EUROTECH

Letter from the Chairman

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
Chairman and CEO