Imagine. Build. Succeed.

2016 Annual Report

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
Paid-in share capital: EUR 8,878,946 fully paid in
Tax code and
Udine Company Register no. 01791330309

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Letter to shareholders

Dear Shareholders,

2016 ended with an improvement in gross operating profit, which went from negative to positive, despite turnover falling by 6.8% against 2015. The improvement in gross operating profit was mainly due to three factors: the Group's continuing focus on its core business and future developments, cost containment through specific actions targeting operational efficiency and divestment of non-core assets. 2016 again saw significant investments in hardware and software, investments which are at the base, as I mentioned in my last letter, of the new paradigm of the "Internet of things" (or simply IoT), which in turn is a pillar of Industry 4.0. If, with regard to the profit and loss account, 2016 can still be considered a year of transition, from the point of view of new customers gained (i.e. "design-win" and "proof of concept") and ongoing feedbacks on our ability to meet the requirements of our customers it was, on the contrary, a year that allowed us to assess, in the field and with satisfaction, the value of the IoT products and technologies developed in recent years. IoT turnover doubled from 2015 to 2016, and if its absolute value is still below 10 percent of total turnover, with such growth rate persisting, as it seems reasonable to expect, in 2017 revenues in the IoT sector will have an impact of more than 10%. This past year has allowed us to consolidate our presence in the IoT sector, where we are now recognised as one of the most important technological players on a global level thanks both to our hardware products and our software products for the Industrial IoT. This positioning has allowed us to sign important technological partnership deals with Red Hat and Hitachi, which should soon generate good business opportunities. These are the first of a series of important strategic alliances that we will continue to pursue in 2017 and thereafter.

What the numbers don't show is the intangible value accumulated in terms of knowledge and technology. If you remember the metaphor used in my last letter, again in 2016 we continued to accumulate a lot of potential energy, which is ready to be transformed into kinetic energy as soon as market demand starts to make itself felt. Unfortunately, in 2016, contrary to my expectations, demand from our well-established customers and in the countries where we operate with our own offices remained stagnant, while the new IoT business is still taking its first steps forward.

However, we all know that without investments in product and process innovation, and above all business model innovation, demand is unlikely to return to growth in developed economies, and indeed it is due to these necessary changes that there is talk of a fourth industrial revolution. For these reasons, I believe that the investments required to address it cannot be postponed much longer by companies who wants to ensure themselves a future. In this respect, if we look for a moment at Europe and Italy, we realise that to accelerate and encourage these investments their Governments have had to enter the fray. In Italy, especially, the Industry 4.0 plan has been developed, from which I expect tangible results for our Group as early as 2017.

Our technological architectures for the IoT are becoming, thanks also to the open source initiative taken within the Eclipse Foundation, among the main Industrial Internet reference architectures worldwide. After having co-invented with IBM the MQTT protocol, which underlies the IoT connections of all the largest IoT Cloud providers, and after having made the software for the creation of an IoT gateway available in open source with the name KURA, with our announcement of 30 June 2016 we also began bringing KAPUA, a highly innovative and easy to use Cloud platform for machine-to-machine integration, into the open source world. Our aim is for KAPUA, through the open source developer community, to become and remain one of the top ten platforms in the world for the IoT. If this becomes reality, as I believe it will, a major part of the tens of billions of devices (estimates range from 20 to 50 billion) that will be connected to the Internet by 2020, will use it. And winning a predominant share of the market will not be needed: just under 1% of market share will be sufficient to give anyway Eurotech the possibility of becoming a billion dollar company.

All our initiatives in the IoT landscape aim to help companies tackle the digital transformation of processes and business models in a much more inexpensive manner than in the past, and without a need for specific know-how or large initial investments.

Given the variety and number of applications that the industrial IoT could present, during 2016 we began to build an indirect sales channel that would leverage the vertical expertise of our partners, so as to be able to tackle more vertical markets with our horizontal product portfolio, and be able to remain closer and in step with our customers during this digital transformation. I want to repeat what I said last year: the Internet of Things, from our point of view, is nothing but the way our vision of pervasive computers, a vision that has been with us since our birth in 1992, is finally becoming real and tangible. The IoT is nothing more than a simple and cheap way to connect lots of computers to the Cloud and make them work together easily.

To all this, today we add our expertise in the field of High Performance Computing (HPC). The High Performance Computers of the Hive and Aurora family are based on a modular architecture which allows the computing power and the physical dimensions of the computer to be sized according to the new requests we receive from the worlds of robotics, artificial intelligence and big-data applied to the factory or the machinery: in summary, these are products that are also naturally suitable for use as embedded high performance computers. Thanks to this, we can take the power of a large computer centre everywhere, solving in real time, through the processing of large masses of data collected in the field, a large number of local problems that until now were not manageable. A practical example would be that of driverless cars capable of processing rapid and logical decisions even without a connection to the Cloud. Innumerable sensors are now an integral part of all kinds of machinery, and as in the case of the car, sometimes real time processing of huge masses of data from these sensors is required and must be managed in the immediacy of the action, even if there is no connection. In these cases, the infinite computer available in the Cloud is not the solution, and the IoT gateways must become not only collection points but also data processing points.

This is the era of deep learning, artificial intelligence, IoT and embedded supercomputers.

All these technologies, as already mentioned, are at the base of Industry 4.0, and give rise to numerous applications ranging from the retrofit of existing equipment, in order to reduce plant downtime through predictive maintenance algorithms, to the creation of new products that improve customer experience and move from the product sales model to the service sales model, thus towards the new “outcome economy”.

These are just a few of the profound effects that Industry 4.0 will have on production and on the economy, overall an unprecedented impact. No organisation can overlook the change taking place and the IoT technology will create a very broad market space over the next decade. According to a recent study by McKinsey, in 2025 the market which will become available thanks to the IoT will reach an estimated size of between 3.9 and 11.1 thousand billion dollars. You do not need to already be big to have a place in this new market and these new market spaces that will open will allow many to grow. It won’t be necessary to have consolidated market shares to achieve a solid and defensible position, and in any case this is a game that Eurotech can, must and wants to play. What indeed is necessary, as I already argued in my letter last year, is to be included in an ecosystem of technological players and business partners that allow to reach a very large number of companies in a capillary manner and with the right technological solution. To be in a position of first mover in the new IoT market, on the one hand has given us countless advantages, but on the other, with a market still dominated by early adopters, has not allowed us to achieve sufficient volumes in 2016 to have a sufficient return from the investments incurred so far. Our competitive edge, particularly in terms of price/performance is such that we only need a small acceleration of demand, which cannot be very much longer in coming now, to obtain significant economic benefits.

I will begin my conclusion by talking about another key aspect of the IoT technologies which we have developed, and which concerns the innovation model and the monetisation model. Going towards open source means going towards open innovation models and therefore towards ecosystems for innovation where we shall cooperate and compete with our technological partners, with whom the right balance must be struck. The Linux case, the forerunner of open source in the IT sector, teaches that the monetisation model is no longer the licences one but a subscription-based model which envisages, subject to payment of an annual fee, the supply of constantly updated and improved versions of software. Open source therefore does not necessarily mean free. For the customer it means paying the right price without the constraint of a single manufacturer, with all the related advantages, and for the supplier it means having a community of developers that can advance the project with moderate investments.

Today all of this is essential to always have state-of-the-art technology, in a system where companies worldwide are constantly required to reposition themselves and change their business models. Organisations are impacted daily by paradigm shifts, and a broader ecosystem is more ready to intervene and to adapt to the market when it starts to move fast.

However, in this constantly changing scenario I feel able to reassure you: our technology is here and it works, the wind is in our sails and we are ready to cast off. Eurotech is once again a protagonist and it doesn't matter if, at the moment, the numbers still do not reflect the potential accumulated so far. What is important is that the future is now and we are ready.

14 March 2017

signed Roberto Siagri
President & CEO

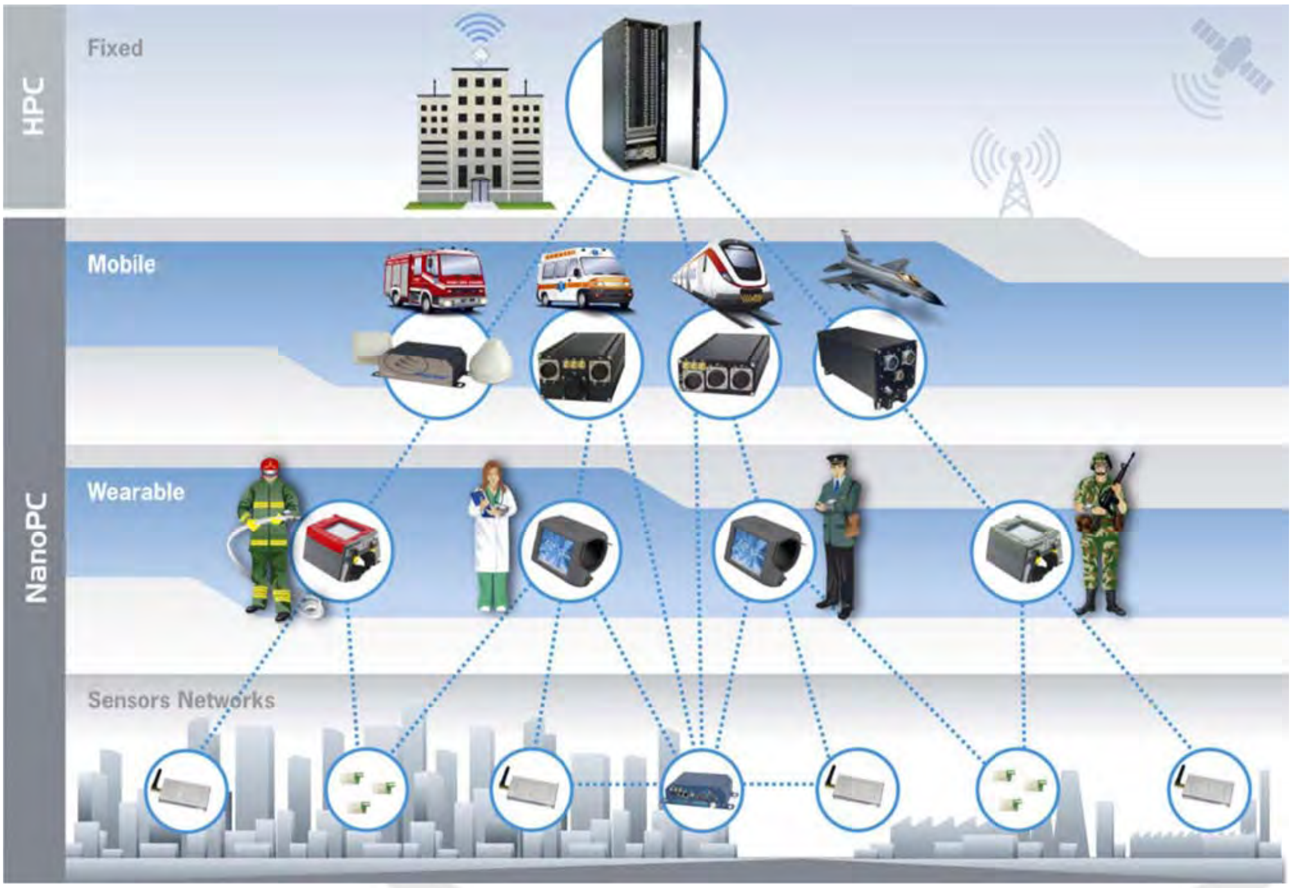
Profile of the Eurotech Group

Introduction to Eurotech

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

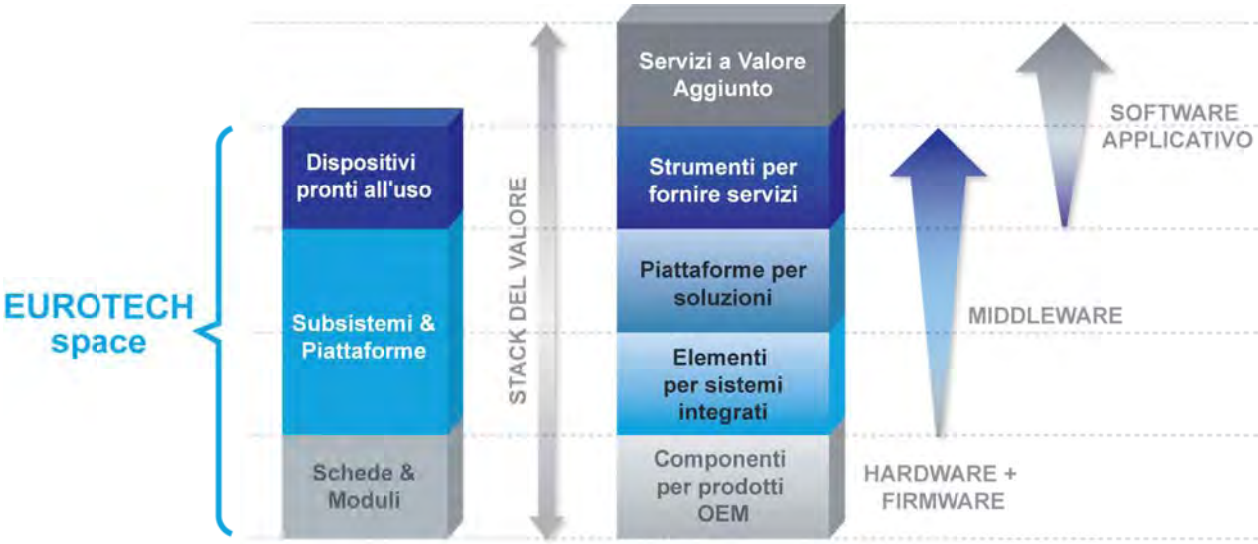
The technological paradigm followed by Eurotech is 'pervasive computing' or 'ubiquitous computing'. The pervasive concept combines three key factors: (1) miniaturisation of 'smart' devices, i.e. devices capable of processing information; (2) their spread in the real world – inside buildings and equipment, 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 engages in research, development and marketing of miniaturised computers for special uses (NanoPC) and green supercomputers featuring high computing performances together with high energy efficiency (HPC). NanoPCs and HPCs are the two major classes of devices that, by connecting to and co-operating with each other, form the pervasive computing infrastructure commonly known as the "pervasive computing grid" or "cloud."



In the NanoPC segment, the Group's offering varies according to the positions of the various products in the value stack. The NanoPC is typically a miniature computer that can take the form of:

- an embedded board, often used as component in OEM products
- an application-ready subsystem or platform, used as element of integrated systems
- a ready-to-use device employed in a great variety of application settings, often as support for the provision of value-added services.



All these NanoPCs have wireline or wireless communication channels to ensure their interconnection. It is this combination of computing and communication capabilities that makes Eurotech's NanoPCs key elements of the pervasive scenario that the company wants to create.

The Group's NanoPC offering is used in several application fields, both conventional and emerging. Eurotech is most active in the transport, defence, industrial, medical and logistics sectors. The feature common to many of our customers in all these sectors is they are seeking not only a supplier but also a centre of technological competence – 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 designs and builds supercomputers with very large computing capacity and high energy efficiency, created via the massive and parallel connection of high-performance miniaturised computers. These supercomputers – in the past aimed at cutting-edge research institutes, computing centres, and universities – are turning out to be indispensable in advanced sectors such as nanotechnology, biotechnology and cyber security. We also expect to see a significant effect on the medical and industrial fields in the near future.

From the time of its foundation in 1992, Eurotech has focused its business model on four guiding principles, which, like four pillars, have underpinned its growth and development and continue to do so. These are:

- excellence within standards
- a fabless production model
- development of its business model towards ready-to-use products (closer to the application scenario of the purchaser or end-customer)
- strong interaction with the academic and research worlds.

Above all, Eurotech aimed to excel within sector standards right from the start. In other words, it understood that, to supply its customers with solutions that both performed well and were open to the future, excellence could not be achieved only with proprietary solutions, but as far as possible with state-of-the-art solutions remaining compliant to the standards, which are themselves evolving.

Eurotech's second strength is the adoption of a fabless production model, i.e. featuring the almost total absence of production facilities. Within the value chain, Eurotech performs research, development, engineering, prototyping, quality control and logistics. The great majority of NanoPC manufacturing is outsourced to third parties. Only HPCs are assembled in-house, as this is considered to be a strategically important activity.

The third key element of the business model is constant attention to ongoing changes in systems integration, i.e. from simply boards (or hardware) to systems (hardware with a specific enclosure), to application-ready platforms (a combination of boards, systems and middleware, i.e. a layer of software that speeds up application development and permits disconnection of application software development from the hardware), and even to ready-to-use devices (products already able to perform a specific function and which do not require any software programming in order to be ready to operate).

The last – but not least important – component of the business model is the network of external relations with universities and research centres. This 'knowledge network' fuels innovation and helps to keep Eurotech solutions at the state-of-the-art level of technologies and standards available.

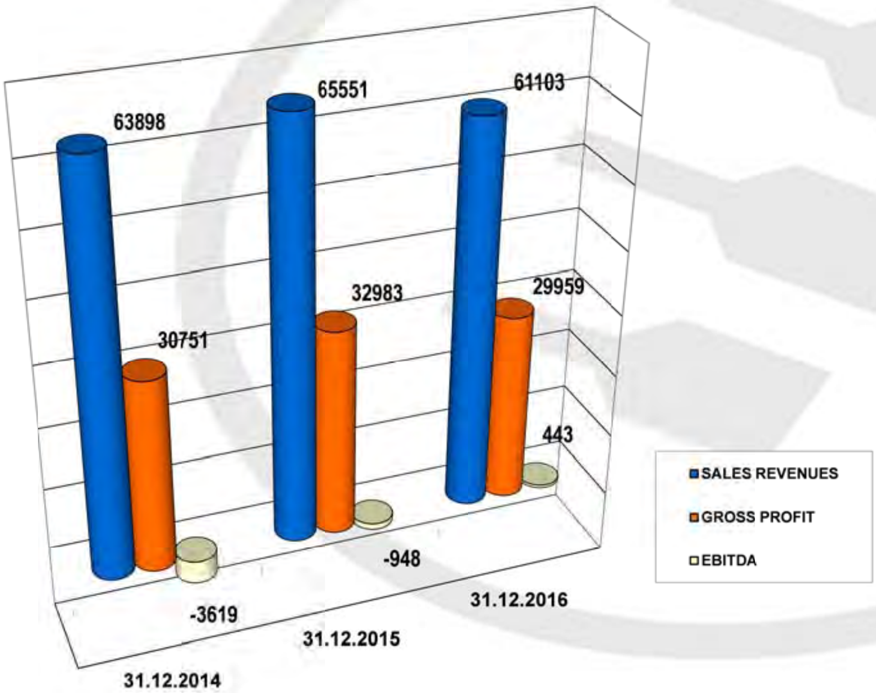
The Eurotech Group in numbers

Introduction

The Eurotech Group's business and financial results for FY2016 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 2016	%	FY 2015	%	FY 2014	%
OPERATING RESULTS						
SALES REVENUES	61,103	100.0%	65,551	100.0%	63,898	100.0%
GROSS PROFIT MARGIN	29,959	49.0%	32,983	50.3%	30,751	48.1%
EBITDA	443	0.7%	(948)	-1.4%	(3,619)	-5.7%
EBIT	(5,565)	-9.1%	(6,602)	-10.1%	(8,993)	-14.1%
PROFIT (LOSS) BEFORE TAXES	(5,125)	-8.4%	(6,163)	-9.4%	(8,281)	-13.0%
GROUP NET PROFIT (LOSS) FOR THE PERIOD	(5,069)	-8.3%	(6,223)	-9.5%	(8,922)	-14.0%



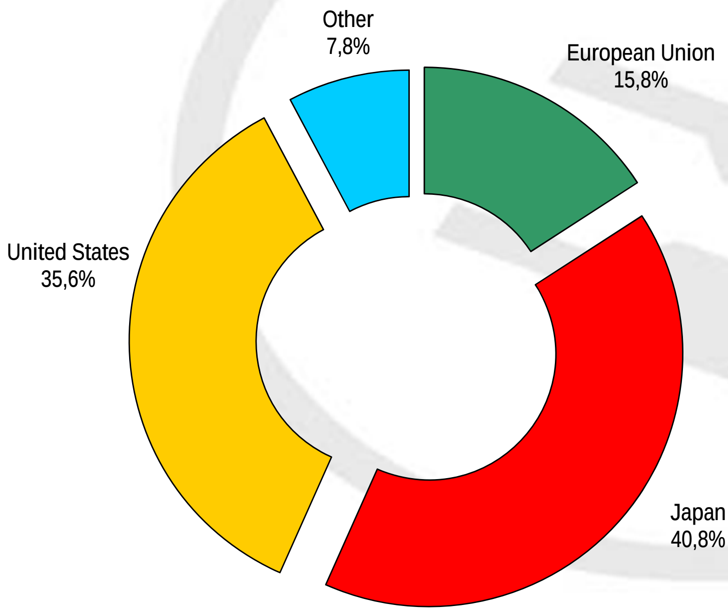
Revenues by business line

(€'000)	NanoPC			High Performance Computer			Total		
	FY 2016	FY 2015	% YoY Change	FY 2016	FY 2015	% YoY Change	FY 2016	FY 2015	% YoY Change
Sales revenues	60,807	63,979	-5.0%	296	1,572	-81.2%	61,103	65,551	-6.8%

SALES BY BUSINESS SEGMENT	FY 2016	%	FY 2015	%	FY 2014	%	FY 2013	%
NanoPC	60,807	99.5%	63,979	97.6%	62,722	98.2%	65,729	99.4%
High Perf. Computer	296	0.5%	1,572	2.4%	1,176	1.8%	377	0.6%
TOTALE SALES AND SERVICE REVENUE	61,103	100.0%	65,551	100.0%	63,898	100.0%	66,106	100.0%

High Performance Computer (HPC) sales again accounted for a limited proportion of total Group sales in 2016.
The supercomputer architecture based on standard processors is equipped with an innovative liquid cooling system allows us to expand our potential customer base therefore not only over research centres and universities, but also in the world of industrial customers where the supercomputer appears to find more and more opportunities, above all if it is small in size. Despite this new strategy, which is in an initial implementation phase, the purchases of the research sector still have a certain cyclical nature.

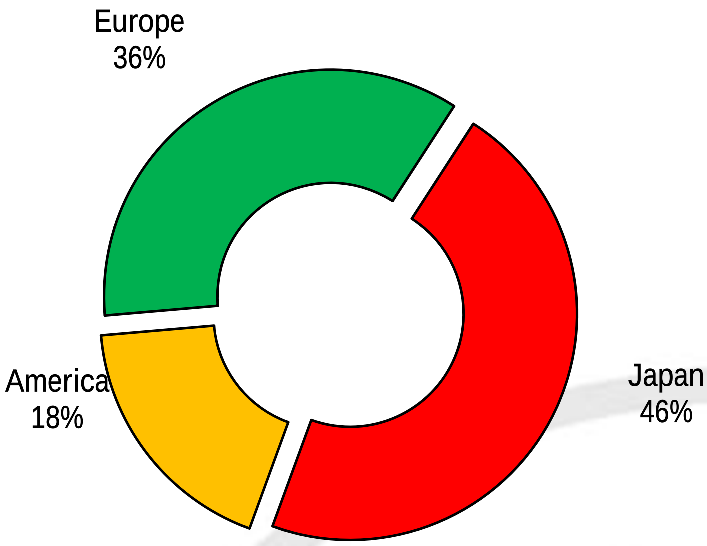
2016 sales revenues by geographical area



Group employees

	at December 31, 2016	at December 31, 2015	at December 31, 2014	at December 31, 2013
NUMBER OF EMPLOYEES	321	341	365	354

2016 geographical breakdown of employees



Milestones in our history

1992-1994: the 'ideas factory'

1992 A group of young technicians found EuroTech Srl, 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 SpA, 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 (province of Udine in North-East Italy) and the company becomes a joint-stock company (Italian acronym = SpA).

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 SpA 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 Srl 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 SpA, 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 the acquisition of Applied Data Systems, Inc. (now Eurotech Inc. after the meger 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.

With the aim to strengthen the strategic partnership forged in July 2006, in November, Leonardo S.p.A. (already Finmeccanica) completes the purchase 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. (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 with offices in Mission Viejo, California becomes part of the group.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 Hyper Text 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 it has 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 specialized 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 and information technology.

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.

Vision

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

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

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

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

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

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

Mission

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

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

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

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

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

Values

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

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

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

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

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

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

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

Business model

The four key elements of the Eurotech model

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

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

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

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

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

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

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

In the 1980s, the value chain for products based on digital technologies was very long: creating a complete system required numerous and individually specialised parts, and every section of the value chain required specific, specialist players. In practice, those who worked on boards were very far removed from the final customer. But there was already a clear trend towards integration of the various components (as described by Moore's Law 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 technological paradigm followed by Eurotech is "Pervasive Computing". 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

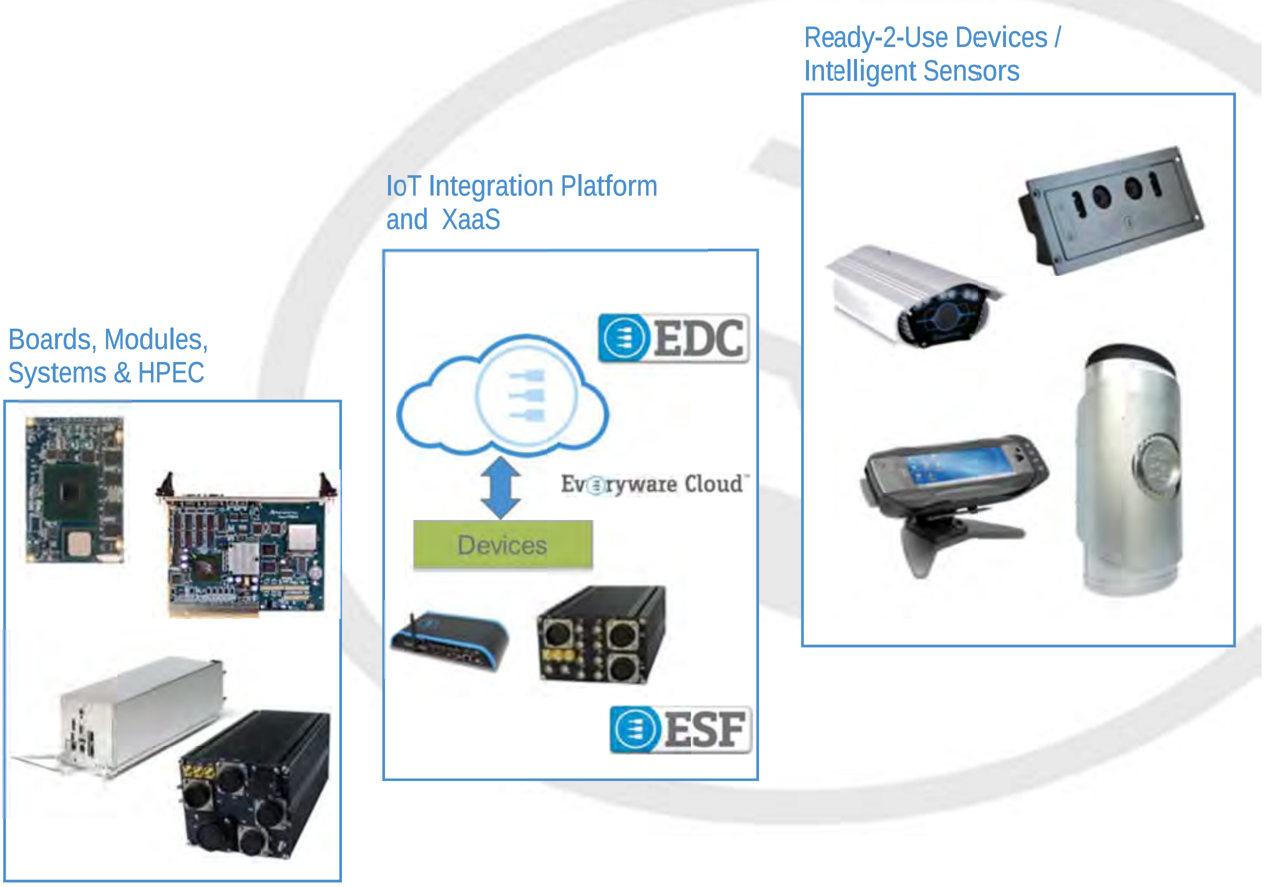
Embedded technology is the basic technology of Eurotech products. It is an enabling technology, in that it permits miniaturisation. It is the technology on which Eurotech based its foundation and that continues to be in the Group's DNA.

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.

Today the technological paradigm followed by Eurotech is "Pervasive Computing". 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.



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, for devices able to operate for long periods powered by a battery
- Minimum heat generation
- Compact formats and sizes
- Wireless connections (e.g. Wi-Fi, GPS, 3G, Bluetooth and ZigBee)
- Ease of integration within distributed ICT infrastructures
- Durability, for solutions able to withstand harsh environments from all points of view:
- Superior reliability
- Compliance with specific certification standards, e.g.: MIL, EN, DIN, IPxx, NEMAxx.

Besides these functional requirements, our customers also seek in Eurotech a centre of technological competence. They want to reduce their time-to-market 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 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 & Commercial
- Medical & Healthcare
- Transportation & Mobility
- Logistics & Networking
- Security & Surveillance
- Defence & Aerospace

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



INDUSTRIAL&
COMMERCIAL




MEDICAL &
HEALTHCARE

TRANSPORTATION
& MOBILITY




LOGISTICS &
NETWORKING

SECURITY & SURVEILLANCE

DEFENCE & AEROSPACE

Our HPC offering targets research centres, computing centres, and universities requiring extremely high processing capacity, occupying limited space and with minimum power consumption. Our compact, low-power HPCs are proving useful also in advanced industrial and services sectors, such as nanotechnology, biotechnology and cyber security.

COMPUTER CENTRES

Corporate information

Board of Directors	
Chairman	Roberto Siagri [7]
Director	Giulio Antonello [1, 2, 3, 7]
Director	Sandro Barazza [1, 4]
Director	Riccardo Costacurta [1, 2, 3, 5, 6]
Director	Alberto Felice De Toni [1, 2]
Director	Chiara Mio [1, 2, 3, 5, 6, 7, 8]
Director	Dino Paladin [1]
Director	Giuseppe Panizzardi [1, 6]
Director	Marina Pizzol [1, 5]

The Board of Directors currently in office was appointed by shareholders at the Annual General Meeting of 24 April 2014 and supplemented by the Annual General Meeting of 24 April 2015; it and will remain in office until approval of the 2016 financial statements.

Board of Statutory Auditors	
Chairman	Claudio Siciliotti
Statutory auditor	Michela Cignolini
Statutory auditor	Giuseppe Pingaro
Substitute statutory auditor	Laura Briganti
Substitute statutory auditor	Gianfranco Favaro

The Board of Statutory Auditors currently in office was appointed by shareholders at the Annual General Meeting of 24 April 2014, and will remain in office until the approval of the 2016 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 Committee for Related Party Transactions.
[4] Corporate Financial Reporting Manager as from 29 May 2008.
[5] Member of the Control and Risks Committee.
[6] Member of the Remuneration Committee.
[7] Member of the Appointments Committee
[8] Lead Independent Director.

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 Milan stock market since 30 November 2005.

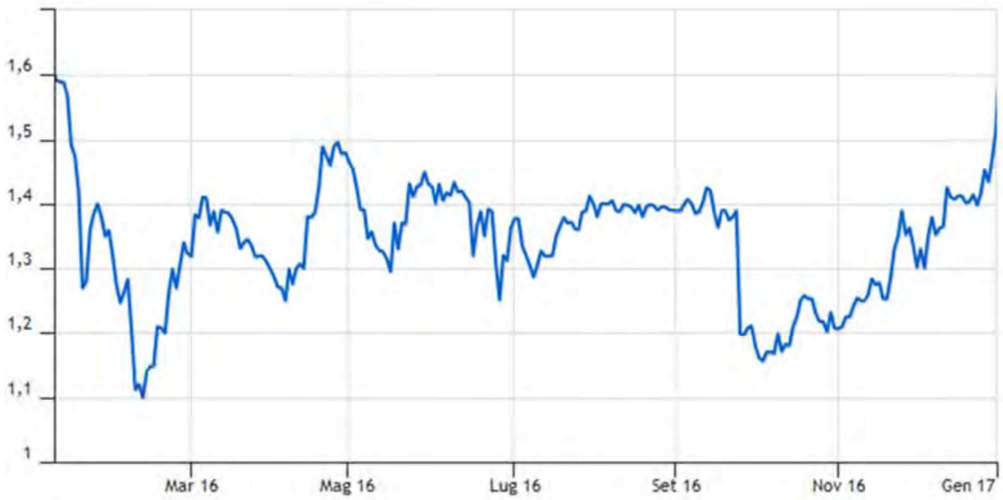
Share capital of Eurotech S.p.A. at 31 December 2016

Share capital	Euro 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 2016)	Euro 53 million
Stock market capitalisation (based on the share's relevant price at 31 December 2016)	Euro 54 million

Performance of Eurotech S.p.A. shares

Absolute performance of EUROTECH S.p.A. shares
01.01.2016 – 31.12.2016

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 2016 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 computers for special uses (NanoPCs) and supercomputers with high energy efficiency (HPCs).
"NanoPCs" and "HPCs" are therefore the business areas identified. In the NanoPC segment, the Group's product offering consists of miniaturised electronic modules and systems, and of software platforms for Machine-to-Machine (M2M) integration currently targeting the transportation, logistics, defence, security, medical, and industrial sectors.
In the HPC segment, the Group's offering is represented by supercomputers that pair very high computing power, up to dozens of PetaFlops, with compact sizes and very high energy efficiency and that are sold to both research institutions and computing centres as well as industry and service customers.

At 31 December 2016, the Eurotech Group consisted of the following companies:

Company name	Business	Share capital	Group share
Parent company			
Eurotech S.p.A.	Operates in the NanoPC segment with its main focus on the Italian market and in the HPC market at global level. In terms of organisation, it performs the role of coordinating holding company at corporate level	Euro 8,878,946	
Subsidiaries and companies consolidated on a line-by-line basis			
Aurora S.r.l.	Mainly operates in the High Performance Computer market supplying services to support the parent company	Euro 10,000	100.00%
Dynatem Inc.	Operates in the US NanoPC market	USD 1,000	100.00%
E-Tech USA Inc.	Holding company that controls 100% of Eurotech Inc. and Dynatem Inc.	USD 8,000,000	100.00%
ETH Devices S.r.o.	Operates in the Eastern European NanoPC sector, 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 NanoPC market	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 in the NanoPC segment and is active primarily in the UK	GBP 33,333	100.00%
I.P.S. Sistemi Programmabili S.r.l.	Operates in the NanoPC segment under the IPS brand and also operates in the high-tech security sector under the ETH Security brand	Euro 51,480	100.00%
Advanet Inc. Advanet Inc.	Operates in the Japanese NanoPC market	JPY 72,440,000	90.00% (1)

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


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

Operating performance

(€'000)		FY 2016	%	FY 2015	%
OPERATING RESULTS					
SALES REVENUES		61,103	100.0%	65,551	100.0%
GROSS PROFIT MARGIN	(*)	29,959	49.0%	32,983	50.3%
EBITDA	(**)	443	0.7%	(948)	-1.4%
EBIT	(***)	(5,565)	-9.1%	(6,602)	-10.1%
PROFIT (LOSS) BEFORE TAXES		(5,125)	-8.4%	(6,163)	-9.4%
GROUP NET PROFIT (LOSS) FOR THE PERIOD		(5,069)	-8.3%	(6,223)	-9.5%

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

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

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

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

The investments that Eurotech made during the year in the strategic areas singled out in the multi-year plan led to important recognitions and agreements with qualified international partners like Red Hat and Hitachi. None of these efforts yet reflect on the volume of turnover, which is still smaller than expected and definitely less than the efforts and investments spent.
If on the one hand the Group strengthens its position in the embedded computing world by keeping up innovation in the traditional computing boards and subsystems business, on the other development of the M2M/IoT platforms gave important results as they are able to attract the attention of international customers as well as recognitions around the globe.
Today a lot of potential customers are using the IoT platform and Eurotech hardware (gateways in particular) to connect their machines, and they are realising that Eurotech solutions allow them to innovate their product ranges by supplying those technologically innovative elements that give them a competitive edge in their respective markets.
Industry analysts certainly identify the IoT with what the so-called "Fourth industrial revolution" (Industry 4.0) is based on, and this is where Eurotech can be considered a market leader owing to its hardware and software products.

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

It is important to remind that this historical era of evolution of the new big IoT market where the customers' implementation of projects goes through a testing stage, followed by pilot implementations that are then gradually extended to somewhat extend the time needed for the expected revenues to be generated, must be faced. This is generating growth in turnover that follows an exponential rather than linear curve, therefore slow in the beginning but with a prospect of sizeable growth as soon as the critical mass is reached.
By virtue of the progress of the strategy's implementation, more tangible results in terms of order book are expected in the quarters to come, whereas the impact on turnover will be seen afterwards due to the curve of adoption of the new IoT technologies by the customers described above.
In order to be able to stay in line with the technological innovations and retain its competitive edge in the IoT market, Eurotech continues to invest paying close attention to the overall performance of costs balancing the investments in connection with growth path of sales.
During this stage, management is paying close attention to the overall performance of costs and to their control in order to achieve that level of operating costs that makes it possible to break even as soon as possible.

Before commenting on the income statement figures in more detail, we must point out that some of them reflect the effects of the recognition in the accounts of purchase price [A] allocations relating to the business combinations of Dynatem Inc. (whose effects ended in 2015) and Advanet Inc. and the write-down for impairment [B] of Dynatem Inc in 2015 and of Eurotech France Sas in the current year 2016.
Actual interim results and results calculated without taking into account the effect of purchase price allocation and costs arising from events and transactions not representative of normal business operations are summarized below:
- EBIT would be -€2.73 million rather than -€5.56 million;
- rather than -€5.12 million, the pre-tax result would have been -€2.29 million;
- Group net profit would be -€3.34 million rather than -€5.07 million.

The gross profit margin, slightly lower than was forecast in the plan, came in at 49.0%, compared to 50.3% last year. This percentage is the result of the mix of products sold, which have different margins depending on the type of product, the sectors in which they are used and the geographic markets, in some of them, and more specifically in the Japanese area, is manifest the effect of a certain price pressure in the embedded sector.
Management of materials purchasing is still of primary importance in order to keep the competitiveness useful to not lose the margins necessary to attain the set goals.

[A] More specifically, the effects of recognition in accounts of PPA relating to the business combinations of Dynatem Inc. and Advanet are as follows:

- Amortisation: €2,466 thousand (€2,540 thousand in 2015), due to higher amortization of amounts allocated to intangible assets (particularly customer relations) and to the write-downs on goodwill;
- lower income taxes: EUR 1,103 thousand (EUR 1,058 thousand for 2015) resulting from the tax effect on adjustments made

[B] The impairment on Group had the following effects on the income statement for the year 2016:

- a write-down of the goodwill item of €365 thousand with regard to the company Eurotech France Sas, while impairment affected the customer relations item in 2015 by €138 thousand.

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

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

EBITDA improved by €1.39 million and amounted to €0.44 million, compared with -€0.95 million in 2015. EBITDA in 2016 as a percentage of revenues was 0.7%, compared with -1.4% in 2015. The difference between the two periods is due not only to the reduction in operating costs described above, but also to the capital gain of €1.705 million made from the sale of the security and traffic business unit of the subsidiary IPS Sistemi Programmabili S.r.l. as explained in the relevant note 36.

EBIT improved in the periods in question, rising from -€6.60 in 2015 to -€5.56 million in 2016. EBIT as a percentage of revenues changed from -€10.1% in 2015 to -€9.1% in 2016.
EBIT in 2016 was affected by the write-downs and amortisation recording during the year and the performance of the EBITDA commented on above.
The 2016 write-downs refer mainly to the product development costs that did not achieve the market success initially forecast amounting to €0.34 million and to the write-down of the related portion of goodwill by the Eurotech France Sas business unit of €0.36 million.
On the contrary, depreciation and amortisation derive from both operating assets becoming subject to depreciation throughout 2016 and the non-monetary effects arising from price allocation relating to the acquisitions of Advanet Inc. The effect on EBIT of the higher values attributed as a result of purchase price allocation in 2016 was €2.83 million, compared with €2.68 million in 2015.
The financial result was affected by foreign exchange differences caused by the trend in foreign currencies, as well as by the net financial position performance. Overall, foreign exchange differences had a positive effect on the period of €0.61 million (compared with a positive effect of €0.81 million in 2015), while financial management relating to interest had an effect of €0.43 million (€0.59 million in 2015).

The Group booked a pre-tax loss of €5.12 million in 2016 (compared with a loss of €6.16 million in 2015). This performance was influenced by the factors outlined above. The impact on the pre-tax result of PPA was €2.83 million in 2016, compared with €2.68 million in 2015.
The Group net result was -€5.07 million, compared with -€6.22 million in 2015.

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 32 for more details).
Price allocation had a €1.73 million effect on the Group's net result in 2016 (2015: Euro 1.62 million).

As indicated in the explanatory notes to the consolidated financial statements (Note F), the Group discloses segment information based on the product segment in which it develops its activity (NanoPCs and HPCs) and, exclusively in the NanoPC segment, based on the regions in which the various Group companies operate that are currently monitored. These are 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 business segments and the relative changes in the periods under review are set out below.

(€'000)	NanoPC			High Performance Computer			Total		
	FY 2016	FY 2015	% YoY Change	FY 2016	FY 2015	% YoY Change	FY 2016	FY 2015	% YoY Change
Sales revenues	60,807	63,979	-5.0%	296	1,572	-81.2%	61,103	65,551	-6.8%
Gross profit	29,879	32,819	-9.0%	80	164	-51.2%	29,959	32,983	-9.2%
EBITDA	1,665	81	1955%	(1,222)	(1,029)	18.7%	443	(948)	146.7%
EBITDA margin - %	2.7%	0.1%		-412.8%	-65.5%		0.7%	-1.4%	
EBIT	(4,170)	(5,402)	22.8%	(1,395)	(1,200)	-16.2%	(5,565)	(6,602)	15.7%
EBIT margin - %	-6.9%	-8.4%		-471.3%	-76.3%		-9.1%	-10.1%	

Analysis of revenues by the main business areas shows that the HPC area is not significant, pending projected developments at European level in this business segment. Business in this area is still characterized by large contracts with a limited number of customers, traditionally in the science and research field, but now also in industry and services due to the development of the Aurora line. The concentration of sales from a small number of accounts and from activities tied to European projects generated in 2016, as in the previous years, a sales performance by the HPC line not in line with what could have been expected and with the investments made.
NanoPC revenues were €60.81 million in 2016 and €63.98 million in 2015, representing a decrease of 5.0%. This decrease was due to the factors previously described relating to overall sales, and particularly to the effect recorded in the USA area.

For the NanoPC segment, the regional breakdown is as follows:

(€' 000)	North America			Europe			Asia			Correction, reversal and elimination			Total		
	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change
Third party Sales	22,479	25,550		13,149	15,949		25,178	22,480		0	0		60,806	63,979	
Infra-sector Sales	519	545		3,940	3,197		198	352		(4,657)	(4,094)		0	0	
Total Sales revenues	22,998	26,095	-11.9%	17,089	19,146	-10.7%	25,376	22,832	11.1%	(4,657)	(4,094)	-13.8%	60,806	63,979	-5.0%
Gross profit	8,414	10,718	-21.5%	7,352	8,936	-17.7%	14,437	13,457	7.3%	(324)	(292)	11.0%	29,879	32,819	-9.0%
Gross profit margin - %	36.6%	41.1%		43.0%	46.7%		56.9%	58.9%					49.1%	51.3%	
EBITDA													1,665	81	1955.5%
EBITDA margin - %													2.7%	0.1%	
EBIT													(4,170)	(5,402)	-22.8%
EBIT margin - %													-6.9%	-8.4%	

North American revenues decreased, included intra-sector sales, by 11.9%, from €23.00 million in 2016 to €26.09 million in 2015. This change is due to the transition between projects completed or in the completion phase and new projects, which caused a momentary slowdown in growth. Opportunities in the IoT sector are also taking shape according to the capabilities of the customers to implement the new IoT technologies on a large scale. The wait to expedite the existing orders in the transport sector is growing longer beyond all possible forecasts, and even if the project continues to be alive and current, it is not certain when it can be realized in terms of turnover.
The European business area recorded a reduction from €19.15 million in 2015 to €17.09 million in 2016. A 10.7% decrease, including intersector sales, was mainly due to the lower turnover of the UK subsidiary, which had fewer opportunities with historical customers in the industrial embedded, defence and transport sectors that what was expected. This is why the UK subsidiary is resolutely focusing on services and product integration in the IoT sector. The opportunities generated in the transport sector in the Italian company's area, and in countries outside Europe, where the creation of new infrastructures or the upgrading of the vehicles might help sales of Group products specific for the sector, are more significant. Performance continues to be seesaw because the three major European countries where the Group operates (Italy, France and the UK) are still undergoing economic stagnation and are experiencing ups and downs, depending on the period.
Lastly, the Asian business area represented higher turnover than the previous year due to the foreign exchange differences arising from the conversion of figures in yen into euro. The area's revenues, in fact, rose from €22.83 million to €25.38 million (including intersector revenues).

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

SALES BY TIPE	FY 2016	%	FY 2015	%
Industrial revenues	57,726	94.5%	63,239	96.5%
Services revenues	3,377	5.5%	2,312	3.5%
TOTALE SALES AND SERVICE REVENUES	61,103	100.0%	65,551	100.0%

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

BREAKDOWN BY GEOGRAPHIC AREA	FY 2016	%	FY 2015	%	var. %
European Union	9,682	15.8%	11,793	18.0%	-17.9%
United States	21,743	35.6%	26,884	41.0%	-19.1%
Japan	24,937	40.8%	22,435	34.2%	11.2%
Other	4,741	7.8%	4,439	6.8%	6.8%
TOTAL SALES AND SERVICE REVENUES	61,103	100.0%	65,551	100.0%	-6.8%

On the basis of the breakdown of turnover by customer's region, an 19.1% decrease in turnover in the USA region is noted. The US accounted for 35.6% of total annual sales in 2016.
The Japanese area registered higher turnover than 2015 and is therefore the most important area, affecting the consolidated financial statements by 40.8% as compared to 34.2% in 2015.
In the European area, again with reference to customer location, turnover was decreased by 17.9% and the area is still affected by stagnated demand. Europe accounted for 15.8% of total sales, compared to 18.0% of the previous year.

(€'000)	FY 2016	%of sales	FY 2015	%of sales	var. %
Purchases of raw materials, semi-finished and finished products	30,102	49.3%	34,720	53.0%	-13.3%
Changes in inventories of raw materials	584	1.0%	811	1.2%	-28.0%
Change in inventories of semi-finished and finished products	458	0.7%	(2,963)	-4.5%	-115.5%
TOTAL COST OF MATERIALS	31,144	51.0%	32,568	49.7%	-4.4%

Consumption of raw and auxiliary materials and consumables, shown in the table above, decreased from €32.570 million in 2015 to €31.14 million in 2016. A 4.4% drop in consumption was recorded in the period under review, in line with the 6.8% 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 49.7% in 2015 to 51.0% in 2016.

(€'000)	FY 2016	%of sales	FY 2015	%of sales	var. %
Service costs	12,333	20.2%	13,501	20.6%	-8.7%
Rent and leases	1,788	2.9%	1,800	2.7%	-0.7%
Payroll	19,856	32.5%	20,775	31.7%	-4.4%
Accruals and other costs	942	1.5%	1,268	1.9%	-25.7%
Cost adjustments for in-house generation of non-current assets	(2,070)	-3.4%	(1,953)	-3.0%	6.0%
Operating costs net of cost adjustments	32,849	53.8%	35,391	54.0%	-7.2%

As a percentage of revenues, other operating costs, net of cost adjustments for internal increases, increased from 54.0% in 2015 to 53.8% in 2016.
In absolute terms, net operating costs were down 7.2%, from €35.39 million in 2015 to €32.85 million in 2016. 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.

(€'000)	FY 2016	%	FY 2015	%	var. %
Industrial services	4,917	39.9%	5,424	40.2%	-9.3%
Commercial services	2,863	23.2%	2,952	21.9%	-3.0%
General and administrative costs	4,553	36.9%	5,125	38.0%	-11.2%
Total costs of services	12,333	100.0%	13,501	100.0%	-8.7%
% impact on sales	20.2%		20.6%		

Service costs decreased 8.7% or €1.17 million, down from €13.50 million in 2015 to €12.33 million in 2016. This item dropped as a percentage of revenues, and is currently at about 20.2%.

Industrial costs were down 9.3%, from €5.42 million in 2015 to €4.92 million in 2016.

Commercial service costs supporting the always innovative and technologically up-to-date product portfolio slightly dropped after cutting a few external costs that totalled €2.86 million in 2016 (2015: €2.95 million), with a €89 thousand reduction (3.0%).

Costs for general and administrative services were those that recorded the greatest reduction, down 11.2% compared to the previous year, from €5.12 million in 2015 to €4.55 million in 2016.

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 €1.80 million in 2015 to €1.79 million in 2016.

(€'000)	FY 2016	%	FY 2015	%	var. %
Wages, salaries and Social Security	18,898	95.2%	19,641	94.5%	-3.8%
Severance indemnities	410	2.1%	459	2.2%	-10.7%
Other costs	548	2.8%	675	3.2%	-18.8%
Total cost of personnel	19,856	100.0%	20,775	100.0%	-4.4%
% impact on sales	32.5%		31.7%		

In the period under review, payroll costs decreased 4.4%. The difference is due to the measures taken at the end of 2015, where because of the strategy to outsource part of the production resources were rationalised in the Japanese subsidiary.

Payroll costs as a percentage of revenues increased to 32.5% in 2016, from 31.7% in 2015.

As shown in the table below, the number of Group employees at the end of the periods under review fell from 341 in 2015 to 321 in 2016. In terms of average number of employees, the values are quite similar: 349.8 units in 2015 and 325.7 units in 2016.

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 2016	at December 31, 2016	Average 2015	at December 31, 2015
Manager	10.8	10	11.2	10
Clerical w orkers	292.6	287	313.5	303
Line w orkers	22.3	24	25.1	28
TOTAL	325.7	321	349.8	341

Total accrual and other costs are as follow:

(€'000)	FY 2016	%	FY 2015	%	var. %
Doubful debt provision	187	19.9%	147	11.6%	27.2%
Other Provisions	96	10.2%	76	6.0%	26.3%
Other costs	659	70.0%	1,045	82.4%	-36.9%
Total accruals and other costs	942	100.0%	1,268	100.0%	-25.7%
% impact on sales	1.5%		1.9%		

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 realized on receivables totalling €28 thousand, whereas the figure was €118 thousand on 31 December 2015.
As a percentage of revenues, other provisions and other costs fell from 1.9% in 2015 to 1.5% in 2016.

(€'000)	FY 2016	%	FY 2015	%	var. %
Government grants	1,306	39.2%	942	64.5%	38.6%
Sundry revenues	2,027	60.8%	518	35.5%	291.3%
Total other revenues	3,333	100.0%	1,460	100.0%	128.3%
% impact on sales	5.5%		2.2%		

The "Other income" item increased by 128.3% in the reporting period, from €1.46 million in 2015 to €3.33 million in 2016. This increase is due to both the greater contributions booked in the period and to the increase in the “Miscellaneous revenues” item, which includes €1,705 thousand, the capital gain earned from sale of the IPS Sistemi Prgrammabili S.r.l. business unit described in note 36.

Other revenues rose from 2.2% in 2015 to 5.5% in 2016 as a percentage of total revenues.

(€'000)	FY 2016	%	FY 2015	%	var. %
Amortisation of intangile assets	4,315	71.8%	4,567	80.8%	-5.5%
Amortisation of property, plant and equipment	942	15.7%	876	15.5%	7.5%
Write-dow n of fixed assets	751	12.5%	211	3.7%	255.9%
Total amortisation and depreciation	6,008	100.0%	5,654	100.0%	6.3%
% impact on sales	9.8%		8.6%		

Amortisation fell from €5.44 million in 2015 to €5.26 million in 2016. This change is attributable to the smaller impact of the amortisation of the price allocation, and particularly of that regarding Dynatem Inc, whose effects ended in 2015, 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 asset write-down in the year is related for €345 thousand to some projects posted to the development costs item for products that did not achieve the expected market success and for €365 thousand to the write-down related to the impairment made on the business unit goodwill item attributable to Eurotech France Sas, and lastly for €41 thousand to the land and buildings owned by the subsidiary IPS Sistemi Programmabili S.r.l. to adjust their value to a recent appraisal estimate.

Depreciation, amortisation and impairment of assets as a percentage of revenues rose from 9.8% in 2016 from 8.6% in 2015.

Valuation of equity interests in affiliates led to a revenue of €52 thousand, compared with €165 thousand in 2015.
The net effect of 2016 derived from the positive revaluation of the equity interest in associate Emilab S.r.l. that afterwards, at year-end, was sold, and from the impairment of the company Inasset S.r.l. to adjust it to the equity value since the book value at cost was difficult to recover at the time.
The positive revaluation in 2015 mainly derived from the revaluation of the equity interest of associate Emilab S.r.l. and Chengdu Vantron Technology Inc.
The Management of equity interests item is due for €122 thousand to the capital gain coming from the sale of shares in Emilab S.r.l., for €91 thousand to the partial repayment of the loan to Rotowy Technologies S.p.A. (ex U.T.R.I. S.p.A.) already written down in previous years and for €1 thousand to the dividends received from InAsset S.r.l..

(€'000)	FY 2016	FY 2015	change %
Exchange-rate losses	780	961	-18.8%
Interest expenses	390	463	-15.8%
Svalutazione delle attività correnti finanziarie	76	0	n/a
Expenses on derivatives	10	53	-81.1%
Other finance expenses	39	96	-59.4%
Financial charges	1,295	1,573	-17.7%

(€'000)	FY 2016	FY 2015	change %
Exchange-rate gains	1,386	1,776	-22.0%
Interest income due to the discounting	0	22	-100.0%
Interest income	21	14	50.0%
Other finance income	62	29	113.8%
Financial incomes	1,469	1,841	-20.2%
Net financial income	174	268	-35.1%
% impact on sales	0.3%	0.4%	

The decrease in financial charges from €1.57 million in 2015 to €1.29 million in 2016 was particularly due to the reduction in the negative foreign exchange differences relating to trends in the US dollar, the Japanese yen and the UK pound by a decrease in interest expense.

Financial income also showed a reduction, down from €1.84 million in 2015 to €1.47 million in 2016. 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 0.3% in 2016, compared with 0.4% in 2015.

(€'000)	FY 2016	%of sales	FY 2015	%of sales	var. %
Pre-tax result	(5,125)	-8.4%	(6,163)	-9.4%	-16.8%
Income taxes	56	0.1%	(60)	-0.1%	-193.3%
Income taxes as a percentage of profit before taxes (effective tax rate)	1.1%		-1.0%		

The Group booked a pre-tax loss of -€6.16 million in 2015 (compared with a loss of -€5.12 million in 2016). As already noted, this change is the effect of the performance of the turnover and gross profit margin, the trend in operating costs, other revenues and financial management. Income tax as a percentage of the pre-tax result in the period under review reflects tax trends at the consolidated companies, as well as the 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.

(€'000)	FY 2016	%of sales	FY 2015	%of sales	var. %
IRES (Italian corporate income tax)	494	0.8%	161	0.2%	206.8%
IRAP (Italian Regional business tax)	7	0.0%	(3)	0.0%	-333.3%
Foreign current income taxes	925	1.5%	895	1.4%	3.4%
Total current income tax	1,426	2.3%	1,053	1.6%	35.4%
Net (prepaid) deferred taxes: Italy	(318)	-0.5%	52	0.1%	n.s.
Net (prepaid) deferred taxes: Non-italian	(1,158)	-1.9%	(1,094)	-1.7%	5.9%
Net (prepaid) deferred taxes	(1,476)	-2.4%	(1,042)	-1.6%	41.7%
Previous years taxes	(6)	0.0%	49	0.1%	-112.2%
Previous years taxes	(6)	0.0%	49	0.1%	-112.2%
TOTAL INCOME TAXES	(56)	-0.1%	60	0.1%	-193.3%

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

The Group registered a loss of €5.07 million, compared with a loss of €6.22 million in 2015.

Balance sheet

Non-current assets

(€'000)	at December 31, 2016	at December 31, 2015	Changes
ASSETS			
Intangible assets	89,715	89,682	33
Property, Plant and equipment	2,993	3,325	(332)
Investments in affiliate companies	11	161	(150)
Investments in other companies	301	308	(7)
Deferred tax assets	1,465	1,351	114
Medium/long term borrowing allowed to affiliates companies and other Group	95	0	95
Other non-current assets	640	608	32
Total non-current assets	**95,220**	**95,435**	**(215)**

The "Non-current assets" item decreased from €95.43 million in 2015 to €95.22 million in 2016.
Compared to the amounts stated in the financial statements of last year, the amount of the equity interest in the Chinese company Chengdu Vantron Technology Inc. (affiliate) was reclassified to the item "Assets classified as held for sale" for €769 thousand following the decision of the subsidiary EthLab S.r.l. to sign, along with the majority shareholder of the Chinese company, a contract to sell its shares (45% of the share capital). This sale is however subject to the authorisation of the local Chinese authorities.
The change is mainly related to the changes in the tangible assets arising from the different conversion ratio for financial statements in foreign currency and from the amortisation of the amounts in addition to a reduction in the value of equity interest in affiliates due to the sale of shares of the company Emilab S.r.l.

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

(€'000)	at December 31, 2016	at December 31, 2015	Chg.
Intangible assets	1,991	2,149	(158)
Property, plant and equipment	697	725	(28)
Investments	15	0	15
TOTAL MAIN INVESTMENTS	2,703	2,874	(171)

Current assets

(€'000)	at December 31, 2016	at December 31, 2015	Changes
Inventories	19,337	20,198	(861)
Trade receivables	15,813	15,715	98
Income tax receivables	155	180	(25)
Other current assets	1,414	1,650	(236)
Other current financial assets	76	76	0
Cash & cash equivalents	9,186	11,430	(2,244)
Total current assets	**45,981**	**49,249**	**(3,268)**

The current assets item decreased, from €49.25 million in 2015 to €45.98 million in 2016. The decrease is due to the reduction in inventory figures caused by the increased efficiency measures taken, the decrease in cash and cash equivalents after the absorption arising from operations, and to the reduction in other current assets.

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

Net working capital slightly increased by €85 thousand. This increase is the result of the combined effect of reduced current assets offset by reduced current liabilities. More specifically, decreases in inventories and other current assets, in addition to a reduction in trade payables and income tax payables, were recorded. Net working capital as a percentage of turnover was 27.9%, higher than the figure obtained at year-end 2015 (25.9%).

Net financial position

The Group's net debt at 31 December 2016 was €2.34 million, compared with a net debt of €0.22 million at 31 December 2015.

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

Existing financial liabilities of €7.67 million, plus current account overdrafts at year-end 2016 of €4.02 million, combine to form total debt toward banks of €11.68 million, of which €8.21 million is payable in the short term.

The short-term borrowings item contains the medium/long-term portion (€0.87 million) of two existing loans relating to which one of the covenants provided for in the respective loan agreements was not met based on the consolidated data on 31 December 2016.

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 2016 based on the original due date as current.
The covenants of the other existing loans subject to covenants were met on 31 December 2016.

Cash flows

(€'000)		at December 31, 2016	at December 31, 2015
Cash flow generated (used) in operations	A	(1,426)	(3,503)
Cash flow generated (used) in investment activities	B	(34)	(459)
Cash flow generated (absorbed) by financial assets	C	(566)	419
Net foreign exchange difference	D	(218)	869
Increases (decreases) in cash & cash equivalents	E=A+B+C+D	(2,244)	(2,674)
Opening amount in cash & cash equivalents		11,430	14,104
Cash & cash equivalents at end of period		9,186	11,430

Owing to the actions taken compared to the previous year, operations showed cash flows used of €1.35 million, compared with cash flows used of about €3.50 million in 2015.

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.

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 2016 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. (former 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 SpA. 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. 33 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 Art. 79 of Consob Regulation 11971/99 as subsequently amended.

Name	Nomination	Company	Possessory title	at December 31, 2016 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
Siagri Roberto	President	Eurotech	Ownership	1,450,031	-	(144,000)	1,306,031	900,370
Antonello Giulio	Director	Eurotech	Ownership	-	-	-	-	-
Barazza Sandro	Director	Eurotech	Ownership	2,000	-		2,000	-
Costacurta Riccardo	Director	Eurotech	Ownership	-	-	-	-	-
De Toni Alberto Felice	Director	Eurotech	Ownership	6,000	-	-	6,000	-
Mio Chiara	Director	Eurotech	Ownership	-	-	-	-	-
Paladin Dino	Director	Eurotech	Ownership	2,262,604	138,000	-	2,400,604	-
Panizzardi Giuseppe	Director	Eurotech	Ownership	-	-	-	-	-
Pizzol Marina	Director	Eurotech	Ownership	-	-	-	-	-
Siciliotti Claudio	President of Board of Auditors	Eurotech	Ownership	10,000	-	-	10,000	-
Cignolini Michela	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-
Pingaro Giuseppe	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-

Reconciliation statement of results for the year and shareholders' equity

The schedule below shows the reconciliation of net income and consolidated shareholders' equity of the Issuer at 31 December 2016 and 31 December 2015:

(€'000)	Profit (Loss) 12/31/2016	Shareholders' Equity 12/31/2016	Profit (Loss) 12/31/2015	Shareholders' Equity 12/31/2015
Financial report of the Parent Company	(1,260)	113,075	3,694	114,280
Group share of shareholders' equity and pro-quota value in consolidated companies	(1,627)	(66,539)	(2,312)	(65,435)
Differential arising from consolidation		50,356	-	48,709
Customer relationship	(2,466)	2,007	(2,678)	4,151
Trademark		8,582	-	8,079
Reversal of Impairment of equity transactions	2,598	-	1,460	
Effect of valuing equity investments using th enet equity method	(133)	9	55	143
Elimination of unrealised internal profit on capitalizations	(89)	(89)	-	-
Exchange differences on equity investments in foreign companies	(1,170)	-	(3,574)	-
Stock option subsidiaries	(13)	-	-	-
Offset dividends	(1,962)	-	(3,866)	-
Tax effects on consolidation adjustments listed above	1,053	(3,844)	998	(4,590)
Consolidated financial statements	(5,069)	103,557	(6,223)	105,337

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

The Parent Company Eurotech SpA held 1,319,020 treasury shares at the end of the reporting period. Treasury shares changed as follows in 2016:

	No. of shares	Face value of a share (Thousand of Euro)	% share capital	Carrying value (€'000)	Average unit value
Status as at 1 January 2016	1,319,020	330	3.71%	3,097	2.35
Purchases	-	-	0.00%	0	
Status as at 31 December 2016	1,319,020	330	3.71%	3,097	2.35

Investments and research and development

At 31 December 2016, technical investments (tangible assets) in equipment and instruments amounted to €361 thousand, investments in property and other assets amounted to €336 thousand, investments to purchase user, software and know-how licenses amounted to €67 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 €1.89 million. About 36.3% relate to the development of new products based on Intel's new, ultra-low power architectures. About 51.7% relate to software projects in the Cloud computing segment, and the remainder of about 12.0% 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 balance sheet, business performance and financial status of the Group. In 2009, the global economy entered a recession phase that continued into 2016 as well in different ways in the different geographical areas.
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 no. 34.

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 at least that of recent years and in particular in 2016 and focus on the rationalization of its operating structures implemented in previous years.
The Group has to comply with financial parameters, and particularly tied to 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 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 38.

Report on corporate governance and ownership structure

The information required by Art. 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.

Agreements arising from off-blance sheet

The information required by Art. 2427, paragraphs 1 nr. 9 of the Civil Code is heaeby given that the Group ha sno agreements not disclosed in the blance sheet.

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 Art. 36 of Consob Regulation 16191/2007 (the "Stock Market Regulation"). In this regard, note that at 31 December 2016 the subsidiaries created and regulated under the laws of countries outside the European Union, pursuant to Art. 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 balance sheet and financial solidity, the outlook for 2017 and the years to come is positive, even though market conditions in some sectors remain uncertain.

The Group will pursue strategic development in 2017, along guidelines similar to those adopted in the last few years. The implementation of the strategic plan specifically includes the following actions:

- in the field of NanoPCs, 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;

- in the field of both NanoPCs and HPCs, a focus on products/solutions increasingly closer to the paradigm of pervasive computing or ubiquitous computing;
- 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.

Annex 1 - Report on corporate governance and ownership structure

Consolidated financial statements at 31 December 2016 prepared according to international accounting standards

Consolidated statement of financial position

(€'000)	Notes	at December 31, 2016	of which related parties	at December 31, 2015	of which related parties
ASSETS					
Intangible assets	1	89,715		89,682	
Property, Plant and equipment	2	2,993		3,325	
Investments in affiliate companies	3	11		161	
Investments in other companies	3	301		308	
Deferred tax assets	32	1,465		1,351	
Medium/long term borrowing allowed to affiliates companies and other Group	33	95	95	0	
Other non-current assets	4	640		608	
Total non-current assets		**95,220**		**95,435**	
Inventories	5	19,337		20,198	
Trade receivables	6	15,813	1,037	15,715	742
Income tax receivables	7	155		180	
Other current assets	8	1,414		1,650	
Other current financial assets	10	76		76	
Cash & cash equivalents	9	9,186		11,430	
Total current assets		**45,981**		**49,249**	
Non-current assets classified as held for sale	11	**769**		**769**	
Total assets		**141,970**		**145,453**	
LIABILITIES AND EQUITY					
Share capital		8,879		8,879	
Share premium reserve		136,400		136,400	
Other reserves		(41,722)		(39,942)	
Group shareholders' equity	13	**103,557**		**105,337**	
Equity attributable to minority interest	13	**0**		**0**	
Total shareholders' equity	13	**103,557**		**105,337**	
Medium-/long-term borrowing	15	3,475		3,401	
Employee benefit obligations	16	2,437		2,127	
Deferred tax liabilities	32	3,767		4,572	
Other non-current liabilities	18	869		940	
Total non-current liabilities		**10,548**		**11,040**	
Trade payables	19	13,459	300	14,381	1,038
Short-term borrowing	15	8,210		8,316	
Derivative instruments	35	12		8	
Income tax liabilities	7	642		866	
Other current liabilities	20	5,542		5,505	
Total current liabilities		**27,865**		**29,076**	
Total liabilities		**38,413**		**40,116**	
Total liabilities and equity		**141,970**		**145,453**	

Consolidated income statement

(€'000)	Notes	FY 2016	of which related parties	FY 2015	of which related parties
Revenues from sales of products and services	F	61,103	1,883	65,551	2,276
Other revenues	27	3,333	1,705	1,460	
- of which non recurrent	36	*1,705*	*1,705*	*0*	
Cost of materials	22	(31,144)	(801)	(32,568)	(2,245)
Service costs	24	(12,333)	(46)	(13,501)	(52)
Lease & hire costs		(1,788)		(1,800)	
Payroll costs	25	(19,856)		(20,775)	
Other provisions and other costs	26	(942)		(1,268)	
Cost adjustments for in-house generation of non-current assets	28	2,070		1,953	
Depreciation & amortisation	29	(5,257)		(5,443)	
Asset impairment	29	(751)		(211)	
Operating profit		**(5,565)**		**(6,602)**	
Share of associates' profit of equity	31	52		165	
Subsidiaries management	31	214		6	
Finance expense	30	(1,295)		(1,573)	
Finance income	30	1,469		1,841	
Profit before taxes		**(5,125)**		**(6,163)**	
Income tax	32	56		(60)	
Net profit (loss)		**(5,069)**		**(6,223)**	
Minority interest		**0**		**0**	
Group net profit (loss) for period		**(5,069)**		**(6,223)**	
Base earnings (losses) per share	14	**(0.148)**		**(0.182)**	
Diluted earnings (losses) per share	14	**(0.148)**		**(0.182)**	

Consolidated statement of comprehensive income

(€'000)	Notes	FY 2016	FY 2015
Net profit (loss) before minority inerest (A)		**(5,069)**	**(6,223)**
Other elements of the statement of comprehensive income			
Other comprehensive income to be reclassified to profit or loss insubsequent periods:			
Net profit/(loss) from Cash Flow Hedge	35	(4)	44
Tax effect		-	-
		(4)	*44*
Foreign balance sheets conversion difference		*2,088*	*5,981*
Exchange differences on equity method		-	-
Exchange differences on equity investments in foreign companies	13	1,171	3,574
Tax effect		-	-
		1,171	*3,574*
After taxes net other comprehensive income to be reclassified to profit or loss in subsequent periods (B)		*3,255*	*9,599*
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains/(losses) on defined benefit plans for employees	16	(40)	(43)
Tax effect		14	17
		(26)	(26)
After taxes net other comprehensive income not being reclassified to profit orloss in subsequent periods (C)		*(26)*	*(26)*
Comprehensive net result (A+B+C)		**(1,840)**	**3,350**
Comprehensive minority interest		**-**	**-**
Comprehensive Group net profit (loss) for period		**(1,840)**	**3,350**

Statement of changes in consolidated shareholders' equity

(€'000)	Share capital	Legal reserve	Share premium reserve	Conversion reserve	Other reserves	Cash flow hedge reserve	Actuarial gains/(losses) on defined benefit plans reserve	Exchange rate differences reserve	Treasury shares	Profit (loss) for period	Group shareholders' equity	Equity attributable to Minority interest	Total shareholders' equity
Balance as at December 31, 2014	8,879	1,037	136,400	4,413	(38,469)	(52)	(346)	2,144	(3,097)	(8,922)	101,987	-	101,987
2014 Result allocation	-	163	-	-	(9,085)	-	-	-	-	8,922	-	-	-
Profit (loss) as at December 31, 2015	-	-	-	-	-	-	-	-	-	(6,223)	(6,223)	-	(6,223)
Comprehensive other profit (loss):													
- Hedge transactions	-	-	-	-		44	-	-	-	-	44	-	44
Actuarial gains/(losses) on defined benefit plans for employees	-	-	-	-	-	-	(26)	-	-	-	(26)	-	(26)
- Foreign balance sheets conversion difference	-	-	-	5,981	-			-	-	-	5,981	-	5,981
- Exchange differences on equity method	-	-	-	-	-	-	-	-	-	-	-	-	-
- Exchange differences on equity investments in foreign companies	-	-	-	-	-	-	-	3,574	-	-	3,574	-	3,574
- Other changes and transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive result	-	-	-	*5,981*	-	*44*	*(26)*	*3,574*	-	*(6,223)*	*3,350*	-	*3,350*
- Other changes and transfers				207	(207)	-			-		-		-
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

(€'000)	Share capital	Legal reserve	Share premium reserve	Conversion reserve	Other reserves	Cash flow hedge reserve	Actuarial gains/(losses) on defined benefit plans reserve	Exchange rate differences reserve	Treasury shares	Profit (loss) for period	Group shareholders' equity	Equity attributable to Minority interest	Total shareholders' equity
Balance as at December 31, 2015	8,879	1,200	136,400	10,601	(47,761)	(8)	(372)	5,718	(3,097)	(6,223)	105,337	-	105,337
2015 Result allocation	-	185	-	-	(6,408)	-	-	-	-	6,223	-	-	-
Profit (loss) as at December 31, 2016	-	-	-	-	-	-	-	-	-	(5,069)	(5,069)	-	(5,069)
- Performance Share Plan	-	-	-	-	60	-	-	-	-	-	60	-	60
Comprehensive other profit (loss):													
- Hedge transactions	-	-	-	-		(4)	-	-	-	-	(4)	-	(4)
Actuarial gains/(losses) on defined benefit plans for employees	-	-	-	-	-	-	(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

Consolidated cash flow statement

CONSOLIDATED STATEMENT OF CASH FLOWS (€'000)	at December 31, 2016	of which related parties	at December 31, 2015	of which related parties
CASH FLOWS GENERATED BY OPERATIONS:				
Group net profit	**(5,069)**		**(6,223)**	
Adjustments to reconcile reported net profit with cash & cash equivalents generated (used) in operations:				
Depreciation & amortization intangible assets, property, plant and equipment	6,008		5,654	
Write-down of receivables	187		147	
Interest income	(21)		(14)	
Interest paid	439		612	
Gain on business unit disposals and investments in associates	(1,827)		0	
Share of net profit of associate and non-consolidated subsidiaries	(52)		(165)	
Income taxes (paid) get	(2,430)		(1,603)	
Losses/(Gains) for bringing up-to-date	0		(22)	
Stock Grant expenses	60		0	
Provision for (use of) cumulative inventory write-down	749		171	
Provision for (use of) long-term employee severance indemnities	284		177	
Provision for (use of) risk provision	(63)		31	
(Provision for) / use of deferred tax asset / Provision for (use of) deferred tax liability	(919)		(657)	
Changes in current assets and liabilities				
Trade receivables	27	(295)	437	1,295
Other current assets	248		44	
Inventories and contracts in process	(633)		(1,426)	
Trade payables	(692)	(738)	(891)	533
Other current liabilities	2,278		225	
Total adjustments and changes	**3,643**		**2,720**	
Cash flow generated (used) in operations	**(1,426)**		**(3,503)**	
CASH FLOW FROM INVESTMENT ACTIVITIES:				
Sales of tangible and intangible assets	(8)		25	
Interest income	21		14	
Purchase of intangible fixed assets	(1,991)		(2,149)	
Purchase of tangible fixed assets	(697)		(725)	
Decreases (Increases) other financial assets	0		2,494	
Net investments in long-term investments and non-current assets	(51)		(118)	
Cash flow generated (used) by dismissed business unit and other investements in associates	2,692		0	
Cash flow generated (used) in investment activities	**(34)**		**(459)**	
CASH FLOW FROM FINANCING ACTIVITIES:				
Loans taken	2,989		4,500	
(Increases) decreases of loans to other Group companies	(95)	(95)	0	-
Interest paid	(439)		(612)	
(Repaid) loans short and medium/long term	(3,021)		(3,469)	
Cash flow generated (absorbed) by financial assets	**(566)**		**419**	
Net foreign exchange difference	(218)		869	
Increases (decreases) in cash & cash equivalents	**(2,244)**		**(2,674)**	
Opening amount in cash & cash equivalents	**11,430**		**14,104**	
Cash & cash equivalents at end of period	**9,186**		**11,430**	

Explanatory notes to financial statements

A – Corporate information

The publication of the consolidated financial statements of Eurotech SpA for the financial year ended 31 December 2016 was authorised by resolution of the Board of Directors on 13 March 2017. Eurotech SpA 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 (NanoPCs) and high-performance computers featuring high computing capacity (HPCs). 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 2016, 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. Despite the difficult global economic situation, Eurotech found no significant uncertainties (as defined in paragraph 25 of IAS 1) related to business continuity, also taking into account actions taken to deal with the situation, industrial flexibility, the existing order portfolio and ongoing opportunities.
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 2015, except for the following new or revised IFRSs or IFRICs, applied for the first time by the Group as of 1 January 2016.

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

Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2012-2014 Cycle

On 12 December 2013, the IASB issued Annual Improvements to IFRSs: 2010 - 2012 Cycle (effective for annual accounting periods beginning on or after 1 February 2015) and on 25 September 2014, the IASB issued Annual Improvements to IFRSs: 2012 - 2014 Cycle (effective for annual accounting periods beginning on or after 1 January 2016) as part of its program of annual improvements to the standards; most of the changes are clarifications or corrections of existing IFRSs or amendments as a consequence of previous changes to IFRSs..

Defined benefit plans: employee contributions – IAS 19 – IAS 19 asks, but does not require, that an entity consider the contributions of employees or third parties in the accounting treatment of defined benefit plans. When the contributions are tied to the service rendered, they should be attributed to the periods of service as negative benefit. This amendment clarifies that if the amount of the contributions is unrelated to the number of years of work, the entity is allowed to recognise these contributions as a reduction in the cost of the service during the period when the service is rendered instead of allocating them to the periods of service. The amendments are retroactively applicable for the financial years that started on or after 1 February 2015. This amendment had no impact on the Group.

Property, plant and equipment – IAS 16 and Intangible Assets – IAS 38 – The IASB has clarified that revenue-based methods to calculate asset depreciation or amortization are not appropriate because the revenue generated by an activity that includes the use of an asset generally does not reflect the pattern of consumption of an asset's expected future economic benefits. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits generated by an intangible asset. However, there are limited circumstances when this presumption can be overcome. This amendment had no impact on the Group.

Joint arrangements – IFRS 11 – The amendments regarding the recognition of the purchase of equity interests in jointly controlled activities that require that an entity adopt the IFRS 3 standards in order to recognise the accounting effects of purchases of Equity interests in jointly controlled activities forming a business. This amendment had no impact on the Group.

Presentation of the financial statements – IAS 1 – The objective of the amendments is to clarify a few doubts regarding the presentation and disclosure obligations in addition to ensuring that the companies can use professional judgement in determining which information to disclose in their financial statements, focusing on the major information. This amendment had no impact on the Group.

Separate Financial Statements - IAS 27. The purpose is to allow parent entities to use the equity method to account for investments in subsidiaries, associates and joint ventures even in their separate 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 a significant impact to come from application of the new accounting standard on recognition of revenue.

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.

Regulatory Deferral Accounts – IFRS 14 – although the standard went into effect starting from 1 January 2016, the European Commission however decided to suspend the certification process while awaiting the new accounting standard on rate-regulated activities. IFRS 14 allows only those who adopt the IFRS standards for the first time to continue recognising the amounts relating to the rate regulation according to the previous accounting principles adopted. In order to improve comparability with the entities that already apply IFRS and that do not recognise these amounts, the standard requires that the rate regulation effect be presented separately from the other items.

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 certification process regarding these amendments was suspended, and their date of application was postponed to a future date to be determined.

Recognition of deferred tax assets on unrealised losses – IAS 12 – The published amendments are to clarify how to recognise the deferred tax assets relating to debt instruments measured at fair value. The amendments apply starting from 1 January 2017. Early application is allowed.

Disclosure initiative – IAS 7 – The purpose of the published amendments is to improve the presentation and disclosure of financial information in the financial reports and to resolve some critical issues reported by operators. The amendments apply starting from 1 January 2017.

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 on principal versus agent measurement. The amendments apply starting from 1 January 2018.

Classification and measurement of share-based transactions – 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.

Transfers of 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 the 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.

The consolidated financial statements were drafted in euro, rounding amounts to the nearest thousand unless otherwise indicated. The financial statements consist of the balance sheet, 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 balance sheets 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 2016, the book value of goodwill was €74,339 thousand (2015: €72,171 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 2016, unrecognised tax losses carried by the Parent Company were estimated at €39.801 thousand (2015: €37,255 thousand), reported unlimitedly. In the Group as a whole, unrecognised tax losses came to €55,282 thousand (2015: €55,282 thousand), reported unlimitedly.

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 2016 the best estimate of the book value of capitalised development costs was €4,511 thousand, of which €2,189 thousand are in progress (2015: €4,935 thousand, of which €2,396 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 recent business acquisitions.

D – Scope of consolidation

The consolidated financial statements include the annual financial statements of the Parent Company, Eurotech SpA, 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 2016 are as follows:

Company name	Registered offices	Share capital		Group share
Parent company				
Eurotech S.p.A.	Via Fratelli Solari, 3/A – Amaro (UD)	Euro	8,878,946	
Subsidiary companies consolidated line-by-line				
Aurora S.r.l.	Via Fratelli Solari, 3/A – Amaro (UD)	Euro	10,000	100.00%
Dynatem Inc.	Mission Viejo (USA)	USD	1,000	100.00%
Eth Devices S.r.o.	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. Advanet Inc.	Okayama (Japan)	JPY	72,440,000	90.00% (1)

(1) Officially, the Group 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:

Company	Registered offices	Group share
Affiliated companies consolidated at equity		
eVS embedded Vision Systems S.r.l.	Ca' Vignal2, Strada Le Grazie 15 - Verona	24.00%
Rotowi Technologies S.p.A. in liquidazione (formerly U.T.R.I. S.p.A.)	Via del Follatolo, 12 – Trieste	21.31%
Other smaller companies valued at cost		
Kairos Autonomi Inc.	Sandy (USA)	19.00%
Affiliated companies booked under assets held for sale		
Chengdu Vantron Technology Inc.	Chengdu (China)	45.00%

The main changes with regard to subsidiaries and affiliates compared with 31 December 2015 are as follows:
- 09/08/2016 the company Chengdu Vantron Technology Inc. is classified under assets held for sale after a conditional contract of sale of all shares was signed with the majority shareholder of the company;
- 18/11/2016 sale of the entire quota (24.82%) of the company Emilab S.r.l.

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 balance sheet 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

Consolidation policies from 1 January 2016

The consolidated financial statements comprise the financial statements of Eurotech S.p.A. (parent company) and its subsidiaries drawn up 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., Dynatem 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:

Valuta	Medio 2016	Puntuale 31.12.2016	Medio 2015	Puntuale 31.12.2015
Sterlina Inglese	0,81948	0,85618	0,72600	0,73395
Yen giapponese	120,19665	123,40000	134,28658	131,07000
Dollaro USA	1,10690	1,05410	1,10963	1,08870

Accounting policies

The accounting standards and policies applied to prepare the consolidated financial statements for the year ended 31 December 2016 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 finite 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 amortisation 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 – *Financial Charges*) 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 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 balance sheet 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 (employee severance indemnity accrued at 31 December 2010 or pension 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 company granted incentive plans based on instruments representing capital, on the basis of which the company 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 company 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 2016.
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, the Group is organised into business segments: the NanoPC segments and the HPC (high performance computers) segment are the largest of these. In view of the low revenues currently generated by the HPC segment, we chose to provide disclosure on the nanoPC segment only, divided by the regions in which the Group operates through its various entities and based on the way in which senior management monitors performance. There were no significant intragroup transactions between business segments.

Besides the HPC segment, the Group's regions in the NanoPC segment 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.

Business segments

The following schedule presents data on revenues, results and information on assets and liabilities and investments of the Group for the periods ended 31 December 2015 and 31 December 2016.

(€'000)	NanoPC			High Performance Computer			Total		
	FY 2016	FY 2015	%YoY Chg	FY 2016	FY 2015	%YoY Chg	FY 2016	FY 2015	%YoY Chg
Sales and service revenue by segment									
Sales and service revenue by segment	60,807	63,979	-5.0%	296	1,572	-81.2%	61,103	65,551	-6.8%
Ebitda by segment	1,665	81	1955.5%	(1,222)	(1,029)	-18.7%	443	(948)	-146.7%
Ebit by segment	(4,170)	(5,402)	22.8%	(1,395)	(1,200)	-16.2%	(5,565)	(6,602)	15.7%
Total EBIT							(5,565)	(6,602)	15.7%
Net finance income (expense)							174	268	35.1%
Shares of associates' profit (loss)	52	165					52	165	-68.5%
Subsidiaries management	214	6					214	6	-97.2%
Profit before tax of continuing operations							(5,125)	(6,163)	16.8%
Income tax							56	(60)	193.3%
Net profit (loss)							(5,069)	(6,223)	18.5%

Revenues from sales and services in nanoPC business segment came to €63,979 thousand in 2015 and €60,807 thousand in 2016, representing an increase of 5.0%. This decrease is due to what mainly emerged in the USA area relating to the slowness in projects starting due to the strategies of the customers.
Revenues from sales and services in the HPC business segment, which came to €1,572 thousand in 2015 and €296 thousand in 2016, are influenced by the cyclical nature of the orders of the segment just the same, which caused slow-downs in the sale of products in the Aurora family.

The breakdown of revenues for the nanoPC segment is as follows:

(€' 000)	North America			Europe			Asia			Correction, reversal and elimination			Total		
	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change	FY 2016	FY 2015	%YoY Change
Third party Sales	22,479	25,550		13,149	15,949		25,178	22,480		0	0		60,806	63,979	
Infra-sector Sales	519	545		3,940	3,197		198	352		(4,657)	(4,094)		0	0	
Total Sales revenues	22,998	26,095	-11.9%	17,089	19,146	-10.7%	25,376	22,832	11.1%	(4,657)	(4,094)	-13.8%	60,806	63,979	-5.0%
Gross profit	8,414	10,718	-21.5%	7,352	8,936	-17.7%	14,437	13,457	7.3%	(324)	(292)	11.0%	29,879	32,819	-9.0%
Gross profit margin - %	36.6%	41.1%		43.0%	46.7%		56.9%	58.9%					49.1%	51.3%	
EBITDA													1,665	81	1955.5%
EBITDA margin - %													2.7%	0.1%	
EBIT													(4,170)	(5,402)	-22.8%
EBIT margin - %													-6.9%	-8.4%	

The sales performance by region set out in the table above shows a decrease in both North America and Europe, while Asia is positive, mostly due to an exchange rate effect in the yen into euro conversion rates.
The table below shows assets and investments in the Group's individual business segments at 31 December 2016 and 31 December 2015.

(€'000)	NanoPC		High Performance Computer		Total	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Assets and liabilites						
Segment assets	139,096	143,177	2,538	1,718	141,634	144,895
Investments in subsidiaries non consolidated, associate & other companies	312	469	0	0	312	469
Unallocated assets					24	89
Total assets	**139,408**	**143,646**	**2,538**	**1,718**	**141,970**	**145,453**
Segment liabilities	35,263	36,782	3,150	3,334	38,413	40,116
Unallocated liabiities					0	0
Total liabilities	**35,263**	**36,782**	**3,150**	**3,334**	**38,413**	**40,116**
Other segment information						
Investments in tangible assets	661	709	36	16	697	725
Investments in intangible assets	1,991	2,118	0	31	1,991	2,149
Depreciation & amortisation	5,835	5,483	173	171	6,008	5,654

Assets and investments in the NanoPC segment by region are shown in the table below:

(€' 000)	North America		Europe		Asia		Correction, reversal and elimination		Total	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Activities by sector	41,868	45,590	69,796	66,938	74,170	73,212	(46,738)	(43,332)	139,096	142,408
Investments	635	1,125	1,613	1,176	476	526	0	0	2,724	2,827

Segment assets at 31 December 2016 do not include equity interests in affiliates and other companies (€312 thousand) and the current income taxes of the Parent Company (€24 thousand).

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	12,714	79,509	22,828	2,445	29,436	146,932
Previous years' impairment	(1,063)	(7,338)	(8,774)	(49)	(141)	(17,365)
Previous years' amortisation	(9,112)	-	(5,750)	-	(25,023)	(39,885)
OPENING BALANCE	2,539	72,171	8,304	2,396	4,272	89,682
Purchases	132	-	67	1,792	-	1,991
Decreases due to business unit disposals	(798)	-	(169)	(3)	-	(970)
Other changes	(2,185)	2,752	6	62	1,661	2,296
Impairment in period	(345)	(365)	-	-	-	(710)
Transfers	2,026	-	-	(2,026)	-	-
Amortisation in period	(1,673)	-	(119)	-	(2,523)	(4,315)
Reclassified accumulated depreciation on business unit disposals	402	-	162	-	-	564
Decreases in cumulative impairment due to business unit disposals	47	-	-	3	-	50
Other changes in cumulative impairment	175	(219)	523	-	(5)	474
Other changes in cumulative amortisation	2,002	-	(15)	-	(1,334)	653
TOTAL CHANGES	(217)	2,168	455	(172)	(2,201)	33
Purchase or production costs	11,889	82,261	22,732	2,270	31,097	150,249
Impairment	(1,186)	(7,922)	(8,251)	(46)	(146)	(17,551)
Cumulative amortisation	(8,381)	-	(5,722)	-	(28,880)	(42,983)
CLOSING BALANCE	2,322	74,339	8,759	2,224	2,071	89,715

The change in the intangible assets item is due to their increase following the change in exchange rates, other changes items (net value €3,421 thousand), to amortisation for the period (€4,315 thousand), as well as the investments made for €1,991 thousand and the write-downs recording during the period, totalling €710 thousand.

The figures relating to the business unit disposals refer to the values assigned at the time of sale of the business unit IPS as indicated in Note 36.

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 2016 the Group also spent about €8.9 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 2016, following the impairment test, the goodwill relating to the SBU Eurotech France was partially written down by €365 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. During the year development costs capitalised in previous years were written down by €345 thousand this year because they referred to products that did not achieve market success within the timeframe initially estimated.

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 €2,224 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, 2016		at December 31, 2015	
	Goodwill	Trademark with an indefinite useful life	Goodwill	Trademark with an indefinite useful life
Advanet Inc.	45,193	8,582	42,548	8,079
Eurotech Inc. (ex Applied Data Systems e ex Arcom Inc.)	23,269	-	22,532	-
Eurotech Ltd. (ex Arcom Ltd.)	5,101	-	5,950	-
Eurotech France S.a.s.	686	-	1,051	-
Other	90	-	90	-
TOTAL	74,339	8,582	72,171	8,079

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 2017-2019 operating and financial plan, approved by Parent Company directors by resolution of 08 March 2017, 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% (2015: 1.5%), less than the average long-term growth rate for the embedded PC segment 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 5.43% to 9.85%, 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	1.44%	0.13%	1.84%	0.38%	0.98%
Total Market Premium	5.50%	5.50%	5.50%	5.50%	5.50%
Beta unlevered	da 0,95 a 1,03	da 0,95 a 1,03	da 0,95 a 1,03	da 0,95 a 1,03	da 0,95 a 1,03
WACC	da 7,85% a 8,29%	da 5,43% a 5,45%	da 9,5% a 9,85%	da 7,19% a 7,91%	da 7,41% a 7,92%

The average yield rates at the starting date of the budget relevant period for 10-year government bonds were used for the risk free category.
The average unlevered Beta of some comparables of the Parent Company on the different main business lines within the Nano PC BU was used for all the CGUs considered. The WACC of the individual CGUs was calculated by using the beta coefficient, recalculated using the leverage effect deriving from the average ratio of debt/equity.
Taking account of the assumptions underlying the 2017-2019 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 €365 thousand.
Within the Nano PC BU, in the Board & Systems business line and for the CGU Eurotech Inc., Eurotech France S.a.s. and Eurotech Ltd., a higher WACC was used for Eurotech Inc. and Dynatem Inc., due to the application of an additional risk premium of 2% to further reflect the riskiness of the CGU, while the WACC used in the IoT business line was increased across the board by an additional Risk Premium of 3.5% to reflect the riskiness of a business still under development.
Please note, however, that recoverability of the values of intangible assets regarding the acquisition of some CGUs, including Advanet Inc., Eurotech Inc. and Eurotech France, appears to be conditional upon on the occurrence of possible changes in the key assumptions used to estimate them. Specifically, a simultaneous reduction of 0.5% in the long-term growth rate and a 0.5% WACC increase could cause the carrying values to exceed their recoverable value.
Other conditions being equal, the WACC of the Terminal Value that would bring about an impairment situation should be equal to or higher than 11.1% for Eurotech Ltd., 10.4% for Eurotech Inc. and 5.9% for Advanet Inc.
Furthermore, management believes that the long-term growth estimate for 2016 of 1.5%, the same as for 2015, is far below estimates for the Japanese and US embedded PC markets.
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 2016 from the performance of the index for the sector in which Eurotech operates.
Future developments at the Eurotech Group and expectations for the coming years based on the market in which it operates, existing orders, 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
Purchse of production cost	1,648	5,887	4,842	5,739	-	213	18,329
Previous year's depreciation	(449)	(5,407)	(4,314)	(4,682)	-	(152)	(15,004)
OPENING BALANCE	**1,199**	**480**	**528**	**1,057**	**-**	**61**	**3,325**
Purchases	1	36	325	204	2	129	697
Disposals	-	(89)	(154)	(132)	-	-	(375)
Decreases due to business unit disposals	-	(42)	(72)	(82)	-	-	(196)
Other changes	-	251	128	33	-	13	425
Impairment in period	(41)	-	-	-	-	-	(41)
Depreciation in period	(37)	(205)	(283)	(354)	-	(63)	(942)
Reversal of cumulative depreciation	-	108	151	128	-	-	387
Reclassified accumulated depreciation on business unit	-	20	16	48	-	-	84
Other changes in cumulative amortisation	-	(239)	(105)	(19)	-	(8)	(371)
TOTAL CHANGES	**(77)**	**(160)**	**6**	**(174)**	**2**	**71**	**(332)**
Purchase or production cost	1,649	6,043	5,069	5,762	2	355	18,880
Cumulative depreciation	(486)	(5,723)	(4,535)	(4,879)	-	(223)	(15,846)
CLOSING BALANCE	**1,122**	**320**	**534**	**883**	**2**	**132**	**2,993**

The land and buildings item, amounting to €1,122 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 - VA - including land) and the value of the property (Amaro (UD) site, including land and improvement costs) where the Parent Company's production site is located.
The increases of €36 thousand in plant and machinery, €325 thousand in industrial and commercial equipment, €204 thousand in other fixed assets and €129 thousand in assets under leas refer mainly to equipment replacement and new assets required to make the operations of the individual Group companies more efficient and effective.
Fixed assets under lease includes, for €19 thousand, assets subject to lease agreements, which are booked using the financial method and relate to the equipment attributable to the subsidiary Advanet Inc. and the remaining €113 thousand to car agreements connected to the parent company.

The figures relating to the business unit disposals refer to the values assigned at the time of sale of the business unit IPS as indicated in Note 36.

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, 2016						
(€'000)	INITIAL VALUE	INCREASES	DECREASES	WRITE-UPS /WRITE-DOWN	OTHER	EOP VALUE	%OWNERSHIP
Investments in associate companies:							
Emilab S.r.l.	151	-	(228)	77	-	-	
eVS embedded Vision Systems S.r.l.	10	-	-	1	-	11	24.00%
Rotowy Technologies S.p.A. (ex U.T.R.I. S.p.A.)	-	-	-	-	-	-	21.32%
TOTAL INVESTMENTS IN ASSOCIATE COMPANIES	161	-	(228)	78	-	11	
Investments in other companies:							
Cosint	4	-	(4)		-	-	
Consorzio Ecor' IT	2	-	-	-	-	2	
Consorzio Aeneas	5	-	-	-	-	5	
Consorzio Ditedi	11	-	-	-	-	11	7.69%
Inasset S.r.l.	44	-	-	(26)		18	0.38%
Consorzio Rete Space Italy	-	15	-	-	-	15	
Kairos Autonomi	241	-	-	-	8	249	19.00%
Others	1	-	-	-	-	1	
TOTAL INVESTMENTS IN OTHER COMPANIES	308	15	(4)	(26)	8	301	

At 31 December 2016 Eurotech owned the following shareholdings in affiliates consolidated at equity:
eVS embedded Vision Systems Srl = 24%, a spin-off from the University of Verona;

- Rotowi Technologies S.p.A. (former 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.

During the year, the 24.82% share held in the company Emilab S.r.l. was sold and the book value of the Chinese company Chengdu Vantron Technology Inc. 45% of which is currently held, was reclassified to assets held for sale.
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 2015, as operating and financial information for year-end 2016 is not yet available:

(€'000)	At December 31, 2016					At December 31, 2015				
	Emilab	Rotowi Tech.	evS	Vantron	TOTAL	Emilab	Rotowi Tech.	evS	Vantron	TOTAL
Share of the Associate's balance sheet:	(*)	(*)	(*)	(*)		(**)	(**)	(**)	(**)	
Current assets	1,143	193	128	3,314	4,778	912	197	139	3,100	4,348
Non current assets	747	0	45	270	1,062	830	0	40	508	1,378
Current liabilities	(731)	(12)	(98)	(1,479)	(2,320)	(886)	(15)	(109)	(1,393)	(2,403)
Non current liabilities	(241)	(785)	(35)	(185)	(1,246)	(246)	(784)	(18)	(513)	(1,561)
Net assets	918	(604)	40	1,920	2,274	610	(602)	52	1,701	1,761
Revenue	1,609	2	237	3,893	5,741	1,283	0	169	3,281	4,733
Profit (Loss)	309	(2)	6	240	553	216	(6)	4	259	473
Carrying amount of the investment	0	0	11	769	780	151	0	10	769	930

(*) FY2015

(**) FY2014

4 – Other non-current assets

The schedule below shows the breakdown of other non-current assets at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Other non-current receivables	640	608
TOTAL OTHER NON CURRENT ASSETS	640	608

Other receivables mainly comprise security deposits that do not accumulate interest; they are in line with the previous year. The increase is essentially due to a forex effect on the values expressed in JPY.

5 - Inventories

The schedule below shows the breakdown of inventories at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Raw & auxiliary materials and consumables - gross	7,675	7,965
Inventory write-down provision	(1,733)	(1,249)
Raw & auxiliary materials and consumables - net	**5,942**	**6,716**
Work in process and semi-finished goods - gross	2,731	2,540
Inventory write-down provision	(553)	(635)
Work in process and semi-finished goods	**2,178**	**1,905**
Finished poducts and goods for resale - gross	13,059	12,933
Inventory write-down provision	(1,962)	(1,418)
Finished products and goods for resale - net	**11,097**	**11,515**
Advances	**120**	**62**
TOTAL INVENTORIES	19,337	20,198

Inventories at 31 December 2016 amounted to €19,337 thousand (€20,198 thousand at 31 December 2015), net of inventory write-down provision totalling €4,248 thousand. The €946 thousand increase in the inventory write-down provision reflects the adjustments of the Group components and products to the risk of technological obsolescence and slow movement.

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, 2016	at December 31, 2015
OPENING BALANCE	**3,302**	**3,173**
Provisions	1,551	864
Other changes	197	(42)
Utilisation	(802)	(693)
CLOSING BALANCE	4,248	3,302

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 €1,733 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 €1,962 thousand, which covers the risk of slow turnover in certain standard and custom finished products, increased by €544 thousand to reflect the possible recovery value of obsolete products or the slow turnover of several standard and custom finished products.

6 – Trade receivables

The schedule below shows the breakdown of trade receivables and the respective doubtful debt provision at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Trade receivables - customers	15,048	17,216
Trade receivables medium/long term - customers	180	0
Trade receivables - realted paties	1,037	742
Doubtful debt provision	(452)	(2,243)
TOTAL TRADE RECEIVABLES	15,813	15,715

Trade receivables falling due within 12 months are normally non-interest bearing and generally fall due at 90/120 days. Trade receivables decreased by €1,693 thousand compared to the 31 December 2015 figure. The receivables include €91 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 €452 thousand. Changes in doubtful debt provision in the years under review were as follows:

CHANGES IN CUMULATIVE DOUBTFUL DEBT PROVISION - € '000	at December 31, 2016	at December 31, 2015
OPENING BALANCE	**2,243**	**2,534**
Provisioning	187	147
Other changes	67	263
Utilisation	(2,045)	(701)
CLOSING BALANCE	452	2,243

Provisions of €187 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 2016, trade receivables that were past due but not written down were as follows:

			Overdue but not write-off				
€ '000	Total	Not overdue	< 30 days	30 - 60 days	60 - 90 days	90 - 180 days	Over 180 days
2016	15,813	12,501	1,292	357	281	214	1,168
2015	15,715	11,492	2,104	415	368	65	1,271

Receivables more than 180 days due represented 7.4% of trade receivables at 31 December 2016, a lower amount compared to the 8.1% relating to 2015. The Directors believe that the amount is still recoverable notwithstanding the extension of collection granted.

7 – 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 2015, the value dropped by €25 thousand, from €180 thousand in 2015 to €155 thousand in 2016.

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 €574 thousand (2015: €756 thousand), while Italian tax payables amounted to €68 thousand (2015: €110 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.

8 – Other current assets

The schedule below shows the composition of other current assets at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Amounts receivable for grants	37	300
Advance payments to suppliers	175	222
Tax receivables	286	237
Other receivables	188	121
Accrued income and prepaid expenses	728	770
TOTAL OTHER CURRENT ASSETS	1,414	1,650

Grants receivable relate to grants that will reasonably be received by Parent Company Eurotech SpA 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.

9 – Cash & cash equivalents

The table below shows the composition of cash and cash equivalents at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Bank and post office deposits	9,161	11,397
Cash and valuables in hand	25	33
TOTAL CASH & CASH EQUIVALENTS	9,186	11,430

Bank deposits are mostly on demand and are remunerated at a variable rate of interest. The fair value of cash and cash equivalents is €9,186 thousand (€11,430 thousand at 31 December 2015).
The item shows a €2,244 thousand decrease compared to 31 December 2015.

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

10 - Other financial assets and liabilities

The amount of €76 thousand booked refers to a three-year insurance policy (€72 thousand) and to 100 shares of Banca Popolare Friuladria (€4 thousand).
The amount of €76 thousand at 31 December 2015 instead totally referred to 2500 shares of Veneto Banca Holding S.c.a.r.l. held in the portfolio and purchased at the end of June 2012. These shares were entirely written down during the period in order to adjust their value to the market value that today is €0.1. These assets were classified as financial assets recorded in the income statement at fair value.

11 - Assets classified as held for sale

On 9 August 2016, the subsidiary EthLab S.r.l. signed a contract to sell its shares (45% of the share capital) at the price of USD 850 thousand with the majority shareholder of the associate Chengdu Vantron Technology. This sale is however subordinate to both authorisation by the local Chinese authorities and payment of the price. Although the documentation would lead one to expect finalisation of the transaction within the short-term, the price has not been paid.

12 – Net financial position

The table below shows the Group's net financial position at 31 December 2016 and 31 December 2015:

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

The Group's net financial debt at 31 December 2016 was €2,340 thousand, compared with €219 thousand at 31 December 2015.

At 31 December 2016, short-term financial liabilities (pursuant to IAS 1.65) included the medium-to-long-term portion (€866 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 €1,707 thousand, was reclassified as falling due in the short term.

The loan that was reclassified to short-term last year, again due to failure to meet a covenant, instead received the waiver from the bank so that the entire loan could be reclassified based on its natural due date. At 31 December 2016 the covenants on this loan were met.

13 – Shareholders' equity

The schedule below shows the composition of shareholders' equity at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Share capital	8,879	8,879
Share premium reserve	136,400	136,400
Other reserves	(41,722)	(39,942)
Group shareholders' equity	**103,557**	**105,337**
Equity attributable to minority interest	**0**	**0**
Total shareholders' equity	**103,557**	**105,337**

The share capital at 31 December 2016 was made up of 35,515,784 ordinary shares, wholly subscribed and paid up, with no nominal value.

The balance of the Issuer's legal reserve at 31 December 2016 amounted to €1,385 thousand and increased by €185 thousand following allocation of part of the 2015 annual results of the Parent Company.

The share premium reserve, which relates entirely to the Parent Company, is shown at a total amount of €136,400 thousand.

The positive translation reserve of €12,689 thousand is generated by inclusion in the consolidated financial statements of the balance sheets and income statements of US subsidiaries Dynatem Inc., 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 € 54,109 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 2014 results net of the value allocated to the legal reserve and to the recognition of the Performance Share Plan as described in Note 17.
The cash flow hedge reserve, which includes cash flow hedge transactions pursuant to IAS 39, was negative for €12 thousand and decreased by €4 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 €6,889 thousand, gross of the related tax effect, and was again not recorded due to the absence of the prerequisites. This reserve was increased by €1,171 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 2015 it held 1,319,020). There was no transaction during the year.

14 – 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 2015 and 2016 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, 2016	at December 31, 2015
Net income (loss) attributable to parent company shareholders	(5,069,000)	(6,223,000)
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	(0.148)	(0.182)
- per share diluted	(0.148)	(0.182)

15 - Borrowings

The schedule below shows the breakdown of medium- to long-term financial payables at 31 December 2016:

LENDER	COMPANY	BALANCE ON 31.12.2015	BALANCE ON 31.12.2016	SHORT TERM within 12 months	Total Medium and long-term	Mid term Over 12 months
CURRENT OUTSTANDINGS - (a)		4,747	4,018	4,018	-	-
Ministero dell'Istruzione, dell'Università e della Ricerca	Eurotech S.p.A.	44	26	17	9	9
Ministero dell'Istruzione, dell'Università e della Ricerca	Eurotech S.p.A.	-	534	152	382	382
FCA Bank	Eurotech S.p.A.	42	34	16	18	18
Toyota Financial Service	Eurotech S.p.A.	-	21	3	18	18
Unicredit Leasing	Eurotech S.p.A.	-	81	22	59	59
BCC Lease	Eurotech S.p.A.	-	26	8	18	18
Finance Lease	Advanet Inc.	70	30	30	-	-
Finance Lease	Eurotech Inc	35	59	13	46	46
TOTAL OTHER FINANCINGS		191	811	261	550	550
Iccrea Banca Impresa	Eurotech S.p.A.	1,522	1,031	508	523	523
Total Group Iccrea		***1,522***	***1,031***	***508***	***523***	***523***
Banca Pop. Friuladria	Eurotech S.p.A.	-	837	330	507	507
Total Credit Agricole		***-***	***837***	***330***	***507***	***507***
Veneto Banca	Eurotech S.p.A.	-	100	100	-	-
Total Veneto Banca		***-***	***100***	***100***	***-***	***-***
The Chugoku Bank Ltd	Advanet Inc.	2,124	1,552	703	849	849
Total The Chugoku Bank Ltd		***2,124***	***1,552***	***703***	***849***	***849***
Bcc Carnia e Gemonese	Eurotech S.p.A.	150	-	-	-	-
Bcc Carnia e Gemonese	Eurotech S.p.A.	1,000	676	333	343	343
Bcc Carnia e Gemonese	Eurotech S.p.A.	-	150	150	-	-
Cassa Rurale della Valle dei Laghi	EthLab S.r.l.	170	122	49	73	73
Total Credito Cooperativo Banks		***1,320***	***948***	***532***	***416***	***416***
Unicredit	Eurotech S.p.A.	1,813	1,430	394	1,036	1,036
Total Gruppo Unicredit		***1,813***	***1,430***	***394***	***1,036***	***1,036***
Banco popolare	Eurotech S.p.A.		958	498	460	460
Total Gruppo Banco Popolare		***-***	***958***	***498***	***460***	***460***
TOTAL BANK DEBT - (c)		6,779	6,856	3,065	3,791	3,791
TOTAL OTHER FINANCING AND BANK DEBT - [(b) + (c)]		6,970	7,667	3,326	4,341	4,341
TOTAL DEBT - [(a) + (b) + (c)]		11,717	11,685	7,344	4,341	4,341
RECLASSIFICATION OF CURRENT SUBJECT TO COVENANT FUNDING		-	-	866	(866)	(866)
TOTAL DEBT AFTER RECLASSIFICATION		11,717	11,685	8,210	3,475	3,475

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.

Other loans

Other loans refer to:

- a residual debt of €26 thousand (€9 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 2012;
- a residual debt of €534 thousand (€382 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 €34 thousand (€18 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 €21 thousand (€18 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 €30 thousand fully collectable in 2017 for future payments on a lease agreement signed by the subsidiary Advanet Inc., which has been recognised as a finance lease and relates to the purchase of furnishings for the production facility in Okayama (Japan);
- a residual debt of €59 thousand (€46 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 €107 thousand (€77 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 residual €1,031 thousand loan Icreaa Banca Impresa granted to the Parent Company at year-end 2014 (of which €523 thousand medium- to long-term) falling 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. This latter covenant was not met;
- a residual €837 thousand loan Banca Popolare Friuladria granted to the Parent Company in January 2016 (of which €507 thousand medium- to long-term) falling due in 2019 to boost the Parent Company’s working capital;
- a loan granted to the Parent Company at the end of 2016 by Veneto Banca for €100 thousand falling due in September 2017 to boost the Parent Company's working capital;
- two loans granted in September 2015 to Advanet Inc. by The Chugoku Bank Ltd. totalling €1,552 thousand (€849 thousand of which repayable by 2020), to boost the Japanese company’s working capital;
- a loan granted to the Parent Company at the end of 2016 by BCC di Carnia e Gemonese for €150 thousand falling due in April 2017 to boost the Parent Company's working capital;
- a €676 thousand loan BCC di Carnia e Gemonese granted to the Parent Company at year-end 2014 (of which €343 thousand medium- to long-term) falling 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. This latter covenant was not met;
- The outstanding portion (€122 thousand, of which €73 thousand medium- to long-term) of a loan to EthLab S.r.l. to acquire patents and know-how;
- a loan granted to the Parent Company in May 2015 by Unicredit for €2,000 thousand, the residual amount of which amounted to €1,430 thousand at 31 December 2016 (of which €1,036 thousand at medium- to long-term) falling due in 2020 to support the corporate development plans. This loan is 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 2015 had resulted in the expiry of the benefit of the term. In 2016, the Parent Company obtained the waiver letter from the bank. At 31 December 2016, the covenants relating to the loan had been met;
- a loan granted to the Parent Company in November 2016 by the Banco Popolare Group for € 1,000 thousand, the residual amount of which amounted to €958 thousand at 31 December 2016 (of which €460 thousand at medium- to long-term) falling due in 2018 to boost the Parent Company's working capital.

16 - Employee benefits

The schedule below shows the breakdown of employee benefits at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Employees' leaving indemnity	300	324
Foreing Employees' leaving indemnity	2,040	1,708
Employees' retirement fund	97	95
TOTAL EMPLOYEES' BENEFITS	2,437	2,127

Defined benefit plans

The Group has defined benefit pension plans both in Italy and Japan, and these require contributions to a separately managed fund.
IAS 19R was applied retroactively starting from 1 January 2012. 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. Until 2012, unvested past servicing costs were recognised on a straight-line basis over the plan's average vesting period. 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 2016 and 31 December 2015:

	Defined benefit plans			
	Italy		Japan	
(€ '000)	at December 31, 2016	at December 31, 2015	at December 31, 2016	at December 31, 2015
Liabilities at start of period	324	309	1,708	1,523
Cost relating to present service	18	25	148	133
Finance expense	7	8	16	15
Other changes	0	0	102	167
Benefits paid out	(52)	(15)	(19)	(165)
Actuarial loss (gain) reconised	3	(3)	85	35
Liabilities at end of period	300	324	2,040	1,708

The defined benefit plans in force in Italy refer exclusively to employee severance indemnity. With adoption of the new 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, 2016	at December 31, 2015	at December 31, 2016	at December 31, 2015
Discount Rate	3.06%	3.51%	0.50%	0.90%
Expected rates of future w ages and salary increases	2.00%	2.00%	1.00%	1.00%
Expected rates of staff turnover	7.43%	10.00%	1.00%	1.00%
Duration	21	22	20	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.

	Defined benefit plans			
	Italy		Japan	
(€ '000)	at December 31, 2016	at December 31, 2015	at December 31, 2016	at December 31, 2015
Projected benefit obligation at January 1,	324	309	1,708	1,523
Current Service cost	18	25	148	133
Interest cost	7	8	16	15
Other changes	0	0	102	167
Pensions paid	(52)	(15)	(19)	(165)
Recognized actuarial gains or losses	3	(3)	85	35
Projected benefit obligation at December 31	300	324	2,040	1,708

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 – at December 31, 2016	Italy – at December 31, 2015	Japan – at December 31, 2016	Japan – at December 31, 2015
Projected benefit obligation	300	324	2,040	1,708
Unrecognized actuarial gains or losses	0	0	0	0
Provisions for pensions charged to balance sheet	300	324	2,040	1,708
Current Service cost	18	25	148	133
Interest cost	7	8	16	15
Recognized actuarial gains or losses	3	(3)	85	35
Costs charged to income statement	28	30	249	183

Employee severance indemnity reserve

The employee severance indemnity reserve refers to the charge that the subsidiary Eurotech France SAS 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, and the respective liability is therefore calculated using actuarial techniques.

Actuarial gains and losses are recognised immediately in the income statement.

The schedule below shows the breakdown of the employee retirement reserve at 31 December 2016 and 31 December 2015:

EMPLOYEES' RETIREMENT FUND on €'000	at December 31, 2016	at December 31, 2015
JANUARY 1,	**95**	**92**
Provision	2	3
RESERVE AT THE END OF THE PERIOD	97	95

17 - 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 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").

The PPS 2016 establishes that the beneficiaries, identified by the company's Board of Directors, are assigned the right (Unit) to receive Eurotech S.p.A. shares free of charge provided that they have a contract with the company or with one of the subsidiaries on the respective Assignment Date. 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 432,000 units to beneficiaries during 2016, either directly or through their chairman.

	Year 2016		
	No. Units granted	Value of the assign units (€/000)	Value of the units for teh period (€/000)
Performance Share Plan 2016			
Nr. Unit Granted during period	432,000	542	60
Nr. Unit Cancelled during period	-	-	-
Nr. Unit assigned during period	-	-	-
Nr. Unit Outstanding as of 31.12.2016	432,000	542	60

The total cost of the units assigned in 2016 was €542 thousand, and this cost is recognised along the 24-month vesting period. At the reporting date the company had recorded a cost of €60 thousand in the income statement, whose contra entry was recognised in shareholders' equity.

18 - Reserve for risks and charges

The schedule below shows the breakdown of the reserve for risks and charges at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Selling agents' commission fund	62	58
Director termination fund	117	187
Guarantee reserve	375	280
Busting depreciable asset	315	294
Other risk reserves	-	121
TOTAL FUNDS FOR COSTS AND FUTURE RISKS	869	940

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 2016 the termination indemnity was paid to directors of the subsidiaries who ended their terms of office, even if in advance.

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. During the year, the reserve was used fully to cover the costs arising from a tax audit of the former subsidiary Parvus Corp. on several years regarding Eurotech Group management.

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, 2016	at December 31, 2015
JANUARY 1,	**58**	**55**
Provision	4	4
Utilization	0	(1)
RESERVE AT THE END OF THE PERIOD	62	58

DIRECTOR TERMINATION FUND on €'000	at December 31, 2016	at December 31, 2015
JANUARY 1,	**187**	**141**
Provision	43	56
Other	1	2
Utilization	(114)	(12)
RESERVE AT THE END OF THE PERIOD	117	187

GUARANTEE RESERVE on €'000	at December 31, 2016	at December 31, 2015
JANUARY 1,	**280**	**320**
Provision	97	-
Other	(1)	(39)
Utilization	(1)	(1)
RESERVE AT THE END OF THE PERIOD	375	280

BUSTING DEPRECIABLE ASSET on €'000	at December 31, 2016	at December 31, 2015
JANUARY 1,	**294**	**262**
Provision	3	3
Other	18	29
RESERVE AT THE END OF THE PERIOD	315	294

GENERIC RISK on €'000	at December 31, 2016	at December 31, 2015
JANUARY 1,	**121**	**131**
Provision	-	76
Other	-	2
Utilization	(121)	(88)
RESERVE AT THE END OF THE PERIOD	-	121

19 - Trade payables

The schedule below shows the composition of trade payables at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Third parties	13,159	13,343
Related companies	300	1,038
TOTAL TRADE PAYABLES	13,459	14,381

Trade payables at 31 December 2016 came to €13,459 thousand, decreasing by €922 thousand compared with 31 December 2015. Trade payables are non-interest bearing and, on average, are settled 90-120 days after invoice date. Like last year, payables to affiliates mainly relate to the Group's exposure to affiliate Chengdu Vantron Technology Inc.

20 – Other current liabilities

The schedule below shows the composition of other current liabilities at 31 December 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Social contributions	522	557
Other	2,934	3,017
Advances from customers	194	101
Grants advances	1,446	1,072
Other tax liabilities	316	404
Accrued expanses	130	354
TOTAL OTHER CURRENT LIABILITIES	5,542	5,505

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 2016 and 31 December 2015:

(€'000)	at December 31, 2016	at December 31, 2015
Employees	848	938
Vacation pay	755	726
Directors	229	252
Statutory auditors	207	181
Other	895	920
TOTAL OTHER PAYABLES	2,934	3,017

Amounts payable to employees refer to salaries and wages for the month of December 2016 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.

21 – 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.

Future leases in relation to non-rescindable operating lease agreements in force at 31 December 2016 are as follows:

(€'000)	at December 31, 2016	at December 31, 2015
Within 12 months	1,365	1,493
Over 12 months but within five years	2,404	2,642
Over 5 years	896	1,295

Costs for operating leases totalling €1.67 million were recorded in the income statement during the year.

Warranties

The Eurotech Group had potential liabilities at 31 December 2016 deriving from sureties of €389 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 2016.

22 – Costs of raw & auxiliary materials and consumables used

(€'000)	FY 2016	FY 2015
Purchases of raw materials, semi-finished and finished products	30,102	34,720
Changes in inventories of raw materials	584	811
Change in inventories of semi-finished and finished products	458	(2,963)
TOTAL COST OF MATERIALS	31,144	32,568

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.

23 – Other operating costs

(€'000)	FY 2016	FY 2015
Service costs	12,333	13,501
Rent and leases	1,788	1,800
Payroll	19,856	20,775
Accruals and other costs	942	1,268
Cost adjustments for in-house generation of non-current assets	(2,070)	(1,953)
Operating costs net of cost adjustments	32,849	35,391

24 – Service costs

(€'000)	FY 2016	FY 2015
Industrial services	4,917	5,424
Commercial services	2,863	2,952
General and administrative costs	4,553	5,125
Total costs of services	12,333	13,501

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

25 – Payroll costs

(€'000)	FY 2016	FY 2015
Wages, salaries and Social Security	18,898	19,641
Severance indemnities	410	459
Other costs	548	675
Total cost of personnel	19,856	20,775

The item indicating payroll costs in the period under review shows a decrease mainly due to the reduction in the work force of year-end 2015, whose effects were noticed during the year.
The wages item includes €60 thousand for the quota on an accrual basis of the Performance Share Plan cost as explained in Note 17.

As shown in the table below, the number of Group employees decreased at the end of the periods under review, falling from 341 in 2015 to 321 in 2016.

Employees	Average 2016	at December 31, 2016	Average 2015	at December 31, 2015
Management	3.3	3	3.8	4
Clerical w orkers	300.1	294	320.9	309
Line w orkers	22.3	24	25.1	28
TOTAL	325.7	321	349.8	341

26 - Other provisions and costs

(€'000)	FY 2016	FY 2015
Doubful debt provision	187	147
Other Provisions	96	76
Other costs	659	1,045
Total accruals and other costs	942	1,268

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 €28 thousand at 31 December 2016 while they amounted to €118 thousand last year.

27 – Other revenues

(€'000)	FY 2016	FY 2015
Government grants	1,306	942
Sundry revenues	2,027	518
Total other revenues	3,333	1,460

Contributions mainly relate to research and development activities which receive funding from local governments and training delivered to employees.
The "Other revenues" item includes the non recurrent capital gain (as per Consob dem/6064293 of July 28 2006) earned from sale of the IPS business unit for €1,705 thousand, described in Note 36, and other revenues that for the most part refer to usage of provisions allocated in previous years and that are no longer necessary.

28 – Cost adjustments for internally generated non-current assets

At 31 December 2016, cost adjustments for internally generated non-current assets (equal to €2,070 thousand) related to the cost incurred internally for the development of new circuit boards for a high-performance, low-consumption processor (€677 thousand); the cost incurred by the parent company and subsidiary Eurotech Inc. for new Cloud platform products (€966 thousand); €202 thousand mainly pertaining to payroll costs borne by the subsidiary Advanet Inc.; and €225 thousand for new development projects.
Total adjustments for internal increases comprise €972 thousand in payroll costs (2015: €1,288 thousand), €720 thousand in service costs (2015: €387 thousand), €378 thousand in materials costs (2015: €278 thousand).

29 – Amortisation, depreciation and write-downs

(€'000)	FY 2016	FY 2015
Amortisation of intangile assets	4,315	4,567
Amortisation of property, plant and equipment	942	876
Write-down of fixed assets	751	211
Total amortisation and depreciation	6,008	5,654

Amortisation of intangible assets relates mainly to the development costs and customer relations of Advanet Inc. and Dynatem Inc. (the latter only relating to 2015).
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 €2,466 thousand (2015: €2,539 thousand).

Asset write-downs is to be attributed for €365 thousand to the write-down of part of the goodwill of Eurotech France S.a.s. The rest refers to reduction in development costs, particularly for projects relating to special products that did not achieve the market acceptance originally forecast, for €345, 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.

30 – Financial charges and income

(€'000)	FY 2016	FY 2015
Exchange-rate losses	780	961
Interest expenses	390	463
Other current financial assets impairment	76	0
Expenses on derivatives	10	53
Other finance expenses	39	96
Financial charges	1,295	1,573

(€'000)	FY 2016	FY 2015
Exchange-rate gains	1,386	1,776
Interest income due to the discounting	0	22
Interest income	21	14
Other finance income	62	29
Financial incomes	1,469	1,841

The performance in financial operations was influenced by exchange rate gains of €606 thousand in 2016 (2015: gain of €815 thousand). Exchange rate performance was 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).

Financial charges showed a decrease in both the other financial charges and interest expense due to the debt in addition to a reduction in charges on derivatives payable to hedge the risk of interest rates.
Interest payable is slightly higher than what was represented last year because of better management of the available cash.

31 - Valuation and management of investments

Valuations of affiliates using the equity method

The amount of €52 thousand derived from the combined effect of revaluations of equity interests for €78 thousand and capital losses from equity interests for €26 thousand as explained in Note 4. The amount of €165 thousand recorded for 2015 fully derived from revaluations of equity interests.

Management of investments

The amount of €214 thousand is due to the capital gain earned from sale of the investment in the affiliate Emilab S.r.l. for €122 thousand, for €91 thousand to the partial repayment of the loan to Rotowy Technologies S.p.A. (formerly U.T.R.I. S.p.A.) already written down in previous years and to dividends received from the company InAsset S.r.l. for €1.

32 – Income tax for the period

Income taxes were positive and came to €56 thousand in 2016, whereas they totalled €60 thousand in 2015.

(€'000)	FY 2016	FY 2015
Pre-tax result	(5,125)	(6,163)
Income taxes	56	(60)

The schedule below shows the breakdown in income taxes, distinguishing current taxes from deferred tax assets and liabilities and taxes related to Italian legislation from foreign taxes of Group companies:

(€'000)	FY 2016	FY 2015
IRES (Italian corporate income tax)	494	161
IRAP (Italian Regional business tax)	7	(3)
Foreign current income taxes	925	895
Total current income tax	1,426	1,053
Net (prepaid) deferred taxes: Italy	(318)	52
Net (prepaid) deferred taxes: Non-italian	(1,158)	(1,094)
Net (prepaid) deferred taxes	(1,476)	(1,042)
Previous years taxes	(6)	49
Previous years taxes	(6)	49
TOTAL INCOME TAXES	(56)	60

Income taxes were positive and totalled €56 thousand at 31 December 2016 (current taxes of €1,426 thousand and net deferred tax assets of -€1,476 thousand) compared with €60 thousand at 31 December 2015 (current taxes of €1,053 thousand and net deferred tax assets of -€1,042 thousand), representing a €581 thousand change.

The Group sustained tax losses incurred by 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. for which deferred tax assets of €58.2 million (2015: €55.3 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 2016, 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

33 – Related-party transactions

The consolidated financial statements include the financial statements of Eurotech SpA, its subsidiaries and its affiliates shown in the schedule below:

Name	Location	Currency	% of ownership 31.12.2016	% of ownership 31.12.2015
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.	Slovakia	Euro	100.00%	100.00%
Dynatem Inc.	USA	USD	100.00%	100.00%
Advanet Inc.	Japan	Yen	90.00% (1)	90.00% (1)
Affiliated companies				
Chengdu Vantron Technologies Inc. (2)	China		45.00%	45.00%
eVS embedded Vision Systems S.r.l.	Italy		24.00%	24.00%
Emilab S.r.l. (3)	Italy		-	24.82%
Rotowi Technologies S.p.A. in liquidation (ex U.T.R.I. S.p.A.) (4)	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) Sold in November, 2016

(4) Company in liquidation

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	137	-	801	-	-	280	-
Emilab S.r.l.	-	-	30	-	-	-	-
eVS embedded Vision Systems S.r.l.	-	-	16	-	-	11	-
Total	137	-	847	-	-	291	-
Other related parties							
Leonardo Group	1,746	-	-	-	1,037	9	-
Kairos Autonomi	-	-	-	95	-	-	-
Vigilate S.r.l.	-	-	-	-	-	-	1,705
Total	1,746	-	-	95	1,037	9	1,705
Total with related parties	1,883	-	847	95	1,037	300	1,705
% impact on line item	3.1%		1.9%	100.0%	6.6%	2.2%	51.2%

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	at December 31, 2016 Fees for the appointment	Other fees	Benefits	Bonus
Siagri Roberto	President	In charge up to 31.12.2016	330	10	4	-
Antonello Giulio	Director	In charge up to 31.12.2016	17	-	-	-
Barazza Sandro	Director	In charge up to 31.12.2016	15	123	3	-
Costacurta Riccardo	Director	In charge up to 31.12.2016	32	-	-	-
De Toni Alberto Felice	Director	In charge up to 31.12.2016	15	-	-	-
Mio Chiara	Director	In charge up to 31.12.2016	32	-	-	-
Paladin Dino	Director	In charge up to 31.12.2016	15	-	-	-
Panizzardi Giuseppe	Director	In charge up to 31.12.2016	20	-	-	-
Pizzol Marina	Director	In charge up to 31.12.2016	25			
Siciliotti Claudio	President of Board of Statutory Auditors	In charge up to 31.12.2016	38	-	-	-
Cignolini Michela	Statutory Auditor	In charge up to 31.12.2016	25	-	-	-
Pingaro Giuseppe	Statutory Auditor	In charge up to 31.12.2016	25			
TOTAL			589	133	7	-

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 11971/19 99 as subsequently amended and Annex 3C of the same regulation.

		at December 31, 2016						
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
Siagri Roberto	President	Eurotech	Ownership	1,450,031	-	(144,000)	1,306,031	900,370
Antonello Giulio	Director	Eurotech	Ownership	-	-	-	-	-
Barazza Sandro	Director	Eurotech	Ownership	2,000	-		2,000	-
Costacurta Riccardo	Director	Eurotech	Ownership	-	-	-	-	-
De Toni Alberto Felice	Director	Eurotech	Ownership	6,000	-	-	6,000	-
Mio Chiara	Director	Eurotech	Ownership	-	-	-	-	-
Paladin Dino	Director	Eurotech	Ownership	2,262,604	138,000	-	2,400,604	-
Panizzardi Giuseppe	Director	Eurotech	Ownership	-	-	-	-	-
Pizzol Marina	Director	Eurotech	Ownership	-	-	-	-	-
Siciliotti Claudio	President of Board of Auditors	Eurotech	Ownership	10,000	-	-	10,000	-
Cignolini Michela	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-
Pingaro Giuseppe	Statutory Auditor	Eurotech	Ownership	-	-	-	-	-

(*) Shares owned at the end of office

34 – 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 2016, about 40.9% of Group loans were at fixed rates (compared with about 47.2% in 2015). As for the loan in place at the Japanese company, it was taken up at fixed rate since it is more advantageous than those at variable rate.

Exchange rate risk
In view of the significant investment transactions in the US, Japan and the UK, with substantial foreign currency cash flows from business and financial operations, the Group's financial statements could be significantly affected by changes in the USD/EUR, JP¥/EUR and GBP/EUR exchange rates. In 2016, no foreign exchange hedges were executed

because of the uneven USD, GBP and JP¥ flows, particularly taking into account that the individual subsidiaries tend to operate in their respective functional currencies in their respective core markets.

About 81.8% of sales of goods and services (2015: 80.9%) and 72.5% (2015: 72.0%) of the cost of goods purchases and the operating costs of the Group are denominated in a different currency from the functional currency used by the Parent Company to draw up these financial statements.

Product and component price risk

Group exposure to price risk is not significant.

Credit risk

The Group trades only with known and reliable customers. The Group’s policy is to check the creditworthiness grade of customers that request extended payment arrangements. In addition, the balance of receivables is monitored during the year so that the amount of non-performing positions is not significant. Maximum risk exposure is shown in Note 6. 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 certain years could happen that a customer generates more than 10% of revenues (as 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 2016, 43.4% of Group financial payables will accrue within one year (2015: 30.7%), 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	1to 2 yeears	3 to 5 years	Total
Borrow ings	8,137	2,321	1,031	11,489
Trade payables and other liabilities	19,001	-	-	19,001
Finance Lease	73	123	-	196
Fianancial derivatives	12	-	-	12
Total as of December 31, 2016	27,223	2,444	1,031	30,698

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 2015 and 2016.
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, 2016	at December 31, 2015
Other current and non current financial assets	(171)	(76)
Derivative instruments	12	8
Borrowing	11,685	11,717
Cash & cash equivalents	(9,186)	(11,430)
Net financial position	**2,340**	**2,117**
Group Equity	103,557	105,337
Group Equity	**103,557**	**105,337**
EQUITY AND NET FINANCIAL POSITION	**105,897**	**107,454**
Net financial position on Equity	2.3%	2.0%

35 – 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 2016 and on the respective comparison figures.

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At 31 December 2016, the Group held the following financial instruments measured at fair value:

(€'000)	Notional value at December 31, 2016	Fair value at December 31, 2016 (debit)	Fair value at December 31, 2016 (credit)	Notional value at December 31, 2015	Fair value at December 31, 2015 (debit)	Fair value at December 31, 2015 (credit)
Cash flow hedge						
Contracts Interest Rate Swap (IRS)	1,134	0	(12)	906	0	(8)

All the assets and liabilities measured at fair value at 31 December 2016 are at Level 2 of the fair value measurement scale. In addition, during 2016 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, 2016

(€'000)	Loans and receivables	Assets at fair value through profit and loss	Availble-for-sale	Total
Asstes as per balance sheet				
Trade and other receivables exluding pre-payments	15,813	-	-	15,813
Other non current financial assets	-	-	-	-
Other current financial assets	-	-	76	76
Cash & cash equivalents	9,186	-	-	9,186
Total	**24,999**	**-**	**76**	**25,075**

(€'000)	Liabilities at fair value through equity	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrow ings (excluding finance lease liabilities	-	11,596	**11,596**
Finance lease liabilities	-	89	**89**
Derivative financial instruments	12	-	**12**
Trade and other payables exluding non-financial liabilities	-	13,459	**13,459**
Total	**12**	**25,144**	**25,156**

at December 31, 2015

(€'000)	Loans and receivables	Assets at fair value through profit and loss	Availble-for-sale	Total
Asstes as per balance sheet				
Trade and other receivables exluding pre-payments	15,715	-	-	**15,715**
Other non current financial assets	-	-	-	-
Other current financial assets	-	-	76	**76**
Cash & cash equivalents	11,430	-	-	**11,430**
Total	**27,145**	**-**	**76**	**27,221**

(€'000)	Liabilities at fair value through equity	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrow ings (excluding finance lease liabilities	-	11,612	**11,612**
Finance lease liabilities	-	105	**105**
Derivative financial instruments	8	-	**8**
Trade and other payables exluding non-financial liabilities	-	14,381	**14,381**
Total	**8**	**26,098**	**26,106**

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 2016, the Group held two IRS contracts (for a notional contractual value of €1.5 million) of which one was signed during the year and designated as instruments to hedge interest rate risk.

	Due date	*Fixed rate*	*Floating rate*	*Market value (€'000)*
Interest rate swap contracts				
Euro 714,763	29 May 2020	0.35%	Euribor 3 month	(8)
Euro 418,598	21 January 2019	0.37%	Euribor 3 month	(4)

Interest rate swap contract conditions were negotiated to coincide with the conditions of the underlying commitments.

The accounting treatment of this financial instrument entailed a decrease in equity of €4 thousand and decreased the cash flow hedge reserve as a direct reduction of equity to €12 thousand.

36 – Assets disposed of during the year

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 for €108 thousand. Both amounts were paid.

In application of "IFRS5 - Non-current assets held for sale and discontinued operations", the financial results of the business unit sold remained classified to the balance sheet items 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 amounts to €1,705 thousand.
The following is a summary breakdown of the income statement entries of the transferred entity for the two months of 2016 and the 12 months of 2015:

OPERATING RESULTS	2M 2016 (€/000)	FY 2015 (€/000)
Revenues from sales of products and services	101	1,324
Cost of materials	(45)	(957)
Gross profit	**56**	**367**
Operating expenses	(179)	(1,302)
Other revenues	-	285
Profit before depreciation and amortization (EBITDA)	**(123)**	**(650)**
Depreciation & amortisation	(36)	(266)
Operating profit (EBIT)	**(159)**	**(944)**
Finance (expense) income	7	(21)
Profit (Losses) before taxes from a discontinued operation	**(152)**	**(965)**
Income tax	-	-
Net profit (loss) from discontinued operations	**(152)**	**(965)**

The main asset and liability classes of the transferred entity were as follows at 29 February 2016:

	at Febrary 29, 2016 (€/000)
ASSETS	
Intangible assets	356
Property, Plant and equipment	108
Other non-current assets	0
Inventories	745
Crediti vs clienti	613
Other current assets	13
Company assets	**1,835**
Goodw ill	0
Assets from Discontinued operations	**1,835**
LIABILITIES	
Total non-current liabilities	8
Debiti vs fornitori	1,155
Current liabilities	35
Liabilities from Discontinued operations	**1,198**
Net Discontued operations	**637**

37 – Potential liabilities

There are no significant potential liabilities to report except for what is stated in Note 18.

38 – Events after the reporting period

No significant events took place after the closing of the consolidated financial statements at 31 December 2016.

Amaro, 13 March 2017

On behalf of the Board of Directors
Chairman
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 Issuer Regulation and shows the amounts paid in 2016 for the auditing services.

Service provider	Eurotech Group entity	2016 fees
PricewaterhouseCoopers S.p.A.	Parent company - Eurotech S.p.A.	111,082
PricewaterhouseCoopers S.p.A.	Subsidiaries	80,558
		191,640

Certification of the consolidated financial statements pursuant to 154-bis of Legislative Decree 58 of 24 February 1998

Amaro, 13 March 2017

1. We the undersigned, Roberto Siagri, the Chief Executive Officer and Sandro Barazza, the Financial Reporting Manager of Eurotech SpA, 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 application

   of the administrative and accounting procedures for the preparation of the financial statements in financial year 2016.

2. Valuation of the adequacy of the administrative and accounting procedures for the formation of the condensed financial statements at 31 December 2016 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 2016:
   - 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 AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Eurotech SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Eurotech SpA and its subsidiaries ("Eurotech Group"), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Eurotech SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Eurotech Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance 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.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Eurotech SpA, with the consolidated financial statements of the Eurotech Group as of 31 December 2016. In our opinion, the report on operations and the information 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 2016.

Udine, 30 March 2017

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