EUROTECH

Letter from the CEO

Dear shareholders,

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

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

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

Throughout 2017 the Group continued to invest in research and development; on the hardware front, in the secure high performance embedded PCs and in the IoT gateways that can be employed globally; on the software front, mainly in Everyware-IoT, in the two aspects of on-field devices and cloud. These investments firmly establish Eurotech's position in the new IoT paradigm and within Industry 4.0. Our presence in the IoT sphere is increasingly evident, and without false modesty I think I can claim that we are an important technology player, perhaps even one of the most relevant at the

global level. These results are allowing us to develop our technological partnerships, which now include, beside RedHat and Hitachi, also VMware. Thanks to these partnerships we expect to expand business opportunities in the IoT framework as well as in Industry 4.0, and the effects can already be felt.

Numbers are finally starting to show the great intangible value we have acquired in terms of knowledge and technology. In keeping with the simile I made in the past, we could say that this value is being transformed from potential energy into kinetic energy, in other words, into financial results. The effects of the investments that all companies have to make and will make in order to partake in the fourth industrial revolution are finally being felt, and the opportunities we are witnessing are very promising for future growth. The open-innovation model we implemented for our IoT technology architecture is a success. As I said in my previous letter, all our efforts in the IoT field are intended to enable companies to face the digital transformation of industrial processes and business models the easy way, without the need for specific expertise or costly upfront investments. In order to reach more and more businesses, the implementation of an indirect sales channel remains a priority; a channel which shall have to include, not only our technological partners but also system integrators and company consultants dealing in digital transformation.

I would like to repeat what I said last year and the year before: the Internet of Things is none other than the real and concrete realization of our vision of the pervasive computer, a vision we have cultivated since our birth in 1992. IoT is nothing more than a cheap and simple way to connect computers and machines that contain them through the cloud. Data collected by objects become a source of value, thanks to a new way of writing applications, which takes advantage of the economies of scale of the app-economy. Data are becoming the new center of gravity, and for this reason we speak of big-data and data analytics. The smooth interoperability between all the computerized and interconnected "things" will allow both a flexible development of software and its simple and widespread fruition. In this scenario, a big advantage of our technological components, besides ease of use, is security, a feature of utmost importance today.

All of this combines with our renowned competence in high performance computers for data centers and research, which are now finding their place in the industrial sector. In order to meet this demand we transformed the HPC (High Performance Computer) into HPEC (High Performance Embedded Computer), a more compact, industrial strength HPC. Outstanding computing power is made available in a limited space, a feature in line with demands from the world of robotics, of artificial intelligence, of big-data applied to factories and of autonomous vehicles. Thanks to our state-of-the-art technologies, we are able to bring the power of big data centers almost everywhere, from factories to unmanned vehicles, thereby transforming on-the-field computers into real supercomputers. We have paired the miniaturized personal computer with the miniature data center. This paradigm change is in total agreement with the ongoing movement of technology from the center to the periphery, which has been a constant in the evolution of computer software and hardware since the beginning. Today, thanks to more and more powerful field devices, the processing power residing in the cloud now returns to the periphery, also known as the Edge, hence the term Edge Computing. Without Edge Computing no smart factories, unmanned vehicles or robotics will ever be possible.

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This is the era of algorithms, of artificial intelligence and of digital twins, all made possible by the Internet of Things. All of our technologies therefore support digital transformation and industry 4.0. According to a research by PWC, investments by global manufacturing companies up to 2020 will be around 900billion dollars a year.

Eurotech has the right technology to satisfy the demand of the industrial market for digitalization over the next few years. It also has the technology to answer the needs of industries operating in the fields of advanced robotics and autonomous vehicles.

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

13 March 2018

Roberto Siagri
CEO