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PRESS RELEASE

# EUROTECH: CONSOLIDATED INTERIM MANAGEMENT STATEMENT AT 30 SEPTEMBER 2014

**Amaro (Italy), 14 November 2014**

- Consolidated revenues: from €43.29 million to €45.95 million
- Consolidated gross profit: from €22.90 million to €22.15 million
- Consolidated EBITDA: from €-1.50 million to €-2.57 million
- Consolidated EBIT: from €-6.21 million to €-6.45 million
- Consolidated pre-tax result: from €-5.36 million to €-5.37 million
- Net financial position (Net cash): €6.99 million
- Shareholders' equity pertaining to the Group: €106.50 million

The Board of Directors of Eurotech S.p.A. examined and approved the results of the first nine months of 2014 and of the third quarter today.

## FIRST NINE MONTHS OF 2014

The course of revenues in the nine-month period was marked, on the one hand, by a recovery in turnover, partly offset by the worse exchange rates of the currencies in which the Group's various companies operate, and on the other by a number of investments in the various company areas, whose goal is to strengthen the operating structure supporting the different strategic lines, as stated at the beginning of the year. Some of these effects can already by seen on the negotiation pipeline level, where the M2M/IoT portion is clearly increasing, and other are expected over the quarters to come in terms of more new orders.

In particular, in the third quarter actions to focus business development on the three strategic directions – M2M/IoT platforms, solutions for security and surveillance and green HPCs – came to fruition through the insertion of new managers with significant experience in the areas to which the Group is moving.

At Corporate level, M2M/IoT strategic business line now has got a Vice President: Geoff Morton, who has extensive experience in developing business for both hardware and software solutions. Mr. Morton will coordinate the direct sales of Eurotech’s M2M/IoT offering worldwide, supervising and controlling the sales activities carried out by local teams in each subsidiary of the Group. Moreover, Mr. Morton will take the lead in the development of the indirect sales channels, such as VARs and System Integrators.

In the US, Larry Wall is the new CEO of Eurotech Inc.: under this role, Mr. Wall will lead and manage the main American subsidiary of the Group, adding a stronger drive on the growth of the M2M/IoT business thanks to his experience in the wireless and mobility markets, with a track record of conceiving, building, and growing solution-based offerings and businesses.

With reference to the Japanese region, Advanet Inc. has found in Makoto Naito a new leader who will not only boost the development of the M2M/IoT strategic direction, but will also bring to a new level the traditional embedded business, which is an important element in the overall economy of the Eurotech Group by virtue of the role that Japanese asset has in the cash flow generation. In fact, Advanet's new CEO is an experienced business leader, who is well-known within the Japan computing/technology market and who has a long career in managing operating units of leading international companies.

Looking at the HPC business unit, Fabio Gallo has been appointed Vice President and General Manager to lead the supercomputing division of the Group with a stronger focus on business development and operational efficiency. During his long career Mr. Gallo has occupied various positions in prestigious companies in the HPC industry and has proven experience in the expansion of the business with industrial customers.

In addition to these four major reference persons, the workforce has grown a total of 19 units compared to 31 December 2013, primarily in the functions dedicated to the development of the business, and this is further evidence of the implementation of the plan to align the operational structure to the strategic vision.

Group revenues in the first nine months of the year totalled €45.95 million, compared to €43.29 million of the first nine months of last year. At constant exchange rates, turnover of the first nine months of 2013 would have been €41.6 million, with an approximate 10% increase compared to 2013.

The good performance of the orders of the recent quarters increased turnover in North America, while the rescheduling of some deliveries in Japan prevented the expected results from being achieved. Likewise, the uncertain economic conditions in Europe is causing poor visibility, with opportunities arising on the Old Continent intermittently to generate discontinuous turnovers within the group's core business.

New orders in the first nine-month period are in line with those of last year, although lower than the initial forecasts. The order book and existing contracts for 2015 allow us to be positive beyond the current situation. Eurotech in fact timely invested in products innovation towards the M2M/IoT scenario that today is emerging, and after recent entries in the management team can now count also on operating structures in line with the strategic vision, and hence it is prepared to catch the opportunities that are coming in the various geographic areas.

The gross profit margin came in at 48.2%, slightly lower than expectations and what was reported in the first half-year period, but in any case in line with what was reported at year-end 2013. The same nine months of 2013 had a 52.9% margin. This change in the gross profit margin is tied in part to its physiological fluctuation, which had already become manifest in past periods and is due to the mix of products sold, and in part to the recent changes in the business based on pure hardware, which has margins that are slightly dropping, more specifically in Japan. It is precisely in this area that some of the measures already taken should avert the pressure on the prices, showing benefits on the costs of purchased parts (COGS).

With reference to the operating costs, the actions that management put into effect to bring the group's structure better into line with the identified goals, without forgoing the efficiency achieved, also involve a number of investments in people and services, as seen in the trend of the number of employees on the one hand and in the various cost items on the other. In the nine months in question, gross of adjustments, operating costs increased by €0.29 million (1.1%), from €25.80 million (59.6% as a percentage of revenues) in the first nine months of 2013 to €26.09 million (56.8% as a percentage of revenues) in the first nine months of 2014.

The trend of the gross profit margin primarily affected Group EBITDA, and did not allow the Group to benefit from the increased revenues. In the first nine months EBITDA amounted to €-2.57 million (-5.6% of revenues) compared to €-1.50 million for 2013 (-3.5% of revenues).

EBIT totalled €-6.45 million (-14.0% of revenues), while the first nine months of 2013 reported a value of €-6.21 million (-14.3% of revenues). EBIT as a percentage of revenues in the nine-month period reflects the higher turnover generated during the same period with a lower gross profit margin, that was only partly offset by reduced depreciation and amortisation.

The EBIT figure reflects the depreciation and amortisation charged to the income statement in 9M14, which derive from both the operating assets becoming subject to depreciation in the reference period and the non-momentary effects arising from price allocation, which in 9M14 amount to €1.80 million (compared to €2.40 million for 9M13).

The Group, hence the Group companies without considering the results of Parvus Corp. in 2013, booked a pre-tax operating loss in 9M13 of €5.37 million, versus a loss of €5.36 million in 9M13. This performance was influenced by the factors outlined above and by the results of financial management, which significantly reflects the positive exchange rate differences (which in 9M14 had a positive effect of €1.44 million, compared to a net positive effect of €1.27 million in 9M13) due to the foreign currency trend in addition to the financial charges reduced by the trend of the net financial position.

A net loss from operating assets of -€5.89 million was registered in 9M14, compared with a net loss of -€6.07 million in the first nine months of 2013. Total PPA effects on the group net result from current operations in 9M14 amounted to €1.09 million (compared to €1.46 million in 9M13).

Net profit from assets held for sale and discontinued operations has a value only in 2013 and amounted to €1.30 million. The amount relates to the operating results that the US company Parvus Corp. achieved in 9M13 before its sale on 1 October 2013.

In terms of Group net result, operating assets generated a result of €-5.89 million in the first nine months of 2014, while the effect of operating assets sold and held for sale in the same period of 2013, totalling €1.30 million, contributed toward attainment of a better result, €-4.77 million.

At 30 September 2014, the Group reports a net financial position (net cash) of €6.99 million, down from the figure at 31 December 2013 of €15.11 million. Cash and cash equivalents at the end of September 2014 amounted to €13.50 million.

Net working capital at 30 September 2014 totalled €14.82 million, higher than the amount recorded at 31 December 2013 (€12.05 million) and that recorded at 30 September 2013 (€12.56 million). This was primarily due to change in exposure to suppliers.

THIRD QUARTER 2014

As regards the third quarter of the year, turnover is basically constant as it amounts to €14.92 million in 2014, compared to €15.00 million in 2013. Turnover of the quarter corresponds to 32.5% of the turnover of the nine months, while the turnover of the same quarter of 2013 was 34.6% of the turnover of the nine-month period. Distribution of revenues is similar to that recorded last year, but the fourth quarter of the year might generate a different percentage due to the existing order portfolio.

During the quarter under review, above all in Japan, a sharp worsening of the gross profit margin has been noticed: it is 46.9% of revenues, while the percentage of revenues in the third quarter of 2013 was 57.2%. Net of the effect of periodic fluctuations of the margin due to the mix of products sold, this trend is due in particular to a change in traditional hardware prices that will soon be more than offset by the M2M software and IoT solutions component, as per the business model set by the Group for some time. This model in fact envisages a policy for selling solutions consisting of a combination of hardware and software platforms, more and more sold as-a-service, where recurring revenues that will give turnover greater visibility and stability can be expected.

The interim results are influenced by the trend in the gross profit margin, in addition to operating costs and depreciation and amortisation charged in the quarter. EBITDA was €-1.22 million in the third quarter of 2014, with a margin of -8.2% on the quarter's revenues, while in the same quarter of 2013 EBITDA was €0.87 million, with an 5.8% margin on revenues.

EBIT was particularly influenced by the margins described in the third quarter of 2014, totalling €-2.52 million (-16.9% as a percentage of revenues), from €0.68 million (-4.5% of revenues) in the same period of 2013. The negative effects on the EBIT of the PPA total €608 thousand in the third quarter of 2014 and amounted to €782 thousand in the same period a year previously.

The result from discontinued operations had a positive effect of €1.20 million in 3Q13, while it had no effect at all in 3Q14.

These trends of the third quarter contributed to the overall performance of the interim 9M results mentioned above.

*Pursuant to the provisions set out by CONSOB, it is reported that the Consolidated Interim Management Statement at 30 September 2014 is at the disposal of whoever requests it at the company's registered office. The Report is also available on the Eurotech website at* www.eurotech.com (investors section) *and on the "1Info" Centralised Storage System at* www.1info.it.

*Pursuant to Art. 154 bis , paragraph 2 of the Italian Consolidated Law on Finance (TUF), the Corporate Financial Reporting Manager of Eurotech S.p.A., Sandro Barazza, declares that the information on accounts disclosed in this press release corresponds to the documentable results, books and accounting records of the company.*

**THE EUROTECH GROUP**

Eurotech (ETH.MI) is a global company based in Italy with offices in Europe, North America and Asia. The Eurotech group develops and sells miniaturised computers for special uses (NanoPCs) and High Performance Computers (HPCs). With these two product categories, Eurotech sets out to become leader in implementing the pervasive calculation scenario that by leveraging on the Cloud IT infrastructure, aims to activate an entire range of added value activities and services in the transport, security, industrial and medical sectors.

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*ANNEXES - FINANCIAL STATEMENTS*

## CONSOLIDATED INCOME STATEMENT

| CONSOLIDATED INCOME STATEMENT (€ '000) | 3rd Qtr 2014 | % | 3rd Qtr 2013 | % | 9 months 2014 (a) | % | 9 months 2013 (b) | % | change (b-a) amount | change (b-a) % |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales revenue | 14,918 | 100.0% | 15,000 | 100.0% | 45,946 | 100.0% | 43,294 | 100.0% | 2,652 | 6.1% |
| Cost of material | (7,919) | -53.1% | (6,424) | -42.8% | (23,798) | -51.8% | (20,393) | -47.1% | (3,405) | 16.7% |
| **Gross profit** | **6,999** | **46.9%** | **8,576** | **57.2%** | **22,148** | **48.2%** | **22,901** | **52.9%** | **(753)** | **3.3%** |
| Services costs | (3,516) | -23.6% | (2,900) | -19.3% | (10,154) | -22.1% | (9,020) | -20.8% | (1,134) | 12.6% |
| Lease & hire costs | (430) | -2.9% | (425) | -2.8% | (1,256) | -2.7% | (1,286) | -3.0% | 30 | -2.3% |
| Payroll costs | (4,610) | -30.9% | (4,554) | -30.4% | (14,052) | -30.6% | (14,238) | -32.9% | 186 | -1.3% |
| Other provisions and costs | (38) | -0.3% | (150) | -1.0% | (626) | -1.4% | (1,252) | -2.9% | 626 | -50.0% |
| Other revenues | 374 | 2.5% | 318 | 2.1% | 1,370 | 3.0% | 1,395 | 3.2% | (25) | 1.8% |
| **EBITDA** | **(1,221)** | **-8.2%** | **865** | **5.8%** | **(2,570)** | **-5.6%** | **(1,500)** | **-3.5%** | **(1,070)** | **71.3%** |
| Depreciation & Amortization | (1,304) | -8.7% | (1,545) | -10.3% | (3,878) | -8.4% | (4,707) | -10.9% | 829 | 17.6% |
| Asset impairment | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | n/a |
| **EBIT** | **(2,525)** | **-16.9%** | **(680)** | **-4.5%** | **(6,448)** | **-14.0%** | **(6,207)** | **-14.3%** | **(241)** | **3.9%** |
| Share of associates' profit at equity | (7) | 0.0% | 211 | 1.4% | 43 | 0.1% | 240 | 0.6% | (197) | 82.1% |
| Finance expense | (361) | -2.4% | (705) | -4.7% | (1,265) | -2.8% | (1,736) | -4.0% | 471 | -27.1% |
| Finance income | 1,693 | 11.3% | 540 | 3.6% | 2,300 | 5.0% | 2,341 | 5.4% | (41) | 1.8% |
| **Profit before tax** | **(1,200)** | **-8.0%** | **(634)** | **-4.2%** | **(5,370)** | **-11.7%** | **(5,362)** | **-12.4%** | **(8)** | **-0.1%** |
| Income tax | (27) | -0.2% | (780) | -5.2% | (524) | -1.1% | (710) | -1.6% | 186 | -26.2% |
| **interest** | **(1,227)** | **-8.2%** | **(1,414)** | **-9.4%** | **(5,894)** | **-12.8%** | **(6,072)** | **-14.0%** | **178** | **2.9%** |
| **Minority interest** | **0** | **0.0%** | **0** | **0.0%** | **0** | **0.0%** | **0** | **0.0%** | **0** | **n/a** |
| **Profit (Losses) from discontinued operations** | **0** | **0.0%** | **1,202** | **8.0%** | **0** | **0.0%** | **1,300** | **3.0%** | **(1,300)** | **100.0%** |
| **Group net profit (loss)** | **(1,227)** | **-8.2%** | **(212)** | **-1.4%** | **(5,894)** | **-12.8%** | **(4,772)** | **-11.0%** | **(1,122)** | **23.5%** |
| **Base earnings per share** | | | | | **(0.172)** | | **(0.136)** | | | |
| **Diluted earnings per share** | | | | | **(0.172)** | | **(0.136)** | | | |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (€'000) | at September 30, 2014 | at December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Intangible assets | 86,173 | 83,233 |
| Property, Plant and equipment | 3,674 | 3,518 |
| Investments in non-consolidated subsidiaries | 7 | 0 |
| Investments in affiliate companies | 708 | 607 |
| Investments in other companies | 276 | 248 |
| Deferred tax assets | 1,493 | 1,397 |
| Other non current financial assets | 0 | 2,342 |
| Other non-current assets | 561 | 535 |
| **Total non-current assets** | **92,892** | **91,880** |
| Inventories | 15,258 | 14,156 |
| Contracts in progress | 425 | 0 |
| Trade receivables | 17,575 | 18,673 |
| Income tax receivables | 123 | 268 |
| Other current assets | 2,193 | 2,404 |
| Other current financial assets | 2,485 | 101 |
| Cash & cash equivalents | 13,503 | 27,995 |
| **Total current assets** | **51,562** | **63,597** |
| **Total assets** | **144,454** | **155,477** |
| | | |
| **LIABILITIES AND EQUITY** | | |
| Share capital | 8,879 | 8,879 |
| Share premium reserve | 136,400 | 136,400 |
| Other reserves | (38,774) | (37,180) |
| **Group shareholders' equity** | **106,505** | **108,099** |
| **Equity attributable to minority interest** | **0** | **0** |
| **Total shareholders' equity** | **106,505** | **108,099** |
| Medium-/long-term borrowing | 1,533 | 2,729 |
| Employee benefit obligations | 1,833 | 1,699 |
| Deferred tax liabilities | 5,599 | 6,023 |
| Other non current financial liabilities | 0 | 118 |
| Other non-current liabilities | 770 | 884 |
| **Total non-current liabilities** | **9,735** | **11,453** |
| Trade payables | 12,792 | 14,677 |
| Short-term borrowing | 7,359 | 12,319 |
| Derivative instruments | 101 | 159 |
| Income tax liabilities | 582 | 1,657 |
| Other current liabilities | 7,380 | 7,113 |
| **Total current liabilities** | **28,214** | **35,925** |
| **Total liabilities** | **37,949** | **47,378** |
| **Total liabilities and equity** | **144,454** | **155,477** |

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (€'000) | Share capital | Legal reserve | Share premium reserve | Conversion reserve | Other reserves | Cash flow hedge reserve | Actuarial gains/(losses) on defined benefit plans reserve | Exchange rate differences reserve | Treasury shares | Profit (loss) for period | Group shareholders' equity | Equity attributable to Minority interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at December 31, 2013 | 8,879 | 39 | 136,400 | 4,196 | ( 45,711) | ( 159) | ( 254) | ( 1,399) | ( 2,132) | 8,240 | 108,099 | - | 108,099 |
| 2013 Result allocation | - | 998 | - | - | 7,242 | - | - | - | - | ( 8,240) | - | - | - |
| 2014 *(loss)* | - | - | - | - | - | - | - | - | - | ( 5,894) | ( 5,894) | - | ( 5,894) |
| - Hedge transactions | - | - | - | - | | 58 | - | - | - | - | 58 | - | 58 |
| - Foreign balance sheets conversion difference | - | - | - | 3,348 | - | | | - | - | - | 3,348 | - | 3,348 |
| - Exchange differences on equity investments in foreign companies | - | - | - | - | - | - | - | 1,859 | - | - | 1,859 | - | 1,859 |
| Comprehensive result | - | - | - | *3,348* | - | *58* | - | *1,859* | - | *( 5,894)* | *( 629)* | - | *( 629)* |
| - Other changes and transfers | | | | | - | - | | | ( 965) | | ( 965) | | ( 965) |
| Balance as at September 30, 2014 | 8,879 | 1,037 | 136,400 | 7,544 | ( 38,469) | ( 101) | ( 254) | 460 | ( 3,097) | ( 5,894) | 106,505 | - | 106,505 |

# CONCISE CASH FLOW STATEMENT

| (€'000) | at September 30, 2014 | at December 31, 2013 | at September 30, 2013 |
|---|---|---|---|
| Cash flow generated (used) in operations | (5,374) | 6,206 | 7,313 |
| Cash flow generated (used) in investment activities | (3,138) | 23,349 | (681) |
| Cash flow generated (absorbed) by financial assets | (6,156) | (8,315) | (4,236) |
| Net foreign exchange difference | 176 | (2,947) | (1,846) |
| Increases (decreases) in cash & cash equivalents | (14,492) | 18,293 | 550 |
| Opening amount in cash & cash equivalents | 27,995 | 9,702 | 9,702 |
| Cash & cash equivalents at end of period | 13,503 | 27,995 | 10,252 |

# NET FINANCIAL POSITION

| (€'000) | | at September 30, 2014 | at December 31, 2013 | at September 30, 2013 |
|---|---|---|---|---|
| Cash & cash equivalents | A | (13,503) | (27,995) | (10,252) |
| **Cash equivalent** | **B=A** | **(13,503)** | **(27,995)** | **(10,252)** |
| Other current financial assets | C | (2,485) | (101) | (101) |
| Derivative instruments | D | 101 | 159 | 237 |
| Short-term borrowing | E | 7,359 | 12,319 | 13,542 |
| Other current financial liabilities | F | 0 | 0 | 0 |
| **Short-term financial position** | **G=C+D+E+F** | **4,975** | **12,377** | **13,678** |
| **Short-term net financial position** | **H=B+G** | **(8,528)** | **(15,618)** | **3,426** |
| Other non current financial assets | I | 0 | (2,342) | 0 |
| Other non current financial liabilities | J | 0 | 118 | 0 |
| Medium/long term borrowing | K | 1,533 | 2,729 | 7,133 |
| **Medium-/long-term net financial position** | **L=I+J+K** | **1,533** | **505** | **7,133** |
| **(NET FINANCIAL POSITION) NET DEBT** | **M=G+L** | **(6,995)** | **(15,113)** | **10,559** |

# NET WORKING CAPITAL

| (€'000) | at September 30, 2014 (b) | at December 31, 2013 (a) | at September 30, 2013 | Changes (b-a) |
|---|---|---|---|---|
| Inventories | 15,258 | 14,156 | 17,480 | 1,102 |
| Contracts in progress | 425 | 0 | 0 | 425 |
| Trade receivables | 17,575 | 18,673 | 12,031 | (1,098) |
| Income tax receivables | 123 | 268 | 213 | (145) |
| Other current assets | 2,193 | 2,404 | 1,912 | (211) |
| *Current assets* | *35,574* | *35,501* | *31,639* | *73* |
| Trade payables | (12,792) | (14,677) | (12,216) | 1,885 |
| Income tax liabilities | (582) | (1,657) | (703) | 1,075 |
| Other current liabilities | (7,380) | (7,113) | (5,884) | (267) |
| *Current liabilities* | *(20,754)* | *(23,447)* | *(19,076)* | *2,693* |
| **Net working capital** | **14,820** | **12,054** | **12,563** | **2,766** |