (Chairman), Riccardo Costacurta and Giulio Antonello.

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

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

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

The Chairman of the Committee for Related Party Transactions is responsible for calling meetings and setting the agenda. At least three days' notice is given for meetings of the Committee for Related Party Transactions. The meeting may be called by fax or 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 teleconferencing or videoconferencing systems, provided that all the participants can be identified and that they can follow the discussion, speak in real time as agenda items are being discussed and transmit and receive documents, and provided that the context of examination and resolution can be guaranteed. If these conditions exist, the meeting is regarded as taking place at the location of the Chairman and the Secretary. In the event of emergency, the Chairman has the power to communicate with the Committee members in writing, taking minutes of the resolutions adopted.

During the course of the year, the Committee for Related Party Transactions held one meeting on 13 November 2017, which was 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 existing Related Party Procedure.

The meeting lasted 30 minutes.

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 Alternate 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. With resolution 20273 of 24 January 2018, 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 regulations that are envisaged 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 the balance between genders regulations 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

Since the mandate of the previous control body ceased to exist with approval of the financial statements of the year that closed on 31 December 2016, on 26 April 2017 the Ordinary Shareholders' Meeting appointed the new Board of Statutory Auditors in the persons of Gianfranco Favaro, Laura Briganti and Gaetano Rebecchini as Statutory Auditors, and Clara Carbone and Nicola Turello as Substitute Auditors on the basis of a single majority list submitted by the shareholder Leonardo S.p.A., also in the name and on behalf of the 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), according to the bylaws in force for a period of three years and in any case until the financial statements of the fiscal year ending on 31 December 2019 are approved.

Table 3 attached to this Report indicates the members of the Board of Statutory Auditors in office under the ordinary Shareholders' Meeting of 26 April 2017 and the member of the Board of Statutory Auditors in office until 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 31 December 2017 and as at the date of this Report (for Statutory Auditors whose office ceased during the year ended 31 December 2016) at companies pursuant to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code.

| Name and surname | Position at Eurotech | Company | Management and supervisory positions |
|---------------------------|---|--|--|
| Gianfranco Favaro | Chairman of the Board of Statutory Auditors | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Chairman of the Board of Statutory Auditors |
| | | Casa dello Studente A.Zanussi (Pordenone) | Chairman |
| | | SINLOC S.p.A. (Padua) | Chairman |
| | | Fondazione Friuli (Udine) | Vice Chairman |
| | | INVESTITORI ASSOCIATI CONSULENZA SIM SPA | Director |
| | | A.F. Fiduciaria S.p.A. (Verona) | Director |
| | | I.R.S.E. Pordenone | Director |
| | | SI.GE.CO. S.R.L. (Chions) | Director |
| | | Creactive Consulting S.p.a. Verona | Statutory Auditor |
| | | Madia s.p.a. San Quirino | Statutory Auditor |
| | | ENERGIA S.p.A. | Statutory Auditor |
| | | SCARPIS S.r.l. (Pordenone) | Statutory Auditor |
| | | TESSARO S.p.A. (Fonzaso (BL)) | Statutory Auditor |
| | | AMBIENTE SERVIZI S.p.A. (San Vito Al Tagliamento) | Chairman, Oversight Committee 231 |
| | | Refel SpA | Chairman, Oversight Committee 231 |
| Laura Briganti | Statutory Auditor | EUROTECH S.p.A. (Italy – Amaro (UD)) (Eurotech S.p.A. Group) | Statutory Auditor |
| | | Gruppo Vinicolo Fantinel S.p.A. - "G.V.F. S.p.A." | Chairman of the Board of Statutory Auditors |
| | | San Bon sri | Sole Auditor |
| | | F.A.R.E srl - with Sole Auditor | Sole Auditor |
| | | Sportur S.p.A. | Statutory Auditor |
| | | Precisa Revisione sri | Chairman of the Board of Directors |
| | | Gaiafin sri | Chairman of the Board of Directors |
| | | La Tecnologica sri | Receiver |
| | | Tecnoimmobil sri | Receiver |
| | | Costantini srl | Receiver |
| | | Costruzioni di Guido Leita di Leita Guido | Receiver |
| | | Peresan S.r.l. | Judicial Commissioner |
| | | Vidussi S.r.l. | Liquidator |
| Gaetano Rebecchini | Statutory Auditor | Eurotech S.p.A., (Eurotech Group) Amaro (UD); | Statutory Auditor |
| | | H.R. Services S.r.l. | Statutory Auditor |
| | | H.R. Services S.r.l. | Supervisory Body member pursuant to Art. 8, Leg. Decree 231/2001 |
| | | AD Moving S.p.a. | Statutory Auditor |
| | | Stile Costruzioni Edili S.r.l. | Statutory Auditor |
| | | Simmetrico S.r.l. - | Sole Auditor and Independent Auditor |
| | | Relabor S.r.l. | Director |

| | | | |
|--|---|--|---|
| Claudio Siciliotti (in office until 26 April 2017) | Chairman of the Board of Statutory Auditors | Eurotech S.p.A., Amaro (UD); | Chairman of the Board of Statutory Auditors |
| | | FriulanaGas S.p.A., Campoformido (UD); | Chairman of the Board of Statutory Auditors |
| | | Mangiarotti S.p.A., Sedegliano (UD); | Chairman of the Board of Statutory Auditors |
| | | Sager S.r.l., San Giovanni al Natisone (UD); | Chairman of the Board of Statutory Auditors |
| | | Kion S.p.A., Casalecchio di Reno (BO); | Chairman of the Board of Statutory Auditors |
| | | Sartogo S.p.A., Udine (UD); | Chairman of the Board of Statutory Auditors |
| | | Stark S.p.A., Trivignano Udinese (UD); | Chairman of the Board of Statutory Auditors |
| | | Ente per la gestione accentrata servizi condivisi (UD); | Chairman of the Board of Statutory Auditors |
| | | Mangiarotti Nuclear S.p.A., Sedegliano (UD); | Chairman of the Board of Statutory Auditors |
| | | Geber S.p.A., Tavagnacco (UD); | Chairman of the Board of Statutory Auditors |
| | | Cineca Consorzio Interuniversitario, Casalecchio di Reno (BO); | Statutory Auditor |
| | | E.F.Fim S.p.A., Udine (UD); | Statutory Auditor |
| | | Valagro S.p.A., Atessa (CH). | Statutory Auditor |
| | | Delta Erre S.p.A. – Padua (OD) | Chairman of the Board of Directors |
| Michela Cignolini (in office until 26 April 2017) | Statutory Auditor | Eurotech S.p.A., (Eurotech Group) Amaro (UD); | Statutory Auditor |
| | | Geber S.p.A., Tavagnacco (UD); | Statutory Auditor |
| | | Prestitalia S.p.A. - Bergamo (BG); | Statutory Auditor |
| | | Snaidero S.p.A., Majano (UD); | Statutory Auditor |
| | | FriulanaGas S.p.A., Campoformido (UD); | Statutory Auditor |
| | | Mangiarotti Nuclear S.p.A., Sedegliano (UD); | Statutory Auditor |
| | | Finest S.p.A., Pordenone (PN); | Substitute Statutory Auditor |
| | | Sager S.r.l., San Giovanni al Natisone (UD); | Substitute Statutory Auditor |
| | | Kion S.p.A., Casalecchio di Reno (BO); | Substitute Statutory Auditor |
| Giuseppe Pingaro (in office until 26 April 2017) | Statutory Auditor | Erresse Immobiliare S.r.l., Udine (UD). | Director |
| | | Eurotech S.p.A. (Eurotech Group) | Statutory auditor |

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 section Participants and Markets of members of the supervisory bodies on the www.consob.it website.

With regard to the company's diversity policies in relation to the composition of the Board of Statutory Auditors in office (Art. 123-*bis*, letter d-*bis*, TUF), it should be noted that: (i) one Statutory Auditor and one Substitute Statutory Auditor belong to the less represented gender, in compliance with the regulations on gender balance; (ii) without prejudice to respect of the professional requirements envisaged by law, the training and professional path of the members of the Board of Statutory Auditors currently in office ensures the appropriate skills for proper performance of its functions.

The Board of Statutory Auditors held 11 (eleven) meetings during the financial year: 23 January, 10 March, 30 March, 26 April, 12 May, 26 May, 26 June, 2 August, 7 August, 2 November and 13 November.

The average meeting duration was about 3 hours.

For the current year there are at least 6 (six) meetings scheduled, two of which were already held on 29 January and 7 March and the others scheduled on the following dates: 27 March, 20 June, 7 September and 3 December 2018.

At its meeting held on 7 March 2018 the Board of Statutory Auditors confirmed that its members still satisfied the requirement of independence in accordance with the TUF and with the Corporate Governance Code. The results were 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's business, its dynamics and trends, as well as the relevant regulatory framework. For additional information on the induction activities carried out by the Statutory Auditors, see paragraph 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 paragraph 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).

Recall that Italian Legislative Decree no. 39/2010, as last amended by Italian Legislative Decree no. 135/2016, assigns to the Board of Statutory Auditors the functions of the internal control and audit committee (the **"Internal Control and Audit Committee"**) which, in particular, is responsible for:

- informing the relevant body of the results of the audit and submitting to said body the additional report pursuant to Art. 11 of Regulation no. 537/2014, along with any observations;
- monitoring the financial reporting process and presenting the recommendations or proposals aimed at ensuring its integrity;
- verifying the effectiveness of the company's systems for internal quality control and risk management and, if applicable, internal auditing, as regards the financial reporting of the entity subject to audit, without violating its independence;
- monitoring the audit of the separate and consolidated financial statements, also taking into account any results and conclusions from the quality controls conducted by Consob in accordance with Art. 26, paragraph 6 of Regulation no. 537/2014, where available;
- verifying and monitoring the independence of the auditors or of the auditing firm in accordance with Articles 10, 10-bis, 10-ter, 10-quater and 17 of Italian Legislative Decree no. 39/2010 and Art. 6 of

Regulation no. 537/2014, particularly as regards adequacy of the provision of services other than auditing to the entity subject to audit, in accordance with Art. 5 of said regulation;

- assuming responsibility for the procedure aimed at the selection of auditors or auditing firms and recommending the auditors or auditing firms to be appointed pursuant to Art. 16 of Regulation no. 537/2014.

For additional details on the activities carried out by the Board of Statutory Auditors during the year, see the Board of Statutory Auditors' report on supervisory activities.

In particular, with reference to the provisions of Art. 19 of Legislative Decree 39/2010, 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 videoconference or teleconference with participants in more than one location, whether adjoining or remote, provided that the principles of collective decision-making, good faith and parity of Shareholder treatment are respected.

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 26 April 2017, 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.

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 resolution 20273 of 24 January 2018, 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.

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. COMMENTS ON THE LETTER DATED 13 DECEMBER 2017 BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

The letter dated 13 December 2017 and addressed by the Chairman of the Corporate Governance Committee to the Chairmen of the Boards of Directors of listed Italian companies was brought to the attention of the Issuer's Board of Directors in the meeting of 9 March 2018.

The Board acknowledged the analyses and recommendations contained in the letter and found the Company to be generally adequate with regard to the indications on the quality of pre-meeting information (see paragraph 4.3 of this Report), the remuneration policies (see the report drawn up pursuant to Art. 123-ter of the TUF), the establishment and functions of the Appointments Committee (see paragraph 7 of this Report), the quality of the independent directors (see paragraph 4.6 of this Report) and the contents of the board review (see paragraph 4.3 of this Report).

With regard to adoption of the succession plans, see the information already provided in this Report (paragraph 4.1).

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 | |
|--------------------------------------|---------------------|---------------|----------------------|-----------------|--|--------------|-------|------------|--------------|-------------|--------|-------------------------------|-----------------------------|-----|------------------------|-----|---------------------------------|-----|------------------------------|---|--|-----|
| Office | Members | Year of Birth | Date first appointed | In office since | In office until | List (M/m) * | Exec. | No n-exec. | Ind. by code | Ind. by 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 | 2 | | | 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 | 67 | 8 | 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 | | | 67 | 0 | | | | | | | | | | |
| Director | Marina Pizzol | 1969 | 14/05/2015 | 26/04/2017 | Approval of financial statements at 31/12/2019 | M | | X | | | 89 | 1 | X | 86 | | | | | | | | |
| Director | Dino Paladin | 1954 | 24/04/2014 | 26/04/2017 | Approval of financial statements at 31/12/2019 | M | | X | | | 89 | 2 | | | | | | | | | | |
| 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 | 17 | | | | | | | | | X | 100 |
| Director | Giulio Antonello | 1968 | 24/04/2014 | 26/04/2017 | Approval of financial | M | | X | X | X | 89 | 3 | | | | | X | 100 | | | X | 100 |

| | | | | | | | | | | | | | | | | | | | | | | |
|--|------------------------------|------|------------|------------|---|-----|---|---|---|---|-----|---|--|--|--|--|--|--|--|--|--|--|
| | | | | | statements at 31/12/2019 | | | | | | | | | | | | | | | | | |
| -----DIRECTORS DEPARTED IN THE REPORTING PERIOD----- | | | | | | | | | | | | | | | | | | | | | | |
| Office | Name Surname | | | | | | | | | | | | | | | | | | | | | |
| Director Financial Reporting Manager | Sandro Barazza | 1968 | 08/08/2008 | 24/04/2014 | Approval of financial statements at 31/12/2016 | M | X | | | | 100 | 7 | | | | | | | | | | |
| Director | Alberto Felice De Toni | 1955 | 21/07/2005 | 24/04/2015 | Approval of financial statements at 31/12/2016 | --- | | X | X | X | 33 | 3 | | | | | | | | | | |
| Number of meetings held during the year: Control and Risks Committee: 7 Remuneration Committee: 3 Appointments Committee: 1 Executive Committee: / Committee for Related Party Transactions: 1 | | | | | | | | | | | | | | | | | | | | | | |
| 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 | | | | | | | | | |
|--|--------------------|---------------|----------------------|-----------------|--|-----------------|-----------------------|--------|----------------------------------|
| Office | Members | Year of Birth | Date first appointed | In office since | In office until | List (M/m) * | Independence re. Code | ** (%) | Number of other positions *** |
| Chairman | Gianfranco Favaro | 1954 | 24/01/2014 | 26/04/2017 | Approval of financial statements at 31/12/2019 | M | X | 100% | 14 |
| Statutory Auditor | Laura Briganti | 1961 | 24/04/2014 | 26/04/2017 | Approval of financial statements at 31/12/2019 | M | X | 100% | 12 |
| Statutory Auditor | Gaetano Rebecchini | 1987 | 26/04/2017 | 26/04/2017 | Approval of financial statements at 31/12/2019 | M | X | 100% | 6 |
| -----STATUTORY AUDITORS DEPARTED IN THE REPORTING PERIOD----- | | | | | | | | | |
| Chairman | Claudio Siciliotti | 1952 | 23/07/1996 | 24/04/2014 | Approval of financial statements at 31/12/2016 | M | X | 100% | 13 |
| Statutory Auditor | Michela Cignolini | 1967 | 09/04/1999 | 24/04/2014 | Approval of financial statements at 31/12/2016 | M | X | 100% | 9 |
| Statutory Auditor | Giuseppe Pingaro | 1957 | 27/04/2009 | 24/04/2014 | Approval of financial statements at 31/12/2016 | M | X | 100% | 0 |
| 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 11 | | | | | | | | | |

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 section Participants and Markets of members of the supervisory bodies on the www.consob.it website.

Consolidated financial statements at 31 December 2017 prepared according to international accounting standards

Consolidated statement of financial position

| (€'000) | Notes | at December 31, 2017 | of which related parties | at December 31, 2016 | of which related parties |
|--|-------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| ASSETS | | | | | |
| Intangible assets | 1 | 79,968 | | 89,715 | |
| Property, Plant and equipment | 2 | 2,436 | | 2,993 | |
| Investments in affiliate companies | 3 | 0 | | 11 | |
| Investments in other companies | 3 | 144 | | 301 | |
| Deferred tax assets | 33 | 1,283 | | 1,465 | |
| Medium/long term borrowing allowed to affiliates companies and other Group companies | 34 | 83 | 83 | 95 | 95 |
| Other non-current assets | 4 | 618 | | 640 | |
| Total non-current assets | | 84,532 | | 95,220 | |
| Inventories | 5 | 17,821 | | 19,337 | |
| Contracts in progress | 6 | 412 | | 0 | |
| Trade receivables | 7 | 15,623 | 252 | 15,813 | 1,037 |
| Income tax receivables | 8 | 204 | | 155 | |
| Other current assets | 9 | 1,782 | | 1,414 | |
| Other current financial assets | 11 | 95 | 5 | 76 | |
| Cash & cash equivalents | 10 | 6,745 | | 9,186 | |
| Total current assets | | 42,682 | | 45,981 | |
| Non-current assets classified as held for sale | 12 | 28 | | 769 | |
| Total assets | | 127,242 | | 141,970 | |
| LIABILITIES AND EQUITY | | | | | |
| Share capital | | 8,879 | | 8,879 | |
| Share premium reserve | | 136,400 | | 136,400 | |
| Other reserves | | (54,582) | | (41,722) | |
| Group shareholders' equity | 14 | 90,697 | | 103,557 | |
| Equity attributable to minority interest | 14 | 0 | | 0 | |
| Total shareholders' equity | 14 | 90,697 | | 103,557 | |
| Medium-/long-term borrowing | 16 | 1,844 | | 3,475 | |
| Employee benefit obligations | 17 | 2,343 | | 2,437 | |
| Deferred tax liabilities | 33 | 2,816 | | 3,767 | |
| Other non-current liabilities | 19 | 688 | | 869 | |
| Total non-current liabilities | | 7,691 | | 10,548 | |
| Trade payables | 20 | 13,088 | 149 | 13,459 | 300 |
| Short-term borrowing | 16 | 10,720 | | 8,210 | |
| Derivative instruments | 36 | 9 | | 12 | |
| Income tax liabilities | 8 | 262 | | 642 | |
| Other current liabilities | 21 | 4,775 | | 5,542 | |
| Total current liabilities | | 28,854 | | 27,865 | |
| Total liabilities | | 36,545 | | 38,413 | |
| Total liabilities and equity | | 127,242 | | 141,970 | |

Consolidated income statement

| (€'000) | Notes | FY 2017 | of which related parties | FY 2016 | of which related parties |
|--|-------|----------------|-----------------------------|----------------|-----------------------------|
| Revenues from sales of products and services | F | 60,120 | 699 | 61,103 | 1,883 |
| Other revenues | 28 | 1,935 | | 3,333 | 1,705 |
| - of which non recurrent | 37 | 0 | | 1,705 | 1,705 |
| Cost of materials | 23 | (30,985) | (275) | (31,144) | (801) |
| Service costs | 25 | (11,365) | (23) | (12,333) | (46) |
| Lease & hire costs | | (1,726) | | (1,788) | |
| Payroll costs | 26 | (17,804) | | (19,856) | |
| Other provisions and other costs | 27 | (734) | | (942) | |
| Cost adjustments for in-house generation of non-current assets | 29 | 2,231 | | 2,070 | |
| Depreciation & amortisation | 30 | (4,377) | | (5,257) | |
| Asset impairment | 30 | (280) | | (751) | |
| Operating profit | | (2,985) | | (5,565) | |
| Share of associates' profit of equity | 32 | (3) | | 52 | |
| Subsidiaries management | 32 | (116) | | 214 | |
| Finance expense | 31 | (2,205) | | (1,295) | |
| Finance income | 31 | 748 | 5 | 1,469 | |
| Profit before taxes | | (4,561) | | (5,125) | |
| Income tax | 33 | (111) | | 56 | |
| Net profit (loss) | | (4,672) | | (5,069) | |
| Minority interest | | 0 | | 0 | |
| Group net profit (loss) for period | | (4,672) | | (5,069) | |
| Base earnings (losses) per share | 15 | (0.137) | | (0.148) | |
| Diluted earnings (losses) per share | 15 | (0.137) | | (0.148) | |

Consolidated statement of comprehensive income

| (€'000) | Notes | FY 2017 | FY 2016 |
|--|-------|-----------------|----------------|
| Net profit (loss) before minority interest (A) | | (4,672) | (5,069) |
| Other elements of the statement of comprehensive income | | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Net profit/(loss) from Cash Flow Hedge | 36 | 3 | (4) |
| Tax effect | | - | - |
| | | <u>3</u> | <u>(4)</u> |
| Foreign balance sheets conversion difference | | <u>(3,872)</u> | <u>2,088</u> |
| Exchange differences on equity investments in foreign companies | 14 | (4,609) | 1,171 |
| Tax effect | | - | - |
| | | <u>(4,609)</u> | <u>1,171</u> |
| After taxes net other comprehensive income to be reclassified to profit or loss in subsequent periods (B) | | (8,478) | 3,255 |
| <i>Items not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Actuarial gains/(losses) on defined benefit plans for employees | 17 | (85) | (40) |
| Tax effect | | 27 | 14 |
| | | <u>(58)</u> | <u>(26)</u> |
| After taxes net other comprehensive income not being reclassified to profit or loss in subsequent periods (C) | | (58) | (26) |
| Comprehensive net result (A+B+C) | | (13,208) | (1,840) |
| Comprehensive minority interest | | - | - |
| Comprehensive Group net profit (loss) for period | | (13,208) | (1,840) |

Statement of changes in consolidated shareholders' equity

| | 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 |
|---|-------|---------------|---------------|-----------------------|--------------------|----------------|-------------------------|---|-----------------------------------|-----------------|--------------------------|----------------------------|--|----------------------------|
| (€'000) | | | | | | | | | | | | | | |
| Balance as at December 31, 2015 | | 8,879 | 1,200 | 136,400 | 10,601 | (47,761) | (8) | (372) | 5,718 | (3,097) | (6,223) | 105,337 | - | 105,337 |
| 2015 Result allocation | | - | 185 | - | - | (6,408) | - | - | - | - | 6,223 | - | - | - |
| Profit (loss) as at December 31, 2016 | | - | - | - | - | - | - | - | - | - | (5,069) | (5,069) | - | (5,069) |
| - Performance Share Plan | 18 | - | - | - | - | 60 | - | - | - | - | - | 60 | - | 60 |
| Comprehensive other profit (loss): | | | | | | | | | | | | | | |
| - Hedge transactions | 36 | - | - | - | - | - | (4) | - | - | - | - | (4) | - | (4) |
| Actuarial gains/(losses) on defined benefit plans for employees | 17 | - | - | - | - | - | - | (26) | - | - | - | (26) | - | (26) |
| - Foreign balance sheets conversion difference | | - | - | - | 2,088 | - | - | - | - | - | - | 2,088 | - | 2,088 |
| - Exchange differences on equity investments in foreign companies | | - | - | - | - | - | - | - | 1,171 | - | - | 1,171 | - | 1,171 |
| Comprehensive result | | - | - | - | 2,088 | - | (4) | (26) | 1,171 | - | (5,069) | (1,840) | - | (1,840) |
| Balance as at December 31, 2016 | | 8,879 | 1,385 | 136,400 | 12,689 | (54,109) | (12) | (398) | 6,889 | (3,097) | (5,069) | 103,557 | - | 103,557 |
| (€'000) | | | | | | | | | | | | | | |
| 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 |

Consolidated cash flow statement

| CONSOLIDATED STATEMENT OF CASH FLOWS (€'000) | Note | at December 31, 2017 | of which related parties | at December 31, 2016 | of which related parties |
|--|------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| CASH FLOWS GENERATED BY OPERATIONS: | | | | | |
| Group net profit (loss) for period | | (4,672) | | (5,069) | |
| Adjustments to reconcile reported net profit with cash & cash equivalents generated (used) in operations: | | | | | |
| Depreciation & amortization intangible assets, property, plant and equipr | 30 | 4,657 | | 6,008 | |
| Write-down of receivables | 7 | 80 | | 187 | |
| Interest income | 31 | (37) | | (21) | |
| Interest expenses | 31 | 444 | | 439 | |
| Gain on business unit disposals and investments in associates | 37 | 0 | | (1,827) | |
| Share of net profit of associate and non-consolidated subsidiaries | | 3 | | (52) | |
| Impairment of nvestments in other companies | 3/32 | 116 | | 0 | |
| Income taxes (paid) get | | (923) | | (2,430) | |
| Stock Grant expenses | 18 | 348 | | 60 | |
| Provision for (use of) cumulative inventory write-down | 5 | 188 | | 749 | |
| Provision for (use of) long-term employee severance indemnities | 17 | (152) | | 284 | |
| Provision for (use of) risk provision | 19 | (85) | | (63) | |
| (Provision for) / use of deferred tax asset / Provision for (use of) deferred tax liability | 33 | (769) | | (919) | |
| Changes in current assets and liabilities | | | | | |
| Trade receivables | 7 | 110 | 785 | 27 | (295) |
| Other current assets | 8/9 | (417) | | 248 | |
| Inventories and contracts in process | 5 | 916 | | (633) | |
| Trade payables | 20 | (371) | (151) | (692) | (738) |
| Other current liabilities | 8/21 | (224) | | 2,278 | |
| Total adjustments and changes | | 3,884 | | 3,643 | |
| Cash flow generated (used) in operations | | (788) | | (1,426) | |
| CASH FLOW FROM INVESTMENT ACTIVITIES: | | | | | |
| Sales of tangible and intangible assets | 1/2 | 17 | | (8) | |
| Interest income | 31 | 37 | | 21 | |
| Purchase of intangible fixed assets | 1 | (2,166) | | (1,991) | |
| Purchase of tangible fixed assets | 2 | (306) | | (697) | |
| Decreases (Increases) other financial assets | 11 | (19) | | 0 | |
| Net investments in long-term investments and non-current assets | | 43 | | (51) | |
| Cash flow generated (used) by non-current assets classified as held for sale | | 769 | | 2,692 | |
| Cash flow generated (used) in investment activities | | (1,625) | | (34) | |
| CASH FLOW FROM FINANCING ACTIVITIES: | | | | | |
| Loans taken | 16 | 3,499 | | 2,989 | |
| (Increases) decreases of loans to other Group companies | 16 | 0 | - | (95) | (95) |
| Interest paid | 31 | (444) | | (439) | |
| (Repaid) loans short and medium/long term | 16 | (2,159) | | (3,265) | |
| Cash flow generated (absorbed) by financial assets | | 896 | | (810) | |
| Net foreign exchange difference | | (924) | | 26 | |
| Increases (decreases) in cash & cash equivalents | | (2,441) | | (2,244) | |
| Opening amount in cash & cash equivalents | 10 | 9,186 | | 11,430 | |
| Cash & cash equivalents at end of period | 10 | 6,745 | | 9,186 | |

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 2017 was authorised by resolution of the Board of Directors on 13 March 2018. Eurotech S.p.A. is a joint stock company incorporated and domiciled in Italy. The Group has its registered office in Amaro, Italy.

Eurotech is a group active in the research, development, and marketing of miniaturised computers 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 2017, as well as with the measures enacted to implement article 9 of Legislative Decree 38/2005. IFRSs include all international accounting standards that have been revised (IAS) and all the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

Consolidated financial statements are based on recognition at cost, except for derivative financial instruments, which are normally recognised at fair value. 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 to address this situation, industrial 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 as at 31 December 2016, except for the following new or revised IFRSs or IFRICs, applied for the first time by the Group as of 1 January 2017.

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

Disclosure initiative – IAS 7 – The IASB has published amendments to improve the presentation and disclosure of financial information in the financial reports and to address some requests of financial statement users. Pursuant to this, an entity must provide information that allows financial statement users to assess the changes in the liabilities generated by the financing activities, including non-monetary elements. This amendment required an adjustment of the financial disclosure as represented in Note 13.

Income Taxes – IAS 12 – The published amendments are to clarify how to recognise the deferred tax assets relating to debt instruments measured at fair value. This amendment had no impact on the Group.

Disclosure of Interests in Other Entities – IFRS 12 – When an investment in a subsidiary, joint venture or associated company is classified as held for sale pursuant to IFRS 5, the amendments allow a company not to present a summary of the economic and financial data for that subsidiary, joint venture or associated company in its financial statements. This amendment had no impact on the Group.

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

Revenue from contracts with customers – IFRS 15 – The standard requires a company to recognise revenue at the time control of assets or services is transferred to customers at an amount that reflects the payment expected to be received in exchange for said products or services. To reach this purpose, the new revenue recognition model defines a five-step process. The new standard also requires additional information on the nature, amount, timing and uncertainty of the revenue and cash flows deriving from the contracts with customers. The new standard must be applied for the financial years starting on or after 1 January 2018. Early adoption is allowed, but the Group did not choose this option.

A preliminary analysis of the main existing contracts of sale revealed that the Group does not expect any impact to come from application of the new accounting standard on recognition of revenue.

Revenue from contracts with customers – IFRS 15 – The purpose of the published amendments is to provide detailed information on identification of the performance obligations, on recognition of revenue for licenses on intellectual property and the assessment of a principal as compared to an agent. The amendments apply starting from 1 January 2018.

Financial instruments – IFRS 9 – The set of amendments introduced by the new standard replaces the provisions of IAS 39 and introduce a logical approach for the classification and valuation of the financial instruments based on the characteristics of the cash flows and the business model according to which the asset is held, a single model for impairment of the financial assets based on the expected losses and a substantial renewed hedge accounting approach. The new standard must be applied for the financial years starting on or after 1 January 2018. Early adoption is allowed starting from 1 January 2016, but the Group did not choose this option. The Group is weighing the method to implement and the effect of the new standard on its separate financial statements. A preliminary analysis with particular relevant to classification and hedge accounting showed that no significant impacts on the Group financial statements are expected.

Share based payment – 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. The amendments apply starting from 1 January 2018.

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. This interpretation will apply starting from 1 January 2018.

Investment property – IAS 40 – The purpose of the published amendments is to regulate transfers to and from investment property. More specifically, whether a property under construction or development recognised in the inventory can be transferred to investment property if there is an evident change in use is defined. These amendments will apply starting from 1 January 2018.

Regarding the implementation of IFRS 9 Financial Instruments Amendments to – IFRS 4 – The published amendment is aimed at solving those problems arising from application of IFRS 9, the new standard on financial instruments, before implementing the standard that will replace IFRS 4 under development by the IASB. This amendment will apply starting from 1 January 2018.

Annual improvements to IFRSs – 2014-2016 Cycle – On 8 December 2016 the IASB published several amendments to the standards aimed at clarifying some provisions regarding IFRS 1, IFRS 12 and IAS 28, applicable starting from 1 January 2018.

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 will go into effect on 1 January 2019, but early application is allowed for companies that also apply IFRS 15 - Revenue from contracts with customers.

Consolidated financial statements and Equity interest in affiliates and joint ventures – IAS 10 and IAS 28 – On 11 September 2014 the IASB published several amendments to IFRS 10 – Consolidated financial statements and to IAS 28 – Equity interests in affiliates and joint ventures. The objective is to clarify the method of accounting the results tied to the sales of assets between group companies and the affiliates and joint ventures. The new standard is applicable from 1 January 2019.

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:

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

Uncertainty in the estimates

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

Impairment of non-financial assets

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

Specifically, goodwill and other intangible assets with an indefinite useful life (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.

As at 31 December 2017, the book value of goodwill was €67,185 thousand (2016: €74,339 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 2017, unrecognised tax losses carried by the Parent Company were estimated at €41,639 thousand (2016: 39,801 thousand), which can be carried forward without limitation. In the Group as a whole, unrecognised tax losses came to €60,720 thousand (2016: €58,160 thousand), which can be carried forward without limitation.

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 2017 the best estimate of the book value of capitalised development costs was €4,825 thousand, of which €2,667 thousand are in progress (2016: €4,511 thousand, of which €2,189 thousand are in progress).

Other items subject to estimates

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

The companies included in the basis of consolidation on a line-by-line basis at 31 December 2017 are as follows:

| Company name | Registered offices | Share capital | Group share |
|---|---------------------------------------|----------------|-------------|
| <i>Parent company</i> | | | |
| Eurotech S.p.A. | Via Fratelli Solari, 3/A – Amaro (UD) | Euro 8,878,946 | |
| <i>Subsidiary companies consolidated line-by-line</i> | | | |
| Aurora S.r.l. | Via Fratelli Solari, 3/A – Amaro (UD) | Euro 10,000 | 100.00% |
| ETH Devices S.r.o. under liquidation | Bratislava (Slovakia) | 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) Officially, 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.

The following affiliates are consolidated at equity:

| | | | |
|--|---|--|--------|
| <i>Affiliated companies consolidated at equity</i> | | | |
| Rotowi Technologies S.p.A. in liquidation (formerly U.T.R.I. S.p.A.) | Via del Follatolo, 12 – Trieste | | 21.31% |
| <i>Other smaller companies valued at cost</i> | | | |
| Kairos Autonomi Inc. | Sandy (USA) | | 19.00% |
| <i>Affiliated companies booked under assets held for sale</i> | | | |
| eVS embedded Vision Systems S.r.l. | Ca' Vignal2, Strada Le Grazie 15 - Verona | | 24.00% |

The main changes with regard to subsidiaries and affiliates compared with 31 December 2016 are as follows:

- 01/01/2017 eVS embedded Vision Systems S.r.l. is classified among assets held for sale;
- 02/05/2017 Chengdu Vantron Technology Inc. is sold to the majority shareholder;
- 04/07/2017 Slovakian company ETH Devices S.r.o. was placed under liquidation and at the end of January 2018 the company was closed following completion of liquidation process;
- 07/09/2017 the companies Dynatem Inc. and Eurotech Inc. approved the merger by incorporation of Dynatem Inc. in Eurotech Inc. effective from 1st October 2017.

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

If the Parent Company loses control of a subsidiary, it:

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

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 2017 | As of December 31, 2017 | Average 2016 | As of December 31, 2016 |
|------------------------|--------------|-------------------------|--------------|-------------------------|
| British pound sterling | 0.87667 | 0.88723 | 0.81948 | 0.85618 |
| Japanese Yen | 126.71120 | 135.01000 | 120.19665 | 123.40000 |
| USA Dollar | 1.12970 | 1.19930 | 1.10690 | 1.05410 |

Accounting policies

The accounting standards and policies applied to prepare the consolidated financial statements for the year ended 31 December 2017 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

Business combinations from 1 January 2010

Business combinations are booked using the purchase method. The purchase cost is measured as the sum of the payment made at fair value at acquisition date and the amount of any minority interest in the acquiree. For every business combination, the acquirer must value any minority interest in the acquiree at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquiree. Acquisition costs are paid and classified in administrative expenses.

When the Group acquires a business, it must classify or designate the financial assets acquired or liabilities assumed in accordance with the contractual terms and financial conditions and other pertinent conditions existing at acquisition date. This includes establishing whether an embedded derivative must be separated from the primary contract.

If the business combination is carried out in more than one stage, the acquirer must recalculate the fair value of the equity interest previously held and valued using the equity method, recognising any resulting profit or loss in the income statement.

Any potential payment must be recognised by the acquirer at fair value at acquisition date. Changes in the fair value of the potential payment classified as an asset or liability shall be recognised, pursuant to IAS 39, in the income statement or as other components of comprehensive income. If the potential payment is classified in equity, its value must not be recalculated until its extinction is booked against equity.

Goodwill is initially valued at cost, calculated as the excess between the sum of the payment made and the amount recognised for minority interests, and the identifiable assets acquired and liabilities assumed by the Group. If the payment is less than the fair value of the net assets of the acquired subsidiary, the difference is posted to the income statement.

After initial recognition, goodwill is valued at the reduced cost of the accumulated impairment losses. For the purposes of the impairment test, goodwill acquired in a business combination must, at acquisition date, be allocated to every Group cash generating unit expected to benefit from the combination, aside from the fact that the other assets or liabilities of the acquired entity are assigned to these units.

If goodwill is allocated to a CGU and the entity sells part of the assets of this unit, the goodwill associated with the asset sold must be included in the carrying value of the asset when calculating the gain or loss deriving from the disposal. The goodwill associated with the asset sold must be calculated on the basis of the relative values of the asset sold and the portion retained by the CGU.

Business combinations before 1 January 2010

Differences by comparison with the above policies are set out below.

Business combinations were booked using the purchase method. Transaction costs directly attributable to the combination were regarded as part of the purchase cost. Minority interests were calculated according to the portion of the identifiable net assets of the acquiree pertaining to minorities.

Business combinations carried out in stages were booked at separate times. Each new acquisition of shares did not affect the goodwill previously recognised.

The potential payment was recognised if, and only if, the Group had a current obligation, and cash outflows were probable and the estimate could be reliably calculated. Subsequent changes to the potential payment were booked as part of goodwill.

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

Research and development costs

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

Development costs incurred with reference to a specific project are only capitalised when the Group can demonstrate (a) that it is technically practicable to complete the fixed asset so as to make it available for use or for sale; (b) that it intends to complete the fixed asset for use or for sale; (c) the way in which it will probably generate future benefits; (d) the availability of technical, financial and all other resources needed to complete the asset; and (e) its ability to reliably determine the costs attributed to the asset throughout its development.

Capitalised developed costs are amortised over the period in which all future expected revenues will occur.

During the development period, the asset is re-examined annually to verify potential impairment. After the initial posting, development costs are assessed at cost, minus any other amortisation or accumulated losses. Amortisation of the asset begins as soon as development is completed and the asset becomes available for use.

All other development costs are reported in the income statement in the period they are incurred.

Patents and trademarks

Patents have been granted by the competent body for a minimum of ten years with renewal option by the Group if the patent continues to produce utility over time.

Trademarks acquired separately are initially recognised at cost inclusive of ancillary charges. Trademarks acquired through business combinations are recognised at their fair value measured at the acquisition date.

Following initial recognition, trademarks are recorded at cost, net of goodwill provisions and any accumulated impairment losses.

Trademarks with a definite useful life recognised in the statement of financial position are amortised over a period of between 8 and 10 years and subject to impairment testing whenever a loss of value is indicated. Its useful life is reviewed on an annual basis.

Trademarks with an indefinite useful life are not amortised but are subject to impairment testing at least annually.

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

Other intangible assets

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

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

Useful life is re-assessed annually, and any changes are applied prospectively as necessary.

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

Tangible assets

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

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

Property, plant and equipment are listed net of respective accumulated depreciation and any impairment determined according to the methods described below. Depreciation is calculated on a straight-line basis, according to the estimated life of the asset for the company, which is re-examined annually and adjusted for changes on a case-by-case basis. The main technical 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 outstanding value of the asset, useful life and methods applied are reviewed annually and adjusted if necessary at the end of every financial year.

Financial charges incurred for investments in assets for which there is generally a certain period of time to make the asset ready for use or sale (qualifying assets, pursuant to IAS 23 – *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 interests in affiliates

Equity interests 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 associate. Equity interests in an associate are booked in the income statement at cost, increased by subsequent changes pursuant to acquisition of the Group share in the net assets of the associate, according to the net equity method. Goodwill relating to the associate is included in the carrying value of the shareholding and is not subject to amortisation or to impairment testing.

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

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

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

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

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

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 interests in other companies

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

Other non-current assets

Receivables and other long-term 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.

Trade receivables and other receivables

Receivables included in current and non-current assets are initially recognised at fair value and then at amortised cost and adjusted for impairment.

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

Impairment of financial assets

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

Assets determined using the amortised cost method

If there is an objective indication that a loan or receivable recognised at amortised cost may be impaired, the impairment is measured as the difference between the asset's carrying value and the present value of expected future cash flows (excluding future loan losses not yet incurred) discounted at the initial interest rate of the financial asset (i.e., the effective interest rate calculated at initial recognition). The carrying value of the asset is written down using a specific reserve and the impairment is recognised in the income statement.

If the impairment is reduced in subsequent periods and there is objective evidence that the reduction is due to an event occurring after the recognition of the impairment loss, the impairment may be reversed. Any impairment loss reversals

are recognised in the income statement to the extent that the carrying value of the asset does not exceed the amortised cost at the date of reversal.

With regard to trade receivables, an impairment provision is made when there is objective evidence (e.g., the probability of default or significant financial distress of borrowers) that the group will not be able to recover all amounts due according to the original terms and conditions of the invoice.

Treasury shares

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

Cash and cash equivalents

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

Non-current assets classified as held for sale

Non-current assets and groups for sale 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 groups for sale 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

Trade payables and other liabilities

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

Other liabilities included in both current and non-current assets are initially recognised at cost, which corresponds to the fair value of the liability, net of transaction costs directly attributed to the issue of the liability. Following initial recognition, financial liabilities are valued using the amortised cost criterion and the effective initial interest rate method.

Loans

All loans are initially recognised at the fair value of the amount received net of ancillary charges related to acquiring the loan. After initial recognition, loans are valued using the amortised cost criterion and the effective interest rate method. Every gain or loss is booked to the income statement when the liability is extinguished, unless this takes place through the amortisation process.

If a long-term loan agreement provision is breached at the reporting date or prior to this date, with the result that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before approval of the financial statements for publication, not to demand payment due to breach of contract. The liability is classified as current at the reporting date because the company does not have an unconditional right to defer settlement for at least 12 months after this date.

Derivative financial instruments

The Group uses derivative financial instruments such as interest-rate swaps in order to hedge any risk from fluctuations of interest rates. Such derivative financial instruments are initially recognised at fair value at the date they are entered into; their fair value is recalculated periodically. They are recognised as assets when their fair value is positive and as liabilities when it is negative. Pursuant to IAS 39, hedging derivative financial instruments are recognised based on hedge accounting standards only when:

- a) a formal designation exists and a hedging relationship report was prepared at the beginning of the hedging transaction;
- b) the hedging relationship is expected to be highly effective;
- c) the hedging relationship effectiveness can be reliably measured;
- d) the hedging relationship itself is highly effective in all accounting periods for which it was designated.

When derivative financial instruments are used to hedge the fair value of underlying instruments (so called fair value hedges, as in the case of hedging the fair value of fixed-rate assets/liabilities), they are recognised at fair value through the income statement; and the hedged instruments are adjusted accordingly for changes in fair value of the hedged risk. When derivatives are cash-flow hedges, e.g. hedging the change in cash flows of assets and liabilities at a variable rate due to interest-rate fluctuations, changes in the fair value are initially recognised on the statement of financial position and are then charged to the income statement consistent with the economic effects produced by the hedged transaction. Consistent with strategy, the Group does not enter into speculative transactions on derivative instruments. In any event, if these transactions cannot be qualified as hedge transactions, they are registered as speculative transactions. Changes in the fair value of derivatives that do not meet the requirements for qualification as hedging instruments are recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, part of a financial asset or part of a group of similar assets) is derecognised from the financial statements when:

- rights to receive the cash flows from the asset are extinguished;
- the Group holds the right to receive cash flows from the asset, but has undertaken a contractual obligation to pay for them in full and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and (a) has essentially transferred all the risks and benefits of ownership of the financial asset or (b) has not transferred nor retained the risks and benefits of the asset, but has transferred its control.

If the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor held all the risks and benefits or has not lost control of them, the asset is recognised in the Group financial statements to the extent of its residual involvement in the asset. Residual involvement which takes the form of a guarantee on the transferred asset is valued at the lesser of the initial carrying value of the asset and the maximum value of the amount that the Group could be required to pay.

If the residual involvement takes the form of an option issued and/or acquired on the transferred asset (including the options regulated by cash or similar), the amount of Group involvement corresponds to the amount of the transferred asset that the Group can re-acquire; however, in the case of a put option issued on an asset measured at fair value (including options regulated in cash or with similar dispositions), the measure of residual involvement of the Group is limited to the lesser between the fair value of the transferred asset and the strike price of the option.

Financial liabilities

A financial liability is derecognised from the financial statements when the obligation underlying the liability is extinguished, voided or completed.

If an existing financial liability is replaced by another by the same lender, at substantially different conditions, or the conditions of an existing liability are essentially changed, this exchange or change is treated like an accounting

elimination of the original liability and a new liability is recorded, posting to the income statement any differences between the accounting values.

Employee benefit obligations

Benefits guaranteed to employees, paid concurrent to or subsequent to the cessation of the employment relationship through defined benefit plans 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 income but are consistently spread out over the periods so that they refer to the costs they are intended to offset. If the grant is related to any activity or development activity whose value is recognised as a fixed asset, it directly reduces the value of the fixed assets.

Operating grants (granted in order to provide immediate self-financing to the business or as compensation for expenses and losses incurred in a prior financial year) are fully recognised in the income statement at the time when the conditions for posting are met.

Leasing

A contractual agreement is defined as a lease (or containing a leasing transaction) according to the substance of the agreement and requires an assessment of whether fulfilment of the agreement depends on the use of one or more specific assets and if the agreement transfers the right to use this asset. A review is carried out after the start of the agreement only if one of the following conditions appears:

- a) there is a change in the agreement conditions, other than renewal or extension of the agreement;
- b) a renewal option is exercised or an extension is granted, unless the terms of the renewal or extension are not initially included in the terms of the lease transaction;
- c) there is a change in the conditions whereby adaptation depends on a specific activity; or
- d) there is a substantial change in the asset.

When a re-examination is carried out, the accounting treatment of the lease will begin or cease on the date at which the circumstances that have given rise to the review for scenarios a), c) or d) change and at the date of renewal or extension for scenario b).

Financial lease agreements that transfer to the Group all the risks and benefits associated with ownership of the leased asset are capitalised from the start date of the lease agreement at the fair value of the leased asset, or at the present value of lease payments if this is lower. Lease payments are apportioned between principal and interest in order to apply a constant periodic rate of interest on the remaining balance of the liability (principal). Financial charges are written to the income statement. Capitalised leased assets are depreciated on the shorter of the estimated useful life of the asset and the duration of the lease agreement, if it is not reasonably certain that the Group will obtain ownership of the asset at the end of the agreement.

Lease agreements in which the lessor essentially retains all the risks and benefits typical of ownership are classified as operating leases. Lease payments are charged to the income statement on a straight-line basis according to the duration of the agreement.

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 are recognised in the measure in which it is possible to reliably determine the fair value and it is probable that the respective economic benefits will be used.

Depending on the type of transaction, revenues are recognised according to the specific criteria reported below:

- revenues from sales of goods are recognised when the significant risks and benefits of ownership of the goods are transferred to the buyer, generally at the date the goods are shipped;
- revenues for performing services are recognised according to the state of completion of the assets based on the criteria envisaged for contract work in progress. If it is not possible to reliably estimate the value of revenues, these are recognised up to the amount of the costs incurred that is deemed recoverable.

Interest

Interest income and expenses are recognised according to interest accrued on the net value of related assets and liabilities using the effective interest rate (the rate that discounts all future cash flows based on the expected useful life of the financial instrument to equal the net carrying amount of the financial asset).

Dividends

Dividends are reported when the shareholders' right to receive payment is established.

Income tax

Current tax assets and liabilities for the period and for all prior periods are carried at the amount expected to be recovered or to be paid to the tax authorities pursuant to tax legislation in force. Tax rates and fiscal provisions used to calculate the amount are as issued or substantially issued at the reporting date of 31 December 2017.

Current taxes relating to elements recognised directly in equity are recognised directly in equity and not in the income statement.

Deferred tax liabilities are calculated using the liability method on temporary differences at the reporting date between tax amounts related to assets and liabilities and the amounts recognised in the derecognise.

Deferred tax liabilities are recognised with regard to all taxable temporary differences, except for:

- when deferred tax assets arise from initial posting of goodwill or an asset and liability in a transaction which is not a business combination and which, at the time of the transaction, does not have an effect on income in the financial year calculated for the financial statements, nor on the income or loss calculated for tax purposes;
- with reference to taxable temporary differences associated with equity interests 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 interests 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.

Deferred tax assets and liabilities are recognised based on the tax rates expected to be applied during the year when these activities are realised or these liabilities extinguished, taking into account the rates in force and those issued or allocated at year-end.

Income taxes related to items posted to equity are directly recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and liabilities and deferred income tax referring to the same taxable object and the same tax authorities.

F – Segment information

For management purposes, at the end of 2016, the Group was organised into two significant segments of activity: the "NanoPC" sector and the "HPC (high performance computers)" segment. Considering the low significance in terms of revenues of the HPC segment and the company's policy of no longer considering this segment as a separate business unit, it was decided to use instead the know how realised to support the products of the single remaining division "NanoPC", with disclosure provided regarding the only identified segment, broken down into geographical areas. The geographical 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 geographical areas are defined according to the localisation of Group assets and operations. They are: Europe, North America and Asia.

Management monitors the EBIT of the individual business units separately for the purposes of resources allocation and performance assessment.

| (€ '000) | North America | | | Europe | | | Asia | | | Correction, reversal and elimination | | | Total | | |
|-------------------------|---------------|---------|--------------|---------|---------|--------------|---------|---------|--------------|--------------------------------------|---------|--------------|---------|---------|--------------|
| | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change | FY 2017 | FY 2016 | % YoY Change |
| Third party Sales | 23,382 | 22,479 | | 12,923 | 13,446 | | 23,815 | 25,178 | | 0 | 0 | | 60,120 | 61,103 | |
| Infra-sector Sales | 439 | 519 | | 3,209 | 3,940 | | 181 | 198 | | (3,829) | (4,657) | | 0 | 0 | |
| Total Sales revenues | 23,821 | 22,998 | 3.6% | 16,132 | 17,386 | -7.2% | 23,996 | 25,376 | -5.4% | (3,829) | (4,657) | 17.8% | 60,120 | 61,103 | -1.6% |
| Gross profit | 8,800 | 8,414 | 4.6% | 6,798 | 7,432 | -8.5% | 13,669 | 14,437 | -5.3% | (132) | (404) | -67.3% | 29,135 | 29,879 | -2.5% |
| Gross profit margin - % | 36.9% | 36.6% | | 42.1% | 42.7% | | 57.0% | 56.9% | | | | | 48.5% | 48.9% | |
| EBITDA | | | | | | | | | | | | | 1,672 | 443 | 277.4% |
| EBITDA margin - % | | | | | | | | | | | | | 2.8% | 0.7% | |
| EBIT | | | | | | | | | | | | | (2,985) | (5,565) | -46.4% |
| EBIT margin - % | | | | | | | | | | | | | -5.0% | -9.1% | |

Regarding the turnover broken down by geographical area, as shown in the table above, we note an increase in the North American area and a reduction in Europe as well as Asia, the latter on account of the differing conversion rate of the Yen/Euro with which the financial statements in a foreign currency were translated.

The table below shows assets and investments in the Group's individual business segments at 31 December 2017 and 31 December 2016.

| (€'000) | North America | | Europe | | Asia | | Correction, reversal and elimination | | Total | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|--------------------------------------|----------------|----------------|----------------|
| | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
| Assets and liabilities | | | | | | | | | | |
| Segment assets | 35,378 | 41,868 | 68,498 | 72,358 | 68,170 | 74,170 | -44,948 | -46,738 | 127,098 | 141,658 |
| Investments in subsidiaries non consolidated, associate & other companies | 109 | 249 | 35 | 63 | 0 | 0 | 0 | 0 | 144 | 312 |
| Total assets | 35,487 | 42,117 | 68,533 | 72,421 | 68,170 | 74,170 | -44,948 | -46,738 | 127,242 | 141,970 |
| Segment liabilities | 46,834 | 53,934 | 20,130 | 17,915 | 14,481 | 13,854 | -44,900 | -47,290 | 36,545 | 38,413 |
| Total liabilities | 46,834 | 53,934 | 20,130 | 17,915 | 14,481 | 13,854 | -44,900 | -47,290 | 36,545 | 38,413 |
| Other segment information | | | | | | | | | | |
| Investments in tangible assets | 3 | 41 | 110 | 358 | 193 | 298 | 0 | 0 | 306 | 697 |
| Investments in intangible assets | 1,536 | 594 | 520 | 1,219 | 110 | 178 | 0 | 0 | 2,166 | 1,991 |
| Depreciation & amortisation | 979 | 1,577 | 1,141 | 1,266 | 2,537 | 3,165 | 0 | 0 | 4,657 | 6,008 |

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 | 11,889 | 82,261 | 22,732 | 2,270 | 31,097 | 150,249 |
| Previous years' impairment | (1,186) | (7,922) | (8,251) | (46) | (146) | (17,551) |
| Previous years' amortisation | (8,381) | - | (5,722) | - | (28,880) | (42,983) |
| OPENING BALANCE | 2,322 | 74,339 | 8,759 | 2,224 | 2,071 | 89,715 |
| Purchases | 110 | - | 6 | 2,050 | - | 2,166 |
| Other changes | (2,592) | (7,710) | (2,227) | (129) | (2,740) | (15,398) |
| Impairment in period | - | (280) | - | - | - | (280) |
| Transfers | 1,442 | - | 36 | (1,478) | - | - |
| Amortisation in period | (1,509) | - | (94) | - | (2,012) | (3,615) |
| Other changes in cumulative impairment | 408 | 836 | 999 | - | 18 | 2,261 |
| Other changes in cumulative amortisation | 1,977 | - | 473 | - | 2,669 | 5,119 |
| TOTAL CHANGES | (164) | (7,154) | (807) | 443 | (2,065) | (9,747) |
| Purchase or production costs | 10,849 | 74,551 | 20,547 | 2,713 | 28,357 | 137,017 |
| Impairment | (778) | (7,366) | (7,252) | (46) | (128) | (15,570) |
| Cumulative amortisation | (7,913) | - | (5,343) | - | (28,223) | (41,479) |
| CLOSING BALANCE | 2,158 | 67,185 | 7,952 | 2,667 | 6 | 79,968 |

The change in the intangible assets item is due to their decrease following the change in exchange rates, other changes items (net value €8,018 thousand), to amortisation for the period (€3,615 thousand), as well as the investments made for €2,165 thousand and the write-downs recording during the period, totalling €280 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 beginning balances of the values expressed in foreign currency, particularly in relation to the "goodwill" item and the "other fixed assets" item, which includes the value of customer relationships defined at the time of allocation of the price of the acquisitions, in addition to the reversal of intangible assets entirely amortised during the previous year.

In 2017 the Group also spent about €7.0 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 2017, following the impairment test, the goodwill relating to the SBU Eurotech France was partially written down by €280 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 €2,667 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, 2017 | | at December 31, 2016 | |
|---|----------------------|--|----------------------|--|
| | Goodwill | Trademark with an indefinite useful life | Goodwill | Trademark with an indefinite useful life |
| Advanet Inc. | 41,306 | 7,843 | 45,193 | 8,582 |
| Eurotech Inc. (ex Applied Data Systems e ex Arcom Inc.) | 20,461 | - | 23,269 | - |
| Eurotech Ltd. (ex Arcom Ltd.) | 4,922 | - | 5,101 | - |
| Eurotech France S.a.s. | 406 | - | 686 | - |
| Other | 90 | - | 90 | - |
| TOTAL | 67,185 | 7,843 | 74,339 | 8,582 |

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 2018-2022 operating and financial plan, approved by Parent Company directors by resolution of 9 March 2018, 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% (2016: 1.5%), less than the average long-term growth rate forecast 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 7.2% to 11.4%, 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 | 3.47% | 0.06% | 2.33% | 2.33% | 1.20% |
| Total Market Premium | 6.50% | 5.90% | 5.70% | 5.50% | 5.90% |
| Beta unlevered | from 0,91 to 0,92 | from 0,91 to 0,92 | from 0,91 to 0,92 | from 0,91 to 0,92 | from 0,91 to 0,92 |
| WACC | from 8,51% to 11,56% | from 7,74% to 8,71% | from 9,30% to 10,87% | from 8,31% to 11,37% | from 7,21% to 10,38% |

Regarding the risk free, the average yields for 2017 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 which is different from 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 2018-2022 operating and financial plans, reviewed 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 €280 thousand.

For some CGUs, with regard to the values relative to the Board & Systems business line for CGUs Eurotech Inc. and Advanet Inc. the highest WACC was used by virtue of the additional risk premium between 1.5% and 2.2% in order to provide an additional factor of prudence and potential riskiness of the CGUs, while for the IoT business line, the WACC for all the CGUs includes an 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. In particular, the concurrent reduction of 1% in the long term growth rate and the 0.5% increase in the WACC would zero this excess for Advanet Inc.

Other conditions being equal, the WACC of the Terminal Value that would bring about an impairment situation should be equal to or higher than 13.3% for Eurotech Ltd., 12.9% for Eurotech Inc. and 8.8% for Advanet Inc.

Furthermore, management believes that the long-term growth estimate for 2017 of 1.5%, the same as for 2016, is far below estimates for the reference embedded PC markets (European, Japanese and U.S.).

Generally, the directors also assumed in their assessments that, although some external indicators (particularly Eurotech's stock market performance and market capitalisation) might signal net asset impairment, there was no need to carry out further write-downs. They believe that the market performance reflects the international economic situation and that it did not vary significantly during 2017 from the performance of the index for the sector in which Eurotech operates.

In evaluating the recoverability of the book values upon testing for impairment, other than the write-down relative to the Eurotech France CGU, there was no additional impairment as this total recoverable value was higher than the book value of the asset. Future developments at the Eurotech group and expectations for the coming years based on the market in which it operates, 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 in support of their decision not to change the values 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 | 1,649 | 6,043 | 5,069 | 5,762 | 2 | 355 | 18,880 |
| Depreciation | (41) | - | - | - | - | - | (41) |
| Previous year's depreciation | (486) | (5,723) | (4,535) | (4,879) | - | (223) | (15,846) |
| OPENING BALANCE | 1,122 | 320 | 534 | 883 | 2 | 132 | 2,993 |
| Purchases | 5 | 20 | 111 | 170 | - | - | 306 |
| Disposals | - | (141) | (39) | (88) | - | - | (268) |
| Other changes | - | (366) | (273) | (98) | - | (226) | (963) |
| Depreciation in period | (37) | (111) | (271) | (292) | - | (51) | (762) |
| Reversal of cumulative depreciation | - | 141 | 37 | 73 | - | - | 251 |
| Other changes in cumulative amortisation | - | 378 | 246 | 29 | - | 226 | 879 |
| TOTAL CHANGES | (32) | (79) | (189) | (206) | - | (51) | (557) |
| Purchase or production cost | 1,654 | 5,556 | 4,868 | 5,746 | 2 | 129 | 17,955 |
| Depreciation | (41) | - | - | - | - | - | (41) |
| Cumulative depreciation | (523) | (5,315) | (4,523) | (5,069) | - | (48) | (15,478) |
| CLOSING BALANCE | 1,090 | 241 | 345 | 677 | 2 | 81 | 2,436 |

The land and buildings item, amounting to €1,090 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 €20 thousand in plant and machinery, €111 thousand in industrial and commercial equipment and €170 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 interests in affiliates and other companies

The table below shows changes in equity interests in affiliates and other companies in the reporting period:

| at December 31, 2017 | | | | | | | |
|--|---------------|-----------|-----------|---------------------------|-------|-----------|-------------|
| (€'000) | INITIAL VALUE | INCREASES | DECREASES | WRITE-UPS /WRITE- DOWN | OTHER | EOP VALUE | % OWNERSHIP |
| Investments in associate companies: | | | | | | | |
| eVS embedded Vision Systems S.r.l. | 11 | - | - | (3) | (8) | - | 24.00% |
| Robwy Technologies S.p.A. (ex U.T.R.I. S.p.A.) | - | - | - | - | - | - | 21.32% |
| TOTAL INVESTMENTS IN ASSOCIATE COMPANIES | 11 | - | - | (3) | (8) | - | |
| Investments in other companies: | | | | | | | |
| Consorzio Ecor' IT | 2 | - | - | - | - | 2 | |
| Consorzio Aeneas | 5 | - | - | - | - | 5 | |
| Consorzio Diledi | 11 | - | - | - | - | 11 | 7.69% |
| Inasset S.r.l. | 18 | - | - | - | (18) | - | 0.38% |
| Consorzio Rete Space Italy | 15 | - | - | - | - | 15 | |
| Kairos Autonomi | 249 | - | - | (116) | (23) | 110 | 19.00% |
| Others | 1 | - | - | - | - | 1 | |
| TOTAL INVESTMENTS IN OTHER COMPANIES | 301 | - | - | (116) | (41) | 144 | |

At 31 December 2017 Eurotech owned the following shareholdings in affiliates consolidated at equity:

- eVS embedded Vision Systems S.r.l. equal to 24% resulting from a spin-off from the University of Verona, which was restated as an asset held for sale following the relative resolution of the Parent Company's Board of Directors at the end of 2017;
- 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 all the affiliates coincide with those of the Parent Company.

The schedule below shows the values of the assets, liabilities, revenues and annual results of equity interests in affiliates at 31 December 2016, as operating and financial information for year-end 2017 is not yet available:

| (€'000) | At December 31, 2017 | | | | At December 31, 2016 | | | |
|--|----------------------|-----------|----------|--------------|----------------------|-----------|--------------|--------------|
| | Rotowi Tech. | evS | Vartron | TOTAL | Rotowi Tech. | evS | Vartron | TOTAL |
| Share of the Associate's balance sheet: | (*) | (*)(^) | (***) | | (**) | (**) | (**) | |
| Current assets | 159 | 108 | 0 | 267 | 193 | 128 | 3,314 | 3,635 |
| Non current assets | 0 | 18 | 0 | 18 | 0 | 45 | 270 | 315 |
| Current liabilities | (51) | (61) | 0 | (112) | (12) | (98) | (1,479) | (1,589) |
| Non current liabilities | (746) | (30) | 0 | (776) | (785) | (35) | (185) | (1,005) |
| Net assets | (638) | 35 | 0 | (603) | (604) | 40 | 1,920 | 2,274 |
| Revenue | 0 | 290 | 0 | 290 | 2 | 237 | 3,893 | 4,132 |
| Profit (Loss) | (34) | 11 | 0 | (23) | (2) | 6 | 240 | 244 |
| Carrying amount of the investment | 0 | 8 | 0 | 8 | 0 | 11 | 769 | 780 |

(*) FY2015

(^) Reclassified as held for sale

(**) FY2014

(***) Transferred on 2.05.2017

Among the other businesses, the equity interest in Inasset S.r.l. was classified under assets held for sale pursuant to the resolutions of the Parent Company's Board of Directors.

4 – Other non-current assets

The schedule below shows the breakdown of other non-current assets at 31 December 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|---------------------------------------|-------------------------|-------------------------|
| | | |
| Other non-current receivables | 618 | 640 |
| TOTAL OTHER NON CURRENT ASSETS | 618 | 640 |

Other receivables mainly comprise security deposits that do not accumulate interest; they are in line with the previous year. The decrease 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 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| Raw & auxiliary materials and consumables - gross | 8,144 | 7,675 |
| Inventory write-down provision | (1,848) | (1,733) |
| Raw & auxiliary materials and consumables - net | 6,296 | 5,942 |
| Work in process and semi-finished goods - gross | 2,604 | 2,731 |
| Inventory write-down provision | (147) | (553) |
| Work in process and semi-finished goods | 2,457 | 2,178 |
| Finished products and goods for resale - gross | 11,043 | 13,059 |
| Inventory write-down provision | (2,043) | (1,962) |
| Finished products and goods for resale - net | 9,000 | 11,097 |
| Advances | 68 | 120 |
| TOTAL INVENTORIES | 17,821 | 19,337 |

Inventories at 31 December 2017 amounted to €17,821 thousand (€19,337 thousand at 31 December 2016), net of inventory write-down provision totalling €4,038 thousand. The net reduction of the inventory write-down reserve of €210 thousand is the result of the combined effect of the allocations for adaptation of the components and the products held by the Group which have a risk of obsolescence and are slow moving, the usage following specific scrappings and the exchange differential which is portrayed in the table below, under the item "other changes". This resulted in a decrease of the provision by €398 thousand.

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, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| OPENING BALANCE | 4,248 | 3,302 |
| Provisions | 670 | 1,551 |
| Other changes | (398) | 197 |
| Utilisation | (482) | (802) |
| CLOSING BALANCE | 4,038 | 4,248 |

The “other changes” item refers to changes in the write-down reserves due to foreign exchange differences.

The raw materials inventory write-down reserve of €1,848 thousand refers to obsolete or slow moving materials, whose full posted value some Group companies do not expect to recover.

The finished products write-down reserve of €2,043 thousand, which covers the risk of slow turnover in certain standard and custom finished products, increased by €81 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 2017 and 31 December 2016:

| (€'000) | at December 31, | |
|--|-----------------|----------|
| | 2017 | 2016 |
| Contract revenues recognised as revenue in the period | 412 | 0 |
| Contract costs borne as at balance-sheet date | 297 | 0 |
| Profits recognised as at balance-sheet date | 115 | - |
| Down payments received | 0 | 0 |
| Contract costs and profits recognised as at balance-sheet date | 412 | 0 |
| Revenues recognised in previous periods | 0 | 0 |
| Gross amount owed by customer for contractual work | 412 | - |

7 – Trade receivables

The schedule below shows the breakdown of trade receivables and the respective doubtful debt provision at 31 December 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| Trade receivables - customers | 15,430 | 15,048 |
| Trade receivables medium/long term - customers | 285 | 180 |
| Trade receivables - related parties | 252 | 1,037 |
| Doubtful debt provision | (344) | (452) |
| TOTAL TRADE RECEIVABLES | 15,623 | 15,813 |

Trade receivables falling due within 12 months are normally non-interest bearing and generally fall due at 90/120 days. Trade receivables decreased by €190 thousand compared to 31 December 2016. The receivables include €540 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 €344 thousand. Changes in doubtful debt provision in the years under review were as follows:

| CHANGES IN CUMULATIVE DOUBTFUL DEBT PROVISION - € '000 | at December 31, 2017 | at December 31, 2016 |
|---|-------------------------|-------------------------|
| OPENING BALANCE | 452 | 2,243 |
| Provisioning | 80 | 187 |
| Other changes | (23) | 67 |
| Utilisation | (165) | (2,045) |
| CLOSING BALANCE | 344 | 452 |

Provisions of €80 thousand made during the year were necessary to adjust the value of individual receivables to their presumed realisable value.

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 2017, trade receivables that were past due but not written down were as follows:

| € '000 | Overdue but not write-off | | | | | | |
|--------|---------------------------|-------------|-----------|--------------|--------------|---------------|---------------|
| | Total | Not overdue | < 30 days | 30 - 60 days | 60 - 90 days | 90 - 180 days | Over 180 days |
| 2017 | 15,623 | 12,762 | 1,689 | 753 | 143 | 229 | 47 |
| 2016 | 15,813 | 12,501 | 1,292 | 357 | 281 | 214 | 1,168 |

Receivables more than 180 days due represented 0.3% of trade receivables at 31 December 2017, a lower amount compared to the 7.4% relating to 2016. 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 2016, the value increased by €49 thousand, from €155 thousand in 2016 to €204 thousand in 2017.

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 €198 thousand (2016: €574 thousand), while Italian tax payables amounted to €64 thousand (2016: €68 thousand).

The amount of Italian taxes mainly covers the residual debt paid in instalments for taxes pertaining to previous years assessed on the subsidiary IPS.

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 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|-------------------------------------|-------------------------|-------------------------|
| Amounts receivable for grants | 37 | 37 |
| Advance payments to suppliers | 215 | 175 |
| Tax receivables | 894 | 286 |
| Other receivables | 35 | 188 |
| Accrued income and prepaid expenses | 601 | 728 |
| TOTAL OTHER CURRENT ASSETS | 1,782 | 1,414 |

Grants receivable relate to grants that will reasonably be received by Parent Company Eurotech S.p.A. and subsidiary ETH Lab 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 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| Bank and post office deposits | 6,725 | 9,161 |
| Cash and valuables in hand | 20 | 25 |
| TOTAL CASH & CASH EQUIVALENTS | 6,745 | 9,186 |

Bank deposits are mostly on demand and are remunerated at a variable rate of interest. The fair value of cash and cash equivalents is €6,745 thousand (€9,186 thousand at 31 December 2016).

The item shows a €2,441 thousand decrease compared to 31 December 2016.

The decrease is due to use of the available cash for operations.

11 – Other financial assets and liabilities

The amount recorded of €95 thousand comprises €85 thousand of a three year insurance policy, €4 thousand relative to 100 shares of Banca Popolare Friuladria and €6 thousand of interests 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. They are currently at €0.1.

12 – Assets classified as held for sale

Following the resolutions of the Parent Company's Board of Directors, the value of the shares held in Inasset S.r.l. worth €19 thousand and eVS embedded Vision System S.r.l. worth €9 thousand were classified under this item while awaiting the eventual decision regarding disposal.

13 – Net financial position

The table below shows the Group's net financial position at 31 December 2017 and 31 December 2016:

| (€'000) | | at December 31, 2017 | at December 31, 2016 |
|--|----------------|-------------------------|-------------------------|
| Cash & cash equivalents | A | (6,745) | (9,186) |
| Cash equivalent | B=A | (6,745) | (9,186) |
| Other current financial assets | C | (95) | (76) |
| Derivative instruments | D | 9 | 12 |
| Short-term borrowing | E | 10,720 | 8,210 |
| Short-term financial position | F=C+D+E | 10,634 | 8,146 |
| Short-term net financial position | G=B+F | 3,889 | (1,040) |
| Medium/long term borrowing | H | 1,844 | 3,475 |
| Medium-/long-term net financial position | I=H | 1,844 | 3,475 |
| (NET FINANCIAL POSITION) NET DEBT pursuant to CONSOB instructions | J=G+I | 5,733 | 2,435 |
| Medium/long term borrowing allowed to affiliates companies and other Group companies | K | (83) | (95) |
| (NET FINANCIAL POSITION) NET DEBT | L=J+K | 5,650 | 2,340 |

The Group's net financial debt at 31 December 2017 was €5,650 thousand, compared with €2,340 thousand at 31 December 2015.

At 31 December 2017, short-term financial liabilities (pursuant to IAS 1.65) included the medium-to-long-term portion (€1,140 thousand) of two existing loans with respect to which not all the contractual conditions had not been met by the Group at year-end. While awaiting a waiver from the bank, the entire loan, whose residual amount was €1,874 thousand, was reclassified as falling due in the short term.

The loan, which was restated as short term last year, again as a result of failure to fulfil the requirements of a covenant, will mature naturally in the short term and will therefore be repaid within 2018 according to the original repayment plan.

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, 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 |

| (€'000) | at January 1, 2016 | Cash flows | Business combinations | Fair value changes | Exchange differences | Other non monetary transactions | at December 31, 2016 |
|---|-----------------------|---------------|--------------------------|-----------------------|-------------------------|---------------------------------------|----------------------------|
| Short and Medium-/long-term borrowing | 11,717 | (276) | - | - | 244 | - | 11,685 |
| Medium/long term borrowing allowed to affiliates companies and other Group companies | 0 | (95) | - | - | - | - | (95) |
| Other current financial assets | (76) | - | - | - | - | - | (76) |
| Derivative instruments | 8 | - | - | 4 | - | - | 12 |
| Total Liabilities arising from financing activities | 11,649 | (371) | 0 | 4 | 244 | 0 | 11,526 |

14 – Shareholders' equity

The schedule below shows the composition of shareholders' equity at 31 December 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|---|-------------------------|-------------------------|
| Share capital | 8,879 | 8,879 |
| Share premium reserve | 136,400 | 136,400 |
| Other reserves | (54,582) | (41,722) |
| Group shareholders' equity | 90,697 | 103,557 |
| Equity attributable to minority interest | 0 | 0 |
| Total shareholders' equity | 90,697 | 103,557 |

The share capital at 31 December 2017 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 as at 31 December 2017 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 €8,817 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 €58,830 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 2016 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 by €9 thousand and decreased by €3 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 €2,280 thousand, gross of the related tax effect, and was again not recorded due to the absence of the prerequisites. This reserve was decreased by €4,609 thousand during the year.

The parent company Eurotech S.p.A. held 1,319,020 treasury shares at the end of the year (also at the end of 2016 it held 1,319,020). There was no transaction during the year.

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 2016 and 2017 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, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| Net income (loss) attributable to parent company shareholders | (4,672,000) | (5,069,000) |
| Weighted average number of ordinary shares including own shares | 35,515,784 | 35,515,784 |
| Own shares | (1,319,020) | (1,319,020) |
| Weighted average number of ordinary shares except own shares | 34,196,764 | 34,196,764 |
| Weighted average number of ordinary shares except own shares for share diluted | 34,196,764 | 34,196,764 |
| Net income (loss): | | |
| - per share | (0.137) | (0.148) |
| - per share diluted | (0.137) | (0.148) |

16 – Borrowings

The schedule below shows the breakdown of medium- to long-term financial payables at 31 December 2017:

| LENDER | COMPANY | BALANCE ON 31.12.2016 | BALANCE ON 31.12.2017 | SHORT TERM within 12 months | Total Medium and long-term | Mid term Over 12 months |
|--|-----------------|--------------------------|--------------------------|--------------------------------|-------------------------------|----------------------------|
| CURRENT OUTSTANDINGS - (a) | | 4,018 | 5,429 | 5,429 | - | - |
| Ministero dell'Istruzione, dell'Università e della Ricerca | Eurotech S.p.A. | 26 | 9 | 9 | - | - |
| Ministero dell'Istruzione, dell'Università e della Ricerca | Eurotech S.p.A. | 534 | 382 | 152 | 230 | 230 |
| FCA Bank | Eurotech S.p.A. | 34 | 19 | 15 | 4 | 4 |
| Toyota Financial Service | Eurotech S.p.A. | 21 | 18 | 3 | 15 | 15 |
| Unicredit Leasing | Eurotech S.p.A. | 81 | 58 | 22 | 36 | 36 |
| BCC Lease | Eurotech S.p.A. | 26 | 17 | 8 | 9 | 9 |
| Finance Lease | Advanet Inc. | 30 | - | - | - | - |
| Finance Lease | Eurotech Inc | 59 | 28 | 18 | 10 | 10 |
| TOTAL OTHER FINANCINGS | | 811 | 531 | 227 | 304 | 304 |
| Iccrea Banca Impresa | Eurotech S.p.A. | 1,031 | 566 | 566 | - | - |
| Total Group Iccrea | | 1,031 | 566 | 566 | - | - |
| Crédit Agricole - FriulAdria | Eurotech S.p.A. | 837 | 508 | 337 | 171 | 171 |
| Total Crédit Agricole | | 837 | 508 | 337 | 171 | 171 |
| Veneto Banca | Eurotech S.p.A. | 100 | - | - | - | - |
| Total Veneto Banca | | 100 | - | - | - | - |
| The Chugoku Bank Ltd | Advanet Inc. | 1,552 | 2,628 | 1,259 | 1,369 | 1,369 |
| Total The Chugoku Bank Ltd | | 1,552 | 2,628 | 1,259 | 1,369 | 1,369 |
| PrimaCassa FVG | Eurotech S.p.A. | 676 | 343 | 343 | - | - |
| PrimaCassa FVG | Eurotech S.p.A. | 150 | - | - | - | - |
| PrimaCassa FVG | Eurotech S.p.A. | - | 150 | 150 | - | - |
| Cassa Rurale Alto Garda | EthLab S.r.l. | 122 | 74 | 74 | - | - |
| Total Credito Cooperativo Banks | | 948 | 567 | 567 | - | - |
| Unicredit | Eurotech S.p.A. | 1,430 | 1,874 | 734 | 1,140 | 1,140 |
| Total Unicredit Group | | 1,430 | 1,874 | 734 | 1,140 | 1,140 |
| BPM | Eurotech S.p.A. | 958 | 461 | 461 | - | - |
| Total BPM Group | | 958 | 461 | 461 | - | - |
| TOTAL BANK DEBT - (c) | | 6,856 | 6,604 | 3,924 | 2,680 | 2,680 |
| TOTAL OTHER FINANCING AND BANK DEBT - [(b) + (c)] | | 7,667 | 7,135 | 4,151 | 2,984 | 2,984 |
| TOTAL DEBT - [(a) + (b) + (c)] | | 11,685 | 12,564 | 9,580 | 2,984 | 2,984 |
| RECLASSIFICATION OF CURRENT SUBJECT TO COVENANT FUNDING | | - | - | 1,140 | (1,140) | (1,140) |
| TOTAL DEBT AFTER RECLASSIFICATION | | 11,685 | 12,564 | 10,720 | 1,844 | 1,844 |

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 2017, financial liabilities as reverse factor of €65 thousand,

Other loans

Other loans refer to:

- a residual debt of €9 thousand for future payments on a facilitated loan Eurotech S.p.A. contracted with MIUR (Italian Ministry for Education, Universities and Research) based on research activity already completed in 2012;
- a residual debt of €382 thousand (€230 thousand of which medium- to long-term) for future payments on a facilitated loan Eurotech S.p.A. contracted with MIUR (Italian Ministry for Education, Universities and Research) based on research activity already completed in 2008;
- a residual debt of €19 thousand (€4 thousand of which medium- to long-term) for future payments on a loan for the purchase of company cars at Eurotech S.p.A.;

- a residual debt of €18 thousand (€15 thousand of which medium- to long-term) for future payments on a loan for the purchase of company cars at Eurotech S.p.A.;
- a residual debt of €28 thousand (€10 thousand of which medium- to long-term) for future payments on a lease agreement signed by the 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); the lease expires in 2018;
- a total residual debt of €75 thousand (€45 thousand of which medium- to long-term) for instalments on 4 lease agreements signed by Eurotech S.p.A., which have been recognised as a finance lease and relate to the purchase of cars for company use.

Bank loans

Bank loans refer mainly to:

- A loan to support Group research and development investments granted at the end of 2014 to the Parent Company by Iccrea Banca of which the remainder is €566 thousand, falling due in 2018. This loan is subject to covenants on consolidated financial statement relating to debt to equity and debt to EBITDA. The last covenant was not complied with, but the natural maturity of the loan is short term;
- a €508 thousand loan from Crédit Agricole - Banca Popolare Friuladria granted to the Parent Company in January 2016 (of which €171 thousand medium- to long-term) falling due in 2019 to boost the Parent Company's working capital; This loan as at January 2018 was repaid in full and replaced with a new 3 year loan of a higher amount;
- two loans granted in September 2015 to Advanet Inc. by The Chugoku Bank Ltd. totalling €776 thousand (€258 thousand of which repayable by 2020), to boost the Japanese company's working capital;
- two loans granted in June 2017 to Advanet Inc. by The Chugoku Bank Ltd. totalling €1,852 thousand (€1,111 thousand of which repayable by 2022), to boost the Japanese company's working capital;
- a loan granted to the Parent Company at year-end 2014 by PrimaCassa FVG (formerly BCC di Carnia e Gemonese) of which €343 thousand fall due in 2018 to support Group research and development investments. This loan is subject to covenants on consolidated financial statement relating to debt to equity and debt to EBITDA. The last covenant was not complied with, but the natural maturity of the loan is short term;
- a loan granted to the Parent Company at the end of 2017 by PrimaCassa FVG (formerly BCC di Carnia e Gemonese) for €150 thousand falling due in April 2018 to boost the Parent Company's working capital;
- a loan of an additional €74 thousand granted to EthLab S.r.l. to acquire patents and know-how;
- two loans granted to the Parent Company by Unicredit: the first in May 2015 for €2,000 thousand of which the residual amount, as at 31.12.2017, was €1,035 thousand (of which €630 thousand is medium-long term), maturing in 2020 and taken out to support the company's development plans and the second in May 2017 in the amount of €1,000 thousand of which the residual amount as at 31.12.2017 was €839 thousand (of which €510 is medium-long term maturing in 2020 taken out to support the company's development plans. Both loans are subject to covenants on consolidated financial statement (which include the possibility of early repayment or increase in the interest rate spread) with annual verification based on the year-end financial statements. These covenants regard the equity value, the debt to equity ratio and the EBIT and revenues ratio. Failure to observe one of the covenants at 31 December 2017 had resulted in the expiry of the benefit of the term. The Parent Company has requested a "waiver" letter from the bank;
- a loan granted to the Parent Company in November 2016 by BPM for €461 thousand falling due in 2018 to boost the Parent Company's working capital.

17 – Employee benefits

The schedule below shows the breakdown of employee benefits at 31 December 2017 and 31 December 2016:

| (€'000) | Defined benefit plans | |
|--------------------------------------|-----------------------|----------------------|
| | at December 31, 2017 | at December 31, 2016 |
| Employees' leaving indemnity | 302 | 300 |
| Foreing Employees' leaving indemnity | 1,950 | 2,040 |
| Employees' retirement fund | 91 | 97 |
| TOTAL EMPLOYEES' BENEFITS | 2,343 | 2,437 |

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 2017 and 31 December 2016:

| (€ '000) | Defined benefit plans | | | |
|---------------------------------------|-----------------------|----------------------|----------------------|----------------------|
| | Italy | | Japan | |
| | at December 31, 2017 | at December 31, 2016 | at December 31, 2017 | at December 31, 2016 |
| Liabilities at start of period | 300 | 324 | 2,040 | 1,708 |
| Cost relating to present service | 13 | 18 | 150 | 148 |
| Finance expense | 5 | 7 | 10 | 16 |
| Other changes | 0 | 0 | (214) | 102 |
| Benefits paid out | (40) | (52) | (98) | (19) |
| Actuarial loss (gain) reconised | 24 | 3 | 62 | 85 |
| Liabilities at end of period | 302 | 300 | 1,950 | 2,040 |

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, 2017 | at December 31, 2016 | at December 31, 2017 | at December 31, 2016 |
| Discount Rate | 2.28% | 3.06% | 0.50% | 0.50% |
| Expected rates of future wages and salary increases | 3.00% | 2.00% | 1.00% | 1.00% |
| Expected rates of staff turnover | 8.00% | 7.43% | 1.00% | 1.00% |
| Duration | 22 | 21 | 19 | 20 |

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.

| (€ '000) | Defined benefit plans | | | |
|--|-----------------------|----------------------|----------------------|----------------------|
| | Italy | | Japan | |
| | at December 31, 2017 | at December 31, 2016 | at December 31, 2017 | at December 31, 2016 |
| Projected benefit obligation at January 1, | 300 | 324 | 2,040 | 1,708 |
| Current Service cost | 13 | 18 | 150 | 148 |
| Interest cost | 5 | 7 | 10 | 16 |
| Other changes | 0 | 0 | (214) | 102 |
| Pensions paid | (40) | (52) | (98) | (19) |
| Recognized actuarial gains or losses | 24 | 3 | 62 | 85 |
| Projected benefit obligation at December 31 | 302 | 300 | 1,950 | 2,040 |

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.

| (€ '000) | Defined benefit plans | | | |
|---|-----------------------|----------------------|----------------------|----------------------|
| | Italy | | Japan | |
| | at December 31, 2017 | at December 31, 2016 | at December 31, 2017 | at December 31, 2016 |
| Projected benefit obligation | 302 | 300 | 1,950 | 2,040 |
| Unrecognized actuarial gains or losses | 0 | 0 | 0 | 0 |
| Provisions for pensions charged to balance sheet | 302 | 300 | 1,950 | 2,040 |
| Current Service cost | 13 | 18 | 150 | 148 |
| Interest cost | 5 | 7 | 10 | 16 |
| Recognized actuarial gains or losses | 24 | 3 | 62 | 85 |
| Costs charged to income statement | 42 | 28 | 222 | 249 |

Employee severance indemnity reserve

The employee severance indemnity 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 2017 and 31 December 2016:

| | at December 31, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| EMPLOYEES' RETIREMENT FUND on €'000 | | |
| JANUARY 1, | 97 | 95 |
| Provision | 2 | 2 |
| Utilization | (8) | - |
| RESERVE AT THE END OF THE PERIOD | 91 | 97 |

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 457,000 units to beneficiaries during 2017, either directly or through the Chief Executive Officer.

| | Year 2017 | | | Year 2016 | | |
|---|----------------------|---|---|----------------------|---|---|
| | 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) |
| Performance Share Plan 2016 | | | | | | |
| Nr. Unit at the beginning of the period | 432,000 | 542 | 271 | - | - | - |
| Nr. Unit Granted during period | 457,000 | 672 | 77 | 432,000 | 542 | 60 |
| Nr. Unit Cancelled during period | - | - | - | - | - | - |
| Nr. Unit assigned during period | - | - | - | - | - | - |
| Nr. Unit Outstanding at the end of the period | 889,000 | 1,214 | 348 | 432,000 | 542 | 60 |

The total cost of the units assigned in 2017 was €672 thousand, and this cost is recognised along the 24-month vesting period. At the reporting date the company had recorded a cost of €348 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 €408 thousand.

19 – Reserve for risks and charges

The schedule below shows the breakdown of the reserve for risks and charges at 31 December 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|---|-------------------------|-------------------------|
| Selling agents' commission fund | 66 | 62 |
| Director termination fund | 54 | 117 |
| Guarantee reserve | 277 | 375 |
| Busting depreciable asset | 291 | 315 |
| TOTAL FUNDS FOR COSTS AND FUTURE RISKS | 688 | 869 |

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.

Other risks reserve

The other risks reserve is allocated on the basis of expected costs to be incurred for risks related to legal disputes not yet settled and miscellaneous risks.

As of today, there are no significant potential liabilities to report.

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, 2017 | at December 31, 2016 |
|---|---------------------------------|---------------------------------|
| JANUARY 1, | 62 | 58 |
| Provision | 4 | 4 |
| RESERVE AT THE END OF THE PERIOD | 66 | 62 |
| DIRECTOR TERMINATION FUND on €'000 | at December 31, 2017 | at December 31, 2016 |
| JANUARY 1, | 117 | 187 |
| Provision | 38 | 43 |
| Other | (2) | 1 |
| Utilization | (99) | (114) |
| RESERVE AT THE END OF THE PERIOD | 54 | 117 |
| GUARANTEE RESERVE on €'000 | at December 31, 2017 | at December 31, 2016 |
| JANUARY 1, | 375 | 280 |
| Provision | - | 97 |
| Other | (67) | (1) |
| Utilization | (31) | (1) |
| RESERVE AT THE END OF THE PERIOD | 277 | 375 |

| | at December 31, 2017 | at December 31, 2016 |
|---|-------------------------|-------------------------|
| BUSTING DEPRECIABLE ASSET on €'000 | | |
| JANUARY 1, | 315 | 294 |
| Provision | 3 | 3 |
| Other | (27) | 18 |
| RESERVE AT THE END OF THE PERIOD | 291 | 315 |
| | | |
| | at December 31, 2017 | at December 31, 2016 |
| GENERIC RISK on €'000 | | |
| JANUARY 1, | - | 121 |
| Utilization | - | (121) |
| RESERVE AT THE END OF THE PERIOD | - | - |

20 – Trade payables

The schedule below shows the composition of trade payables at 31 December 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|-----------------------------|-------------------------|-------------------------|
| Third parties | 12,939 | 13,159 |
| Related companies | 149 | 300 |
| TOTAL TRADE PAYABLES | 13,088 | 13,459 |

Trade payables at 31 December 2017 came to €13,088 thousand, decreasing by €371 thousand compared with 31 December 2016. 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 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| Social contributions | 492 | 522 |
| Other | 2,907 | 2,934 |
| Advances from customers | 237 | 194 |
| Grants advances | 733 | 1,446 |
| Other tax liabilities | 304 | 316 |
| Accrued expenses | 102 | 130 |
| TOTAL OTHER CURRENT LIABILITIES | 4,775 | 5,542 |

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 2017 and 31 December 2016:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|-----------------------------|-------------------------|-------------------------|
| Employees | 812 | 848 |
| Vacation pay | 807 | 755 |
| Directors | 279 | 229 |
| Statutory auditors | 189 | 207 |
| Other | 820 | 895 |
| TOTAL OTHER PAYABLES | 2,907 | 2,934 |

Amounts payable to employees refer to salaries and wages for the month of December 2017 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 2006, an operating lease agreement was entered into on the property designated as administrative and technical offices for the Parent Company. This operating lease agreement has a term of 6+6 years beginning on 1 September 2006, and stipulates that the Company can rescind with advance notice of 12 months to the lessor. The agreement also includes a purchase option on the property object of the agreement. This option can be exercised at any time at the end of six years of the agreement. The acquisition price will be determined by an expert appointed by the parties or by the court, and in any event, the price calculated must make 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 2017 are as follows:

| (€'000) | at December 31, 2017 | at December 31, 2016 |
|--------------------------------------|-------------------------|-------------------------|
| Within 12 months | 861 | 1,365 |
| Over 12 months but within five years | 2,169 | 2,404 |
| Over 5 years | - | 896 |

Costs for operating leases totalling €1.62 million were recorded in the income statement during the year.

Warranties

The Eurotech Group had potential liabilities at 31 December 2017 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, see the report on operations at 31 December 2017.

23 – Costs of raw & auxiliary materials and consumables used

| | FY 2017 | FY 2016 |
|---|---------------|---------------|
| (€'000) | | |
| Purchases of raw materials, semi-finished and finished products | 31,103 | 30,102 |
| Changes in inventories of raw materials | 185 | 584 |
| Change in inventories of semi-finished and finished products | (303) | 458 |
| TOTAL COST OF MATERIALS | 30,985 | 31,144 |

Costs of raw & auxiliary materials and consumables used show a decrease whose effect was not only influenced by sales performance, but was also a direct consequence of the write-downs on the inventory.

24 – Other operating costs

| | FY 2017 | FY 2016 |
|--|---------------|---------------|
| (€'000) | | |
| Service costs | 11,365 | 12,333 |
| Rent and leases | 1,726 | 1,788 |
| Payroll | 17,804 | 19,856 |
| Accruals and other costs | 734 | 942 |
| Cost adjustments for in-house generation of non-current assets | (2,231) | (2,070) |
| Operating costs net of cost adjustments | 29,398 | 32,849 |

25 – Service costs

| | FY 2017 | FY 2016 |
|----------------------------------|---------------|---------------|
| (€'000) | | |
| Industrial services | 4,718 | 4,917 |
| Commercial services | 2,524 | 2,863 |
| General and administrative costs | 4,123 | 4,553 |
| Total costs of services | 11,365 | 12,333 |

Service costs in the periods reviewed recorded a decrease due to the rationalisation of the new investments that the Group is making to support its strategies.

26 – Payroll costs

| | FY 2017 | FY 2016 |
|-------------------------------------|---------------|---------------|
| (€'000) | | |
| Wages, salaries and Social Security | 16,980 | 18,898 |
| Severance indemnities | 376 | 410 |
| Other costs | 448 | 548 |
| Total cost of personnel | 17,804 | 19,856 |

The item indicating payroll costs in the period under review shows a decrease mainly due to the reduction in the work force at the start of 2017, whose effects were noticed during the year.

The wages item includes €348 thousand for the pro-rata temporis portion of the Performance Share Plan cost as explained in Note 18 (in 2016, the amount recognised at cost was €60 thousand).

As shown in the table below, the number of Group employees decreased at the end of the periods under review, falling from 321 in 2016 to 294 in 2017.

| Employees | Average 2017 | at December 31, 2017 | Average 2016 | at December 31, 2016 |
|------------------|--------------|----------------------|--------------|----------------------|
| Management | 3.0 | 3 | 3.3 | 3 |
| Clerical workers | 282.9 | 274 | 300.1 | 294 |
| Line workers | 16.4 | 17 | 22.3 | 24 |
| TOTAL | 302.4 | 294 | 325.7 | 321 |

27 – Other provisions and costs

| | FY 2017 | FY 2016 |
|---------------------------------------|------------|------------|
| (€'000) | | |
| Doubtful debt provision | 80 | 187 |
| Other Provisions | - | 96 |
| Other costs | 654 | 659 |
| Total accruals and other costs | 734 | 942 |

The amounts in the “allowance for doubtful accounts” 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 €16 thousand at 31 December 2017 while they amounted to €28 thousand last year.

28 – Other revenues

| | FY 2017 | FY 2016 |
|-----------------------------|--------------|--------------|
| (€'000) | | |
| Government grants | 756 | 1,306 |
| Sundry revenues | 1,179 | 2,027 |
| Total other revenues | 1,935 | 3,333 |

Contributions mainly relate to research and development activities which receive funding from local governments and training delivered to employees.

The other revenue item consists 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. Relative to 2016, the other revenue item included €1,705 thousand of a non-recurring capital gain (as per the Consob resolution dem/6064293 of 28 July 2006) from the sale of the IPS business unit, as described in note 37.

29 – Cost adjustments for internally generated non-current assets

At 31 December 2017, cost adjustments for internally generated non-current assets (equal to €2,231 thousand) related to the cost incurred internally for the development of new circuit boards for a high-performance, low-consumption processor (€745 thousand); the cost incurred by the parent company and subsidiary Eurotech Inc. for new Cloud platform products (€1,272 thousand); €29 thousand mainly pertaining to payroll costs borne by the subsidiary Advanet Inc.; and €185 thousand for new development projects.

Total adjustments for internal increases comprise €1,084 thousand in payroll costs (2016: €972 thousand), €963 thousand in service costs (2016: €720 thousand), €184 thousand in materials costs (2015: €378 thousand).

30 – Amortisation, depreciation and write-downs

| | FY 2017 | FY 2016 |
|---|--------------|--------------|
| (€'000) | | |
| Amortisation of intangible assets | 3,615 | 4,315 |
| Amortisation of property, plant and equipment | 762 | 942 |
| Write-down of fixed assets | 280 | 751 |
| Total amortisation and depreciation | 4,657 | 6,008 |

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 refers entirely to customer relationships, in the amount of €1,954 thousand (2016: €2,466 thousand), which was completely repaid at the end of 2017.

Asset write-downs comprise €280 thousand to the write-down of part of the goodwill of Eurotech France S.a.s.. In 2016 as well, the goodwill of Eurotech France S.a.s. was written down by €365 thousand, while the rest referred to reduction in development costs, particularly for projects relating to special products that did not achieve the market acceptance originally forecast, for €345 thousand, and lastly to the write-down of part of the land and buildings owned by the subsidiary IPS to adjust them to the market value based on a recent appraisal estimate for €41 thousand.

31 – Financial charges and income

| | FY 2017 | FY 2016 |
|---|--------------|--------------|
| (€'000) | | |
| Exchange-rate losses | 1,761 | 780 |
| Interest expenses | 394 | 390 |
| Other current financial assets impairment | 0 | 76 |
| Expenses on derivatives | 9 | 10 |
| Other finance expenses | 41 | 39 |
| Financial charges | 2,205 | 1,295 |

| | FY 2017 | FY 2016 |
|--------------------------|------------|--------------|
| (€'000) | | |
| Exchange-rate gains | 664 | 1,386 |
| Interest income | 37 | 21 |
| Other finance income | 47 | 62 |
| Financial incomes | 748 | 1,469 |

The performance in financial operations is influenced by exchange rate losses of €1,097 thousand in 2017 (2016: gain of €606 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 difference totalled -€1.14 million.

The other financial expenses show a decrease as no write-down was made to the current financial assets, while the value of the interest payable remained essentially unchanged from one year to the next.

The interest income and other financial income is in line with last year's figures as well.

32 – Valuation and management of investments

Valuations of affiliates using the equity method

The amount of €3 thousand is from the write-down of the equity investment as indicated in note 3.

Management of investments

The amount of €116 thousand is due to the write down of Kairos Autonomi Inc. which is not yet generating positive results.

The amount recognised in 2016 of €214 thousand, €122 thousand is attributable to the capital gain obtained from the sale of the investment in the associated company Emilab S.r.l. and €91 thousand is attributable to the partial repayment of the loan to Rotowy Technologies S.p.A. (formerly U.T.R.I. S.p.A.) which had been written down in prior years and €1 thousand of dividends received from InAsset S.r.l..

33 – Income tax for the period

Income taxes came to €111 thousand in 2017 and €56 thousand in 2016.

| | FY 2017 | FY 2016 |
|----------------|----------|----------|
| (€'000) | | |
| Pre-tax result | (4,561) | (5,125) |
| Income taxes | (111) | 56 |

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:

| | FY 2017 | FY 2016 |
|---|--------------|----------------|
| (€'000) | | |
| IRES (Italian corporate income tax) | 224 | 494 |
| IRAP (Italian Regional business tax) | 9 | 7 |
| Foreign current income taxes | 478 | 925 |
| Total current income tax | 711 | 1,426 |
| Net (prepaid) deferred taxes: Italy | (34) | (318) |
| Net (prepaid) deferred taxes: Non-italian | (566) | (1,158) |
| Net (prepaid) deferred taxes | (600) | (1,476) |
| Previous years taxes | 0 | (6) |
| Previous years taxes | 0 | (6) |
| TOTAL INCOME TAXES | 111 | (56) |

Income taxes totalled €111 thousand at 31 December 2017 (current taxes of €711 thousand and net deferred tax assets of €-600 thousand) compared with €56 thousand at 31 December 2016 (current taxes of €1,426 thousand and net deferred tax assets of €-1,476 thousand), representing a change of €167 thousand.

The Group incurred tax losses arising from the Parent Company and the subsidiaries Dynatem Inc., EthLab S.r.l., E-Tech USA Inc., Eurotech Inc. and I.P.S. Sistemi Programmabili S.r.l. of €60.7 million, against which no deferred taxes payable were recognised (2016: €58.2 million) were not recognised, to be reported within the deadlines applicable in each country to offset future taxable profits of the companies in which these losses arise. No deferred tax assets were recognised in relation to these losses as the prerequisites for using them to offset taxable profits in the coming years do not exist at this time.

At 31 December 2017, 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 31.12.2017 | % of ownership 31.12.2016 |
|--|---------------|----------|------------------------------|------------------------------|
| 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% | 100.00% |
| Dynatem Inc. (4) | USA | USD | - | 100.00% |
| Advanet Inc. | Japan | Yen | 90.00% (1) | 90.00% (1) |
| Affiliated companies | | | | |
| Chengdu Vantron Technologies Inc. (2) | China | | - | 45.00% |
| eVS embedded Vision Systems S.r.l. (2) | Italy | | 24.00% | 24.00% |
| Rotowi Technologies S.p.A. in liquidation (ex U.T.R.I. S.p.A.) (3) | 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) Classify as 'Non-current assets classified as held for sale'

(3) Company in liquidation

(4) Merged with Eurotech inc on October, 1 2017

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 | Payables from related parties | Gain on business unit disposals |
|------------------------------------|--------------------------------|--------------------------------|-----------------------------------|--|-------------------------------------|----------------------------------|------------------------------------|
| Associated companies | | | | | | | |
| Chengdu Vantron Technology Inc | - | - | 275 | - | - | - | - (*) |
| eVS embedded Vision Systems S.r.l. | - | - | 23 | - | - | 12 | - |
| Total | - | - | 298 | - | - | 12 | - |
| Other related parties | | | | | | | |
| Leonardo Group | 699 | - | - | - | 252 | 137 | - |
| Kairos Autonomi | - | 5 | - | 83 | - | - | - |
| Total | 699 | 5 | - | 83 | 252 | 137 | - |
| Total with related parties | 699 | 5 | 298 | 83 | 252 | 149 | - |
| % impact on line item | 3.2% | 1.2% | 1.6% | 90.2% | 2.6% | 1.6% | 0.0% |

(*) Value of transactions up to the date of sale of investment

Below is a list of the compensation accrued in favour of Directors and Auditors for services provided to Eurotech S.p.A. and to other companies controlled by the latter, in compliance with Art. 78 of Consob's Issuer Regulations 11971/99, as amended, and Annex 3C of said regulations.

| Name | Nomination | Expiration | Fees for the appointment | Other fees | Benefits | Bonus |
|------------------------|---|--|--------------------------|------------|----------|-----------|
| Panizzardi Giuseppe | President | In charge up to 31.12.2019 financials approval | 20 | - | - | - |
| Siagri Roberto | CEO | In charge up to 31.12.2019 financials approval | 330 | 43 | 4 | 33 |
| Antonello Giulio | Director | In charge up to 31.12.2019 financials approval | 16 | - | - | - |
| Barazza Sandro | Director up to April 26, 2017 | | 5 | 38 | 1 | - |
| Costacurta Riccardo | Director | In charge up to 31.12.2019 financials approval | 32 | - | - | - |
| De Toni Alberto Felice | Director up to April 26, 2017 | | - | - | - | - |
| Mio Chiara | Director | In charge up to 31.12.2019 financials approval | 32 | - | - | - |
| Paladin Dino | Director | In charge up to 31.12.2019 financials approval | 15 | - | - | - |
| Pizzol Marina | Director | In charge up to 31.12.2019 financials approval | 25 | - | - | - |
| Pezzuto Carmen | Director from April 26, 2017 | In charge up to 31.12.2019 financials approval | 11 | - | - | - |
| Mosca Giorgio | Director from April 26, 2017 | In charge up to 31.12.2019 financials approval | 10 | | | |
| Siciliotti Claudio | President of Board of Statutory Auditors up to April 26, 2017 | | 25 | - | - | - |
| Cignolini Michela | Statutory Auditor up to April 26, 2017 | | 17 | - | - | - |
| Pingaro Giuseppe | Statutory Auditor up to April 26, 2017 | | 8 | | | |
| Favaro Gianfranco | President of Board of Statutory Auditors from April 26, 2017 | In charge up to 31.12.2019 financials approval | 26 | | | |
| Briganti Laura | Statutory Auditor from April 26, 2017 | In charge up to 31.12.2019 financials approval | 17 | - | - | - |
| Rebecchini Gaetano | Statutory Auditor from April 26, 2017 | In charge up to 31.12.2019 financials approval | 17 | | | |
| TOTAL | | | 586 | 81 | 5 | 33 |

Lastly, the following is information on equity interests held in the company and its subsidiaries by members of the management and supervisory bodies, general managers and managers with strategic responsibilities, as well as by their spouses not legally separated and their minor children, directly or via companies controlled, trustee companies or via an interposed third party, as shown by the shareholder register, notifications received and other information acquired from the members of the management and supervisory bodies, general managers, and strategically accountable managers in compliance with the requirements of article 79 of Consob Regulation 11971/99 as subsequently amended and Annex 3C of the same regulation.

| Name | Nomination | Company | Possessory title | at December 31, 2017 | | | | |
|------------------------|--|----------|------------------|-----------------------------------|------------------------------|------------------------------|--------------------------------|---|
| | | | | 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 | 1,306,030 | - | (545,660) | 760,370 | 585,370 |
| Antonello Giulio | Director | Eurotech | Ownership | - | - | - | - | - |
| Barazza Sandro | Director up to April 26, 2017 | Eurotech | Ownership | 2,000 | - | - | 2,000 | - (*) |
| Costacurta Riccardo | Director | Eurotech | Ownership | - | - | - | - | - |
| De Toni Alberto Felice | Director up to April 26, 2017 | Eurotech | Ownership | 6,000 | - | - | 6,000 | - (*) |
| Mio Chiara | Director | Eurotech | Ownership | - | - | - | - | - |
| Paladin Dino | Director | Eurotech | Ownership | 2,400,605 | 182,872 | - | 2,583,477 | - |
| Pizzol Marina | Director | Eurotech | Ownership | - | - | - | - | - |
| Pezzuto Carmen | Director from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |
| Mosca Giorgio | Director from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |
| Siciliotti Claudio | President of Board of Auditors up to April, 26 2017 | Eurotech | Ownership | 10,000 | - | - | 10,000 | - (*) |
| Cignolini Michela | Statutory Auditor up to April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |
| Pingaro Giuseppe | Statutory Auditor up to April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |
| Favaro Gianfranco | President of Board of Statutory Auditors from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |
| Briganti Laura | Statutory Auditor from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |
| Rebecchini Gaetano | Statutory Auditor from April 26, 2017 | Eurotech | Ownership | - | - | - | - | - |

(*) Shares owned at the end of office

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 2017, about 63.7% of Group loans were at fixed rates (compared with about 40.9% in 2016). 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, JPY/EUR and GBP/EUR exchange rates. In 2016, no foreign exchange hedges were executed because of the uneven USD, GBP and JPY flows, particularly taking into account that the individual subsidiaries tend to operate in their respective functional currencies in their respective core markets.

About 81.6% of sales of goods and services (2016: 81.8%) and 72.2% (2016: 72.5%) 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 Consolidated 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 19.6% of Group revenues in 2017 and equal to 15.2% of Group revenues in 2016.

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 2017, 58.2% of Group financial payables will accrue within one year (2016: 43.4%), based on the balances of the original plans. Both values were different from those shown in the financial statement balances, as, due to informal agreements with banks, no 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 | 10,672 | 1,711 | 77 | 12,460 |
| Trade payables and other liabilities | 17,863 | - | - | 17,863 |
| Finance Lease | 48 | 55 | - | 103 |
| Financial derivatives | 9 | - | - | 9 |
| Total as of December 31, 2017 | 28,592 | 1,766 | 77 | 30,435 |

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 2016 and 2017.

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, 2017 | at December 31, 2016 |
|--|-------------------------|-------------------------|
| Other current and non current financial assets | (178) | (171) |
| Derivative instruments | 9 | 12 |
| Borrowing | 12,564 | 11,685 |
| Cash & cash equivalents | (6,745) | (9,186) |
| Net financial position | 5,650 | 2,340 |
| Group Equity | 90,697 | 103,557 |
| Group Equity | 90,697 | 103,557 |
| EQUITY AND NET FINANCIAL POSITION | 96,347 | 105,897 |
| Net financial position on Equity | 6.2% | 2.3% |

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. As required by IFRS13 the company analysed each of its financial assets and liabilities to determine the effect of their measurement at fair value. 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 2017 and on the respective comparison figures.

At 31 December 2017, the Group held the following financial instruments measured at fair value:

| (€'000) | Notional value at December 31, 2017 | Fair value at December 31, 2017 (debit) | Fair value at December 31, 2017 (credit) | Notional value at December 31, 2016 | Fair value at December 31, 2016 (debit) | Fair value at December 31, 2016 (credit) |
|------------------------------------|--|---|--|--|---|--|
| Cash flow hedge | | | | | | |
| Contracts Interest Rate Swap (IRS) | 1,610 | 0 | (9) | 1,134 | 0 | (12) |

All the assets and liabilities measured at fair value at 31 December 2017 are at Level 2 of the fair value measurement scale. In addition, during 2017 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, 2017 | | | | | | | | |
|--|-----------------------|--|--------------------|---------------|--|--|---|---------------|
| (€'000) | Loans and receivables | Assets at fair value through profit and loss | Available-for-sale | Total | (€'000) | Liabilities at fair value through equity | Other financial liabilities at amortised cost | Total |
| Assets as per balance sheet | | | | | Liabilities as per balance sheet | | | |
| Trade and other receivables excluding pre-payments | 15,623 | - | - | 15,623 | Borrowings (excluding finance lease liabilities) | - | 12,461 | 12,461 |
| Other non current financial assets | - | - | - | - | Finance lease liabilities | - | 103 | 103 |
| Other current financial assets | - | - | 95 | 95 | Derivative financial instruments | 9 | - | 9 |
| Cash & cash equivalents | 6,745 | - | - | 6,745 | Trade and other payables excluding non-financial liabilities | - | 13,088 | 13,088 |
| Total | 22,368 | - | 95 | 22,463 | Total | 9 | 25,652 | 25,661 |

| at December 31, 2016 | | | | | | | | |
|--|-----------------------|--|--------------------|---------------|--|--|---|---------------|
| (€'000) | Loans and receivables | Assets at fair value through profit and loss | Available-for-sale | Total | (€'000) | Liabilities at fair value through equity | Other financial liabilities at amortised cost | Total |
| Assets as per balance sheet | | | | | Liabilities as per balance sheet | | | |
| Trade and other receivables excluding pre-payments | 15,813 | - | - | 15,813 | Borrowings (excluding finance lease liabilities) | - | 11,596 | 11,596 |
| Other non current financial assets | - | - | - | - | Finance lease liabilities | - | 89 | 89 |
| Other current financial assets | - | - | 76 | 76 | Derivative financial instruments | 12 | - | 12 |
| Cash & cash equivalents | 9,186 | - | - | 9,186 | Trade and other payables excluding non-financial liabilities | - | 13,459 | 13,459 |
| Total | 24,999 | - | 76 | 25,075 | Total | 12 | 25,144 | 25,156 |

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 2017, the Group held three IRS contracts (of a notional contractual value of €2.5 million) of which one was signed during the year; all three contracts are designated as interest rate risk hedging instruments.

| | Due date | Fixed rate | Floating rate | Market value (€'000) |
|-------------------------------------|-----------------|------------|-----------------|----------------------|
| <i>Interest rate swap contracts</i> | | | | |
| €517,741.95 | 29 May 2020 | 0.35% | Euribor 3 month | (4) |
| €838,204.98 | 29 May 2020 | 0.00% | Euribor 3 month | (3) |
| €253,499.00 | 21 January 2019 | 0.37% | Euribor 3 month | (2) |

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 €3 thousand and decreased the cash flow hedge reserve as a direct reduction of equity to €9 thousand.

37 – Assets disposed of during the year

We provide below the transaction that took place in 2016 only for information and as a comment to the financial statement data.

On 29 February 2016, the subsidiary IPS Sistemi Programmabili signed an agreement to sell the Security and Traffic business unit. The consideration of the transactions was set by the parties at €2.45 million. This amount was adjusted based on the

working capital of the business unit at 29 February, which proved to be negative in Eurotech's favour by €108 thousand. Both amounts were settled.

In application of "IFRS5 - Non-current assets held for sale and discontinued operations", the financial results of the business unit sold remained classified in the statement of financial position by nature for both 2015 and 2016 as the transaction did not concern a major line of business.

The capital gain coming from the sale is, as a result, classified under the item "Other revenues", and amounted to €1,705 thousand.

The transaction ended in 2016 and had no effects in 2017. For further details see Note 36 of 31.12.2016.

38 – Potential liabilities

There are no significant potential liabilities to report except for what is stated in Note 19.

39 – Events after the reporting period

No significant events took place after the closing of the consolidated financial statements at 31 December 2017.

Amaro, 13 March 2018



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 2017 for the auditing services.

| (€) | Service provider | Eurotech Group entity | 2017 fees |
|--------------|--------------------------------|----------------------------------|----------------|
| Audit | | | |
| | PricewaterhouseCoopers S.p.A. | Parent company - Eurotech S.p.A. | 116,278 |
| | Network PricewaterhouseCoopers | Subsidiaries | 75,329 |
| TOTAL | | | 191,607 |

During 2017, 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, n. 58

Amaro, 13 March 2018

1. We the undersigned, Roberto Siagri, the Chief Executive Officer and Sandro Barazza, the Financial Reporting Manager of Eurotech S.p.A., hereby attest, pursuant to article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, to:
 - the adequacy in relation to the characteristics of the company and
 - the effective applicationof the administrative and accounting procedures for the preparation of the financial statements in financial year 2017.
2. Valuation of the adequacy of the administrative and accounting procedures for the formation of the condensed financial statements at 31 December 2017 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 relevant framework on the international level.
3. We furthermore attest that:
 - 3.1 The consolidated financial statements to 31 December 2017:
 - were prepared in compliance with the international accounting standards (IFRSs) recognised in the European Union pursuant to Regulation (CE) 1606/2002 of the European Parliament and of the Council, dated 19 July 2002
 - correspond to the results in the corporate books and accounting records
 - provide a fair and true representation of the assets, liabilities, financial position and profit or loss of the Issuer and of all its consolidated companies.
 - 3.2 The report on operations includes a fair review of the development and performance of the business and the situation of Eurotech as the Issuer and of all its consolidated companies, together with a description of the principal risks and uncertainties that they face.

Chief Executive Officer
Roberto Siagri

Financial Reporting Manager
Sandro Barazza



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 2017, 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 2017, 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 2017 the Eurotech Group recorded goodwill totaling Euro 67.185 thousand and trademarks with indefinite useful life totaling Euro 7.843 thousand (together representing 59% 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 2018-2022 operating and financial plan approved by the Board of Directors on 9 March 2018.

We focused on this area as the determination of the recoverable value implied a high degree of evaluation and judgement as a result of several factors (including forecast of the Group's future performance and the discount rate of the cash flows) and because impairment indicators of the assets under analysis emerged as a result of the losses recorded in the current and in previous years.

We obtained the impairment tests and the documentation used by the management to determine the recoverable value 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 2018 – 2022 business 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 industrial 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) and
- sensitivity analysis on the parameters above.

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 2017, Development costs capitalized in the consolidated financial statements, either within Development costs or within Assets under construction and advances, amounted to Euro 4.825 thousand (representing 4% of the consolidated total assets).

We focused on this matter as the Group's financial performance in the current and in previous years shows impairment indicators with reference to such assets and because the determination of the recoverable value of capitalized development costs entailed a high degree of evaluation and 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 business 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 2017 recorded in the consolidated financial statements of the Eurotech Group amounted to Euro 17.821 thousand, representing 14% 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 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 2017, 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 2017 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 2017 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 2018

PricewaterhouseCoopers SpA

Signed by

Maria Cristina Landro
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

