

## Letter to Shareholders

Dear Shareholders,

summing up our 2010 in one sentence, we can say it has been the year of getting back on track.

We have in fact left behind the temporary stop of 2009, caused by the global crisis, and we have started again a double-digit growth. We know that the aftermath of what happened to the world economy did not fully depleted in 2010, but we noticed signs of recovery in all geographic areas in which we operate, albeit with different intensity and timing.

A common element in all areas has been the re-start of the industrial sector, and in our case this meant primarily a recovery in Japan's sector of semiconductor equipment, a sector that had suffered particularly in 2009 and caused most of the contraction of Group turnover.

In last year's letter I had also anticipated that for the transport sector we were expecting 2010 to be a more lively year, thanks also to Governments' interventions to support the economy. And it went that way: precisely in the transport sector we won two important contracts, the first one of 7.5 million dollars in the U.S. by King County Metro Transit and the second one of 10 million dollars in UK by Cubic Transportation.

These two contracts also testify the evolution of the current sales model towards larger orders: the growth of the average value of the order is a key factor to make our revenue grow without a proportional increase of the cost of our sales structure, for the benefit of the viability of the company.

During the year we continued to work to create an increasingly integrated and efficient Group, concentrating our efforts in the Asian area. In fact, we took the opportunity of the realization of the put&call option on a further 25% of the share capital of Advanet to push on the accelerator regarding the integration of our Japanese subsidiary with the rest of the Group. The consolidation of our position in Advanet gave us the opportunity to create at organizational level the best conditions to stimulate on the one hand the cross-selling in Japan of our European and American products, on the other hand the synergies on design and production of products belonging to the high-end part of our offering.

We also continued the consolidation of the global structure set in 2008 and 2009, to push even further the achievement of two objectives: specialization of local developments and maximization of cross-selling between geographical areas.

An important step in the search for greater efficiency has been the concentration of European manufacturing operations in the Italian plant: doing so we have aligned the European structure with the American and Asian ones and we have completed the path of consolidating operations into one site for each continent.

Let me now comment briefly on the financial results of 2010.

The year closed with a consolidated turnover of 99.3 million Euros, touching the threshold of 100 million beyond which the leverage on operating costs, which are mainly fixed, becomes more visible.

The revenue growth was achieved while maintaining a gross margin above 50%, which is the target of our business model: this result confirms once again the ability of Eurotech to compete on the value for Customers and establish with them relations of partnership for innovation rather than mere supply of components. The steadiness of the first margin is more significant if we consider that the situation of shortage of electronic components (chips) continued throughout the course of 2010, with inevitable consequences on purchase prices.

Group EBITDA for 2010 was 7.4 million Euro, equal to about 7.4% of sales. This is certainly not the target of profitability that we want and we can reach, but it is a significant achievement that demonstrates how the actions of activation of synergies brought forward from 2008 to today are bearing fruit.

The "industrial machine" works with increasing efficiency and its costs are under control, something that is also the prerequisite to generate a significant cash flow, which is important to support our double-digit growth path.

Let's now take a look at what lies ahead for 2011.

The order book at the end of February for the current year shows an increase of 30% over the same period of 2010 and the total order book is nearly 50% higher than that seen last year. These figures thus confirm the upward trend already seen in the consolidated results as at December 31<sup>st</sup> and give us moral to continue to work in the drawn direction.

Caution is a must in any case: the signs of uncertainty on the socio-political scenario that are characterizing the Mediterranean area in the last months, which generated an increase in the cost of oil, introduce elements of uncertainty on the cost of both energy and raw materials that need to be properly taken into account. As we did in the past two years, therefore, while we hope for the best we continue to work on alternative scenarios keeping a high attention on costs.

Even with this necessary preamble, the overall scenario of the global economy presents interesting prospects for Eurotech.

The recent cuts in the defense budget announced in the U.S. are targeted mainly at new projects and are in fact leading to greater investment in upgrade programs and technology refresh of existing infrastructure, and especially of vehicles. Parvus is already active in this business and should therefore be well positioned to benefit from the current scenario of the U.S. defense market.

In the transport sector we can continue to leverage on our experience in the supply of Mobile Access Routers (MAR) as enablers of wireless communications between the central control station and several on-board systems, such as vehicle diagnostics and surveillance cameras, in order to turn every vehicle into a monitored asset. There are also new initiatives supported by public investments aimed at making more efficient and secure the existing infrastructure and this scenario can open interesting new opportunities for Eurotech.

For the industrial sector we expect a consolidation of the recovery: even though the recent earthquake that has hit hard the northeastern part of Japan adds some uncertainties to our overall picture in the short term, in 2010 the order intake in that specific area has benefited from the recovery even more than revenues and therefore we are confident that 2011 will continue to be a good year for this sector.

Also the medical sector continues to show good prospects and we should be able to capitalize on relationships built over the last two years with several important players both in the U.S. and in Japan.

Finally, looking across the board the various sectors, our ultra low-power architectures based on Intel Atom™ processors on the one hand are generating the expected sales volumes and on the other hand are gathering important design-wins, which should further support the sales volumes in the medium term.

To conclude, I would like to say a few words about the future that awaits us in the next few years.

We are witnessing the merger of the digital world with the real world: by associating sensors to an object you can in fact generate real-time information on its characteristic parameters and the context in which it is placed. In this way everything can potentially generate a data stream and thus become an asset that can be monitored via web: from a vending machine to a box of medicine, from an agricultural vehicle to a bag of plasma. But to make the step from an "Internet of computers" to what is called "Internet of things" you must handle the connection interface between real world and digital world, between sensors and web, between devices and Cloud. And it is here that we are now a step ahead of many others: the solution Everyware™ Device Cloud (EDC), which we launched last November, has received the "Best Electronic Design 2010" award from Electronic Design magazine in the category "Cloud Embedded Computing". This achievement capitalizes on the result obtained in 2009 by the

platform Everyware™ Software Framework (ESF), which shared the award for best software with the Google Android platform. The Everyware™ Device Cloud, exploiting the ESF middleware, enables companies to quickly connect distributed devices through the IT infrastructure of cloud, thus eliminating the time and initial costs of building a dedicated IT infrastructure.

Thanks to the ever growing diffusion of miniaturized and interconnected computers, and thanks to the availability on-demand of scalable IT infrastructures, we are entering the era of "smart services", i.e. innovative services provided via web and based on localization and contextualisation of objects and individuals in the real world. In order that these smart services pervade our society in various fields of application, you must create easy to use enabling platforms, able to integrate and mix hardware, software and networking technologies. Eurotech is ready to seize the new opportunities related to the development of the "Internet of things", thanks to the investments made and the skills acquired: in fact, our Edge Controllers and Mobile Access Routers with ESF and EDC combine the three key factors and represent a fundamental element for the acceleration of the interconnection between real world and digital world, between "intelligent" objects and the Cloud Computing infrastructure through the IP backbone.

We are moving towards a dematerialization of the solutions, where the "weight" of the SW is gradually increasing compared to that of the HW. The trend in the paradigms of use of devices and applications is clearly going towards the "as-a-service" mode, because it helps breaking down the entry barriers on the time and cost of new implementations, increasing at the same time the scalability of applications. Also Eurotech can benefit from these trends because of its offer of Device Data Management through the Cloud: thanks to the investments made on SW platforms, all our HW platforms and devices can easily communicate and exchange data using the infrastructure made of Internet and the Softwares-as-a-service, allowing our customers to easily build fast and flexible IT infrastructures that can enable and support asset monitoring applications. This should allow us to go beyond the traditional sectors in which we historically operate and to move into sectors such as logistics and security which have been only marginally addressed so far.

Now that sales and operating margins have returned to their pre-crisis levels, I can say that Eurotech is ready to break new barriers and reach a size and a profitability beyond any results previously reached by the sum of the Group's companies in their history.

We are back on track, and to better address our path of sustainable development we count on the support of you all.

March 15th, 2011

signed by  
Roberto Siagri  
President & CEO