

## Letter to Shareholders

Dear Shareholders,

we began 2011 with great enthusiasm and the prospect of finally seeing Eurotech turn its potential into numbers. We ended 2010 with momentum and we counted on maintaining the pace.

We knew there were uncertainties and possible obstacles on our path. In my letter last year I highlighted how prudence was a must because there were indicators of economic uncertainty and this could adversely affect our business.

We didn't expect all of these fears to be proven justified and that everything that could have happened, would have actually happened: the financial and monetary crisis in Europe, the debt crisis in the United States, the budget crisis in Italy. To all of these events, the tsunami in Japan was added, devastating and unexpected, followed in autumn by flooding in Thailand, which delayed the supply of electronic components and therefore impacted year-end deliveries.

The optimism that we felt due to January and February orders gradually gave way to a largely adverse situation that, starting from the summer, increasingly hindered the business. We repeatedly encountered hurdles along the way that inevitably slowed our pace beyond our initial predictions.

While hoping for the best, it is equally true that we were prepared to cut operating costs in order to lower our breakeven point and throughout the quarters we executed pre-planned defensive actions. Moreover, as the year went on we looked at additional measures, some of which are already partially implemented and will continue to bear fruit throughout 2012.

At the same time we continued to build for tomorrow by advancing new initiatives and investments, a testament to our desire to maintain the momentum and innovation that characterizes us and embodies our competitive advantage.

A first important success I would like to recall is the use of our Everyware Software Framework middleware in Intel®'s reference design of Machine-to-Machine (M2M) gateways based on the Atom™ processor. Our middleware was chosen because it allows a significant reduction in the development cycle of applications and services based on the interconnection between devices. This confirms the importance of our vision that the software to simplify interconnections will be more and more the defining differentiator also in the Embedded Computer sector.

Regarding our products, we are following a clear trend towards ready-to-use and cloud-ready devices. We continue to invest in our traditional product lines, like high-integration and low-power consumption boards, which still represent nearly half of our turnover. However we have pushed the throttle in the direction of ready-to-use products that are simpler for customers to deploy as well as easier to sell along indirect distribution channels.

In particular, we have developed a line of products for security and surveillance applications, such as smart cameras, which allow, among other applications, the facial biometric identification, license plate reading and tracking of objects. Everything is always based on the concept of distributed intelligence and so the devices are easily integrated into remote controlled solutions, allowing us to propose innovative architectures of surveillance and security technology in Cloud Computing.

Regarding High Performance Computing (HPC) for demanding applications, we were one of the founders of the European Technology Platform (ETP) for High Performance Computing, which saw the main European suppliers of HPC technology join BSC, CEA Cineca, Fraunhofer, Forschungszentrum Juelich and LRZ research centres to promote the development of a European supercomputing technology.

In other words, even Europe - after the US, Japan and China – has become aware of the strategic importance of HPC technology for the future of the region. Eurotech has long championed the crucial role of supercomputing in the development and competitiveness of a country or region. The ETP's main goal is to coordinate all European entities involved in the HPC sector and to submit an ambitious research plan to the European Commission. The initiative has a time frame from the medium to the long term, but promises to reinvigorate a European HPC sector able to generate added value in terms of both research and business.

In terms of acquisitions, we acted with the aim of strengthening links between the United States and Japan, and in doing so accelerate cross-selling of high performance boards for real-time applications. With this in mind California-based Dynatem Inc. was acquired and was included in the consolidation perimeter of the Group from June 1<sup>st</sup> 2011. Dynatem boasts 30 years of experience in the embedded computer market and in particular in the VME, VPX and CPCI board segment and therefore has a natural affinity with the products produced by our Japanese subsidiary, Advanet.

Throughout the course of 2011 we have sown many seeds, and we are confident we have done the right things for our future when investments to renew infrastructures and production processes will regain momentum.

I would now like to briefly comment on the economic and financial results of 2011.

The year ended with a consolidated turnover of 93.8 million euros; below the threshold of 100 million beyond which the leverage effect on primarily fixed operating costs becomes visible.

Gross margin came in just under 50%, not substantially out of line with our target that we fix each year as a litmus test to stay in line with our business model, which is based on the proposition we make to customers providing higher added value with respect to the competition.

Group EBITDA was 3.1 million euros, a figure that rises to 4 million euros if we exclude the non-recurring costs. As Eurotech's second-largest shareholder I am certainly not satisfied with this performance which is not sufficient to generate profits and is far from shareholders' expectations. But as President and CEO of Eurotech I know that over the years the hard work of all our employees, at all levels and in all geographies, has created an ever-more-efficient industrial machine that is ready to translate its potential into profits. In 2011 alone we reduced operating costs by 1.7 million euros, without affecting our ability to innovate and sustain rapid sales growth as soon as opportunity calls. And now that we have learned to safely streamline operations we will continue to do so until the operating leverage shows its effect.

Let's take a quick look at what lies ahead for 2012.

Maintaining caution is still a must. Economic uncertainties, above all in Europe, require us to maintain control of costs and also serve as an additional stimulus to extend our market coverage. In doing so we rely on our Device Data Management and Asset Monitoring via Cloud solutions, both of which can be made available to customers also "as-a-Service".

This new proposition lowers customers' initial investments and allows us to have a competitive product offering that we can sell to our traditional customers (OEM and SI) through the direct sales channel. Moreover, the new proposition will allow us to broaden the customer base, thanks to the possibility of increasing the use of indirect sales channels, because these new products, thanks to software, are much easier to use and install.

Although order book level is still low, the pipeline of ongoing negotiations that should become orders during the year is higher, in absolute value, than in this same period one year ago. This, combined with a pickup in the North American area, which represents nearly half of Group turnover, gives us reason for optimism.

In particular last March one of our low-power and high-performance modules belonging to the Catalyst family of products was selected for the US Positive Train Control (PTC) programme. The PTC programme is designed to enhance rail safety through a monitoring system and train movement control, with an estimated total investment of

\$12 billion by 2015. We expected the first orders from this programme to come in at the end of 2011, but the stalled US economy between summer and autumn led to delays in investment. Therefore we expect the first fruits of PTC certification this year, with the bigger part of orders starting from 2013.

The US debt crisis had a huge impact on investment in infrastructure and government programs, most of all in defence. While the cuts in this sector had a negative impact on 2011 turnover, due to the stopping of many programmes, budget movements between programmes has reopened opportunities. Consequently in 2012 we will seek those programs with funding and pursue the new business opportunities that every radical change introduces. Parvus has repeatedly demonstrated from 2004 to 2010 its ability to exploit growth opportunities. Despite the setback in 2011, its positive track record gives us confidence this year and for years to come.

Regarding Japan, the post-tsunami reconstruction is under way and, as we saw after the Kobe earthquake of 1995, the growth of Japanese GDP in 2012 should more than compensate for the lack of growth in 2011. In early February we announced on behalf of Advanet a major design-win for embedded computers that will be used in control and automation systems to be installed on certain highway sections, and we expect that this first sign will be followed by a good order intake over the coming months.

In closing I would like to say a few words about the future that awaits us.

The Cloud is definitively emerging as a paradigm shift of Cambrian proportions. Every day it is increasingly evident how the availability of on-demand and pay-per-use computing power and data storage, comparable to the availability of electric power, will transform the way companies do business and provide services.

The Cloud's scalable ICT infrastructure is what was missing for us to realise our vision of pervasive computers. We have long since understood that it was necessary to transition from just Embedded Computing to Pervasive Computing, giving our products an inherent ability to integrate themselves into an ICT infrastructure and thus broadening our potential market. The point that remained unresolved was who would provide this ICT infrastructure and how. We could not do it ourselves because it is not our business and neither could the final customers or system integrators, unless significant technical and financial resources became available. The evidence showed inertia in the development of the pervasive computing scenario. On paper it seemed logical but in practice only a few companies could afford it. Something was missing, but it was not clear what.

With the advent of the Cloud it all became clear: with this radical innovation a completely new way of imagining the ICT infrastructure had emerged. It became a utility.

But in order for the pervasive computing scenario that Eurotech envisages to become reality, including the advent of the Internet of Things, an interface connection between the world of intelligent devices and the Cloud infrastructure is necessary. In other words, a scalable, inter-functional software platform is needed to quickly and efficiently build distributed systems, in which thousands or tens of thousands of intelligent devices are able to collaborate with each other as well as with business applications. Such a platform must be able to connect devices in a way that is simple and reliable, but also natively make use of the Cloud's ICT infrastructure.

Everyware Device Cloud (EDC) is our software platform designed to be the universal interface between intelligent devices and the Cloud's ICT infrastructure. The EDC platform has been conceived to provide the missing link that allows the creation of next generation Machine-to-Machine (M2M) solutions. With EDC we not only move bits between devices: we are able to move "actionable data", i.e. data ready to be used, from intelligent devices spread throughout an operating environment to the business application within the Cloud. Like express couriers transport packages of goods from production sites to the entities that use those goods, our EDC platform allows us to transport packages of digital data from the devices that generate them to the applications that use them.

Application possibilities are limitless because any intelligent object connected by the Internet to the rest of the world, digital or real, can become a "visible" asset monitored through the Web. This can be a vending machine or a stack of banknotes, farm vehicles or railroad switches. Mark Weiser's vision that twenty years ago inspired us to

create Eurotech is finally becoming a reality. Invisible and pervasive computers are granting us a “digital ubiquity”, which I like to summarize with the sentence: invisible computers for a visible planet.

Our hunger for success is more alive than ever and, as always, we count on your support as we continue along our path.

15 March 2012

signed  
Roberto Siagri  
President and CEO