



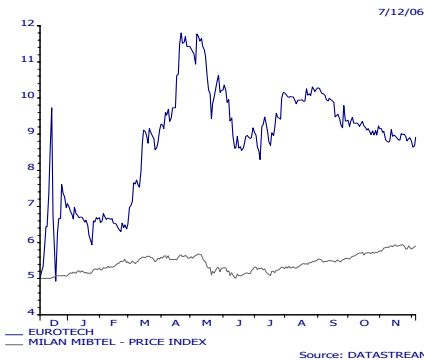
11 December 2006

Industrials

Update

Price: € 9.03

Outperform



	2004	2005	2006E	2007E
EPS Adj. (€)	0.07	0.05	0.14	0.21
DPS (€)	0.00	0.00	0.00	0.00
BVPS (€)	0.55	1.77	4.10	4.31
EV/Ebitda(x)	4.0	34.5	27.7	16.1
P/E adj (x)	nm	nm	66.0	43.7
Div.Yield(%)	nm	0.0	0.0	0.0
FCF Yield(%)	nm	5.4	<0	<0

Source: Mediobanca Securities

Freeze, reset and upgrade

Market Data

Market Cap (€ m)	315
Shares Out. (m)	34
Main Shareholder (%)	The Srl 9.57%
Free Float (%)	60.0
52 week range (€)	11.8 - 4.9
Rel Perf vs Mibtel (%)	
-1m	2.8%
-3m	-16.9%
-12m	53.9%
21dd Avg. Vol. ('000)	450
Reuters/Bloomberg	EURO.MI / EURO IM

After renouncing PTO for Radstone and Q3 06 results not exciting...

Eurotech has experienced some setbacks recently. A PTO for Radstone in August failed because of a rival offer by GE Fanuc; and Q3 06 figures were not so exciting because of a delayed contract. As a result, Eurotech's market performance has been poor, and its share price has fallen to €9.0 per share from €10.2 per share prior to GE's offer.

...M&A, wearable PCs and new partnerships should trigger growth

We believe that Eurotech's difficulties are now behind it, and that the company is poised to return to competitiveness:

- The ADS acquisition fits perfectly with Eurotech's strategic vision and adds value to the company thanks to i) cross-selling, ii) marginality and organic growth improvement iii) a range of complementary products and iv) potential expansion in China via a joint venture;
- The company's increased size will favour a "snowball effect": reliability and brand awareness will improve, which in turn should lead to some very significant new contracts;
- New wearable PC units provide Eurotech with a significant first mover advantage and could prove a commercial success;
- Eurotech will try to develop its network of partnerships further, increasing revenues while boosting company visibility internationally.

Key Financial Data - 2005 (€m)

Turnover	30
EBITDA	3.3
EBIT	2.3
Net Profit	1.0
Shareholders' Funds	33
Net Debt (-) Cash (+)	22
Gearing %	0.0%

OUTPERFORM - target price of €12.3, with +36% upside potential

Taking into account the benefits of ADS acquisition and further various possible options (a faster than expected takeoff for wearable PCs, and major new partnerships) planned in the future, our "all in" target price stands at €12.3 per share. We therefore confirm our OUTPERFORM rating.

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Executive summary

The ADS acquisition fits perfectly with Eurotech's strategic vision and meets the company's specific needs because: i) it increases Eurotech's size and widens its client base, ii) it improves marginality and organic growth capability; iii) it uses a portion of the €110m cash-in from the recent capital increase and iv) it sends a strong positive signal to the market after the failure of the Radstone PTO.

We believe Eurotech to be an appealing equity story for the following reasons:

1 – The ADS acquisition

We expect this to create value for Eurotech because of:

- ADS's 17% EBITDA margin: it will be counterdilutive on Eurotech profitability;
- Cross-selling on ADS's client base and vice versa. ADS has a broad and diversified customer base, and its sales force is active in the US and Canada;
- An increase in company size ("snowball effect") and, in turn, an improvement in reliability and brand awareness. This should lead to some very significant partnerships/strategic agreements with large existing and prospective customers;
- The ability to extend and complete the company's product range in the low-power embedded PC and wearable PC segments;
- A well-positioned entry to the Chinese market thanks to the Vantron joint venture.

2 – Launch of wearable PCs

Eurotech will start marketing its brand new wearable PC units in 2007, and a full-scale commercial launch is planned for 2008. This product is innovative, and Eurotech should enjoy a significant first mover advantage over its competitors. Another element that could support an increase in turnover is the expected mix of revenues: strong sales of the "rugged" version compared to the "light version" wearable PC will, all other things being equal, boost revenues. Our valuation is based on conservative sales assumptions (5,000 units sold in 2007 and 20,000 in 2008), but, should wearable PCs prove a strong commercial success, Eurotech revenues could almost double.

3 – Important new partnerships

We believe Eurotech will try to develop its partnership network further. Future agreements could focus either on securing reliable revenues, such as in the Finmeccanica case, or on improving Eurotech's reputation and brand recognisability. More specifically, Eurotech could develop relationships with larger, well-known system developers, to facilitate product integration and create new distribution channels while boosting company visibility internationally.

4 – Further external growth ahead

Eurotech's financial structure could be improved by further M&A expansion. For this reason, (aside from the "snowball effect"), we believe Eurotech's M&A strategy should continue in the first half of 2007. New acquisitions could focus on:

- **Geographic scope:** Eurotech aims to expand its presence in the UK, northern Europe and the US;
- **Client base:** The group wants to acquire customers in the defence and transport sectors, the most promising markets.

Moreover, Eurotech could be interested in purchasing companies specialised in the real-time application development sector, to boost its operations in the segment.

Valuation

A "base case" scenario related to the "old" Eurotech before ADS acquisition delivers a €8.50 fair value per share. ADS acquisition allows us to add some €0.97 per share value thus returning a €9.47 fair value for the stock in our Base Case, i.e. some 5% upside from the current market prices.

Adding up all the opportunities that we see in the future we get an "all in" scenario that delivers a €12.3 fair value per share, i. e. some 35% upside on current market prices.

We rate the stock as Outperform.

Potential risks

Given the highly complex environment in which Eurotech operates, potential problems include:

- Eurotech has finalised two relatively large M&A deals in FY 06. The integration process could prove more costly and difficult than expected, hitting revenues and profitability.
- Eurotech has invested in developing a business model based on a "pervasive computing" vision. Though a radical shift away from this trend seems unlikely, the process could be slower than expected, or rival technologies could emerge, eroding Eurotech's market share. The same applies to wearable PCs.
- Eurotech operates in an order-driven business. Despite the company's effort to generate recurring contracts, it is still quite exposed to fluctuations in demand that could cause unexpected drops in revenues and profitability (e. g. the delayed Q3 Arcom contract).

Valuation

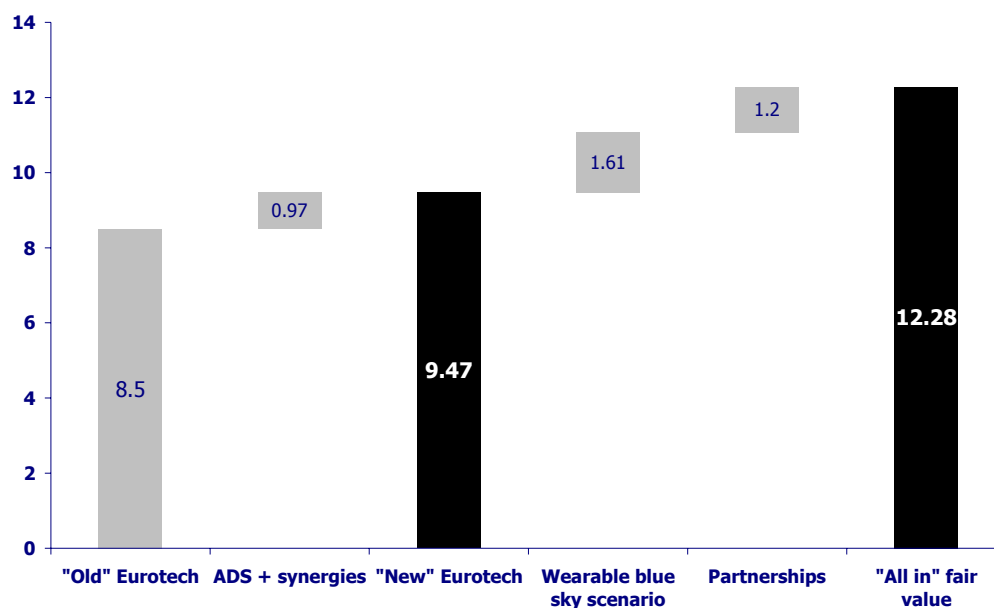
Given that the company is relatively young, we will assess a "base case" scenario related to the "old" Eurotech before ADS acquisition and will then add the valuation of ADS acquisition (and related synergies) and of the different options (a faster than expected takeoff for wearable PC and important new partnerships) that we envisage in future, to come up with an "all in" scenario.

A "base case" scenario related to the "old" Eurotech before ADS acquisition delivers a €8.50 fair value per share. ADS acquisition allows us to add some €0.97 per share value thus returning a €9.47 fair value for the stock in our Base Case, i.e. some 5% upside from the current market prices.

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The highlighted upside room on current stock market prices justifies the confirmation of our Outperform rating.

Eurotech: valuation bridge



Source: Mediobanca Securities

Base case valuation

In order to value the "old" Eurotech pre-ADS acquisition, we have adopted a three-stage DCF cross checked with a peers analysis.

Our three-stage DCF-based analysis is founded on the following assumptions:

- 1st stage - 2007-2010. During this period "old" Eurotech's revenues CAGR has been assumed to be 35%, while the EBIT margin is forecast to grow from 10.9% in 2006 to 16.3% in 2010 thanks to the semi-fixed structure of operating costs;
- 2nd stage: 2010-2015 - During this period we have assumed a revenues CAGR of 10% with a stable EBIT margin at 16%;
- 3rd stage: terminal value - Terminal value has been calculated assuming long-term growth of 3.0%.

Discounting the cash flows generated on the basis of these assumptions by a WACC of 10.5% returns a €8.5 fair valuation per share for "old" Eurotech.

"Old" Eurotech 3 stages DCF

WACC		DCF valuation	
Risk-free rate	4.5%	PV of future cash flows €m	64
Equity risk premium	4.0%	PV of Terminal value €m	129
Beta	1.5	Enterprise value €m	194
Cost of equity	10.5%	Net Cash Position (2006YE)	99
		Equity value €m	293
Net cost of debt	4.0%	Equity Value p.s. €	8.50
Leverage	0.0%		
WACC	10.5%	Long-term growth rate	3.0%

Source: Mediobanca Securities

Cross-checking this fair DCF valuation with the peers analysis allows us to comfortably confirm the mentioned results.

"Old" Eurotech at €8.50 vs Peers

	EV/EBITDA		05-08 CAGR	
	2007	2008	SALES	EBITDA
Kontron	10.2	8.7	16%	25%
Radisy	13.3	11.1	12%	0%
Mercury computers	6.4	5.9	6%	46%
Advantech	10.1	9.2	16%	16%
Average	10.0	8.7		
Eurotech @ €8.50	14.5	7.6	73%	97%
Premium (+) / Discount (-)	44.2%	-13.0%		

Source: IBES, Mediobanca Securities

Indeed, assuming as closest comparables companies such as Kontron, Radisys, Mercury and Advantech, all involved in the nano PC sector, we get an average 2007 EV/EBITDA multiple of 10.0x and an average 2008 EV/EBITDA multiple of 8.7x.

Eurotech at €8.50 per share would trade at a 44% premium on 2007 and at a 13% discount on 2008 despite showing a still much higher growth pace. More in details, we believe that Eurotech needs to trade at a premium for the following reasons:

1. Significantly higher growth than peers expected over the next years thanks to both organic growth and exploitation of cross-selling synergies with the recently acquired companies;
2. Presence in both HPC and nano PC sectors that ensures a long-term outperforming growth rates, if the "pervasive PC" vision materialises.

Valuation bridge

The base case valuation needs to be added up with a separate valuation of: a) ADS acquisition impact on P&L and synergies among the two companies; b) A faster than expected take-off for wearable PC; c) important new partnerships.

a) ADS acquisition and its synergies

As with the other acquisitions in the recent past (Parvus, Arcom), we believe our model must include not only the additional "stand-alone" revenues of the acquired ADS, but also the "virtuous cycle"-related revenues, i.e. the sales that the new Eurotech (post-ADS acquisition) can achieve having become a top embedded PC supplier.

The inclusion of the revenue synergies that will be possible between the old Eurotech and ADS highlights how counter-dilutive the ADS deal has been on Eurotech's multiples. Indeed, ADS stand-alone has been valued at a formal 7.0x 2007 EV/EBITDA; this becomes a 5.9x 2007 EV/EBITDA likely to be achieved if we also consider the synergies.

Another way to look at the value brought by the ADS acquisition is to apply to the incremental EBITDA, post-synergies, the above-mentioned fair 10.0x EV/EBITDA multiple. Applying such a multiple to the estimated €7.5m EBITDA 2008 (when synergies will start arising) and discounting back the value by one year, returns a €0.97 additional value per share.

b) A faster than expected take-off for wearable PCs

In our base case we have included a conservative take-off for the wearable PCs business line, i.e. we are assuming that Eurotech can sell some 5,000-20,000-30,000 units in 2007-08-09 respectively.

If we had to assume a stronger take-off, for instance by doubling the units sold in this period, we would get some €37m additional recurring revenues. Since manufacturing is outsourced, the additional EBITDA margin would stand at a high 15%. Applying the target 10.0x EV/EBITDA means an additional €1.6 per share valuation.

As a theory case, if we had to assume a Blue Sky scenario (fourfold the units sold vs the Base case) we would have a further €4.8 per share valuation vs the Base case.

Wearable sales scenarios impact on revenues/EBITDA

	Base case	Best case	Blue sky
Additional Revenues line (€m)	37	74	148
Additional EBITDA (€m)	5.55	11.1	22.2

Source: Mediobanca Securities

c) Important new partnerships

The greater size and reliability achieved through the recent acquisitions, coupled with the brand awareness brought by the "prizes" won by wearable PC could, in our view, also lead to some very important new partnerships/strategic agreements aimed at:

- Directly generating more recurring revenues with large existing and prospective customers (see for instance the recent agreement with Finmeccanica);
- Indirectly generating additional revenues via inclusion in the partner product portfolio. We are referring to system integrators, software and hardware houses.

Assuming a normal 15% EBITDA margin, every €10m of additional revenues means some €0.8 per share additional value. We would consider fair to assume that at least some €15m recurring revenues from this potential new partnership thus meaning a €1.2 per share additional value.

Impact on Eurotech valuation of additional recurring revenues from strategic deals

Additional revenue line (€m)	10	15	20
EBITDA margin	15%	15%	15%
EBITDA (€m)	1.5	2.25	3
Valuation multiple	10.0	10.0	10.0
Impact on valuation (€m)	15.0	22.5	30.0
Per share impact (€ p. s.)	0.8	1.2	1.6

Source: Mediobanca Securities

The ADS acquisition

After the failed Radstone PTO...

In agreement with its M&A-driven international expansion strategy, on 30 August 2006 Eurotech launched a PTO for Radstone Technology plc, offering 350 pence per share for 100% of the company's stock. Radstone is a global technology company dedicated to supporting the needs of system integrators. Through this acquisition Eurotech would have almost doubled its size. Moreover, the acquisition would have been counter-dilutive in terms of profitability.

Unfortunately, after a rival 410 pence per share offer from GE Fanuc was submitted, Eurotech decided not to further increase its offer. The refusal to make a higher bid, however, proved the market the coherence of Eurotech's acquisition strategy and the interest of a large player like GE confirmed Eurotech ability to discover high-value companies (for further details see "Appendix 1: Radstone failed takeover").

... the successful acquisition of ADS

After the failure of the Radstone PTO, we did confirm the company's intention to grow through acquisitions. An acquisition was expected due to:

- The strategic importance of increasing Eurotech's size and client base;
- Eurotech's need to use a portion of the €110m cash-in from the recent capital increase.

The ADS acquisition answers Eurotech's needs and fits perfectly with its strategic vision.

ADS is US-based privately-held company, operating under its current business model since 1995 and employing just over 70 people, half of them working in the engineering department. ADS has considerable experience in designing ARM-based systems (ARM stands for Advanced RISC Machine, a 32-bit RISC processor architecture that is widely used in a number of embedded designs), under multiple operating systems – including Windows CE and Debian Linux.

ADS is poised to answer the demands of the embedded computer market:

- **Increasing competition in technological standards**
ADS is market leader in the RISC-based PC market. Its products' key features are i) miniaturisation, ii) low power consumption and iii) low cost. Moreover, ADS's outstanding expertise has been confirmed by its appointment as "Microsoft embedded partner of the year" for five years.
- **More outsourcing**
ADS could be described as an outsourced "application-ready" SBC (Single Boards Computers) provider, strategically deployed as its customers' "Virtual Design" solution house. ADS is moving towards the development of turnkey embedded solutions, allowing customers fully to outsource every phase of product creation from design to manufacturing. Applied Data is developing its products in partnership with some of the larger players in the industry: Chips (ARM, Intel), LCD (Sharp, Kyocera) and operating systems (CE, Linux, VxWorks).
- **Strict time-to-market requirements**
One of the crucial issues in the industry is the time between the product starting point and the market release. ADS boasts a very good track record in delivering timely

innovation to market, thanks to more than 10 years' experience in the embedded PC sector.

For Eurotech, the business logic of the ADS acquisition is that it:

- Puts in place cross-selling strategies on ADS's client base and vice versa; ADS has a broad and diversified customer base. The company's sales force is active in the US and Canada, and ADS products are distributed through four companies (Arrow, Avnet, Bell Micro, and Jaco Electronics), while in Europe they are distributed by Alcom.
- Fosters the "snowball effect" (the importance of acquiring a critical dimension and reputation to bid for larger contracts), by increasing the company's size. In this way the combined entity will enjoy much higher reliability and brand awareness in extremely important markets, leading to very important partnerships/strategic agreements with large existing and prospective customers such as Finmeccanica, Cisco and Areva.
- Extends and completes its product range in the low-power embedded PC and wearable PC segments;
- Provides an entry to the Chinese market. ADS has in fact recently subscribed an agreement for the acquisition of 65% of the share capital of the Chinese VANTRON Technology Ltd, a R&D company with approximately 30 engineers employed.

From a financial standpoint, the acquisition seems quite promising. ADS has posted revenues of \$28m in 2006 (FY ended on 30 September 2006), with an EBITDA of \$4.8m (17.1% margin). In FY 07 we expect the company to continue the grow, generating revenues in the region of \$36m-\$38m (+29%/+36% YoY respectively) and EBITDA margin of about 18%, while in FY 08 we estimate a YoY growth of +20%, delivering revenues at \$44.4m, with EBITDA margin in line with FY 07. We estimate possible revenues synergies in the order of \$10m per year to arise from FY 08 on, mainly due to cross-selling on ADS and Eurotech client bases.

The transaction has been finalised for a total sum of \$41.5m, with an implied multiple of 8.6x EV/EBITDA₀₆. Eurotech has agreed to pay ADS a performance based bonus after one year, with a cap at \$12.5m. The maximum total price could therefore be \$54m, implying a current EV/EBITDA of 11.25x. The impact of such a bonus on the EV/EBITDA₀₇ multiple is however less significant: the price (and therefore the EV) are function of EBITDA. The acquisition is value accretive, since Eurotech trades at an EV/EBITDA₀₇ multiple of 15.5x.

... and it is not over yet

The ADS acquisition is financed by the rights issue proceeds and helps Eurotech reduce its substantial cash pile.

None the less, company's financial structure could be improved by further M&A expansion. For this reason, besides the "snowball effect", we believe Eurotech's M&A strategy should continue in the first half of 2007. New acquisitions could be focused on:

- **Geographic scope:** Eurotech aims at expanding its presence in the UK, northern Europe and the US;
- **Client base:** The group is willing to acquire customers in the defence and transport sectors, the most promising markets.

Moreover, Eurotech could be interested in acquiring companies specialised in the real-time application development sector to boost its activities in the segment.

Group Financials 2006

Q3 Figures

Q3 06 revenues were €11.3m, +27.6% YoY growth, markedly lower than the 120% YoY growth recorded in H1 06. The reason for this lower than average growth is entirely related to delays on a contract that is expected to be recovered in H1 07. On a cumulative basis, Eurotech posted revenues of €34.9m in 9m 06, +76.0% YoY growth.

The nano PC division came out at €30.6m in 9m 06, +81.9% YoY, while the HPC division showed a relatively less brilliant performance with revenues of €4.4m, +43.5% YoY. In this context, Q3 06 EBITDA was slightly in the red (-€0.46m in absolute terms versus a positive €1.5m as of Q3 05) and it is expected to be recovered in Q4 06. Pre-tax profit has been positively impacted by the capital gains and the dividends related to Eurotech's failed PTO for Radstone.

Eurotech 9m/Q3 2006 results

	9M 06a	9M 05a	YoY ch.	Q3 06a	Q3 05a	YoY ch.
Nano PC	30.56	16.80	81.9%	na	na	0.0%
High Performance Computer	4.37	3.04	43.5%	na	na	0.0%
Revenues	34.92	19.84	76.0%	11.28	8.84	27.6%
EBITDA	1.22	1.59	-23.4%	-0.46	1.56	nm
margin	3.5%	8.0%		-4.1%	17.6%	
EBIT	0.01	0.92	nm	-1.08	1.32	nm
margin	0.0%	4.6%		-9.6%	14.9%	
Pre-tax	1.12	0.52	117.4%	0.43	1.14	-62.8%
margin	3.2%	2.6%		3.8%	12.9%	
Net Profit	-0.11	0.25	nm	-0.03	0.64	nm
margin	nm	1.3%		nm	7.3%	

Source: Company accounts, Mediobanca Securities

2006 estimates (post-rights issue)

Excluding the ADS acquisition, the old Eurotech FY 06 revenues should come out at €63m (+111% YoY), slightly below our previous €65m-€68m expectations, because of the delay in one of Arcom's contracts which should be recovered in H1 07. The nano PCs division should keep on its positive trend, posting revenues of €32.5m, +35% YoY growth, while the HPCs division's top line should grow +13% at €6.5m. Arcom, the recently-acquired UK/US based company, is expected to come out with revenues at €24.0m, slightly below FY 05, for the above-mentioned reason. Integration synergies between Eurotech and Arcom should be felt from 2008 on. The recent Finmeccanica partnership should not impact FY 06 revenues. We expect operating costs to increase in proportion to revenues, apart from personnel costs. EBITDA should come out at €7.8m, with a 12.4% EBITDA margin, up from 11.0% in FY 05. Eurotech is still pursuing a "fabless" company model, outsourcing every non-core and non-R&D intensive activity to third parties. This ensures operational flexibility and shortened time to market. At the same time, at gross profit margin level, cost structure is quasi-fixed, generating a significant operational

leverage. EBIT is expected to be €5.45m, with EBIT margin at 8.7%, and against EBIT €2.32m in FY 05. Net profit should benefit from the capital gains generated by the Radstone stake Eurotech acquired in the context of the failed bid.

Eurotech P&L 2005-2006E

	2005	2006E (*)
Total revenues	29.9	63.0
% change	50.8%	111.1%
Cost of goods	(14.56)	(31.50)
Service costs	(5.64)	(11.90)
Rentals and others	(0.50)	(1.06)
Personnel costs	(7.21)	(11.11)
Others	(0.20)	(0.63)
Financial aids and other revenues	1.56	1.00
EBITDA	3.29	7.80
EBITDA margin	11.0%	12.4%
Depreciation	(0.98)	(1.86)
Amortisation (including goodwill)		(0.49)
EBIT	2.32	5.45
EBIT margin	7.8%	8.7%
Financial charges	(0.33)	1.09
Pre-tax profit	1.99	6.54
Taxes	(0.98)	(2.86)
% tax	50%	44%

Source: Company accounts, Mediobanca Securities

(*) Before the ADS acquisition

As far as net debt is concerned, Eurotech issued 15.8m new shares in June 2006 at €6.90 per share, for total capital increase gross proceeds of about €110m. The rationale behind this operation was to raise funds to sustain the company's external growth strategy. Before the rights issue, in H1 06 Eurotech's net debt figure stood at €6.3m. After the capital increase, in 9m 06 the company's NFP was cash positive for €98m. Following the ADS acquisition (cash out as pf Q1 07), Eurotech should have a cash pile of some €61m, more than enough to sustain further international acquisitions.

Group Financials 2007/08

2007/08 financial before the ADS acquisition

Excluding, for the time being, the impact of the ADS acquisition, we expect the "old" Eurotech to post FY 07 revenues of €92.2m, +46% YoY, and €155.5m in FY 08, +68.6%. The main revenue drivers should be:

- **Eurotech's nano PCs division**, whose top line is estimate to come out at €40.7m in FY 07 (+25% YoY growth) and €48.8m in FY 08 (+20% YoY). The division's relative size should, however, decline over time, moving down to the 31% of total revenues in FY 08 from the 44% in FY 07.
- **Eurotech's HPCs division** revenues are expected to grow at a stable +18% YoY in FY 07 and FY 08, coming out at €7.7m and €9.1m respectively.
- **ARCOM** should contribute to Eurotech top line with €32.9m revenues in FY 07, +37.3% YoY: according to the company's management, this result should benefit from the Q3 06 delayed contract (we estimated a potential impact of about €6.0m). For this reason, we forecast FY 08 revenues to be pretty stable at €31.7m. As far as synergies among Eurotech and Arcom are concerned, we prefer to remain cautious and to forecast no substantial impact in 2007, while for FY 08 we estimate €9.0m integration benefits (10% of Eurotech and ARCOM joint sales in FY 08).
- **Wearable PCs** The light version's commercial launch should be completed by 2007: in our base case we estimate 5,000 units sold for about €6.0m in revenue. For the moment the company is deeply involved in the trial phase of the product with its main potential clients, and sizeable orders are expected only in successive quarters.

In the meantime, Eurotech has received its orders for the wearable PC, orders worth only some €2m but very important to drive future market acceptance. In details:

- **Meteorwireless Solutions.** Eurotech signed a distribution agreement with Meteorwireless Solutions that will guarantee a minimum of €700,000 per year revenues for the next three years by distributing wearable PCs to the Italian logistic market.
- **Sandia National Laboratories** Eurotech received an order from Sandia for the development of a customised wearable PC. Sandia develops and applies advanced technology for US national security. It employs about 8,500 people and manages about \$2.3 billion of work annually. It is funded by the U.S. Departments of Energy, Homeland Security and Defense, and managed by the Lockheed Martin Corporation. The current contract worth €800,000 is solely related to the development of a belt-wearable PC. Once the product is delivered (H1 07) and tested by Sandia (probably H1 08), orders can be received by Eurotech.

However, we believe that the full potential of the wearable PC will be seen only in 2008: by that year both commercial (light) and military/emergency (rugged) versions should be marketed. In our base case we estimate a conservative figure of 20,000 units sold, equally divided between the two models, delivering revenues for €37m.

- Eventually, we believe that the **Finmeccanica partnership** should begin to show some results: however, we prefer to remain conservative for FY 07, given the limited visibility on the order backlog, and our base-case estimate is around €5.0m of additional revenues. In FY 08 the partnership rollout should be completed, and we see potentially €20m of recurring revenues for Eurotech.

EBITDA is expected at €13.38m in FY 07 (14.5% margin and increasing +72% YoY), while in FY 08 we estimate €25.1m (16.1% margin and growing +87% YoY). Profitability should increase as a result of operating leverage: SG&A costs are relatively stable thus EBITDA should grow, in percentage, more than revenues.

We forecast EBIT in FY 07 to be at €9.9m, with a margin of 10.7%. In FY 08 EBIT should come out at €21.6m, with an EBIT margin of 13.9%. Depreciation should increase because of the acquisitions finalised in 2006.

Finally, group net profit is expected to €7.22m, +96% YoY in FY 07 and of €14.36m, +99% YoY in FY 08. The bottom line benefits from financial income due to the substantial cash pile related to the rights issue: this figure should be reduced accordingly with cash outs related to further M&A deals.

Eurotech P&L 2007E-2008E (*)

	2007E	2008E
Total revenues	92.2	155.5
% change	46.4%	68.6%
Cost of goods	(45.20)	(77.76)
Service costs	(17.43)	(29.38)
Rentals and others	(1.55)	(2.62)
Personnel costs	(15.23)	(20.15)
Others	(0.46)	(1.56)
Financial aids and other revenues	1.00	1.00
EBITDA	13.38	25.06
EBITDA margin	14.5%	16.1%
Depreciation	(2.93)	(2.89)
Amortisation (including goodwill)	(0.57)	(0.57)
EBIT	9.88	21.60
EBIT margin	10.7%	13.9%
Financial charges	2.48	2.49
Pre-tax profit	12.36	24.09
Taxes	(5.15)	(9.72)
% tax	42%	40%
Group Net Profit	7.22	14.36

Source: Company accounts, Mediobanca Securities

(*) Before ADS acquisition

The ADS Acquisition

Taking into account the expected impact of the ADS acquisition on Eurotech's P&L account, we would have €84.5m in FY 06 on a pro-forma basis. We estimate, however, that Eurotech will begin to consolidate ADS from FY 07 on. We forecast the FY 07 combined entity revenues to come out at €120.7m (+30.9% versus our base case of €92.2m), while, starting from 2008, we expect the combined entity to start benefiting from the synergies with ADS (€7.7m). We expect FY 08 revenues of €197.4m (+63.5% grow YoY and +26.9% versus our base case). FY 07 new entity EBITDA should come out at €18.8m (+40.3% versus "old Eurotech", 15.5% margin), while in FY 08 we expect €32.6m of EBITDA (+73.7% growth YoY and 16.5% margin).

ADS and "New" Eurotech financials

	2006E	2007E	2008E
ADS revenues (\$m) (including synergies)	28	37	54.4
ADS revenues (€m) (including synergies)	21.5	28.5	41.8
Eurotech revenues	63.0	92.2	155.5
New Eurotech revenues (*)	84.5	120.7	197.4
growth %		42.8%	63.5%
"New" Eurotech Vs "old" Eurotech		30.8%	26.9%
ADS EBITDA (\$m)	4.65	7.0	9.79
ADS EBITDA (€m)	3.58	5.38	7.53
Eurotech EBITDA	7.80	13.38	25.06
New Eurotech EBITDA (*)	11.4	18.8	32.6
Margin %	13.46%	15.54%	16.5%
growth %		63.3%	73.7%
New" Eurotech Vs "old" Eurotech		40.26%	30.1%

Source: Mediobanca Securities

(*) 2006E figures are provided on a pro-forma basis. Synergies arising from 2008 on.

Wearable PCs option

In our base case scenario we are assuming that Eurotech will start selling its brand-new wearable PC units in 2007 (5,000 units sold according to our estimates) to deploy a full-scale commercial launch in 2008 (20,000 units forecast to be sold). However, given the considerable degree of innovation in such devices, our estimates could prove conservative. More specifically, should wearable PCs prove a commercial success, Eurotech's revenues could dramatically increase. A further element of potential turnover increase is the expected revenue mix: strong sales of the "rugged" version relative to the "light version" wearable will, all other things equal, boost revenues. This could happen given that:

- Rugged wearable is specifically designed to suit military needs. By definition, a typical contract with the army is likely to be sizeable.
- Rugged wearable sturdiness makes it more appropriate for any outdoor use: even commercial customers could then decide to adopt this enhanced version of the device.

Below we present a sensitivity analysis based on the number of units sold and the average price given the revenues mix among "light" version (€1,200 per unit) and "rugged" one (€2,500 per unit). The grey areas indicate our base case scenario on wearables in 2010.

Wearable sales sensitivity analysis (€m)

Price (€)	Units sold (per annum)						
	20,000	30,000	40,000	50,000	70,000	90,000	120,000
1,200	24	36	48	60	84	108	144
1,400	28	42	56	70	98	126	168
1,600	32	48	64	80	112	144	192
1,800	36	54	72	90	126	162	216
1,850	37	55.5	74	92.5	129.5	166.5	222
1,900	38	57	76	95	133	171	228
2,100	42	63	84	105	147	189	252
2,300	46	69	92	115	161	207	276
2,500	50	75	100	125	175	225	300

Source: Mediobanca Securities

Upgraded partnerships

Eurotech and Finmeccanica signed a business partnership (a commercial and scientific collaboration drawing on Eurotech's R&D capability) in June 2006. At the moment is difficult to assess the partnership's potential impact on the P&L account. However, we believe it could generate, from 2008 on, more than the €20m of recurring revenues we forecasted. In particular, in our base case we are assuming that roughly the 40% of current negotiations will be successful. If we increase the success rate, the impact on FY 08 could be significant. Anyway, the number of negotiations could increase should Finmeccanica prove more active than before, thus further improving Eurotech top line. We estimate that any €10m additional revenues could generate some €1.8m of EBITDA for Eurotech.

We believe that Eurotech will try to develop its partnership's network further. Future agreements could focus on securing recurrent revenues, such as in the Finmeccanica case, or on increasing Eurotech's reputation and brand recognisability. More specifically, Eurotech could develop relationships with larger, well-known system developers, to facilitate product integration and create a new distribution channel while boosting company visibility internationally.

Appendix 1: Radstone failed takeover

On 30 August 2006 Eurotech launched a PTO for 100% of Radstone at a price of 360 pence per share. Radstone is a global player in the embedded PC industry, developing defence and aerospace devices. Its acquisition would have had a strong strategic rationale, because of:

- **Size.** Had Eurotech acquired Radstone, it could have attained an attractive €150m revenue figure, which was considered as the basis for a further revenue expansion.
- **Profitability.** Radstone has an EBITDA margin of 16.5% versus 12.9% expected for Eurotech in FY 06, so the deal would have been counter-dilutive in terms of profitability.
- **Cross-selling.** Radstone generates 52% of overall revenues in the USA and 24% in the UK, addressing OEMs leaders such as General Dynamics, Raytheon and other major players. The deal would have improved Eurotech's client portfolio, thus allowing a significant cross-selling of Eurotech's products.

Unfortunately, Eurotech's PTO for Radstone failed due to a 410 pence per share counter-offer from GE Fanuc (on 18 September 2006). Below is the timeline of the Radstone attempted bid.

Eurotech's PTO on Radstone - Timeline

Date	Event
18 August	Eurotech announces that, as provided by the Takeover Code, has tried to find an agreement with Radstone management offering 350 pence per share for the 100% of company's stock.
29 August	Eurotech raises its offer to the management to 360 pence per share (for a total sum of about €160m).
30 August	Eurotech announces a PTO for 100% of Radstone Technology plc via its wholly-owned subsidiary E-tech UK Ltd at a price of 360 pence per share. The price: <ul style="list-style-type: none"> • Represents a 33% premium to the 270 pence per share price on 17 August 2006 • Represents a 41% premium to the 255.25 pence per share price on 10 August 2006. • Implies a 13.9x 2005 EV/EBITDA and a 10.9x 2006 EV/EBITDA multiple (Radstone's fiscal year ends on 31/03). • Implies a 24.5x FY 05 P/E adjusted and a 16.9x FY 06 P/E adjusted.
18 September	On the same date Eurotech purchases 4,820,000 Radstone shares (15.9% of the total outstanding shares). GE Fanuc Embedded System, Inc. launches a rival PTO for Radstone, offering 410 pence per share, for a total consideration of £130.4m. The price: <ul style="list-style-type: none"> • Represents a premium of 51.9% to the closing price of 270 pence on 17 August 2006. • Represents a premium of approximately 13.9% to Eurotech's offer for Radstone on 30 August 2006 of 360 pence per Radstone share. • Implies a 15.8x FY05 EV/EBITDA a 12.4x FY 06 EV/EBITDA multiple. • Implies a 27.9 FY05 P/E adjusted and a 19.25 FY 06 P/E adjusted.
22 September	Eurotech announces the extension of the PTO until 06 October 2006.
02 October	After GE Fanuc Embedded System, Inc.'s offer (18 September 2006), Eurotech decides not to increase its bid.
09 October	As of today, 1,576,993 shares have been acquired by Eurotech, representing the 5.2% of Radstone capital. Eurotech controls a 21.1% stake in Radstone. The PTO ends today.

Eurotech

P&L account (€ m)	2004	2005	2006E	2007E
Turnover	20	30	63	92
Turnover growth %	68.9	50.8	nm	46.4
EBITDA	2.3	3.3	7.8	13.4
EBITDA margin (%)	11.4	11.0	12.4	14.5
EBITDA growth (%)	nm	45.5	nm	71.5
Depreciation & Amortization	-0.6	-1.0	-2.3	-3.5
EBIT	1.6	2.3	5.5	9.9
EBIT margin (%)	8.3	7.8	8.7	10.7
EBIT growth (%)	nm	41.7	nm	81.2
Net Fin.Income (charges)	-0.5	-0.3	1.1	2.5
Non-Operating Items	0.0	0.0	0.0	0.0
Extraordinary Items	0.0	0.0	0.0	0.0
Pre-tax Profit	1.1	2.0	6.5	12.4
Tax	-0.5	-1.0	-2.9	-5.1
Tax rate (%)	40.0	49.6	43.8	41.6
Minorities	0.1	0.0	0.0	0.0
Net Profit	0.7	1.0	3.7	7.2
Net Profit growth (%)	n.m	34.0	n.m	96.2
Adjusted Net Profit	0.7	1.0	3.7	7.2
Adjusted Net Profit growth (%)	n.m	34.0	n.m	96.2

Balance Sheet (€ m)	2004	2005	2006E	2007E
Working Capital	8.6	2.2	10.2	17.4
Net Fixed Assets	7.8	10.1	33.7	34.5
Total Capital Employed	16.4	12.3	43.9	51.9
Shareholders' Funds	6.1	33.0	141.1	148.4
Minorities	0.6	0.6	0.6	0.6
Provisions	0.7	0.5	1.4	2.5
Net Debt (-) Cash (+)	-9.0	21.7	99.2	99.6

Cash Flow Model (€ m)	2004	2005	2006E	2007E
Cash Earnings	1.0	2.0	6.0	10.7
Working Capital Needs	-3.1	6.4	-7.9	-7.3
Capex (-)	-2.8	-1.0	-27.4	-4.3
Financial Investments (-)	0.0	0.0	0.0	0.0
Dividends (-)	0.0	0.0	0.0	0.0
Other Sources / Uses	2.8	26.8	103.5	1.2
Ch. in Net Debt (-) Cash (+)	-2.0	34.1	74.1	0.3

Multiples	2004	2005	2006E	2007E
P/E Adj.	nm	nm	66.0	43.7
P/CEPS	nm	68.3	40.3	29.4
P/BV	nm	4.1	2.2	2.1
EV/ Sales	0.5	3.8	3.4	2.3
EV/EBITDA	4.0	34.5	27.7	16.1
EV/EBIT	5.5	49.0	39.6	21.8
EV/Cap. Employed	0.5	9.2	4.9	4.2
Yield (%)	nm	0.0	0.0	0.0
FCF Yield (%)	nm	5.4	<0	<0

Per Share Data (€)	2004	2005	2006E	2007E
EPS	0.07	0.05	0.14	0.21
EPS growth (%)	n.m	-19.6	n.m	51.2
EPS Adj.	0.07	0.05	0.14	0.21
EPS Adj. growth (%)	n.m	-19.6	n.m	51.2
CEPS	0.09	0.11	0.23	0.31
BVPS	0.5	1.8	4.1	4.3
DPS Ord	0.00	0.00	0.00	0.00

Key Figures & Ratios	2004	2005	2006E	2007E
Avg. N° of Shares (m)	11	19	27	34
EoP N° of Shares (m)	11	19	34	34
Avg. Market Cap. (€ m)	0	135	315	315
Enterprise Value (€ m)	9	113	216	216
Labour Costs/Turnover (%)	-28%	-24%	-18%	-17%
Depr.&Amort./Turnover (%)	3%	3%	4%	4%
Prod. Ratio (Turn./Op.Costs)	1.1	1.1	1.1	1.1
Gearing (Debt / Equity) (%)	134%	0%	0%	0%
EBITDA / Fin. Charges	4.5	10.0	nm	nm
Cap. Employed/Turnover (%)	83%	41%	70%	56%
Capex / Turnover (%)	14%	3%	44%	5%
Pay out (%)	0%	0%	0%	0%
ROE (%)	12%	3%	3%	5%
ROCE (%) (pre tax)	10%	19%	12%	19%
ROCE (%) (after tax)	6%	9%	7%	11%

Note: All figures are before ADS acquisition

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