7 August 2017

Telit Communications PLC

Interim results

Telit Communications PLC ("Telit", "the Group", AIM: TCM), a global enabler of the Internet of Things (IoT), has published its results for the six months ended 30 June 2017.

Financial highlights (1)

- Revenues up 6.9% to $177.6 million (H1 2016: $166.1 million)
    - IoT Services revenues up 25.5% to $17.2 million (H1 2016: $13.7 million)
- Gross margin 39.2% (H1 2016: 40.1%)
- Adjusted EBITDA $14.7 million (H1 2016: $21.4 million), reflecting increased investment in two recently acquired businesses - such investment expected to reduce from H2 2017 onwards
- Loss before tax $6.7 million (H1 2016: profit $4.7 million)
- Adjusted loss per share 0.8 cents (H1 2016: adjusted earnings per share 10.0 cents)
- Net operating cash flow before movement in working capital $14.0 million (H1 2016: $21.0 million)
- $49.7 million net raised from placing to support acquisitive growth
- Net debt of $9.3 million (31 Dec 2016: $17.7 million; 30 Jun 2016: $29.1 million)
- No interim dividend (H1 2016: interim dividend 2.5 cents)

Operational highlights

- Acquisition of ultra-low power Wi-Fi systems-on-chip and modules for battery and line-powered devices from GainSpan Corporation to enhance product portfolio
- First purchase order from Tesla for all Model 3 cars, expected to contribute more significant revenues in H2 and 2018.
- Launch of SimWISE, first-in-kind cellular module software SIM-card, in partnership with Tele2
- Partnership with OT-Morpho to streamline provisioning and subscription management process for next generation CAT-M and NB-IoT connectivity, for rollouts of large scale IoT projects
- Certifications: LTE Cat-6 automotive-grade module from AT&T and LTE Cat-M1 module from Verizon
- deviceWISE asset gateway software deployed into Cisco IoT gateways to enable industrial IoT
- Continued success in gaining end-to-end IoT solutions customers, such as Polaris, Zucchetti and many others.

Guidance (2)

- The Group expects revenues of $400 million - $430 million for year to 31 December 2017
    - Any further than anticipated delays of revenues are expected to fall into 2018
- The Group expects adjusted EBITDA of $47 million - $60 million for year to 31 December 2017
- Group confident of reporting over 15% revenue growth for year ended 31 December 2018

Oozi Cats, Group Chief Executive, said:

"Our revenue growth always tends to be H2 biased but in the current year our H1 revenues were also held back by a number of factors, including delayed U.S. certifications for LTE products. These certifications - which are expected to be obtained in Q3 this year – in addition to several other initiatives are expected to be strong growth drivers for H2, and even more so into 2018 and beyond.

*"**Our IoT Services business unit, with its recurring revenue business model, is continuing to gain real momentum. Its growth rate continues to be strong - with revenues up over 25% – as increasingly large industrial organisations seek integrated end-to-end solutions to meet their IoT requirements**.*

*"**Our ability to provide integrated end-to-end IoT solutions for corporates and enterprises - including our IoT portal, global SIM cards with custom data plan, our IoT modules, and our factory solutions platform together with our IoT know-how is gaining strong traction and recognition by customers and partners. Two recently announced partners are OT-Morpho and Cisco, joining existing partners SAP and Tech Mahindra, as well as many others**.*

*"**Overall, we remain confident of a strong second half performance**."*

This announcement contains inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 ("MAR"). Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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1. *For reconciliation from IFRS financial results to adjusted financial results, please refer to the table in Note 4.*
2. *This guidance for the full year reflects current business indicators and expectations. Inherent in this guidance are risk factors that are described in greater detail in our regulatory filings. All figures are approximations based on management's current beliefs and assumptions and our actual results could differ from those presented above.*

Overview

Telit's strong competitive positioning and global reach has enabled it to continue to achieve solid revenue growth during the first half of the year. As expected, the Group's financial performance is weighted to the second half of the financial year, even more so in the current year. Telit continues to target another year of double-digit revenue growth in 2017.

The Group's IoT Products business unit operating profit was $12.6 million (H1 2016: $24.1 million). The decline is a result of lower than expected revenue growth, a slight decrease in the gross margin and the impact of the GainSpan integration. As previously announced, the GainSpan business will continue to have a negative impact on the Group's results during H2.

A delay in obtaining U.S. carrier certifications of LTE CAT-1 VoLTE (Voice over LTE) chipsets by a blue-chip supplier was the main factor in the Group's reduced revenue growth. These certifications are expected to be achieved in the coming weeks and will be a major factor of revenue growth in the second half of 2017.

During the first half of the year, the automotive business within the Products business, received the first purchase order from Tesla for all Model 3 cars.

Telit continued to invest significantly in the IoT Services business unit, which is the future growth engine for the Group. The Services business saw revenues increased by over 25%. It reported an operating loss of $6.7 million in H1 2017 (H1 2016: loss $6.9 million).

Overall, the Group's adjusted EBITDA declined to $14.7 million and it reported an adjusted loss per share of 0.8 cents. Operating expenses in H1 were in line with the Board's expectations. With H2 operational expenditure also in line with expectations, the Group expects to return to profitability in H2.

As of 30 June, 2017, the Group employed 1,080 employees, serving more than 7,000 customers globally, while the top 10 customers represented 32% of revenues (H1 2016: 38%).

The Board is not declaring an interim dividend for H1 2017 and will review the Group's financial position before deciding on a dividend at the year end.

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 which, following the acquisition of GainSpan Corporation, now also includes Smart WiFi. This completes the Group's coverage of all relevant communication technologies for the IoT market. The combination of products and services needed to deliver end-to-end IoT solutions for global enterprises is now in place.

Companies of all sizes, including major corporations around the world are now poised to exploit this connected environment and IoT space to drive down their cost base, improve efficiencies and create new revenue streams.

As part of the go to market strategy the Group continues to establish partnerships with global leaders in the IoT industry and industrial space, including SAP, Tech Mahindra, Cisco, OT-Morpho, number of Mobile Network operators, as well as many others. This strategy provides Telit with the access to the biggest enterprises globally, on top of the small and medium size customers which are being managed by the Telit direct sales teams.

The Group's focus on the end-to-end IoT solutions business will increase recurring revenues, improve the gross margin and profitability accordingly.

The Group is continuing to search for near and medium term acquisition opportunities in the IoT services space, seeking both complementary technologies and market share.

Outlook

The outlook for both, Telit and 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 device to cloud platform and end-to-end solution capabilities, which is a key factor to increase recurring revenue from the IoT Services business unit.

Telit is well positioned to exploit the numerous opportunities developing around the world in growing markets as well as increase recurring revenues with its market leading position in modules, connectivity, connectivity management and Platform as a Service as well as its wide range of industry partners.

Although the Group is confident of seeing an increase in recurring revenues and maintaining Telit's double-digit revenue growth in the current financial year, there are some uncertainties including the timing of certifications for the LTE CAT-1 VoLTE product and a handful of large scale deployments, all of which could be deployed slower than planned with consequent impacts on financial performance and cash generation in the current year.

The Group expects revenues for the year to 31 December 2017 of $400 million - $430 million (2016: $370.3 million), reflecting timing uncertainty of certain deployments and receipt of new product certifications. Any further than anticipated delays of revenues are expected to fall into 2018.

The Group expects adjusted EBITDA for the year to 31 December 2017 of $47 million - $60 million (2016: $54.4 million), with the wide range to guidance reflecting the possible results of the revenue range. The Group expects that operating expenditure for H2 2017 will be broadly in-line with H1 2017, which in case of reaching the upper end of revenue guidance will lead to the upper end of the stated adjusted EBITDA guidance range being delivered.

With full-year contributions from contracts which began shipments during 2017, sales of certified LTE Cat-1 VoLTE chipsets and recent design wins, Telit is confident of reporting over 15% revenue growth for the year ended 31 December 2018.

Operational review

IoT Products

Telit's modules are used in a wide range of applications, including asset tracking, remote industrial monitoring, energy & utility, insurance telematics, consumer electronics, mobile health devices and many more.

In the Industrial IoT (IIoT) 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 a substantial number of projects already in advanced stages around the world.

In order to cater to all of these verticals, Telit continues to develop a wide range of cellular LTE products, from the high-end Cat-11 for automotive, routers, and gateways, to Cat-1 for industrial verticals. The Group is also developing a wide range of Cat-M1 and NB-IoT modules.

In addition, Telit continues to develop its multi-constellation GNSS and Dead Reckoning (DR) enabled modules. The 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 tailored to the unique requirements of different verticals.

Telit has also continued to expand its automotive portfolio, in particular its LTE high categories modules.

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.

Telit's IoT Portal is designed to enable customers to manage their IoT deployments through a single portal that makes IoT deployments easier, more efficient and cuts the time to market. The IoT Portal provides customers with access to data management and facilitates interaction with mobile network operators, dash boarding tools, security and administration.

The Group continues to invest and develop its IoT connectivity business, which covers all customer connectivity needs and provides a recurring revenue stream.

The Telit IoT platform, deviceWISE, 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, is designed to easily connect production machines and processes with enterprise resource planning (ERP), manufacturing resource planning (MRP) systems and SCADA applications.

deviceWISE provides an easy way to collect, normalise and transport realtime manufacturing data to allow processing for improved uptime, better efficiency, predict failures and improved compliance.

In addition, the secureWISE IoT remote access platform, has been widely recognized as the leading solution for highly secured remote access. More OEMs are using secureWISE for secure, configurable end-to-end remote connectivity, to securely connect high value fabrication equipment and tooling, to better service these valuable assets and minimize down time. During H1 the Group celebrated its 100 connected 300mm semiconductors fabrication plants, out of a total of 104 fabrications which exist worldwide.

Telit's investment in commercialising simWISE and its partnership with OT-Morpho to streamline the provisioning and subscription management process for next generation CAT-M and NB-IoT connectivity, is laying the foundation for reduced provisioning cost and complexity. These initiatives will give the Group's OEM customers and partners increased flexibility and choices geared for mass market low-cost device deployment.

Acquisitions

In February 2017, Telit acquired GainSpan Corporation for a cash consideration of $8 million. GainSpan designs, develops, manufactures and commercialises ultra-low power Wi-Fi systems-on-chip and modules for battery and line-powered devices. It also owns the intellectual property in the network stacks, system and application software it has developed.

GainSpan, as expected, had a negative impact on H1 results. However, after fully integrating the business, Telit expects this important asset to make a positive contribution in 2018 and to make both a substantial financial and operational contribution in the longer term.

The Internet of Things (IoT) market opportunity

The mega trend in IoT is creating a transformational business philosophy as its profile has grown significantly amongst businesses over the last two years. Businesses are now beginning to clearly understand the benefits of IoT across an increasing range of industries.

The ABI Research report, "M2M and IoT Embedded Modules - 2016", 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 365 million by 2021, representing a 2016-2021 compound annual growth rate ("CAGR") of 33%.

Although the report, published in April, 2016, projects an average selling price per unit cost decline for the period 2016-2021, this sustained declining prices trend 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 21% from 2016 to 2021, with total revenues from cellular module sales reaching $4.9 billion in 2021.

The Techno Systems Research (TSR) report, "2016 Wireless Connectivity Market Analysis", published in February 2017 predicts that the demand for IoT Bluetooth low energy (BLE) modules will grow significantly, chiefly driven by wearables like activity trackers, smart watches, healthcare devices; and other rising IoT solution areas like LED lighting, home automation nodes, discrete BLE modules in automotive applications, car accessories and others.

In the report, TSR estimates that shipments will grow from an estimated 287 million units in 2016 over the coming years to reach 858 million by 2021, representing a 2016-21 CAGR of 25%. The report estimates ASP for Bluetooth modules to drop from $6.70 to $4.70 in the same period.

The same report from TSR analysed the leading market segments in the Wi-Fi and Low-Power Wi-Fi modules added to the Telit portfolio in 2017. In the period of 2016 to 2021, the Wi-Fi module demand from automotive infotainment will go from 24.4 to 70.8 million units (CAGR of 23.7%); home appliances will go from 26.2 to 76.2 million units (CAGR of 23.8%); smart plugs will go from 8.5 to 13.9 million units (CAGR of 10.3%); home monitoring cameras will go from 11.0 to 33.1million units (CAGR of 24.7%); and other application areas will go from 128.9 to 176.5 (CAGR or 6.5%).

In IoT services for connectivity and platforms, growth is estimated to be even more robust. According to industry analyst firm Machina Research in its "IoT Forecasts" report published in September 2016, in 2025, cellular will account for 2.2 billion connections up from 334 million at the end of 2015 representing a CAGR of 21% in the period.

IoT analyst firm Machnation, in its "IoT Application Enablement Forecast: 2015-2025", published June 2016, estimated that in 2015 Application Enablement Platform (AEP) services revenue was $310 million and accounted for 54% of total IoT application enablement revenue. Over the next 10 years the firm expects that relatively more enterprises will be supporting their devices with the horizontal platform solutions of an AEP vendor similar to Telit's IoT Portal. Machnation expects that by 2025, AEP revenue will be $58 billion (10-year CAGR of 69%) and account for 70% of total IoT application enablement revenue.

Financial review

Financial results*

	H1 2017 $'000	H1 2016 $'000	FY 2016 $'000
Revenue	**177,558**	**166,122**	**370,264**
Gross profit	**69,588**	**66,610**	**150,560**
Gross margin	39.2%	40.1%	40.66%
Other operating income	1,288	995	2,842
Research and development	(25,460)	(17,849)	(38,256)
Selling and marketing	(35,072)	(29,863)	(63,848)
General and administrative	(14,443)	(13,037)	(29,996)
Other operating expenses	(682)	(466)	(780)
Operating (loss)/ profit (EBIT)	**(4,781)**	**6,390**	**20,522**
(Loss)/profit before tax	**(6,675)**	**4,703**	**19,089**
Basic (loss)/profit per share (cents)	**(3.5)**	**3.5**	**14.4**
Adjusted EBITDA	**14,725**	**21,403**	**54,363**
Adjusted EBIT	**1,615**	**13,078**	**34,215**
Adjusted (loss)/profit before tax	**(279)**	**11,391**	**32,782**
Adjusted basic (loss)/profit per share (cents)	**(0.8)**	**10.0**	**26.4**

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

Revenue

Group revenue increased by 6.9% to $177.6 million (H1 2016: $166.1 million).

The IoT Services business unit revenues is up 25.5% to $17.2 million (H1 2016: $13.7 million). The IoT Products business unit generated revenues of $160.4 million (H1 2016: $152.4 million), up 5.2%.

Segmental analysis

Segmental 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 H1 2016, 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 comprise less than 10% of Telit’s revenues, the Group focuses more and more on IoT services and end-to-end IoT solutions as the future engine of growth.

Therefore, as of 2016 financial statements, the Group 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:

H1 2017	IoT Products $'000	IoT Services $'000	Consolidated $'000
Revenue			
External sales	160,369	17,189	177,558
Inter-segment sales (1)	-	-	-
Total revenue	160,369	17,189	177,558
Result			
Gross Profit	59,203	10,385	69,588
Gross Margin	36.9%	60.4%	39.2%
Segment EBIT	12,612	(6,654)	5,958
	7.9%	(38.7%)	
Unallocated expenses (2)			(10,739)
Operating loss			(4,781)
Finance income			98
Finance costs			(1,992)
Loss before income taxes			(6,675)
Income taxes			2,109
Loss for the period from continuing operations			(4,566)
Profit for the period from discontinued operations			440
Net loss for the period			(4,126)

H1 2016	IoT Products $'000	IoT Services $'000	Consolidated $'000
Revenue			
External sales	152,447	13,675	166,122
Inter-segment sales (1)	-	-	-
Total revenue	152,447	13,675	166,122
Result			
Gross Profit	57,427	9,183	66,610
Gross Margin	37.7%	67.2%	40.1%
Segment EBIT	24,078	(6,894)	17,184
	15.8%	(50.4%)	
Unallocated expenses (2)			(10,794)
Operating profit			6,390
Finance income			66
Finance costs			(1,753)
Profit before income taxes			4,703
Income taxes			(716)
Profit for the period			3,987

(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 this information is not provided by segment, to the Chief Operating decision maker on a regular basis.
(4) H1 2016 new segmental information are presented in this report for the first time.

Geographical revenue

The split of revenue by geographical markets is as follows:

	H1 2017 $m	% of total revenue	H1 2016 $m	% of total revenue	Change H1-17 over H1-16	2016 $m	% of total revenue
Americas	76.8	43.2%	67.3	40.5%	14.1%	149.0	40.2%
EMEA	68.2	38.4%	63.0	37.9%	8.3%	137.3	37.1%
APAC	32.6	18.4%	35.8	21.6%	(9%)	84.0	22.7%
Total	**177.6**		**166.1**		**6.9%**	**370.3**	

Americas

This territory saw an increase of 14.1% in revenue coming mainly from ramping up of different programs based on the LTE Cat-1 modules. Telit saw an increasing demand for the new technologies including Cat-1 and Cat-1 VoLTE. A delay in obtaining U.S. carrier certifications of LTE CAT-1 VoLTE chipsets by a blue-chip supplier was the main factor in the Group's reduced revenue growth in the region.

The upcoming certifications by leading U.S. carriers of CAT-1 VoLTE chipsets of a blue-chip supplier are expected to boost revenues during the second half of the year and more materially in 2018.

EMEA

The revenue growth of 8.3% in this mature market underlines the Group's strong presence in the region. The prevailing technology is still 2G and the expected shift in technologies from 2G to LTE (both high and low categories), in the mid to long-term, will boost the growth in the region.

APAC

During the last three years, the Group tripled its revenues in the region to $84 million in 2016. During the first half, Telit experienced some delays in key programs that shifted the ramp-up towards the second half of year, affecting revenues in H1. The region is expected to return to double digit revenue growth in 2018.

Gross margin and gross profit

Gross margin was 39.2% (H1 2016: 40.1%). Gross margin was negatively affected mainly by the delay in certifications of CAT-1 VoLTE, which led the Group to sell certain customers higher cost LTE Cat-3 VoLTE products, at the same selling price as CAT-1 VoLTE products.

Gross margin was also impacted by the shift away from 2G and CDMA, both mature technologies with higher gross margins, to LTE products, which is a relatively new technology with lower margins at this stage. LTE product margins are expected to improve through the maturity and growth in volumes, as this is the normal trend were gross margin is higher in aged customers and products design.

Gross profit increased by 4.5% to $69.6 million (H1 2016: $66.6 million).

Gross profit generated by the IoT Products business unit was $59.2 million, reflecting a gross margin of 36.9% (H1 2016: $57.4 million; 37.7%), while gross profit generated by the IoT Services business unit was $10.4 million, reflecting a gross margin of 60.4% (H1 2016: $9.2 million; 67.2%).

Operating expenses

Overall, the Group met its expectations for operating expenses in H1 and expects that operating expenditure for H2 2017 will be broadly in-line with H1 2017.

Gross R&D operating expenses (expenses before capitalisation and amortisation of internally generated development costs - see note 3) increased to $35.4 million (H1 2016: $28.8 million). The increase is largely due to the acquisitions of Stollmann in H1 2016 and GainSpan in H1 2017, and the acceleration in the 4G developments and new automotive projects.

H1 2017 expenses represented 19.9% of revenues (H1 2016: 17.3%). Telit expects gross R&D operating expenses as a percentage of revenues, to decline during H2 and in 2018.

The amount capitalised in respect to internally generated development costs is $17.9 million, an increase of $2.6 million compared to H1 2016. The amount capitalised as a percentage of revenues is 10.1% (H1 2016: 9.2%). This figure is mainly related to the development of smart Wi-Fi (GainSpan acquisition), 4G product lines for high and low categories including the Cat-M1 and NB-IoT, the automotive products, and IoT Services.

The amortisation of internally generated development costs increased by 80.7% to $8.0 million (H1 2016: $4.4 million). This increase relates mainly to the release of 3G and 4G products to the market during the course of 2015, 2016 and H1 2017. 59% of the capitalised assets are now being amortised (H1 2016: 48%).

Sales and Marketing expenses increased by $5.2 million to $35.1 million (H1 2016: $29.9 million), and represented 19.8% of revenues (H1 2016: 18.0%). The increase is mainly due to the acquisitions of Stollmann in H1 2016 and GainSpan in H1 2017 and the investment in catering to the markets served by these businesses - Smart Bluetooth and Smart Wi-Fi. Telit expects sales and marketing expenses as a percentage of revenues, to decline during H2 and in 2018.

General and Administrative expenses increased by $1.4 million to $14.4 million (H1 2016: $13.0 million), and represented 8.1% of revenues (H1 2016: 7.8%). This increase reflects the continued expansion of the Group activities. Telit expects General and Administrative expenses as a percentage of revenues, to decline during H2 and in 2018.

Finance costs, net

	H1 2017 $m	**H1 2016 $m**	**Difference**
Non-cash expenses related to effective rate interest on preferred loan	0.5	0.6	(0.1)
Interest on loans and overdrafts	1.2	0.6	0.6
Bank fees	0.4	0.3	0.1
Exchange rate differences	(0.1)	0.3	(0.4)
Interest income	(0.1)	(0.1)	-
Total	**1.9**	**1.7**	**0.2**

Finance costs, net increased by 12.3% to $1.9 million (H1 2016: $1.7 million), mainly due to interest on loans and overdrafts which increased from $0.6 million expenses in H1 2016 to $1.2 million expense in H1 2017, due to an increase in average borrowings. Following the fundraising completed by the Group in May 2017, Telit expects a decline in interest on loans and overdrafts during H2.

Profitability

Adjusted EBITDA was $14.7 million (H1 2016: $21.4 million); as a percentage of revenues it represents 8.3% (H1 2016: 12.9%).

Adjusted EBIT was $1.6 million (H1 2016: $13.1 million) and adjusted loss before tax was $0.3 million (H1 2016: profit $11.4 million).

The adjusted figures exclude a share based payment charge of $3.3 million (H1 2016; $3.7 million), a non-recurring expense of $0.7 million (H1 2016: $0.5 million) and amortisation of intangible acquired assets of $2.4 million (H1 2016: $2.5 million).

Loss for the period from continuing operations was $4.6 million (H1 2016: profit $3.9 million). Telit expects a return to profitability from continuing operations in H2.

In H1 2017 the Group recorded $0.4 million as profit from discontinued operations, due to the reversal of a provision recorded in relation to VAT assessments served on the Group's Italian subsidiary in 2014, which were recently dismissed by the Italian courts.

Adjusted basic loss per share was 0.8 cents (H1 2016: earnings per share 10.0 cents). Basic loss per share 3.5 cents (H1 2016: earnings per share 3.5 cents) and reported diluted loss per share was 3.3 cents (H1 2016: earnings per share 3.4 cents).

Dividend

On 5 May 2017, the Group paid a final dividend for FY 2016, of 4.9 cents per share.

The Board has not declared an interim dividend for H1 of the current financial year. However, it will consider paying a dividend for the year, subject to the Group's financial position at the year end.

Net debt

As at 30 June 2017, the Group had net debt of $9.3 million (31 December 2016: net debt $17.7 million).

The change from 31 December 2016 is due mainly to $49.7 million raised by the Group by issue of shares, offset by the first half loss; $8 million used for an acquisition; $6.5 million invested in CAPEX; payment of $5.7 million as final dividend for the 2016 financial year and an increase in working capital, mainly in inventory.

Further disclosures regarding the Company's borrowings and their terms are set out in note 5 below

Balance sheet

Internally generated development assets, net as of 30 June 2017, increased during the period by $13.9 million to $83.7 million (31 December 2016: $69.8 million).

The split of the net assets by technology is as follows:

Technology	Internally generated development assets, net as at 30 June 2017		Internally generated development assets, net as at 31 December 2016		Change from 31 December 2016	
	$m	%	$m	%	$m	
IoT Services	**12.8**	**15%**	**11.1**	**16%**	**1.7**	
4G	46.6	56%	36.4	52%	10.2	
3.5G	7.4	9%	6.9	10%	0.5	
3G	6.2	7%	6.5	9%	(0.3)	
GNSS & SR	8.4	10%	6.0	9%	2.4	
Other IoT Products (2G & CDMA)	2.3	3%	2.9	4%	(0.6)	

IoT Products	**70.9**	**85%**	**58.7**	**84%**	**12.2**	
31 December	**83.7**		**69.8**		**13.9**	

Internally generated development assets that completed the development phase, moved to mass production phase and started the three to five years of amortisation period remain around 60% of the total internally generated development assets.

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

Technology	Assets after development process, net (started to be amortised)		Assets in development process (not amortised yet)		Internally generated development assets, net	
	$m	%	$m	%	$m	%
IoT Services	**8.2**	**17%**	**4.6**	**13%**	**12.8**	**15%**
4G	22.8	47%	23.8	69%	46.6	56%
3.5G	5.4	11%	2.0	6%	7.4	9%
3G	5.3	11%	0.9	2%	6.2	7%
GNSS & SR	5.0	10%	3.4	10%	8.4	10%
Other IoT Products (2G & CDMA)	2.3	5%	-	-	2.3	3%
IoT Products	**40.8**	**83%**	**30.1**	**87%**	**70.9**	**85%**
30 June 2017	**49.0**		**34.7**		**83.7**	
31 December 2016	**41.8**		**28.0**		**69.8**	

	30 June 2017 $m	**%**	**31 December 2016 $m**	**%**
Assets in development process (not amortised yet)	34.7	41%	28.0	40%
Assets started to be amortised, net	49.0	59%	41.8	60%
Total	**83.7**		**69.8**	

Total equity

Total equity grew from $120.4 million as at 31 December 2016 to $169.9 million as at 30 June 2017.

During the period, the company issued 11,593,000 ordinary shares for a net value of $49.7 million, and paid $5.7 million in cash as final dividend for 2016 financial year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2017	**2016**	**2016**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
Revenue	177,558	166,122	370,264
Cost of sales	(107,970)	(99,512)	(219,704)
Gross profit	69,588	66,610	150,560
Other operating income	1,288	995	2,842
Research and development expenses, net (see note 3)	(25,460)	(17,849)	(38,256)
Selling and marketing expenses	(35,072)	(29,863)	(63,848)
General and Administrative expenses	(14,443)	(13,037)	(29,996)
Other operating expenses	(682)	(466)	(780)
Operating (loss)/profit	(4,781)	6,390	20,522
Finance costs, net	(1,894)	(1,687)	(1,433)
(Loss)/profit before income taxes	(6,675)	4,703	19,089
Tax income (expenses)	2,109	(716)	(2,474)
(Loss) /profit for the period from continuing operations	(4,566)	3,987	16,615
Profit for the period from discontinued operations	440	-	-
Net (loss) profit	(4,126)	3,987	(8,113)
Other comprehensive income			
Foreign currency translation differences	6,308	2,102	(4,242)
Total comprehensive income for the period	2,182	6,089	12,373
Basic (loss) profit per share (in USD cents)	(3.5)	3.5	14.4
Diluted (loss) profit per share (in USD cents)	(3.3)	3.4	14.0
Adjusted basic (loss) profit per share (in USD cents)	(0.8)	10.0	26.4
Adjusted diluted (loss) profit per share (in USD cents)	(0.7)	9.8	25.6
Basic weighted average number of equity shares	119,066,895	114,837,682	115,157,534
Diluted weighted average number of equity shares	124,190,674	117,862,338	118,891,032

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June		31 December
		2017	2016	2016
		Unaudited		Audited
	Note	$'000	$'000	$'000
ASSETS				
Non-current assets				
Intangible assets		123,770	104,946	104,697
Property, plant and equipment		26,364	21,198	23,169
Other long term assets		1,321	1,858	1,846
Deferred tax asset		10,837	5,250	6,025
		162,292	133,252	135,737
Current assets				
Inventories		37,899	23,713	28,486
Trade receivables		97,293	76,673	105,220
Income tax receivables		133	404	801
Other current assets		18,072	15,490	13,751
Deposits		5,745	83	84
Cash and cash equivalents		29,726	19,179	26,547
		188,868	135,542	174,889
Total assets		**351,160**	**268,794**	**310,626**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Share capital		2,144	1,971	1,984
Share premium account		49,647	103	103
Other reserve		(2,727)	(2,727)	(2,727)
Treasury stock fund		(1,085)	(1,929)	(1,929)
Translation reserve		(18,190)	(18,153)	(24,498)
Retained earnings		140,113	133,296	147,447
Total equity attributable to owners of the Company		169,902	112,561	120,380
Non-current liabilities				
Other loans	5	20,621	20,343	25,328
Post-employment benefits		3,131	5,063	2,965
Deferred tax liabilities		2,124	436	490
Provisions	6	-	4,530	4,121
Other long-term liabilities		25	2,556	27
		25,901	32,928	32,931
Current liabilities				
Short-term borrowings from banks	5	24,118	28,034	18,988
Trade payables		105,798	75,338	113,681
Provisions		232	576	555
Income tax payables		1,880	713	2,294
Other current liabilities		23,329	18,644	21,797
		155,357	123,305	157,315
Total equity and liabilities		**351,160**	**268,794**	**310,626**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2017	**2016**	**2016**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
CASH FLOWS – OPERATING ACTIVITIES			
(Loss)/profit for the period from continued operations	(4,566)	3,987	16,615
Adjustments for:			
Depreciation of property, plant and equipment	4,185	3,051	6,820
Amortization of intangible assets	11,331	7,792	18,201
Loss (gain) on sale of property, plant and equipment	10	-	(3)
Change in fair value of earn-out	-	-	(532)
Increase in provision for post-employment benefits	(50)	272	(1,628)
Finance costs, net	1,893	1,689	1,433
Tax expenses	(2,109)	716	2,474
Share-based payment charge	3,318	3,709	8,121
Operating cash flows before movements in working capital	14,012	21,216	51,501
Decrease (increase) in trade receivables	9,896	(3,345)	(33,236)
Decrease (increase) in other current assets	(1,781)	(2,477)	61
Decrease (increase) in inventories	(4,157)	862	(5,370)
Increase (decrease) in trade payables	(11,245)	(2,381)	36,439
Increase (decrease) in other current liabilities	(2,982)	(5,214)	1,996
Increase (decrease) in provisions and other long term liabilities	(4,564)	651	309
Cash from operations	(821)	9,312	51,700
Income tax paid	(1,122)	-	(1,823)
Interest received	98	66	201
Interest paid	(1,447)	(866)	(2,427)
Net cash used in / from operating activities from continued operations	**(3,292)**	**8,512**	**47,651**
Profit for the period from discontinued operations	**440**	**-**	-
Decrease in provisions	**(440)**	**-**	-
Net cash from operating activities from discontinued operation	**-**	**-**	**-**
CASH FLOWS - INVESTING ACTIVITIES			
Acquisition of business, net of cash acquired	(6,676)	(13,681)	(15,391)
Acquisition of property, plant and equipment	(5,679)	(2,415)	(9,321)
Proceeds from disposal of property, plant and equipment	79	463	508
Acquisition of intangible assets	(912)	(801)	(1,864)
Capitalized development expenditures	(17,944)	(15,338)	(30,771)
Increase (decrease) in deposits	(5,052)	64	(94)
Net cash used in investing activities	**(36,184)**	**(31,708)**	**(56,933)**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Six months ended 30 June		Year ended 31 December
	2017	**2016**	**2016**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
CASH FLOWS - FINANCING ACTIVITIES			
Proceeds from exercise of options	4	81	94
Purchase of own shares	-	(606)	(606)
Issued of shares	49,700	-	-
Dividend paid	(5,682)	(6,893)	(9,782)
Proceeds from other loans	14,308	-	8,813
Repayment of other loans	(3,390)	(1,682)	(3,708)
Short-term borrowings from banks and other lenders	(12,811)	20,971	13,437
Net cash from financing activities	**42,129**	**11,871**	**8,247**
Increase / (decrease) in cash and cash equivalents	2,652	(11,325)	(1,035)
Cash and cash equivalents-balance at beginning of period	26,547	29,844	29,844
Effect of exchange rate differences	527	660	(2,262)
Cash and cash equivalents-balance at end of period	**29,726**	**19,179**	**26,547**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2017 (Unaudited)

	Share capital $'000	Share premium $'000	Other reserve $'000	Treasury stock fund $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	1,984	103	(2,727)	(1,929)	(24,498)	147,447	120,380
Total comprehensive income for the period							
Loss for the period	-	-	-	-	-	(4,126)	(4,126)
Foreign currency translation differences	-	-	-	-	6,308	-	6,308
Total comprehensive income for the period	-	-	-	-	6,308	(4,126)	2,182
Transaction with owners:							
Exercise of options	4	-	-	850	-	(850)	4
Dividend	-	-	-	-	-	(5,682)	(5,682)
Issue of shares	156	49,544	-	(6)	-	6	49,700
Share based payment charge	-	-	-	-	-	3,318	3,318
Total transactions with owners	160	49,544	-	844	-	(3,208)	47,340
Balance at 30 June 2017	**2,144**	**49,647**	**(2,727)**	**(1,085)**	**(18,190)**	**140,113**	**169,902**

Six months ended 30 June 2016 (Unaudited)

	Share capital $'000	Share premium $'000	Merger reserve $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'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	-	-	-	-	-	3,987	3,987
Foreign currency translation differences	-	-	-	-	2,102	-	2,102
Total comprehensive income for the period	-	-	-	-	2,102	3,987	6,089
Transaction with owners:							
Exercise of options	2	79	-	-	-	-	81
Dividend						(6,893)	(6,893)
Repurchase of shares				(606)			(606)
Share based payment charge	-	-	-	-	-	3,709	3,709
Total transactions with owners	2	79	-	(606)	-	(3,184)	(3,710)
Balance at 30 June 2016	**1,971**	**103**	**(2,727)**	**1,929**	**(18,153)**	**133,297**	**112,561**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2016 (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 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
Reduction of share premium and merger reserve	-	-		-	-	-	(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**

NOTES TO THE INTERIM FINANCIAL STATEMENT AT 30 JUNE 2017 (Unaudited)

1. The Company was incorporated and registered in England and Wales as a public limited company on 30 November 2004 under the Companies Act 1985.

2. The interim financial statements include the results of operations and the financial position of the Company and its subsidiaries (together the "Group") as at and for the six months ended 30 June 2017. The consolidated interim financial statements of the Company have been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the AIM Rules using the accounting policies set out in the Group's 31 December 2016 statutory accounts. The AIM Rules do not require compliance with the requirements of IAS 34 "Interim Financial Statements" and these consolidated interim financial statements have not been prepared in compliance with the disclosure requirements of that standard. The consolidated interim financial statements have not been audited or reviewed and do not constitute the Company's statutory accounts within the meaning of Section 435 of the Companies Act 2006. The financial information for the year ended 31 December 2016 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

3. Research and development expenses, net, were:

	H1 2017	**H1 2016**	**FY 2016**
	$'000	**$'000**	**$'000**
Research and development expenses	35,414	28,766	57,434
Capitalized development expenses	(17,944)	(15,338)	(30,771)
Amortization of internally generated development costs	7,990	4,421	11,593
Research and development expenses, net	**25,460**	**17,849**	**38,256**

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

	H1 2017	H1 2016	FY 2016
	$'000	**$'000**	**$'000**
Operating (loss) profit	**(4,781)**	**6,390**	**20,522**
Share based payments	3,318	3,709	8,121
Non-recurring expenses	672	461	699
Amortization intangibles acquired	2,406	2,518	4,873
Adjusted EBIT	**1,615**	**13,078**	**34,215**
Depreciation and amortization	13,110	8,325	20,148
Adjusted EBITDA	**14,725**	**21,403**	**54,363**
(Loss) profit before tax (PBT)	**(6,675)**	**4,703**	**19,089**
Share based payments	3,318	3,709	8,121
Non-recurring expenses	672	461	699
Amortization intangibles acquired	2,406	2,518	4,873
Adjusted PBT	**(279)**	**11,391**	**32,782**
Net (loss) profit for the period attributable to the owners of the Company	**(4,126)**	**3,987**	**16,615**
Share based payments	3,318	3,709	8,121
Non-recurring (income) expenses	672	461	699
Amortization – acquired intangibles	2,406	2,518	4,873
Change in deferred taxes, net	(3,178)	831	110
Adjusted profit for the period attributable to the owners of the Company	**(908)**	**11,506**	**30,418**

5. Net debt position:

	H1 2017	H1 2016	FY 2016
	$'000	$'000	$'000
Cash and cash equivalent	29,726	19,179	26,547
Deposits	5,745	83	84
Working capital borrowings (1)	-	(22,867)	(13,516)
Long term loan (2)	(23,001)	(4,440)	(8,582)
Governmental loan (3)	(19,415)	(18,160)	(19,582)
Mortgage loan (4)	(2,323)	(2,910)	(2,636)
Net debt	**(9,268)**	**(29,115)**	**(17,685)**

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

(2) Representing long term loans from HSBC in the amount of $19.1 million with interest at a rate of Libor plus 2.7% and is being repaid in 7 half year instalments that will commence in October 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) $2.7 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. An amount of $19.1 million was classified in the balance sheet as short term debt, as a result of the Group not meeting one of the covenants imposed on it by one of its banks, at 30 June 2017. As at the date of this report, the relevant bank has waived the covenant and the Group is no longer in breach. These covenants are tested on a quarterly basis.

(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.

6. Provisions

The increasingly fragmented patent licensing landscape, strongly influenced by court rulings over the past 2 years, significantly decreases the impact that potential litigation could have on Telit's results of operations. Therefore, the Company has reversed the provisions relevant to this matter.

7. UK WITHDRAWAL FROM EUROPEAN UNION

On 29 March 2017, the UK Government invoked Article 50 of the Treaty of Lisbon. Thereby formally notifying the European Council of the UK's intention to withdraw from the European Union (EU). This commences the process of negotiating an exit deal for the UK. The negotiation period set by Article 50 is two years. Therefore, the UK will leave the EU by 29 March 2019, unless either a deal is reached at an earlier date or the negotiation period is extended by unanimous consent of the European Council.

There will be no immediate change to UK financial and corporate reporting requirements as the UK remains a member of the EU until the end of the negotiation period. There are various tax reliefs and exemptions that apply to transactions between UK entities and entities in other EU member states. The tax legislation, if any that will replace those reliefs and exemptions is unknown at this stage.

As uncertainties are resolved, this may require changes to financial and corporate reporting requirements. We will continue to monitor the negotiations between the UK and the EU, however in all scenarios the Group expects that the financial and regulatory impact will be minimal, if any.