

Letter to Shareholders

Dear Shareholders,

In last year's letter I underlined how we did a lot of sowing and how confident we were that we had done the right things for our future. This year I can say that we have finally begun to reap the fruits of our efforts: we reached our operating breakeven and this is the first milestone along a new road to growth.

We knew that 2012 was not going to be easy, with the crisis still biting, less strongly but without notice. Flashes of business acceleration are still followed by stall phases. Opportunities are available but it is hard to predict how long it takes for them to materialize. In fact, while on one side the level of new orders was overall good, on the other the flow was slower than we had hoped and this did not allow us to get started during the year on some of the contracts that we had been awarded.

Given this uncertainty and volatility, we focused on the variables that we can and know how to manage: cost control, cash flow, innovation. We worked hard to ensure that we would be highly effective in the areas of business that are mostly under our control, with a pragmatic and methodical approach that, ultimately, paid off.

We now move on to analyse the main operating and financial results of 2012.

In 2012 the company had consolidated sales of €93.6 million, a figure in line with the comparable amount for 2011. The year under review did not achieve any growth but did witness substantial change for the "industrial machine", a term that we like to use to refer to the operational structure that obtained this result.

Gross Profit was up, exceeding by more than two percentage points 50% of sales, which is the target that we set for ourselves every year and have been meeting regularly, with some fluctuations related to the changes in the mix of products sold. I like to think of this as a confirmation of our Customers' recognition and tangible appreciation of the value added offered by our solutions, in a market that is sensitive to prices. Moreover, the good performance of Gross Profit tells us that the steps taken to hold the cost of purchased materials down are beginning to show results, and this encourages us to continue along this path.

Group EBITDA amounted to €8.0 million, which was more than double of the comparable amount in 2011, despite flat sales. This is not enough to generate earnings, thus as a Eurotech shareholder I am not totally happy with this performance. However, as Chairman and CEO I wish to express appreciation for the efficiency achieved by our industrial machine; this efficiency is not reflected completely in the numbers but it will continue to improve also in 2013. To accelerate the process, in 2012 we cut operating costs by €1.63 million, with total savings amounting to €2.54 million if we include non-recurring costs incurred in 2011. Against this backdrop, we continued to invest in innovation and all cuts were done without undermining the ability of the structure to drive organic growth in sales as soon as external conditions become more favourable.

The combined effect of the increase in Gross Profit Margin and the reduction in operating costs allowed us to break even at the EBIT level for 2012, as already noted in the opening lines of this letter. Thus, the industrial machine is under control and all set to reach new goals.

The Eurotech machine is even leaner today. In fact, at 31 December 2012 working capital was down to 25.3% of sales versus 32.1% at the end of 2011. This improvement was due to the slashing of inventories of raw materials and semi-finished products, without delaying payments to suppliers, thus leaving room for further action if necessary. In addition, net debt fell to €11.4 million, representing less than 1.5x EBITDA.

To give a different interpretation of these operating results, I take this opportunity to address briefly our multi-brand strategy, where the three main brands are Eurotech, Advanet and Parvus.

Parvus is a brand with which we serve the defence and aerospace market in the United States. Advanet is the brand that we use to address typically medium-to-large OEMs in Japan, providing boards and embedded systems for real-time and high-performance applications. Within the Eurotech Group, Advanet and Parvus are used to maximize the return of our embedded offering to specific sectors and geographical areas. Advanet and Parvus focus on well-defined and specific markets and, thanks to their specialization, can generate better margins and cash flows than the average for the industry. Eurotech, instead, is a single, worldwide brand that serves a market made of small, medium and large companies in many vertical sectors, with a scalable business model based on easily configurable or modifiable products for specific applications, and integrated solutions scaling from few to hundreds of thousands of devices. Undoubtedly, the process to build up the Eurotech brand at the global level is more complex, compared with a focused brand, but the potential return in absolute terms in the medium-long term is higher because the potential customer base is larger and more diversified.

Looking at what happened in 2012 – not including the costs of the Corporate structure, i.e. the industrial holding that sets out the strategic guidelines and coordinates the operating units – the Advanet, Parvus and Eurotech brands had EBITDA of €5.7 million, €4.8 million and €1.5 million, respectively. In other words, the focused brands performed as expected while the Eurotech was just slightly above the threshold beyond which the benefits of operating leverage kick in. Once our investments in the Eurotech brand are fully operational, we expect a significant return, and the increasing contribution from this brand to consolidated margins is going to be a key driver of the growth of Group profit in the next few years.

Let's now turn to what is in sight for us in 2013.

The development of the turnover will be, as happened historically, concentrated towards the end of the year. Even though we started 2013 with a stronger order book than that at the beginning of 2012, we know that orders will translate into sales gradually throughout the year. We expect an ordinary first quarter, with acceleration starting at the end of the second one, as soon as deliveries of some significant existing contracts will progressively show their effect.

On the other hand, as early as the first quarter we expect to benefit from the positive effects of the actions taken on operating costs in the second half of last year: the structure's efficiency will continue to improve this year as well, thereby increasing margins as a percentage of sales.

In terms of the currencies that affect our business, for 2013 the Japanese yen is expected to be more competitive vis-à-vis the U.S. dollar and the Euro. In the medium term this should help sales for our Japanese customers, as they rely a lot also on exports other than on their internal market, with positive consequences also for our subsidiary Advanet.

We will continue to focus on the allocation of resources to drive the structure progressively toward maximum operational efficiency. In particular, this year we are going to pay attention to our Italian operations. In fact, Italy is the last piece missing in the puzzle that makes up the set of actions taken to improve the Group's efficiency. Besides, Italy does not account for much of our sales and it made sense to act first on the units that generate most of our business, i.e. the United States and Japan. As early as the end of 2012, we designed and implemented in the Italian plant a lean re-organization plan, complemented by the use of the special State redundancy pay, with the objective to increase the plant's competitiveness and to raise productivity in Italy to the same level as that of the other Group units.

Looking at the Group as a whole, in our path toward maximum efficiency in 2013, we will continue to ensure that our investment level is maintained to support our competitiveness in innovation on one side, and to develop new markets and businesses on the other.

For us, innovation is the exploration of new value propositions. By operating with a technology-push approach we produce innovations that, by solving heretofore unsolved problems or by meeting more effectively established

needs, aim to open new avenues, enable us to find new customers in the sectors in which we operate and to access unexplored sectors, or, in other words, fuel sustainable long-term growth for the entire Group.

Speaking of innovation, we started 2013 by setting a world record: the greenest supercomputer, that is the world's most energy-efficient one. Thanks to the best performance per watt ever attained, equal to 3.15 GigaFlops/W, the supercomputer "Eurora", installed at Cineca in Bologna and based on the same architecture as that of our Aurora Tigon, turned out to be the best in the world. This success is clear testimony to what Eurotech can do and the heights that our engineers can achieve.

Looking at the application of our innovations for business development purposes, our supercomputing technology can be deployed also in the market for embedded systems, addressing the needs of that top segment requiring compact or mobile systems equipped with considerable computing capabilities. There is a growing number of sectors that either use or will use data fusion algorithms and real-time control of data streams; this is the reason why many industries are increasingly interested in the so-called High Performance Embedded Computing or HPEC solutions.

Together with cuts, we will rebalance costs by exploiting synergies in the administration, production and logistic areas and by investing in marketing and sales. We will develop indirect channels, through new partnerships and distribution agreements that will supplement the existing sales force. With the new type of products that combine hardware and a software platforms as-a-service – i.e. Device as-a-Service – we have a scalable offering and can approach medium-size System Integrators as well as Independent Software Vendors specialized in high value-added niches. Moreover, we intend to pursue more aggressively this new business model with recurring revenues which, by proposing the solution of the customer's problem like a service, allows us to tear down some barriers to entry and to address new customers which we would not be able to reach otherwise.

To conclude, a few words on the future that lies ahead of us.

The Internet of Things is gaining ground as the paradigm of change for the way distributed systems are constructed and, consequently, it is shaping new concepts for the processes to monitor and control distributed assets. From a business point of view, what is of interest to us are the platforms for interconnecting intelligent devices among themselves and with the infrastructure-as-a-service of the Cloud. The transformation of the IT infrastructure to a utility and the resulting availability of computing capabilities and data storage on demand and on a pay-per-use basis, is only one of the three key factors necessary for the Internet of Things to experience a true Cambrian explosion in the number and variety of its applications. The second key factor is the communication infrastructure, particularly broadband and wireless connection; in fact, if the economy of atoms requires highways, railways, ports and airports to enable the rapid and capillary movement of large quantities of goods, the economy of bits needs digital highways and ports to enable the rapid and capillary movement of large volumes of data. But, if it is true that in the former, logistic operators turn the potential utility of highways and ports into reality, it is equally true that in the latter, without data logistics, both the Cloud and broadband have no way to fulfil their potential. Thus, the third key factor to the true development of the Internet of Things are machine-to-machine (M2M) "data transportation" platforms, which should be available as commodities and in a "as-a-service" mode.

Increasingly small and efficient smart devices, IT infrastructures available as utilities and M2M interconnection platforms are giving rise to a digital ecosystem that is made up of more and more interconnected components and that has more and more sensing capabilities. In this planetary Internet of Things, distributed systems of intelligent devices will allow all of us to experience amplified perceptions and action potential, improving the way we live: an authentic computing exoskeleton capable of giving us augmented reality. We are going to be more and more at the centre of digital technologies that, in turn, will more and more care of our human and social dimension. Thus, while it will include fewer and fewer human beings in the number of "entities" that make it up, the Internet of Things will in fact be increasingly at the service of humans to ensure their sustainable existence.

It seems that the paradigm of pervasive computing theorized by Mark Weiser in the laboratories of the Xerox PARC in California at the end of the 1980s is displaying its effects on the economic system. We are moving from theory to

reality; we are at the take-off point of the development curve for the Internet of Things, and its expansion is now unstoppable because, rephrasing what Victor Hugo once said, no army in the world can stop an idea whose time has come.

Our determination to achieve profitability this year is stronger than ever and, as always, in our journey to that goal we count on the support of you all.

15 March 2013

signed
Roberto Siagri
Chairman and CEO