Telit Communications PLC

Preliminary results for the year ended 31 December 2015

Enhanced scale and investment programme drive Adjusted EBITDA up over 30%

London, 7 March 2016, Telit Communications PLC ("Telit", "the Group", AIM: TCM), a global enabler of the Internet of Things (IoT), has published its results for the year ended 31 December 2015.

Financial highlights*

- Revenues up 13.4% to $333.5 million (2014: $294 million)
    - IoT services revenues grew 30% to $26 million (2014: $20 million)
- Gross margin increased to 39.9% (2014: 39.55%)
- All operational expenses as percentage of revenues decreased: Gross R&D to 15.4% (2014: 16.6%), Sales and Marketing to 16.6% (2014: 17.1%) and General and Administrative to 8% (2014: 9%)
- Adjusted EBITDA up 31% to $45.3 million (2014: $34.7 million); as a percentage of revenues, increased to 13.6% (2014: 11.8%)
- EBIT increased 23.7% to $18.8 million (2014: $15.2 million)
- Adjusted EBIT increased 23.9% to $30.6 million (2014: $24.7 million)
- Adjusted profit before tax increased 18.3% to $27.7 million (2014: $23.4 million)
- Adjusted basic earnings per share up 18% to 21.7 cents (2014: 18.4 cents)

Operational highlights

- Jump in APAC revenues, up 74% to $70.9 million (2014: $40.8 million)
- Continued investment in product line for automotive modules
- Continued investment in Services division
    - IoT Portal tool developed and launched
    - deviceWISE for Factory, enterprise-grade industrial automation business unit, launched

* For reconciliation from IFRS financial results to adjusted financial results, see note 4.

Oozi Cats, Group Chief Executive, commented:

"As well as another year of double-digit growth, we have continued to invest in our IoT Services division, consisting of our connectivity and platform capabilities as well as our IoT Portal tool.

"After several years of making acquisitions and high R&D investment, we are now in a position to scale the business and benefit from our operational leverage, and as such, we will continue to reduce R&D, Sales and Marketing and G&A costs as a percentage of revenue.

"As these cost elements reduce as a percentage of revenue and we continue to scale, we also anticipate that the business will start to generate significant free cash flows.

"The combination of products and services needed to deliver IoT capabilities for global enterprises is now in place. Major corporates around the world are poised to exploit this new development in order to drive down their cost base, improve efficiencies and create new revenue streams.

"With our global reach and market leading position in modules as well as our connectivity, connectivity management and platform capabilities, we are well positioned to exploit these market developments. We are confident of maintaining our double-digit revenue growth in the current financial year."

Enquiries

Telit Communications PLC Oozi Cats, CEO Yosi Fait, Finance Director & President	Tel: +39 06 4204601
Canaccord Genuity Limited (Nominated Adviser and Joint Broker) Simon Bridges/Cameron Duncan	Tel: +44 20 7523 8000
Berenberg (Joint Broker) Chris Bowman/Martin Kochhan	Tel: +44 20 3465 2722
Instinctif Partners Adrian Duffield/Chantal Woolcock	Tel: +44 20 7457 2020

Strategic overview

Telit’s strong competitive positioning and global reach has enabled us to continue to achieve double-digit growth. 2015 was the sixth consecutive year of double-digit revenue growth for Telit and improvements in all profitability parameters.

Group revenue increased by 13.4% to $333.5 million (2014: $294.0 million), driven by organic growth. The automotive business unit saw revenues increase by 60% to $39.6 million (2014: $24.8 million) and the Services division revenues were up 30% to $26 million (2014: $20 million).

Adjusted EBITDA increased by 31% to $45.3 million (2014: $34.7 million), as a percentage of revenues it increased to 13.6% (2014: 11.8%). Adjusted profit before tax increased by 18.4% to $27.7 million (2014: $23.4 million) and adjusted basic earnings per share increased by 18% to 21.7 cents (2014; 18.4 cents).

The Group’s strategy over the last years has been to invest heavily in new product development and our operational infrastructure and we have also acquired a number of businesses to widen and enhance our product and services capabilities, and geographical coverage.

Our hardware strategy focuses on the industrial and automotive segments. Our position in the automotive segment was greatly enhanced by the acquisition of the ATOP business in 2014, which included highly skilled engineering and support staff. ATOP, which is fully integrated into Telit, has become the cornerstone of the automotive division. It has extended the Group’s market reach and is catering to the Connected Car trend, driven by factors such as safety, regulation, and smart infotainment.

In addition to widening our product range, we have also built our Services division, which enables us to provide an IoT end-to-end solution (IoT as a Service), while increasing our recurring revenue base.

The Services division, encompasses the Group’s connectivity and Platform as a Service (PaaS) capabilities. Telit IoT Portal is a unified platform of these services that enables customers to manage their IoT products and services through a single portal, while having a unique set of value add services.

We are also now in a position to scale the business and benefit from the Group’s operational leverage. Gross R&D, Sales and Marketing and General and Administrative costs are all coming down as a percentage of Group revenue and will continue to go down in the coming years.

We plan to continue to reduce gross R&D, Sales and Marketing and G&A costs as a percentage of Group revenue and in the medium term, we are targeting gross R&D as a percentage of Group revenue at 14%, Sales and Marketing at 14% and G&A at 6%.

As these cost elements are reduced as a percentage of revenue and the Group continues to scale, we also anticipate that the business will start to generate significant free cash flows.

The Group has now established a leading position in the IoT industry and intends to continue to focus on its strategy of becoming a single point of reference, with its unique IoT as a Service concept.

Outlook

The outlook for the automotive and Industrial IoT sectors continues to be very encouraging as the technology and connectivity elements needed to deliver end-to-end IoT solutions are now in place.

Our acquisitions over the past few years have materially enhanced our cloud Platform capabilities, which is a key factor in delivering on our strategy to increase our recurring revenues from our IoT Services division.

Telit will continue implementing this strategy, both through its robust organic growth, which is buoyed by the strong growth in the industrial and other IoT verticals, and through selective acquisitions to enhance its products and services offering.

With our market leading position in modules, connectivity, connectivity management and Platform as a Service, we are poised to exploit the numerous opportunities developing across the Group as well as increase our recurring revenues.

The Board is confident of maintaining Telit’s double-digit revenue growth in the current financial year.

Financial review

Financial results*

	2015 ***$'000***	**2014** ***$'000***
Revenue	**333,493**	**294,004**
Gross profit	**133,060**	**116,270**
Gross margin	39.90%	39.55%
Research and development	(32,768)	(26,986)
Selling and marketing	(55,508)	(50,393)
General and administrative	(26,582)	(26,529)
Other operating income	593	2,855
Adjusted EBITDA	**45,333**	**34,657**
Adjusted EBIT	**30,617**	**24,687**
Operating profit	**18,795**	**15,217**
Profit before tax	**15,873**	**13,908**
Adjusted profit before tax	**27,695**	**23,378**
Adjusted basic profit per share (US cents)	**21.7**	**18.4**

* For reconciliation from IFRS financial results to adjusted financial results, see note 4.

Revenue
Group revenue increased by 13.4% to $333.5 million (2014: $294.0 million), driven by organic growth. The automotive business unit, which is one of the fast growing vertical with considerable potential, saw revenues increase by 60% to $39.6 million (2014: $24.8 million). The Services division generated revenues of $26 million (2014: $20 million), up 30%.

Geographical revenue

The split of revenue on a geographical basis is as follows:

	2015 $m	**% of total revenue**	**2014 $m**	**% of total revenue**
Americas	129.4	38.8%	135.7	46.1%
EMEA	133.2	40%	117.5	40%
APAC	70.9	21.2%	40.8	13.9%
Total	**333.5**	**100%**	**294.0**	**100%**

Americas
After six years of strong growth (2009 to 2015 CAGR revenue growth of 44%), revenues were $129.4 million (2014: $135.7 million), down 4.6%.

Revenues were affected by the faster than expected technology shift in the US market, mainly as a result of the imminent shutdown of the 2G networks and the resulting strong shift into 4G technology. Some customers, mainly those in the home security, energy and transportation markets, subsequently delayed their LTE deployment plans as a result, while waiting for the LTE-Cat 1 products to be ready and certified.

2015 was also a challenging year in Latin America. The economic downturn significantly impacted sales in Brazil, Telit's largest market in Latin America. However, several competitors reduced their presence in the Brazilian market, which created an additional pipeline of new business opportunities. We anticipate these opportunities will have a positive impact in 2017.

EMEA

Revenues saw a return to double digit growth following a notable slowdown in the region in previous years. Revenues increased 13.4% to $133.2 million (2014: $117.5 million).

2G remains the dominant technology in the region, enjoying a growth in shipments, while 3G saw a substantial ramp-up which we expect to continue. 4G is still in a nascent stage.

The EMEA team secured significant design wins in the energy sector for utilities in the Netherlands and a robust share of the UK's SMIP project, as well as substantial automotive wins. As a result, the Group maintained its market leading position within the region and is confident of maintaining it in the coming years.

APAC

Performed strongly with revenues up 74% to $70.9 million (2014: $40.8 million), reflecting the coming of age of this market and the fruition of Telit's investment in its penetration during the last few years.

The growth in the region was driven by multiple key projects and customers moving into mass production during the year. As we continue to strengthen our presence in the region, including the recently added Japan and Singapore sales offices, we are winning new customers and designs to secure further growth in the region.

Gross margin and gross profit

Gross margin continued to improve, from 39.55% in 2014 to 39.9% in 2015, due to the Group's strong positioning in the IoT industry, further improvements in the hardware business and the increasing share of revenues from the higher margin IoT services business.

Gross profit increased by 14.4% to $133.1 million (2014: $116.3 million).

Operating expenses

Gross R&D operating expenses (expenses before capitalisation and amortisation of internally generated development costs – see note 5) increased slightly to $51.2 million (2014: $48.8 million). As a percentage of revenues, 2015 expenses decreased to 15.4% out of revenue (2014: 16.6%).

The amount capitalised in respect to internally generated development costs in 2015 is $26.1 million, which is similar year-on-year, but represents a decline as a percentage of revenues to 7.8% (2014: 8.9%). This figure mainly relates to the development of 3.5G, 4G, automotive products and the Platform as a Service.

The amortisation of internally generated development costs increased by 77% to $7.6 million in 2015 (2014: $4.3 million). This increase relates mainly to the release of 3G and 4G products to the market during the course of 2015.

As planned, Sales and Marketing expenses increased by $5.1 million to $55.5 million (2014: $50.4 million) but decreased as a percentage of revenues to 16.6% (2014: 17.1%).

General and Administrative expenses remained virtually unchanged at $26.6 million, but decreased, as a percentage of revenues to 8% (2014: 9%).

We expect a decrease over the next few years of gross R&D, Sales and Marketing, as well as General and Administrative expenses, as a percentage of Group revenues.

Finance costs, net

	2015 $m	2014 $m	Difference
Non-cash expenses as fair value on Italian preferred loan	1.1	0.8	0.3
Interest on loans and overdrafts	0.9	1.2	(0.3)
Bank fees	0.5	0.8	(0.3)
Exchange rate differences	0.4	(1.4)	1.8
Interest income from bank deposits	-	(0.1)	0.1
Total	**2.9**	**1.3**	**1.6**

Finance costs, net increased by 123.2% to $2.9 million (2014: $1.3 million), mainly due to exchange rate differences which moved from $1.4 million income in 2014 to $0.4 million expense in 2015.

Finance costs include $1.1 million non-cash expenses as fair value of interest on Italian preferred loan (2014: $0.8 million). The interest expenses related to loans and overdrafts decreased by 18% to $0.9 million (2014: $1.1 million) and the bank fees decrease by 34% to $0.5 million (2014: $0.8 million).

Profitability

Adjusted EBITDA increased by 31% to $45.3 million (2014: $34.7 million); as a percentage of revenues it increased to 13.6% (2014: 11.8%).

Adjusted EBIT increased by 24% to $30.6 million (2014: $24.7 million); as a percentage of revenues it increased to 9.2% (2014: 8.4%).

These improvements reflects the operational leverage that the Group has now obtained.

Adjusted profit before tax increased by 18.4% to $27.7 million (2014: $23.4 million) and reported profit before tax increased by 14.1% to $15.9 million (2014: $ 13.9 million).

The adjusted figures exclude a share based payment charge of $6.3 million (2014; $4.0 million), a non-recurring expense of $1.3 million (2014: $0.9 million) and amortisation of intangible acquired of $4.1 million (2014: $4.5 million).

The Group income tax rate increased slightly from 10.2% in 2014 to 11% in 2015.

Adjusted basic earnings per share increased by 18% to 21.7 cents (2014: 18.4 cents) and reported diluted earnings per share was 11.8 cents (2014: 10.2 cents).

The Board is not recommending a dividend for the period (2014: nil).

Balance sheet

Internally generated development assets, net as of 31 December 2015 increased by $14.5 million to $54.2 million (2014: $39.7 million). The split is as follows:

	2015 $m	%	2014 $m	%
Assets in development process (not amortised yet)	29.9	55	29.8	75
Assets after development process (started to be amortized)	24.3	45	9.9	25
Total	54.2	100	39.7	100

Internally generated development assets that completed the development phase, moved to mass production phase and started the 3 to 5 years of amortization period increased to 45% of the total internally generated development assets (2014: 25% only).

The net assets that are in development phase, before starting the amortization phase, are mainly automotive products, 4G products and the Platform as a Service.

Total equity grew from $97.8 million as of 31 December 2014 to $110.2 million as of 31 December 2015. This increase is mainly due to growth in profits.

In October 2015, following approval by the High Court of Justice in England and Wales, Telit cancelled substantially all of its share premium account ($92 million) and subsequently increased the retained earnings by this amount.

The Group repurchased 409,400 ordinary shares for a consideration of $1.3 million during the year.

Cash
As of 31 December 2015, the Group held net cash of $1.1 million (2014: net debt of $3.9 million).

The operating cash flow before movement in working capital items increased by 30% to $44.3 million (2014: $34.1 million).

Operational review

Acquisition
In February 2016 Telit acquired Bluetooth Smart, otherwise known as Bluetooth Low Energy ("BLE"), assets from Stollmann Entwicklungs und Vertriebs Gmbh ("Stollmann"), a developer and marketer of low power hardware products and software solutions for wireless communications for a cash consideration of €3.6 million, before adjustments.

The acquired assets include Stollmann's Bluetooth IP, NFC and other wireless communications IP. Thirty-five Stollmann employees, mainly R&D engineers, were transferred to Telit.

The acquisition will materially enhance Telit's short-range low-power Bluetooth product offering and is another step in the Group's strategy to provide a comprehensive solution to connect edge devices, such as sensors, to the Telit IoT enablement platform.

MarketsandMarkets estimates the global BLE and "Smart-Ready" market will be worth $5.6 billion by 2020. BLE shipments are expected to surpass 1.2 billion units in five years, up from just 49 million units in 2013.

Products
Technological innovation is Telit’s core capability. The Group’s nine R&D centres provide a comprehensive portfolio of quality modules ranging from cellular to short-range RF and location technologies. Our modules are currently integrated in a wide range of applications, including asset tracking, remote industrial monitoring, automated utility meter reading, insurance telematics, consumer electronics, mobile health devices and many more.

In the industrial IoT products division, the Group markets to numerous verticals including asset tracking, health care, security, telematics, point of sale, wearables, telemetry, industry and energy and smart metering. These verticals are set to grow significantly during the next few years, with substantial projects already in advanced stages around the world such as SMIP in the UK with energy and smart metering.

To cater to all these verticals, the Group continuously develops a wide range of LTE products, from the high-end categories down to the Cat-1, with a roadmap to launch Cat-M and narrow-band IoT.

In addition, we continued the development of multi-constellation GNSS (GPS, GLO, GAL and BDS) and Dead Reckoning (DR) enabled modules, which dramatically improve navigation performance. New GNSS variants were released with improved performance, integrated LNA and DC blocking capacitor.

Vehicles equipped with location receivers and cellular connectivity have now become mainstream and Telit is an established key supplier in this area. The Group has six dedicated automotive sales offices in Detroit, Munich, Hamburg, Shanghai, Seoul and Tokyo with access to car makers and the relevant tier one suppliers.

Telit continued its investments in its ATOP product line, a product line of automotive connectivity modules that offer embedded security features and processing power. In 2015 we delivered the ATOP 2.5G and ATOP 3.5G products to several Tier1 customers.

IoT Services
Telit has continued to expand its IoT services offering and premium managed connectivity as well as a range of complementary value added services.

- The Group developed and launched its IoT Portal. This tool is designed to enable customers to manage Telit's products and services through a single portal that makes IoT deployments easier, cuts the time to market and saves money.

  The IoT Portal provides customers with access to data management, including collection, storage and big data export, connectivity management, it facilitates interaction with mobile network operators, dash boarding tools, security and administration.

- We continued to invest and develop the IoT connectivity business, which provides Telit with a recurring revenue stream in addition to the revenues from its established module business. The IoT connectivity offering covers all customer connectivity needs, including subscription management, integration of several MNO's through the IoT portal CDP pro, remote module management, security, reporting and monitoring, supply of SIM cards, rate plans and customer support.

- As part of the IoT Platforms business and the Industry 4.0 trend, the Group launched deviceWISE for Factory, an enterprise-grade industrial automation platform designed to easily connect complex, disparate production equipment from different suppliers with different protocols and interfaces to enterprise systems and applications without custom programming.

  The scalable architecture is configurable to any manufacturing environment in any industry by leveraging a vast library of built-in standardised device drivers and enterprise connectors. deviceWISE is perfectly suited to all manufacturing verticals including automotive, pharmaceuticals, machinery, oil and gas, electrical power generation, water and more.

- Telit's secureWISE solution has been widely recognised as the leading solution for highly secured remote access. Connecting more FABs and OEMs than any other platform in the industry, secureWISE delivers secure, configurable end-to-end remote connectivity across private networks, providing OEMs role-based, real-time and on-demand access to their equipment installed at production facilities around the globe.

The Internet of Things (IoT) market opportunity

IoT has the power to completely transform businesses and industries, enhance the way in which they gather, analyse and distribute data and in turn, convert that data into productivity gains.

The ABI Research report, "M2M and IoT Embedded Modules - 2015", predicts that the demand for cellular IoT modules will grow significantly over the coming years. ABI predicts that the number of units in all cellular technologies to be shipped globally will reach 208 million by 2020, representing a 2015-20 CAGR of 23%.
The report, which was published in June 2015, projects an average selling price decline for the period 2015-20 of 5% CAGR for 2G modules, 5% CAGR for WCDMA/HSPA (3G), 9% for LTE multi-mode (4G) and 14% for LTE single-mode (4G), this trend of declining prices is fuelling the growth of the industry.

Considering the product mix forecast by ABI, the market will grow in monetary value at a CAGR of 22% from 2015 to 2020, with total revenues from cellular module sales reaching $4.1 billion in 2020.

In IoT services for connectivity and platforms, growth is estimated to be even more robust. According to IoT expert analyst firm Berg Insight in its Global M2m/IoT Communications Market, M2M Research Series 2015 report published in December 2015, until 2020, the number of cellular IoT subscribers is expected to grow at a CAGR of 22.9%, reaching 744.2 million at the end of the period. During the same period, cellular IoT cellular connectivity revenues grow at a CAGR of 23.3% from €8.0 billion ($9 billion) in 2015 to approximately €22.8 billion ($25.5 billion) in 2020. Meanwhile the monthly ARPU is expected to remain stable at around $2.80.

In its IoT Platforms and Software, M2M Research Series 2015 report, Berg Insight estimates that total revenues from IoT platform third-party services (excludes in-house solutions) will grow at a CAGR of 32.2% from $580 million in 2014 to $3 billion in 2020.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015 Audited $'000	2014 Audited $'000
Revenue	333,493	294,004
Cost of sales	(200,433)	(177,734)
Gross profit	133,060	116,270
Research and development expenses	(32,768)	(26,986)
Selling and marketing expenses	(55,508)	(50,393)
General and administrative expenses	(26,582)	(26,529)
Other operating income	593	2,855
Operating profit	18,795	15,217
Finance costs, net	(2,922)	(1,309)
Profit before income taxes	15,873	13,908
Tax expenses	(1,757)	(1,421)
Profit for the year from continuing operations	14,116	12,487
Loss for the year from discontinued operations	-	(540)
Net profit for the year	14,116	11,947
Other comprehensive income		
Foreign currency translation differences	(7,002)	(9,381)
Total comprehensive income for the year	7,114	2,566
Profit attributable to:		
Owners of the Company	14,116	11,954
Non-controlling interests	-	(7)
Profit for the year	14,116	11,947
Total comprehensive income attributable to:		
Owners of the Company	7,114	2,567
Non-controlling interests	-	(1)
Total comprehensive income for the year	7,114	2,566
Basic profit per share (in USD cents)	12.3	10.6
Diluted profit per share (in USD cents)	11.8	10.2
Adjusted basic profit per share[1] (in USD cents)	21.7	18.4
Adjusted diluted profit per share[2] (in USD cents)	20.9	17.7
Basic weighted average number of equity shares	114,809,803	112,427,822
Diluted weighted average number of equity shares	119,192,610	117,111,456

1 Adjusted basic profit per share is defined as adjusted profit for the year divided by basis weighted average number of equity shares.

2 Adjusted diluted profit per share is defined as adjusted profit for the year divided by diluted weighted average number of equity shares.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2015 Audited $'000	2014 Audited $'000
ASSETS		
Non-current assets		
Intangible assets	81,877	72,576
Property, plant and equipment	21,792	20,113
Other long term assets	2,198	851
Deferred tax asset	5,907	4,658
	111,774	98,198
Current assets		
Inventories	20,080	21,506
Trade receivables	72,157	63,967
Other current assets	13,040	15,306
Deposits - restricted cash	75	845
Cash and cash equivalents	29,844	25,399
	135,196	127,023
Total assets	246,970	225,221
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	1,969	1,942
Share premium account	24	90,533
Merger reserve	-	1,235
Other reserve	(2,727)	(2,727)
Treasury stock fund	(1,323)	-
Translation reserve	(20,256)	(13,254)
Retained earnings	132,494	20,048
Total equity	110,181	97,777
Non-current liabilities		
Other loans	23,812	17,612
Post-employment benefits	4,737	4,537
Deferred tax liabilities	262	10
Provisions	3,894	2,626
Other long-term liabilities	39	23
	32,744	24,808
Current liabilities		
Short-term borrowings from banks and other lenders	4,968	12,497
Trade payables	77,627	70,463
Provisions	585	1,446
Accruals and other current liabilities	20,865	18,230
	104,045	102,636
Total equity and liabilities	246,970	225,221

CONSOLIDATED STATEMENT OF CASH FLOW

	2015 Audited $'000	2014 Audited $'000
CASH FLOWS - OPERATING ACTIVITIES		
Profit for the period from continued operations	14,116	12,487
Adjustments for:		
Depreciation of property, plant and equipment	5,306	4,092
Amortization of intangible assets	13,532	10,396
Gain on sale of property, plant and equipment	(227)	(99)
Change in fair value of earn-out	-	(301)
Increase in provisions for post-employment benefits	567	791
Finance costs, net	2,922	1,309
Tax expenses	1,757	1,421
Share-based payment charge	6,349	4,011
Operating cash flows before movements in working capital:	44,322	34,107
Increase in trade receivables	(12,486)	(6,237)
Increase in other current assets	(1,556)	(1,196)
Decrease / (increase) / in inventory	11	(869)
Increase in trade payables	13,231	23,073
Increase / (decrease) in other current liabilities	1,231	(262)
Increase in provisions and other long term liabilities	1,472	394
Cash from operations	46,225	49,010
Income tax paid	(3,047)	(980)
Interest received	12	135
Interest paid	(1,978)	(1,941)
Net cash from operating activities from continued operations	**41,212**	**46,224**
Loss for the period from discontinued operations	**-**	**(540)**
Increase in provisions	**-**	**540**
Net cash from operating activities from discontinued operation	**-**	**-**
CASH FLOWS - INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(8,823)	(9,611)
Acquisition of intangible assets	(1,397)	(2,651)
Proceeds from disposal of property, plant and equipment	677	362
Capitalized development expenditures	(26,106)	(26,071)
Acquisition of business, net of cash acquired	(352)	(2,100)
Decrease / (increase) in restricted cash deposits	657	(700)
Net cash used in investing activities	**(35,344)**	**(40,771)**

CONSOLIDATED STATEMENT OF CASH FLOW

	2015 Audited $'000	2014 Audited $'000
CASH FLOWS - FINANCING ACTIVITIES		
Proceeds from exercise of share options	264	3,119
Acquisition of non-controlling interest	-	(100)
Purchase of own shares	(1,323)	-
Short-term credit from banks	(4,949)	1,647
Proceeds from other loans	11,562	-
Repayment of other loans	(2,337)	(2,924)
Net cash from financing activities	**3,217**	**1,742**
Increase in cash and cash equivalents	9,085	7,195
Cash and cash equivalents at beginning of year	25,399	23,886
Effect of exchange rate differences	(4,640)	(5,682)
Cash and cash equivalents at end of year	**29,844**	**25,399**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015 (audited)

	Share capital	Share premium	Merger reserve	Other reserve	Treasury stock fund	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,942	90,533	1,235	(2,727)	-	(13,254)	20,048	97,777
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	14,116	14,116
Foreign currency translation differences	-	-	-	-	-	(7,002)	-	(7,002)
Total comprehensive income for the period	-	-	-	-	-	(7,002)	14,116	7,114
Transaction with owners:								
Exercise of options	27	237	-	-	-	-	-	264
Reduction of share premium and merger reserve	-	(90,746)	(1,235)	-	-	-	91,981	-
Repurchase of shares	-	-	-	-	(1,323)	-	-	(1,323)
Share based payment charge	-	-	-	-	-	-	6,349	6,349
Total transactions with owners	27	(90,509)	(1,235)	-	(1,323)	-	98,330	5,290
Balance at 31 December 2015	**1,969**	**24**	**-**	**(2,727)**	**(1,323)**	**(20,256)**	**132,494**	**110,181**

Year ended 31 December 2014 (audited)

	Share capital	Share premium	Merger reserve	Other reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2014	1,791	78,678	1,235	(2,993)	(3,867)	4,181	79,025	367	79,392
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	11,954	11,954	(7)	11,947
Foreign currency translation differences	-	-	-	-	(9,387)	-	(9,387)	6	(9,381)
Total comprehensive income for the period	-	-	-	-	(9,387)	11,954	2,567	(1)	2,566
Transaction with owners:									
Issue of shares	38	8,849	-	-	-	-	8,887	-	8,887
Exercise of options	113	3,006	-	-	-	-	3,119	-	3,119
Purchase of minority interest	-	-	-	266	-	-	266	(366)	(100)
Share based payment charge	-	-	-	-	-	3,913	3,913	-	3,913
Total transactions with owners	151	11,855	-	266	-	3,913	16,185	(366)	15,819
Balance at 31 December 2014	**1,942**	**90,533**	**1,235**	**(2,727)**	**(13,254)**	**20,048**	**97,777**	**-**	**97,777**

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1. This financial information is consistent with the consolidated financial statements of the group, for the year ended 31 December, 2015. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

2. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014. Statutory accounts for 2015 will be delivered to the Registrar of Companies. The auditors have reported on the 2015 and 2014 statutory accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498 (2) or 498 (3) of the Companies Act 2006.

3. The Group meets its day to day working capital requirements through overdraft facilities and invoice advance facilities. Some of these facilities are cancellable on demand or have renewal dates within one year of the date of approval of the financial statements. In addition, the Group has received a long-term preferential rate loan supported by the Ministry of Trade and Commerce in Italy. Further information is provided within note 5.

   The management considers the uncertainty over (a) the level of demand for the Group's products which may also affect the possibility of utilizing some of these facilities since they depend upon the level of sales in specific markets and in some instances to specific customers; (b) the exchange rate between Euro and US dollar and thus the consequence for the cost of the Group's raw materials; (c) the availability of bank finance in the foreseeable future; (d) the continuity of supply from key suppliers; and (e) the forecasts in current market environments.

   The Group's forecasts and projections taking into account the Group's history of successfully renewing its facilities in the past and the fact that there are actions available to the Group to address these risks, show that the Group should be able to operate within the level of its current facilities. The Group maintains constant negotiations with its banks for renewing and increasing the credit facilities to meet the required working capital for the Group's future growth. After making enquiries, the directors are confident that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

4. Reconciliation of operating profit, profit before tax and net profit to the adjusted figures:

	2015	2014
	$ '000	**$ '000**
Operating profit	**18,795**	**15,217**
Share-based payments	6,349	4,011
Non-recurring expenses	1,351	941
Amortization intangibles acquired	4,122	4,518
Adjusted EBIT	**30,617**	**24,687**
Depreciation & amortization	14,716	9,970
Adjusted EBITDA	**45,333**	**34,657**

	2015	2014
	$ '000	**$ '000**
Profit before tax	**15,873**	**13,908**
Share-based payments	6,349	4,011
Non-recurring expenses	1,351	941
Amortization of intangibles acquired	4,122	4,518
Adjusted profit before tax	**27,695**	**23,378**

	2015	2014
	$ '000	**$ '000**
Net profit for the year	**14,116**	**11,947**
Loss attributable to non-controlling interest	-	(7)
Profit attributable to the owners of the Company	**14,116**	**11,954**
Share-based payments	6,349	4,011
Non-recurring expenses	1,351	941
Amortization of intangibles acquired	4,122	4,518
Change in deferred tax asset, net	(997)	(715)
Adjusted net profit for the year	**24,941**	**20,709**

5. Research and development expenses, net, were:

	2015	2014
	$'000	$'000
Research and development operating expenses	51,216	48,793
Capitalized development expenses	(26,106)	(26,071)
Amortization of internally generated development costs	7,658	4,264
Research and development expenses, net	**32,768**	**26,986**

6. Net cash / (debt) position

The table below presents the net cash / (debt) position at the year-end:

	2015	2014
	$ '000	$ '000
Cash and cash equivalents	29,844	25,399
Restricted cash deposits	75	845
Working capital borrowing (1)	(2,663)	(9,949)
Long term loans (2)	(4,899)	(5,372)
Governmental loans (3)	(18,234)	(11,183)
Mortgage loan (4)	(2,984)	(3,605)
Net Cash / (debt)	**1,139**	**(3,865)**

(1) Short term borrowings, less than one year, arising from invoice advances used for working capital.

(2) Representing long term loans from banks in Italy- (i) for $6.2 million with interest at a rate of Euribor 3 months plus 3.25% and is being repaid in 20 quarterly instalments that commenced in September 2013, and (ii) $1.3 million and $1.1 million with an interest rate of Euribor 6 months plus + 5.5% and is repayable in 6 semi-annual instalments that will commence in December 2020.

(3) Representing preferential long term loans (i) for $7.7 million and $8.3 million with fixed-rate of 0.5% and is repayable in 14 semi-annual instalments that will commence in December 2016, supported by the Italian MISE (Ministry of Economic Development) to develop an innovative platform for the application of M2M technologies and, (ii) for $6.1 million with a fixed-rate of 0.75% and is repayable in 10 annual instalments that commenced in March 2009, supported by the Ministry of Trade and Commerce in Italy, provided in connection with the Group's business development program in Sardinia.

(4) Representing a preferential rate loan from a regional fund in Italy provided in connection with the Group's acquisition of the campus used for the Company's main R&D facility in Trieste, Italy. The mortgage loan is denominated in Euro, attracts interest at a rate of Euribor 6 months less 20% and is repayable in 15 semi-annual instalments that commenced in June 2012.

The directors believe, based on the past performance of the relevant subsidiaries and the history of the relationships with the lending banks, that the credit facilities will remain available to the Group in the foreseeable future and that therefore the Group will be able to continue to fund its operations from these credit facilities.