Telit Communications PLC

IoT Services business revenues increase 36.5% as multinational enterprises embrace end-to-end IoT solutions

London, 13 March 2017 – Telit Communications PLC (AIM: TCM, "Telit", the "Group"), a global enabler of the Internet of Things (IoT), has published its results for the year to 31 December 2016 today.

Financial highlights*

- Revenues up 11.0% to $370.3 million (2015: $333.5 million)
  - IoT services revenues up 36.5% to $35.1 million (2015: $25.7 million); as the Group increasingly focuses on IoT services, business segmental analysis disclosure is now provided
- Gross Profit increased by 13.2% to $150.6 million (2015: $133.1 million)
- Gross margin increased to 40.66% (2015: 39.9%)
- Adjusted EBITDA up 19.9% to $54.4 million (2015: $45.3 million)
- Adjusted EBIT increased 11.8% to $34.2 million (2015: $30.6 million)
- Profit before tax increased 20.3% to $19.1 million (2015: $15.9 million)
- Adjusted EPS up 21.7% to 26.4 cents (2015: 21.7 cents), basic EPS up 17.1% to 14.4 cents (2015: 12.3 cents);
- Net cash flow generated from operating activities up 15.6% to $47.6 million (2015: $41.2 million)
- Total dividend for the year of 7.4 cents per share, up 23.3% (2015: 6 cents per share).
- Net debt $17.7 million (30 June 2016: net debt $29.1 million; 31 December 2015: net cash $1.1 million) after $15.4 million for acquisitions and $9.8 million for dividends.

Operational highlights

- Americas region returned to strong growth in H2, as anticipated, following the certifications from AT&T and Verizon for LTE Cat-1 and Cat-4 products.
- High double digit growth in the IoT Services business, considered by the Group to be its future growth engine, supported by increased investments, with resultant losses of $10.2 million.
- Two acquisitions during the period and a third in 2017 enhance product portfolio and end-to-end solution:
  - BLE assets from Stollman
  - several cellular module product lines & related IP from Novatel Wireless
  - GainSpan added, after the year end, ultra-low power Wi-Fi systems-on-chip and modules for battery- and line-powered devices; With this acquisition, Telit completes set of communications technologies for IoT market
- Partnerships with SAP® and Tech Mahindra address the growing enterprise IoT market and resell Telit's *deviceWISE* IoT platform

* For the definition of 'Adjusted' figures and reconciliation from IFRS financial results to adjusted financial results see note 4.

Oozi Cats, Group Chief Executive, commented:

"Our strong competitive positioning and global reach has enabled us to continue to achieve double-digit growth in revenue and profits with our IoT Services unit reporting a significant jump in revenue, up 36.5%. This reflects our continued investment in this unit and the increasing take up, across a range of industries, of our comprehensive IoT capabilities.

"We have now established a very strong position in the communication products market, particularly after our recent purchase of the Gainspan Wi-Fi business. We have a full scope of communications technologies in order to provide the comprehensive end to end IoT solutions that our multi-national customers require.

"The IoT market is rapidly gaining momentum across an increasing number of industrial enterprises - large and small - around the world. With our wide range partners and our unique end to end IoT solution capabilities, we are very well positioned to address the numerous opportunities."

Analyst and investor meeting and call

There is an analyst meeting at 9:30am UK time today at the offices of Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. There is also an investor call at 1:00pm UK time / 9:00am ET (NB revised UK time – see link for dial in details http://www.telit.com/uploads/media/Notice_of_full_year_results_13_March_2017_RNS_FINAL.pdf)

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Telit and the Internet of Things

Telit is a global enabler of the IoT. Collectively the IoT is the numerous technologies that allow both wireless and wired systems to communicate, exchange data with an extremely wide range of devices typically in a vast number of locations.

The Group sells its products and services directly, and through a network of distributors, to approximately 7,000 direct and indirect customers, in more than 80 countries around the world. Telit's customers are of all sizes, covering substantially all verticals in the IoT market.

With over 15 years of experience doing business around the globe, Telit has established strong channels and excellent access to key suppliers, customers and distributors in all major markets.

The Group offers the industry's broadest portfolio of integrated products and services for end-to-end IoT deployments. This includes cellular communication modules, GNSS, short-to-long range wireless modules, low power WI-Fi and Bluetooth, IoT connectivity and IoT platform services. Combining these unmatched IoT expertise and developer resources enables end-to-end IoT solutions across markets and industries around the world.

Working with our extensive ecosystem of blue chip companies, technology partners, system integrators, maker communities and mobile network operators, we enable companies, with IoT concept ideas, system architecture, prototype development and commercial deployments. Our customers see material returns on investment from IoT deployments through efficiencies on cost and increase in through-put was as well as other areas such as improved compliance.

At the end of 2016 the Group employed 972 people worldwide, an increase of 10.1% over 2015 (2015: 883). The acquisition of GainSpan Corporation in February 2017 increased this number to approximately 1,070.

Overview

Telit's strong competitive positioning and global reach has enabled it to continue to achieve double-digit growth during the year.

The focus in 2016 was on the continued investment in the IoT Services business unit, which Telit considers to be the future growth engine of the Group. The Group has seen good growth in its Services business, with revenues up 36.5%.

As expected, this business unit recorded an operating loss of $10.2 million in 2016 (2015: loss $8.2 million), which is the result of the continued heavy investment in this growing business (see segmental analysis).

The Group's IoT Products business unit increased its operating profit to $55.4 million in 2016 (2015: $49.4 million), while improving the gross margin to 38.3% (2015: 37.3%). In 2016, Telit sold over 22.0 million modules (2015: 17.9 million).

The Group continued to invest heavily also in its modules product line, focusing on LTE products, both low category products (Cat-1, NB-IoT and Cat-M) and high category products for the automotive business line.

As LTE technology is expected to be viable for many years to come, Telit expects to see good returns from these investments in the coming years and believes LTE deployments will continue to increase.

Another area of focus was the portfolio of short range connectivity technology products, mainly low power Bluetooth. The recent acquisition, post year end, of GainSpan is a notable development as it will allow the Group to enhance its short-range portfolio with low power Wi-Fi products, an increasingly important component in IoT connectivity.

deviceWISE for Factory continues to grow and has established itself as a leader for data exchange within and outside of the factory. Outside of the factory's four walls, Telit's deviceWISE cloud provides remote data collection and seamlessly integrates into the factory products.

In addition, the IoT platform, secureWISE, has been widely recognised as the leading solution for highly secured remote access. With over 98% acceptance in 300mm FABs, more OEMs are using secureWISE for secure, configurable end-to-end remote connectivity across private networks than any other platform.

During the year, the automotive business achieved a number of design wins with Car OEMs and tier-1 companies including one major tier-1 supporting a premium car OEM in Korea, for worldwide markets; three tier 1s in China, supporting five different local and international brand OEMs and an Emerging North America car OEM.

All these projects involve LTE products and will begin production in 2018 onwards. The significant number of Telit's design wins helps underpin the growth of business during the next five years.

With the addition of Wi-Fi products through the recent acquisition of GainSpan, the combination of products and services needed to deliver IoT capabilities for global enterprises is now in place. Major corporations around the world are poised to exploit this new development to drive down their cost base, improve efficiencies and create new revenue streams.

With the Group's market leading position in modules as well as its connectivity, connectivity management and Platform as a Service, Telit is well positioned to exploit these market developments.

Due to the Stollmann acquisition in February 2016 and the structuring of a global end-to-end solution sales team that started in late 2015, the 2016 operating expenses as a percentage of revenues were flat or marginally above 2015 numbers. As stated previously, the Group expects that gross R&D, sales and marketing and G&A expenses will decline as percentage of revenues in the next few years.

Strategy

The Group's strategy in recent years has been to focus increasingly on the development of its IoT services and end-to-end IoT solutions capabilities in order to leverage its best-in-class product portfolio. This has been accompanied by continued heavy investments in new product development, on the operational infrastructure and the acquisition of several businesses to widen and enhance the Group's product and services capabilities, as well as geographical coverage.

The rapidly growing IoT Services business unit is increasing Telit's recurring revenues.

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.

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

Outlook

The outlook for the IoT sector overall, including all industrial sectors, continues to be very encouraging.

Telit's acquisitions over the past few years have materially enhanced its cloud platform capabilities, which is a key factor in delivering one of its strategies to increase recurring revenues from the IoT Services business unit.

Telit will continue to make selective acquisitions to enhance its products and services capabilities.

With the Group's market leading position in modules, its wide range of industry partners and its comprehensive range of IoT services and connectivity technologies, Telit is well positioned to exploit the numerous opportunities developing around the world in growing markets.

The Board is confident of increasing its recurring revenues and maintaining Telit's double-digit revenue growth in the current financial year.

Operational review

Telit's end-to-end capabilities

Today's competitive markets demand creative and innovative solutions to stay ahead in business. The new digital led paradigm of a data-driven-economy or data-driven-innovation is still in its early days yet its impact is already being felt broadly.

The underlying assumption is that it is possible and increasingly affordable to collect the right information, process it into actionable knowledge, transmit that knowledge to the right person, and act on it. In doing so, this allows us to solve an increasing number of problems, including many that we had never thought of.

Cheap sensors and transmission capacity are used to generate enormous amounts of fresh data, which can then be fed into a system capable of analysing and acting on it to solve existing problems.

Telit's business is at the forefront of this new industrial revolution, Industry 4.0 - providing the key ingredients critical to fulfil the need for real time data from the physical world. These include:

- Industry's broadest portfolio of connected modules that allow for sensors to be connected using the best available and most suitable RF technology (Cellular - GSM/GPRS, CDMA/EV-DO, UMTS/HSPA+, LTE, Wi-Fi, as well as unlicensed spectrum offerings such as BLE) for the application being developed. These provide cost performance and a modular form factor preserving the investment in application development and a significant reduction in time-to-market.
- Dedicated IoT Connectivity services. These allow scaling and global deployments of customers' IoT solutions with a single point of contact. They deliver the ease of a single bill and dedicated IoT support services at competitive rates without the need for in-house know-how and mapping and contracting separately with multiple global Mobile Network Operators.
- Telit IoT Platforms. Companies can create value by using data to solve problems. The challenge is that the data needed to solve a problem has often been difficult or expensive to collect or needs to be enriched with other related data.

  Telit's deviceWISE IoT platform is an industrial grade carrier class Application Enablement Platform, or AEP, suite of software that allows for the creation and management of IoT Applications. From standalone applications such as metering and asset tracking to full factory automation - where deviceWISE handles entire production floors and provides full process automation with embedded logging and reporting.

Telit's core business of hardware and service is aligned with the industry's compelling need for driving data from sensor to applications. Cloud computing has increased the power of the information system.

The ability to lease cheap storage and processing power has two important economic impacts. First, it transforms a large fixed cost into a variable cost on an easily scalable, as-needed basis. Second, even the smallest companies now have access to the fastest servers and most sophisticated processing power at affordable rates.

Telit's IoT Platform leverages these benefits for IoT and makes it easier for all companies to enter new and existing markets benefiting from data sourced from IoT Sensors.

IoT Products

Technological innovation and enabling the Group's customers to easily integrate its state-of-the art products and benefit from them is Telit's core capability. The Group's R&D centres provide a comprehensive portfolio of quality modules ranging from cellular to short-range, Low Power Wide Area (LPWA) and location technologies.

The Group's 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 business unit, 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 continue to grow significantly during the next few years, with substantial projects already in advanced stages around the world.

To cater to all these verticals, the Group continuously develops a wide range of cellular LTE products, from the high-end Cat-11 for automotive, routers and gateways down to Cat-1 for industrial verticals.

With the standardization of the new IoT centric LTE technologies, the Group is also developing a wide range of Cat-M1 and NB-IoT modules. It is in the front line with MNOs, test equipment manufacturers and silicon vendors, to accelerate the technology commercialisation and enable the Group's customers to be the first to exploit its benefits.

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

Furthermore, the Group has made significant progress in extending its portfolio of short range and LPWA modules based on BT/BLE, Wi-Fi, and other technologies in a wide range of configurations tailored to the unique requirements of different verticals.

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 their relevant tier one suppliers.

Telit continued its investments in expanding its automotive portfolio, In particular its ATOP product line of automotive connectivity modules that offer embedded security features and processing power, as well as LTE Cat-4 and Cat-6 modules. These were delivered in 2016 to several Tier1 customers.

Telit modules embed a connection to Telit's IoT platform, and together with the connectivity portfolio enable its customers with complete end-to-end sensor-to-cloud IoT solutions.

IoT Services

Telit continues to focus on enhancing and expanding its IoT services offering and premium managed connectivity as well as a range of complementary value added services and AEPs (the Telit IoT platform).

The Group's IoT Portal is designed to enable customers to manage their IoT deployments through a single portal that makes IoT deployments easier and efficient and cuts the time to market.

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

The Group continued to invest and develop the IoT connectivity business, which provides it with a recurring revenue stream. The IoT connectivity offering covers all customer connectivity needs, including subscription management, integration of several MNOs through the IoT portal CDP pro, remote module management, security, reporting and monitoring, supply of SIM cards, rate plans and customer support.

Telit IoT platform connects 'things' to 'apps'. It seamlessly integrates any devices, production assets and remote sensors with web-based and mobile apps and enterprise systems. deviceWISE reduces risk, time-to-market, complexity and cost of deploying solutions for monitoring and control, industrial automation, asset tracking and field service operations across all industries and market segments around the world.

The IoT factory solutions business unit, through deviceWISE enterprise software for factory and the Industrial Internet of Things (IIoT) is designed to easily connect production machines and processes with enterprise resource planning (ERP) and manufacturing resource planning (MRP) systems and SCADA applications.

deviceWISE supports all popular PLCs from Siemens, Mitsubishi, Rockwell, Omron and most widely used production equipment, and is compatible with virtually any database, message queuing and application server system available, including IBM, SAP, ORACLE and Microsoft.

Acquisitions

- In February 2016 Telit acquired BLE assets from Stollmann, a developer and marketer of low power hardware products and software solutions for wireless communications for a cash consideration of $4.6 million.

  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 materially enhances 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.

- In April 2016 Telit acquired several cellular module product lines, related IP and inventory from Novatel, for a cash consideration of $11 million.

  As part of this acquisition, the Group acquired specific IP and was granted an exclusive license to other Novatel IP related to the acquired cellular module lines, including subsequent versions currently in development.

  This acquisition forms an important part of the Group's strategy to enhance its product offering in the security market segment.

- After the year-end, in February 2017 Telit acquired GainSpan, for a cash consideration of $8 million (subject to certain working capital adjustments). GainSpan designs, develops, manufactures and commercialises ultra-low power Wi-Fi systems-on-chip and modules for battery- and line-powered devices, and it also owns the intellectual property in network stacks, system and application software it has developed.

  The acquisition augments Telit's existing portfolio of IoT products and services and positions the Group to deliver on its "Sensor to Cloud" vision.

  It is widely projected that the overall IoT market will continue on a rapid growth trajectory, with a steady expansion of cellular-based IoT solutions. However, much more rapid and significant growth is expected to come from Short Range based solutions.

  The acquisition of GainSpan positions Telit to capitalise on these new Short Range opportunities and the ubiquity of Wi-Fi by increasing sales to existing customer base and capturing customers in many new segments.

Telit's expanded Short Range capabilities - combined with the Group's leading cellular and location modules, connectivity and platform services - deliver unmatched end-to-end IoT solutions that range from telematics and security to building management, healthcare, smart home and cities, and many other emerging IoT markets and segments around the world.

GainSpan's employees, mostly R&D and support, are being integrated into Telit's short range business unit - 60 of which are in the R&D Centre in Bangalore, India and the rest in San Jose, California.

GainSpan is expected to have a negative impact on the adjusted EBITDA by some $4 million in 2017. However, after fully integrating the business, Telit expects this important asset to make a positive contribution in 2018 and to make both a material financial and operational contribution in the longer term.

Market position and competitive advantage

With extensive R&D experience, gained through hundreds of engineering staff-years, Telit has developed several differentiators. Telit's market position and competitive advantage are based on several factors, including:

- Flexibility**:** it offers customers cross-technology products and services to take a stand-alone device and connect it to the IoT and to business Apps. Customers have the flexibility of sourcing any single or combination of these services and products.

  Telit modules are all designed in a family concept: all modules in a family have the same form factor and software compatibility, but offer different functionality to meet the requirements of different vertical application segments and regional configuration.

  The advantage for users is substantial: all modules in a family are interchangeable. Above all, customers can easily replace the modules with successive products without changing the application. This reduces effort, time and costs associated with development.

- Scalability**:** its portfolio of products and services includes offerings for an extensive set of application types and different deployment scales with products and services to cover quantities from a few, to millions of units.

  Telit was the first Group to add non-cellular modules, including short-range location technologies, to its portfolio so customers will have more options to connect their application and build their IoT solutions.

- Innovation**:** Being the owner of key intellectual property enables Telit to remain on the cutting edge of innovation for solutions to connect 'things' to the IoT. Delivering GSM/GPRS, CDMA/EV-DO, UMTS/HSPA+, LTE, short range RF, Bluetooth/BLE, Wi-Fi and GNSS technologies in product families, enables customers to choose among the various technologies, selecting the best solution in the market for their application.

  Key advantages include no need for changes to the application for use of different modules in a family and embedded intellectual property to enhance module use with Telit services including the IoT connectivity and the IoT platforms.

- Focus**:** Telit is a pure play IoT business. It focuses on customer needs to connect and maximise value from assets on the IoT. The Group's R&D and M&A efforts are focused on creating the best portfolio of products and services to provide customers with the solutions necessary to effectively run and grow their businesses deriving value from deploying IoT solutions.

Financial review

2016 was the seventh consecutive year of double-digit revenue growth for Telit and improvements in all profitability parameters.

Financial results**

	2016 *$'000*	2015 *$'000*
Revenue	**370,264**	**333,493**
Gross profit	**150,560**	**133,060**
Gross margin	40.66%	39.90%
Other operating income	2,842	1,979
Research and development expenses	(38,256)	(32,768)
Selling and marketing expenses	(63,848)	(55,508)
General and administrative expenses	(29,996)	(26,582)
Other operating expenses	(780)	(1,386)
Adjusted EBITDA	**54,363**	**45,333**
Operating profit ("EBIT")	**20,522**	**18,795**
Adjusted EBIT	**34,215**	**30,617**
Profit before tax	**19,089**	**15,873**
Adjusted profit before tax	**32,782**	**27,695**
Basic profit per share (cents)	**14.4**	**12.3**
Adjusted basic profit per share (cents)	**26.4**	**21.7**

** For the definition of 'Adjusted' figures and reconciliation from IFRS financial results to adjusted financial results refer to note 4.

Revenue

Group revenue increased by 11.0% to $370.3 million (2015: $333.5 million), mainly driven by organic growth. Revenues in the second half of the year were up 15.2% to $204.1 million (H2-2015: $177.2 million), supported by the return of the Americas region to strong growth.

The IoT Services business unit generated revenues of $35.1 million (2015: $25.7 million), up 36.5%, while the IoT Products business unit generated revenues of $335.1 million (2015: $307.8 million), up 9%.

Segmental analysis

Segment performance is evaluated based on operating profit or loss.

The Group is active in three geographical regions: EMEA, APAC and the Americas. In recent years, up to and including 2015, this was the sole segmental presentation with no distinction between products and services.

The Group's activities in the IoT services business unit have significantly grown in recent years. Although operational results from this business unit still comprise less than 10% from Telit's results, the Group focuses more and more on IoT services and end-to-end IoT solutions, as the future engine of growth for the Group.

Therefore, the Group now presents its operational results in two business segments: IoT Services and IoT Products. These two business lines are active across all geographic regions.

Segmental information for each business line is presented below:

2016	**IoT Products**	**IoT services**	**Consolidated**
	$'000	**$'000**	**$'000**
Revenue			
External sales	335,132	35,132	370,264
Inter-segment sales (1)	-	-	-
Total revenue	335,132	35,132	370,264
Result			
Gross Profit	128,420	22,140	150,560
Gross Margin	38.3%	63.0%	40.66%
Segment EBIT	55,408	(10,230)	45,178
	16.5%	(29.1%)	
Unallocated expenses (2)			(24,656)
Operating profit			20,522
Finance income			2,109
Finance costs			(3,542)
Profit before income taxes			19,089
Income taxes			(2,474)
Profit for the period			16,615

2015 (4)	**IoT Products**	**IoT services**	**Consolidated**
	$'000	**$'000**	**$'000**
Revenue			
External sales	307,751	25,742	333,493
Inter-segment sales (1)	-	-	-
Total revenue	307,751	25,742	333,493
Result			
Gross Profit	114,753	18,307	133,060
Gross Margin	37.3%	71.1%	39.9%
Segment EBIT	49,353	(8,196)	41,157
	16.0%	(31.8%)	
Unallocated expenses (2)			(22,362)
Operating profit			18,795
Finance income			12
Finance costs			(2,934)
Profit before income taxes			15,873
Income taxes			(1,757)
Profit for the period			14,116

(1) There are no transactions between business unit segments.
(2) Unallocated expenses principally including general and administrative expenses such as director's compensation, salaries of certain senior executives, professional fees and other expenses which cannot be directly allocated to one of the segments.
(3) Total assets and liabilities are not disclosed as from 2015 this information is not provided by segment to the Chief Operating decision maker on a regular basis.
(4) 2015 numbers have been changed to present the new segmental information.

Geographical revenue

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

	2016 $m	% of total revenue	2015 $m	% of total revenue
Americas	149.0	40.2%	129.4	38.8%
EMEA	137.3	37.1%	133.2	40.0%
APAC	84.0	22.7%	70.9	21.2%
Total	**370.3**		**333.5**	

Americas

Revenue returned to strong growth with a 15.1% increase, to $149 million (2015: $129.4 million). The pace picked up in the second half as anticipated, with an increase of 26.5%, to $81.7 million (H2-2015: $64.6 million).

The overall market for LTE products continued to grow, with additional certifications of the Group's CAT-1 products. In addition, the US carriers have announced their plans to gradually shut down 3G and CDMA networks and to focus exclusively on LTE. This will boost migration towards new technologies, including not only new deployments but also re-farming of exiting devices.

During Q4 Telit announced its participation in the field trials with both AT&T and Verizon for their Cat M1 networks. Arrival of Cat M1 will reduce overall ASPs while expanding the market into new verticals not previously served by cellular products.

Telit is well positioned with its family concept to enable customers to migrate from 3G and CDMA designs towards LTE, either Cat 1 or Cat M1, by its pin to pin compatible products.

EMEA

EMEA revenues continue to be impacted by cellular technology stagnation, with the majority of the deployments remaining in 2G. Revenues grew marginally by 3.1% to $137.3 million (2015: $133.2 million).

The uncertainty with the MNOs moving to the new technologies in LTE, Cat 1, Cat M1 and NB-IoT, and at the same time not knowing how long they will support 2G or 3G networks, is creating a complex technology map that makes it difficult for customers to make decisions regarding investments for new deployments.

Telit has developed a full set of products supporting the new LTE technologies with fall-back to the legacy 2G and 3G networks, to allow customers to go through this uncertain period without any issue in the serviceability of their devices in the field.

The EMEA team was able to achieve significant design wins in telematics, metering and security, while maintaining its large and diversified customer base within the full EMEA region.

Telit foresees that the move to NB-IoT will make a significant impact in the adoption of IoT for new verticals and will contribute to the growth of total number of units sold in Europe towards the end of 2017 and continuing the trend in 2018.

Telit is developing new modules following its family concept and supporting this technology in all its form factors.

APAC

The trend of strong, double digit revenue growth rate, continued, with an 18.5% increase to $84.0 million (2015: $70.9 million).

The growth in the region is driven by the continuous flow of new projects going into mass production across different countries in the region, but especially in Japan where Telit has been very successful promoting its new LTE products.

Telit plans to release new LTE products for Japan and Korea during 2017, both in XE910 and XE866 form factors and it is confident that the trend will continue in adoption of its modules for new designs and deployments.

During 2016 Telit also released new LTE products for other countries in the region where it expects carriers to push and deploy new 4G technology along 2017 and 2018.

Gross margin and gross profit

Gross margin continued to improve, up from 39.55% in 2014 to 39.9% in 2015 to 40.66% in 2016, due to the Group's strong positioning in the IoT industry, further improvements in the hardware business and the increasing share of IoT services business revenues with its higher margin.

Gross profit increased by 13.2% to $150.6 million (2015: $133.1 million).

Gross profit generated by the IoT Products business unit was $128.4 million, reflecting a gross margin of 38.3% (2015: $114.8 million; 37.3%), while gross profit generated by the IoT Services business unit was $22.1 million, reflecting a gross margin of 63.0% (2015: $18.3 million; 71.1%) (see segmental analysis above).

Operating expenses

Gross research and development operating expenses (expenses before capitalisation and amortisation of internally generated development costs – see note 5) increased to $57.4 million (2015: $51.2 million). The growth in expenditure is mainly due to the acquisition of Stollmann and the acceleration in the 4G developments and new automotive projects.

As a percentage of revenues, expenses remained flat at 15.5% (2015: 15.4%).

The amount capitalised in respect to internally generated development assets was $30.8 million (2015: $26.1 million), an 8.3% of revenues (2015: 7.8%). This figure is mainly related to the development of the 4G product lines for high and low categories including the Cat-M1 and NB-IoT; the automotive products; and the IoT Services.

The amortisation of internally generated development assets increased by 51.4% to $11.6 million (2015: $7.7 million). This increase relates mainly to the release of 3G and 4G products to the market during the course of 2015 and 2016. 60% of the Capitalised assets are now being amortised (2015: 45%).

Selling and marketing expenses increased to $63.8 million (2015: $55.5 million) and represented 17.2% of revenues (2015: 16.6%). The increase is mainly due to the substantial recruitment starting at the end of 2015 for an end-to-end solutions sales force and the acquisition of Stollmann.

General and administrative expenses increased to $30.0 million (2015: $26.6 million) and remained flat as a percentage of revenues at 8.1% (2015: 8%). This increase reflect the continued expansion of the Group activities.

As stated before Telit expects that gross research and development, sales and marketing and general and administrative expenses will decline as a percentage of revenues during the next few years.

Finance costs , net

	2016 $m	2015 $m	Difference
Non-cash expenses related to effective rate interest on preferred loan	1.1	1.1	-
Interest on loans and overdrafts	1.6	0.9	0.7
Bank fees	0.8	0.5	0.3
Exchange rate differences	(1.9)	0.4	(2.3)
Interest income	(0.2)	-	(0.2)
Total	**1.4**	**2.9**	**(1.5)**

Finance cost, net was $1.4 million (2015: $2.9 million). The change was mainly due to exchange rate differences which changed from $0.4 million loss in 2015 to $1.9 million gain in 2016.

Interest expenses related to loans and overdrafts increased to $1.6 million (2015: $0.9 million) and bank fees increased to $0.8 million (2015: $0.5 million). This is due to an increased utilisation of the Group's bank facilities, mainly for acquisitions.

Profitability

Adjusted EBITDA increased by 19.9% to $54.4 million (2015: $45.3 million); as a percentage of revenues it increased to 14.7% (2015: 13.6%). These improvements reflect the operational leverage that the Group has now obtained.

Adjusted EBIT increased by 11.8% to $34.2 million (2015: $30.6 million); as a percentage of revenues it remain flat at 9.2%.

Adjusted profit before tax increased by 18.4% to $32.8 million (2015: $27.7 million) and reported profit before tax increased by 20.3% to $19.1 million (2015: $15.9 million).

The adjusted figures exclude a share based payment charge of $8.1 million (2015; $6.3 million), a non-recurring expense of $0.7 million (2015: $1.3 million) and amortisation of intangible acquired assets of $4.9 million (2015: $4.1 million).

Profit for the year increased by 17.7% to $16.6 million (2015: $14.1 million).

Adjusted basic earnings per share increased by 21.7% to 26.4 cents (2015: 21.7 cents). Basic earnings per share increased 17.1% to 14.4 cents (2015: 12.3 cents) and reported diluted earnings per share increased 18.6% to 14.0 cents (2015: 11.8 cents).

Dividend

On May 27, 2016, the Group paid its first ever dividend, for the financial year ended 31 December 2015, of 6 cents per share. This dividend represented 28% of the 2015 Adjusted earnings per share.

On September 23, 2016, the Group paid an interim dividend of 2.5 cents per share. This represented approximately 1/3 of the expected dividend for the year, based on the directors' expectations (as reflected in the full year guidance) for adjusted earnings per share of 24-30 cents.

The Board recommends a final dividend of 4.9 cents per share, giving a total dividend for 2016 of 7.4 cents per share, up 23.3% (2015: 6 cents per share).

Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 5 May 2017 to shareholders on the register as at 7 April 2017, with a corresponding ex-Dividend date of 6 April 2017.

The default payment for dividends is in US dollars. However, shareholders can elect to have dividends paid in sterling (GBP) and the option to elect a sterling dividend payment will be available to shareholders until 7 April 2017 (the "Election Date"). The pounds sterling equivalent dividend payment will be announced as soon as practicable following the Election Date.

Further details together with a copy of the Dividend Currency Election Form, which should be sent to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU when completed, will be available on the Group's website shortly at www.telit.com/investor-relations/financial-statements. CREST shareholders must elect via CREST.

Cash/debt

As at 31 December 2016, net debt was $17.7 million (June 30, 2016: $29.1 million; 2015: net cash of $1.1 million). The change from 31 December 2015 is due, mainly, to $15.4 million used by the Group for acquisitions and the payment of dividends in the amount of $9.8 million.

Operating cash flow increased by 15.6% to $47.6 million (2015: $41.2 million).

Committed Credit Facilities - In October 2016 the Group entered into committed credit facilities with HSBC Bank plc and certain of its affiliates ("HSBC") and Bank Hapoalim B.M. ("BHI USA") for an aggregate amount of $110 million (the "Facilities"). The Facilities replace the Group's existing non-committed credit lines, which amounted to about $70 million.

The Facilities consist of a committed five-year term credit facility for $40 million and a committed three-year term revolving credit facility for $35 million, in total $75 million with HSBC, and a committed three-year term revolving credit facility with BHI USA for $35 million.

The Facilities provide the Group with additional financial resources as it continues to strengthen its position in the rapidly developing and growing IoT market.

Balance sheet

Internally generated development assets, net

As at 31 December 2016 increased by $15.6 million to $69.8 million (2015: $54.2 million). The split of the net assets by technology is as follows:

Technology	Internally generated development assets, net as at 31 December 2016		Internally generated development assets, net as at 31 December 2015		Change year over year	
	$m	%	$m	%	$m	
IoT Services	**11.1**	**16%**	**7.1**	**13%**	**4.0**	
4G	36.4	52%	22.1	41%	14.3	
3.5G	6.9	10%	6.7	12%	0.2	
3G	6.5	9%	9.4	17%	(2.9)	
GNSS & SR	6.0	9%	4.8	9%	1.2	
Other IoT Products (2G & CDMA)	2.9	4%	4.1	8%	(1.2)	
IoT Products	**58.7**	**84%**	**47.1**	**87%**	**11.6**	
31 December	**69.8**		**54.2**		**15.6**	

Internally generated development assets that completed the development phase, moved to mass production phase and which have started to be amortised, increased to 60% of the total internally generated development assets (2015: 45%). The period of amortisation is 3 to 5 years.

The net assets that are in development phase, before starting to be amortised, are mainly 4G products and IoT services software.

Technology	Assets started to be amortised, net		Assets in development process (not amortised yet)		Internally generated development assets, net as at 31 December 2016	
	$m	%	$m	%	$m	%
IoT Services	**6.3**	**15%**	**4.8**	**17%**	**11.1**	**16%**
4G	18.2	43%	18.2	65%	36.4	52%
3.5G	5.6	13%	1.3	5%	6.9	10%
3G	5.4	13%	1.1	4%	6.5	9%
GNSS & SR	3.4	9%	2.6	9%	6.0	9%
Other IoT Products (2G & CDMA)	2.9	7%	-	-	2.9	4%
IoT Products	**35.5**	**85%**	**23.2**	**83%**	**58.7**	**84%**
31 December 2016	**41.8**		**28.0**		**69.8**	
31 December 2015	**24.3**		**29.9**		**54.2**	

	2016 $m	**%**	**2015 $m**	**%**
Assets in development process (not amortised yet)	28.0	40%	29.9	55%
Assets started to be amortised, net	41.8	60%	24.3	45%
Total	**69.8**		**54.2**	

Total equity

Grew from $110.2 million as at 31 December 2015 to $120.4 million as at 31 December 2016. This increase is mainly due to the growth in profits, off-set in part by the distribution of cash dividends.

The Group repurchased 207,722 ordinary shares for a consideration of $0.6 million during the year (2015: purchase of 409,400 ordinary shares, for a consideration of $1.3 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	2016	2015
	$'000	**$'000**
Revenue	370,264	333,493
Cost of sales	(219,704)	(200,433)
Gross profit	150,560	133,060
Other operating income	2,842	1,979
Research and development expenses	(38,256)	(32,768)
Selling and marketing expenses	(63,848)	(55,508)
General and administrative expenses	(29,996)	(26,582)
Other operating expenses	(780)	(1,386)
Operating profit	20,522	18,795
Finance income	2,109	12
Finance costs	(3,542)	(2,934)
Profit before income taxes	19,089	15,873
Tax expense	(2,474)	(1,757)
Net profit	16,615	14,116
Other comprehensive income		
Items which will be reclassified in subsequent periods to profit and loss:		
Foreign currency translation differences	(4,242)	(7,002)
Total comprehensive income for the year	12,373	7,114
Basic earnings per share (in USD cents)	14.4	12.3
Diluted earnings per share (in USD cents)	14.0	11.8
Adjusted basic profit per share[1] (in USD cents)	26.4	21.7
Adjusted diluted profit per share[2] (in USD cents)	25.6	20.9
Basic weighted average number of equity shares	115,157,534	114,809,803
Diluted weighted average number of equity shares	118,891,032	119,192,610

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

	2016 Audited $'000	2015 Audited $'000
ASSETS		
Non-current assets		
Intangible assets	104,697	81,877
Property, plant and equipment	23,169	21,792
Other long term assets	1,846	2,198
Deferred tax asset	6,025	5,907
	135,737	111,774
Current assets		
Inventories	28,486	20,080
Trade receivables	105,220	72,157
Income tax receivables	801	776
Other current assets	13,751	12,264
Deposits - restricted cash	84	75
Cash and cash equivalents	26,547	29,844
	174,889	135,196
Total assets	310,626	246,970
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	1,984	1,969
Share premium account	103	24
Other reserve	(2,727)	(2,727)
Treasury stock fund	(1,929)	(1,323)
Translation reserve	(24,498)	(20,256)
Retained earnings	147,447	132,494
Total equity	120,380	110,181
Non-current liabilities		
long term borrowings from banks	25,328	23,812
Post-employment benefits	2,965	4,737
Deferred tax liabilities	490	262
Provisions	4,121	3,894
Other long-term liabilities	27	39
	32,931	32,744
Current liabilities		
Short-term borrowings from banks and other lenders	18,988	4,968
Trade payables	113,681	77,627
Provisions	555	585
Income tax payables	2,294	1,555
Accruals and other current liabilities	21,797	19,310
	157,315	104,045
Total equity and liabilities	310,626	246,970

CONSOLIDATED STATEMENT OF CASH FLOW

	2016 Audited $'000	2015 Audited $'000
CASH FLOWS - OPERATING ACTIVITIES		
Profit for the period from continued operations	16,615	14,116
Adjustments for:		
Depreciation of property, plant and equipment	6,820	5,306
Amortization of intangible assets	18,201	13,532
Gain on sale of property, plant and equipment	(3)	(227)
Change in fair value of earn-out	(532)	-
Increase in provisions for post-employment benefits	(1,628)	567
Finance costs, net	1,433	2,922
Tax expenses	2,474	1,757
Share-based payment charge	8,121	6,349
Operating cash flows before movements in working capital:	51,501	44,322
Increase in trade receivables	(33,236)	(12,486)
Decrease / (increase) in other current assets	61	(1,556)
(Increase) / decrease in inventory	(5,370)	11
Increase in trade payables	36,439	13,231
Increase in other current liabilities	1,996	1,231
Increase in provisions and other long term liabilities	309	1,472
Cash from operations	51,700	46,225
Income tax paid	(1,823)	(3,047)
Interest received	201	12
Interest paid	(2,427)	(1,978)
Net cash from operating activities	**47,651**	**41,212**
CASH FLOWS - INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(9,321)	(8,823)
Acquisition of intangible assets	(1,864)	(1,397)
Proceeds from disposal of property, plant and equipment	508	677
Capitalized development expenditures	(30,771)	(26,106)
Acquisition of business, net of cash acquired	(15,391)	(352)
(Increase) / decrease in restricted cash deposits	(94)	657
Net cash used in investing activities	**(56,933)**	**(35,344)**
CASH FLOWS - FINANCING ACTIVITIES		
Proceeds from exercise of share options	94	264
Dividend paid	(9,783)	-
Purchase of own shares	(606)	(1,323)
Short-term credit from banks	13,437	(4,949)
Proceeds from long term borrowings from banks	8,813	11,562
Repayment of long term borrowings from banks	(3,708)	(2,337)
Net cash from financing activities	**8,247**	**3,217**
(Decrease) / increase in cash and cash equivalents	(1,035)	9,085
Cash and cash equivalents at beginning of year	29,844	25,399
Effect of exchange rate differences	(2,262)	(4,640)
Cash and cash equivalents at end of year	**26,547**	**29,844**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016 (audited)

	Share capital	Share premium	Other reserve	Treasury stock fund	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2016	1,969	24	(2,727)	(1,323)	(20,256)	132,494	110,181
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	16,615	16,615
Foreign currency translation differences	-	-	-	-	(4,242)	-	(4,242)
Total comprehensive income for the period	-	-	-	-	(4,242)	16,615	12,373
Transaction with owners:							
Exercise of options	15	79	-	-	-	-	94
Dividend paid	-	-	-	-	-	(9,783)	(9,783)
Repurchase of shares	-	-	-	(606)	-	-	(606)
Share based payment charge	-	-	-	-	-	8,121	8,121
Total transactions with owners	15	79	-	(606)	-	(1,662)	(2,174)
Balance at 31 December 2016	**1,984**	**103**	**(2,727)**	**(1,929)**	**(24,498)**	**147,447**	**120,380**

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**

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, 2016. 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 Telit's statutory accounts for the years ended 31 December 2016 or 2015. Statutory accounts for 2016 will be delivered to the Registrar of Companies. The auditors have reported on the 2016 and 2015 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 finances its day to day working capital requirements mainly from committed credit facilities from HSBC Bank plc and certain of its affiliates and Bank Hapoalim B.M. ("**Credit Facilities**"). The availability of the Credit Facilities is conditioned upon the Group complying with the terms of the Credit Facilities, including meeting certain financial covenants. 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 directors consider 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 dollars and thus the consequence for the cost of the Group's raw materials; (c) compliance with the Financial Covenants, as a condition to the continued availability of the Credit Facilities 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; the group's expected continued compliance with the Financial Covenants 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.

   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:

EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. Adjusted EBIT, adjusted EBITDA and adjusted profit before tax are provided as additional information only and should not be considered as a substitute for EBIT or net cash provided by operating activities.

Adjusted EBIT is defined as Earnings Before Interest, Tax, share based payment expenses, amortisation of acquired intangibles and non-recurring expenses; Adjusted EBITDA as Adjusted EBIT plus depreciation and other amortisation; Adjusted Profit before tax as Profit before tax plus share based payment expenses, amortisation of acquired intangibles and non-recurring expenses; and Adjusted net profit for the year as net Profit for the year plus share based payment expenses, amortisation of acquired intangibles and non-recurring expenses less change in deferred tax assets, net. The Group's management believes that these non-GAAP measures provide useful information to investors to evaluate operating results and profitability for financial and operational decision-making purposes and to provide comparability between the companies in this sector, as they eliminate non-cash items and non-recurring expense, which are not inherent to the business. Consequently, Adjusted EBIT, Adjusted EBITDA, Adjusted profit before tax and Adjusted net profit for the year are presented in addition to the reported results.

	2016	**2015**
	$'000	**$'000**
EBIT	**20,522**	**18,795**
Share-based payments	8,121	6,349
Non-recurring expenses[3]	699	1,351
Amortisation - intangibles acquired	4,873	4,122
Adjusted EBIT	**34,215**	**30,617**
Depreciation and amortisation[3a]	20,148	14,716
Adjusted EBITDA	**54,363**	**45,333**
Profit before tax	**19,089**	**15,873**
Share-based payments	8,121	6,349
Non-recurring expenses[3]	699	1,351
Amortisation - intangibles acquired	4,873	4,122
Adjusted profit before tax	**32,782**	**27,695**
Net profit for the year	**16,615**	**14,116**
Share-based payments	8,121	6,349
Non-recurring expenses[3]	699	1,351
Amortisation of intangibles acquired	4,873	4,122
Change in deferred tax asset, net	110	(997)
Adjusted net profit for the year	**30,418**	**24,941**

3 - Non-recurring expenses relate to integration and transaction costs.
3a - Excluding amortisation on acquired intangibles

5. Research and development expenses, net, were:

	2016	**2015**
	$’000	**$’000**
Research and development operating expenses	57,434	51,217
Capitalized development expenses	(30,771)	(26,106)
Amortization of internally generated development costs	11,593	7,657
Research and development expenses, net	**38,256**	**32,768**

6. Net (debt) /cash position

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

	2016	2015
	$ '000	$ '000
Cash and cash equivalents	26,547	29,844
Restricted cash deposits	84	75
Working capital borrowing (1)	(13,516)	(2,663)
Long term loans (2)	(8,582)	(4,899)
Governmental loans (3)	(19,582)	(18,234)
Mortgage loan (4)	(2,636)	(2,984)
Net (debt) / Cash	**(17,685)**	**1,139**

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

(2) Representing long term loans from HSBC in the amount of $4.5 million with interest at a rate of Liber plus 2.7% and is being repaid in 7 half year instalments that commenced in March 2018 and long term loans from banks in Italy- (i) for $5.3 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) $2.5 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 $22.7 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 $7.9 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. The loans presented in fair value.

(4) Representing a preferential rate loan of $3.8 million from a regional fund in Italy provided in connection with the Group's acquisition of the campus used for Telit's main R&D facility in Trieste, Italy. The mortgage loan is denominated in Euro, attracts interest at a rate of 80% of Euribor 6 months, with a minimum interest rate of 0.85%, and is repayable in 15 semi-annual instalments that commenced in June 2012. The loans presented in fair value.

The directors believe 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.