

Letter from the Chief Executive Officer

Dear Shareholders,

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

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

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

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

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

During 2018 the Group continued its investment strategy in product portfolio innovation, both in terms of hardware and software. As I also said last year, these investments want to position Eurotech, more and more and better and better, within the new technological paradigms that, in addition to the Internet of things, include Edge computing. Within this new classification of computing, our IoT gateways and High Performance Edge Computers are to be placed. In

particular, HPECs are computers able to exploit outside the datacenters and near or inside the machines ("at the edge") the deep-learning algorithms that are the basis of the development of artificial intelligences. All these developments are allowing us to fully enter into the new phase of digital transformation and more precisely into the era of autonomy, in which even more investment in Industry 4.0 will flourish. To serve these new markets, Eurotech's product portfolio has been divided into three macro areas: Embedded Computers, Edge Computers and Software for the Internet of Things.

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

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

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

The wind has got up: we had prepared for this so we took off. But we are only at the beginning: we will continue with passion and dedication to work so that the wind of digital transformation

is always in our sails, so as to take us on a great journey into the new blue oceans of the fourth industrial revolution.

18 March 2019

signed
Roberto Siagri
CEO