

## Letter of the President

Dear Shareholders,

the Eurotech that is facing this 2015 is a new Eurotech. I'm not referring to a last-minute change, but rather to a process that has its roots in the past and today we can say that such process has reached full maturity. The year was 2008 and the crisis was exploding. Many factors were suggesting to cut costs quickly and prepare for the perfect storm that would hit the world economy in a way not seen since the twenties. The "land-in-sight navigation" approach, focused on the short period, became established practice. The subsistence economy oriented to resist a quarter at a time became the standard response to the crisis and to the enormous uncertainty about the future.

But in Eurotech we had an idea. We had found a way to solve the problem that prevented companies to massively adopt solutions to control their distributed assets or products, what today we call with the prefix "smart". We had in mind a "smart" solution that was combining hardware and software in a new original way, something that was not there on the market yet and that we could make because we had the right mix of experience and skills.

When the crisis exploded we found ourselves faced with a difficult choice: cut costs and give up our idea, or be a lone voice against the current and invest. We felt that our future was at stake, that our great opportunity had knocked on the door. Then we drew up all our courage and we chose to invest to realize our idea.

It was not a leap of faith: with the listing of 2005 and the capital increase of 2006 we had collected a good amount of financial resources and, in spite of the three major acquisitions made between 2006 and 2007, we were in the position to withstand losses for some years. For many quarters we could submit a red bottom line, as it has been, but there was something more important at stake: the long-term perspective.

It is peculiar that the recovery of the long-term perspective has recently become a hot topic: in the latest issue of McKinsey Quarterly, in an interesting article titled "Perspectives on the long term" Dominic Barton and Mark Wiseman urge markets and companies to shift from "quarterly capitalism" to a true longer-term way of thinking, because it is only by so doing that you can finally emerge from the crisis and avoid self-perpetuating practices. At Eurotech, creating long-term value won on short-term profit even in the most difficult moment, and today we can say to be more convinced than ever that we made the right choice.

We entered the Internet of Things before the term itself was universally adopted worldwide. At that time, in fact, there was talk of pervasive computers, and it was to this scenario – which drew on the work of Mark Weiser at the Xerox Parc in the nineties – that Eurotech made reference in its strategy. Then it was the turn of the concept of Machine to Machine (M2M), and finally of the Internet of Things (IoT). Many different terms to describe a path that lasted more than six years for us, during which little has been seen of what we were building in terms of value for the future and very much, unfortunately, leaked in terms of impact on our financial statements of the choice made at the beginning of the great recession.

Even the numbers of 2014 just ended are part of this path and it is in that light that must be interpreted. As a shareholder I can say that this is not a satisfactory performance, and as a manager I add that this is not the result we are aiming at. But I also say that hidden in those numbers there is the cost of a growth in technology, products and organization in the direction of the strategic vision.

2014 was the year of acceleration in the transformation of the operational structure: the organization has changed its skin, so to say, beginning with the leaders but also at less visible levels.

Starting from September we made changes at the top levels of our two main business units, namely the US and Japan. Such changes also led to redrawing local organizations in order to enable us to accelerate the execution of the strategy: in the US we reshaped the structure reinforcing the commercial drive on M2M technologies and increasing the focus on the sale of services; in Japan we gave new impetus to the development of the business, not just the traditional one with big OEMs but also the new one possible with the cross-selling of Group products and with the new offering of Internet of Things platforms.

As of end of November we have a new Chief Technology Officer, which we found within our organization promoting to this role the person who, from 2011 to today, has been directing the software development activities and, in particular, precisely the development of the M2M/IoT platforms on which we aimed for our future. The leadership on the technology roadmap is therefore even more aligned with the strategic vision and this will be an important step in our journey from a pure HW company to company of HW, SW and IT services.

Looking at the sales process of our technologies, in the year just ended we captured from customers a growing need of active support in the design of IoT solutions and in the choice between available options to bring technologies to fruition. In Eurotech today we already have all the skills necessary to meet this need and this year we will do it in a structured way, with a dedicated team. Since the beginning of this year we have officially launched a project to upgrade our offer, which includes the activation of a dedicated team of advisory services to support customers in the design of innovative M2M/IoT applications that take advantage of the technologies in which Eurotech today is at the forefront. The new consulting services will join the already available offer of hardware, software and services, with the aim to broaden the spectrum of activity of the company and the ability to obtain design-wins and orders.

With this move our innovative value proposition for the Internet of Things will definitely integrate with the sales structures of the local units and will become our standard way to introduce us to customers. The traditional business of embedded computers with OEMs will continue to be an important part of our P&L in the short and medium term, but it will be increasingly backed up by the M2M/IoT business that, in addition to the non-recurring revenues related to the HW, will have a recurring revenue stream from the services provided by our Everyware Cloud platform. The new technological developments allow us both to broaden the target market and to change the revenues model, from a non-recurring revenues model to a model in which the recurring revenues part will become predominant.

Today our mission is to simplify the access to the use of digital technology for companies that want to transform their business model and/or make it more efficient, taking advantage of the new Internet of Things paradigm.

The first visible wave of IoT is addressing, on the one hand, the increase of efficiency in the use of resources, and on the other hand the creation of entirely new services, sometimes almost unimaginable until a short time before: the dynamic change in real time of a bus route according to the presence/absence of passengers at the stops is an example of efficiency increase; on demand sharing of our car is an example of a new service created thanks to the IoT technologies.

But there is a second wave of the IoT, less visible than the first one but not the less important, which aims to transform the existing business models for ferrying them to the era of so-called “servitisation” or “everything as a service”: appliances provided as-a-service, rather than sold, and billed monthly in the electricity bill is a good example of how IoT technologies transform the established business models. The IoT will also have a big impact on the manufacturing industry, with effects so important that there is talk of a true fourth industrial revolution. Let me reiterate a fact that I have already mentioned in my letter last year and which I think gives a clear measure of the size of the phenomenon: according to a study by McKinsey, at least 80% of the traditional businesses will be impacted by the Internet of Things paradigm, regardless of how near to or far by digital technologies they may appear. This will happen because a new “economy of bits” is growing and hybridizing with the traditional “economy of atoms” to which we were accustomed.

The booming of the economy of atoms has been enabled by the availability of freight logistics. Similarly, the Cambrian explosion of the economy of bits – or economy of data, as we should better call it – will be enabled by the availability of what we call “data logistics”. While the movement of goods is a matter of logistic infrastructures used by national and international operators, the handling of data is a matter of integration software platforms resident in the Cloud and available as-a-service (integration Platform as a Service). An iPaaS decouples – and at the same time links – data producers on one side and data consumers on the other side.

From the point of view of data logistics, virtually all vertical sectors are similar: as an express courier can serve many different customers in the world, in the same way an iPaaS can be adopted to enable the IoT transformation of many different business models, from transport to medical, from agriculture to retail. It is precisely in this

horizontal adaptability that lies the strength of the investments we have made and it's up to us now to translate this potential into results that will make our shareholders proud and satisfied.

To conclude, I wish to greet you by borrowing a quote from Anatole France, French writer, Nobel Prize for Literature, which summarizes well the spirit with which we face the future at Eurotech: to accomplish great things, we must not only act, but also dream; not only plan, but also believe.

16 March 2015

signed  
Roberto Siagri  
President & CEO