

Letter to Shareholders

Dear Shareholders,

many things happened in the year just ended, and in writing to you this letter I cannot avoid to go back with the memory to the ferment that was in Eurotech in 2005 when we listed on the stock exchange. Then the winds of recession and the global economic crisis have turned off a bit the enthusiasm and also the spotlight, not to mention that Italy has suffered and is still suffering more than others this crisis, which in other Western countries seems to have ended.

Today, as then, Eurotech is facing a new beginning: the potential yet to be seen is great and this time to confirm it there are also the official recognition that we have obtained in the course of 2013 with respect to the innovativeness of our products.

In April, we were named by Gartner as a “Cool Vendor” in the “2013 IT / OT Alignment and Integration” report. The title has been given to us for the innovative content of our EDC (Everyware Device Cloud) solution, which is the combination of our Everyware Cloud software platform for the integration of smart objects – which makes use of programming technologies of cloud computing – and ESF (Everyware Software Framework), a middleware for the development of applications on embedded devices – both our own and third parties’ ones – to be connected to the platform.

In June, two Eurotech supercomputers finished first and second in the “Green 500”, the ranking of the most efficient supercomputers in the world, with the installations of Eurora at CINECA and Aurora Tigon at Selex ES, the company of the Finmeccanica group specializing in IT security. Eurora ranked first with 3210 MFlop/s per Watt (one watt per second is about the energy required to lift a cup of coffee), while the Aurora Tigon system ranked second with a value of 3180 MFlop/s per Watt. To give an idea of the importance of the result, the third-ranked of the Green 500 was a system with 2450 MFlop/s per watt, which is 25% less than the performance obtained by our computers.

In September, we teamed with Oracle, Hitachi Communication Technologies America and Hitachi Consulting for a demonstration of “Internet of Things in Motion” at the joint conference JavaOne / Oracle OpenWorld in San Francisco, the huge global event of Oracle that once a year literally takes possession of a piece of the city for five days and brings together some 60 thousand people from over 140 different countries. The live demonstration of the solution to count visitors – that used our EDC technology for connecting devices and collecting data, together with our people counters – has been protagonist in both the JavaOne Strategy Keynote on the first day and of the OpenWorld Keynote on the last day. This gave great visibility to our technology for the Internet of Things (or IoT) as well as to the Eurotech brand.

All of these are important achievements confirm both the quality of staff dedicated to research and development and the rightness of the vision on technology trends, as you will read later, and this give us great energy to look at our future with confidence.

Let's take a quick look at the major economic and financial results of the year just ended.

In 2013 we had consolidated revenues of 66.1 million euros, down slightly from last year's figure at constant perimeter and constant exchange rates. This figure was affected in particular by two elements. The first is the cyclical nature of our HPC business, which is still concentrated on a few customers and so it is very variable depending on the timing with which we collect orders; 2012 was a good year, 2013 was a year in which sales reached a minimum, 2014 will be another good year. The second element has been a shift in the delivery of two supplies already under contract and very promising, related to our transportation sector in the U.S., which inhibited the growth that we expected. The reasons for these shifts are not dependent on factors under our control and are mainly related to the procedures for the qualification and testing of our customers' products. Although these delays can be unpleasant, the potential of these large contracts in the medium term remains intact. Everything that falls to us has been made, the ball is in the customers' court, and we just have to have a little patience: as often happens in large supplies, the time frame of quarters is too fast to appreciate their dynamics. It took us a few years of perseverance to win these supplies and, most importantly, they will have an impact for a few years on our future revenues, and it is to this objective that we should stay focused.

The Gross Margin is very close to 50%, in line with the figure for the previous year, and this is a result that confirms once again that customers recognize and reward the value add of our solutions, even in a price sensitive market. The good performance of the gross profit margin should not let our guard down on cost control, because the rapid evolution of digital technologies repeatedly opens up new spaces for improvement, which should be examined every day through a continuous monitoring process.

Group EBITDA was positive, albeit slightly, in spite of a lower level of turnover compared to the real capacity of our industrial machine. This figure tells us then that the Eurotech machine has today reached a good degree of efficiency and is ready to generate profits as soon as those major contracts in the backlog will enter the delivery phase.

I wish to emphasize that the efficiency of the operating structure has been achieved in recent years without affecting our investments in innovation and therefore with great care to preserve our competitive drive. The important milestones achieved in 2013 in terms of external recognition to the quality of our innovations are there to confirm it.

Another positive note is related to the working capital: in 2013 we dropped below the threshold of 20% of revenues, compared with a value of over 25% in 2012 at constant scope of consolidation. It's true that in this reduction we have to consider the effect of lower sales in the fourth quarter of 2013, but even considering this factor the improvement is significant and confirms that the control processes in place work, so from here forward growth can occur in a more financially sustainable way.

We come now to what lies ahead in the coming quarters.

We are at a point of discontinuity in the history of Eurotech, and this new beginning will feed on what we have built so far. With the sale of Parvus we got in advance the cash flows that Parvus would have generated over the next 7-8 years and we have simplified the operational structure of the Group, with a benefit on both the strategic focus and the agility to maneuver.

The traditional business of NanoPCs, that is embedded computers for special applications, can now rely on a well-calibrated structure, with costs under control and working capital properly sized, ready to support a turnover between 90 and 100 million euros. This is the level that will allow us to return to the size we had before the sale of Parvus, but with more margins so with a net profit and a chance to give some dividends.

With the expected growth of our traditional business of embedded computers we will have the opportunity to recover both the turnover and the EBITDA formerly coming from Parvus in about 18-24 months, thanks to the two major contracts mentioned above, that despite their slower development dynamics in the long run will show their positive effects.

We have cash of 28 million euros and a net cash of 15 million euros and this allows us to look with confidence to the development of our strategic directions of the Pervasive Computer (Embedded PCs, M2M solutions, solutions for security and surveillance) and low-power Supercomputer (Green HPC). At the same time this gives us the opportunity to accelerate investments to faster expand our market presence. With our M2M solutions and our Xentinel solution for surveillance and security we can count on an innovative value proposition for the Internet of Things and for Smart Cities, while with our Aurora G-station and our mobile HPC solutions we can face the Green HPC market and the High Performance Embedded Computers (HPEC) market. Due to the amount of devices in the catalog and the combination of HW platforms and SW platforms, Eurotech is now able to provide its customers with complete solutions for the implementation of asset monitoring projects, where "asset" can be virtually anything that can be digitally identified.

We will work to align the organization to the needs of business development of M2M solutions, solutions for security & surveillance and the Green HPCs. We will immediately make some shrewd investments to strengthen the marketing and sales structures that support these three strategic lines of business. Then we will continue with the investments in this direction, in proportion to our spending power and modulating the actions of strengthening the structure as a function of the development of turnover, always in a sustainable fashion.

In connection with the expansion of the organization of direct sales, will push the development of indirect channels through new partnerships and new distribution agreements, which will complement the internal structure of direct sales. With the new type of products that combine hardware and a software platform as-a-Service, we have the

ability to transform our hardware devices in devices as-a-Service, thus opening the possibility of starting such a business model with recurrent sales of services, user fees and support.

In this process of strengthening the structure to accelerate the market penetration of the three lines of business I just mentioned, we will also consider the option of strategic acquisitions. In our approach, they are the catalysts of the implementation of the strategy and from this point of view we are looking at what the market offers today, aiming at targets that can be easily integrated in the existing Group organization. Unfortunately, the recent acquisitions in the Internet of Things space have created sudden inflation of the evaluations of the companies, especially in the American area. This will complicate a bit our work and will require us to be even more rigorous in the assessment of targets and to have a little more patience than expected.

Finally I would like to say a few words about the future that is ahead of us.

Supercomputing has become an increasingly important resource, if not indispensable, in many industrial processes and for the competitiveness of enterprises. We are all witnessing a spread of supercomputing applications outside the traditional scope of the research centers and, given the amount of data that will sharply rise in the near future in virtue of IoT applications, there will be soon the need to analyze large masses of data to extract information hidden in them: the so-called "big-data".

Even in Europe the HPC market is getting traction, thanks to the drive that the EU is giving to the sector.

Already in 2011 Eurotech was one of the founders, along with the most prestigious European research centers and the main European suppliers of HPC technologies, of the European Technology Platform dedicated to High Performance Computing (ETP4HPC). This initiative is an important step to encourage and strengthen the position of European companies in the field of HPC. The impressive contribution of skills by the members of this initiative shows that, for years to come, Europe has a real chance to get a leading position in the HPC industry.

The birth of an HPC ecosystem that is vital and competitive compared to the U.S. or Asian ones will be clearly very closely linked to the size of public investments that the European Union will make available: in this regard, in December 2013 the ETP4HPC and the European Commission signed a public-private partnership in the form of a contractual agreement (cPPP) with which the Commission and the representatives of the industry will provide vital funding for research and innovation in the field of High Performance Computing. The cPPP will implement the strategic agenda for research and innovation through co-funded projects, selected through Horizon 2020 calls. The Commission and the industry associations of reference have reached an agreement on a total indicative budget for the period 2014-2020. The budget will be formally announced on an annual basis in the operational programs of Horizon 2020. Overall, for the period of seven years identified, European Community funding are expected to be in the order of EUR 700 million, of which EUR 142 million in the period 2014-2015.

I believe that this renewed interest of the European Union for supercomputing and the creation of a European industry in the field of HPC can only result in an excellent growth opportunity for our company.

In summary, we can say that we are in the right path at the right time. This applies both to the HPC division and the NanoPC one: with regard to the latter, in fact, the recent acquisitions made by PTC and Google have given the signal that the time of the Internet of Things has come. In addition, they also give other two indications: the acquisition made by PTC confirms that the competition will be played a lot on SW platforms; the acquisition made by Google tells us that not only having control of user data but also having control over data from the devices will be of strategic importance.

We are facing an imminent Cambrian revolution of business models: alongside with the economy of atoms, a great economy of digital data – the bits – will grow. As in the world of atoms the development on a global scale has been enabled by the logistics of goods, in the same way in the world of bits the development on a global scale of a new economy of data will be linked to the availability of a logistics of data.

Moreover, if in the world of physical goods handling is done by means of logistics platforms of national and international operators who specialize in this type of service, in the cyber world made of bits the logistics of data will be carried out by software platforms, like our one, resident in the Cloud and capable of connecting machines with machines and machines with humans, while maintaining data producers on the one hand distinct and independent from data consumers on the other, all in a fast, safe and reliable way.

The combination of widespread and broadband communication infrastructure, computing and data storage as a utility, smart objects spread in the environment and data integration SW platforms will create new ways of doing business: not only new services and new enterprises will arise, but also the traditional businesses will be transformed. We could say in a phrase that only those who will change will have the passport to enter into this new world.

A really radical transformation is in sight. We are moving into the era of “servitization”: we will more and more buy the use of products and there will be less and less interest in owning them. In many areas where high digitization is already a reality things work in this way. It is not a matter of “if”, rather a matter of “how” and “when”: in a recent study, McKinsey says that at least 80% if not 100% of the companies will be impacted by the IoT.

As the steam engine started the industrial revolution, so the IoT technology will kick off a new revolution: we will see the birth of a new form of economy of bits which will complement that of atoms we have experienced so far and which will shake up business models.

Even in this new economy logistics will be the key element, and in the world of data logistics will be performed by machine-to-machine platforms that will be available as-a-service. That’s why we’ve invested in that direction.

For over twenty years Eurotech has been creating and offering embedded computers and this type of technology continues to be in our DNA. We began addressing the challenge of real time control of machines and plants, and we continue to innovate our offer in this space. But we did not stop there: as we continued to develop new products for the real time control of devices and processes, since 2009 we started to develop an M2M software platform to easily interconnect smart devices distributed on a global scale and to create flows of information between these devices that were easy to access no matter where you are. Among the first in the world, we have learned to collect the data from real-world processes and to transport them quickly, efficiently and securely in the cloud, enabling our partners and customers to easily build flexible and scalable distributed systems, capable of supporting asset monitoring applications and new value-added services.

Around this massive digitization a new world of applications is being born, as well as a market with size and potentiality never seen before. There are those who estimate that by 2015 there will be 25 billion intelligent devices connected to the Internet (more than 3 per human), and that by 2020 that figure will climb to 50 billion (about 7 per human). This gigantic population of devices will produce a huge amount of data that will need to be collected and processed. In order for all of this to produce positive effects in terms of economic development and sustainability, we will need solutions that simplify and make cost effective the development of these new applications. This is exactly what we have achieved with our products, that easily and inexpensively interconnect intelligent devices between them and with the infrastructure of the Cloud (M2M platforms) and which also allow to process large amounts of data (Green HPCs). After more than five years of research and innovation, we are now ready to face the challenges of the market and the blue ocean of opportunities that are right in front of us.

New territories lie open to our view. New achievements are possible. Therefore, with the support of you all, let’s begin a great new journey.

17 March 2014

signed
Roberto Siagri
President & CEO

*This document has been translated into English for the convenience of readers outside Italy.
The original Italian document should be considered the authoritative version.*