4 September 2018

Telit Communications PLC

Interim results - turnaround plan on course

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 2018.

Key corporate developments

- Implementation of turnaround plan and focusing strategy, both progressing well including cost optimisation, reorganisation and stabilization in gross margins
- Sale of automotive division for $105 million is expected to complete by the end of 2018

Financial highlights[1]

- Revenues up by 13.6% to $201.7 million (H1 2017: $177.6 million) - back to double digit growth
    - IoT Cloud and connectivity revenues up 16.2% to $16.5 million (H1 2017: $14.2 million)
- Gross profit $67.8 million (H1 2017: $69.6 million) with gross margin of 33.6% (H1 2017: 39.2% and H2 2017: 31.5%)
- Adjusted EBITDA $12.5 million (H1 2017: $14.7 million) – following a $4.2 million reduction in capitalisation of development costs
- Significant improvement in cash flow from operating activities; $21.1 million cash generated (H1 2017: $3.3 million cash used)
- Profit in cash[2] improved to $5.7 million loss (H1 2017: $9.8 million loss), driven by cash OPEX decrease to $70.1 million (H1 2017: $74.7 million)
- Net debt as at 30 June 2018 $25.0 million (31 December 2017: $30.2 million)

Operational highlights

- New partnerships with IBM and Siemens to accelerate industrial IoT integration
- Received multiple certifications in several jurisdictions for LTE CAT-1 and CAT-M1 modules, including VoLTE from Verizon, Telstra and Softbank
- Completion of full organisational integration between IoT products and IoT services
- Completion of implementation of SAP IBP operational system will help Telit with better planning of customers' demand, for better service and shortening the lead time of product deliveries

Yosi Fait, Chief Executive Officer, said:

"During H1 2018 we made good progress in implementing our turnaround plan based on the main objectives: focus on industrial IoT products and solutions; return to double digit revenue growth; stabilize gross margin; and reduce our cash operating expenses.

"The sale of the automotive division together with our organisational changes will enable us to solely focus on the considerable opportunities in the industrial IoT space as well as reducing our operational cost base.

"We have seen double digit revenue growth, improved gross margins from H2 2017 and our cost optimization plan is well underway.

[1] For reconciliation from IFRS financial results to adjusted financial results, see Note 3.
[2] Profit in cash defined as Adjusted EBITDA less development costs capitalised less capital expenditures

"Current trading remains in line with our expectations. We expect to maintain double-digit revenue growth during the rest of 2018, which coupled with good progress with the other objectives, leads us to expect to deliver positive results including 'profit in cash' for the full year."

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Overview

During H1 2018 Telit made good progress in implementing its turnaround plan based on the following main objectives:

- increase our focus on industrial IoT products and solutions and integrating the capabilities
- return to double- digit revenue growth
- stabilization of gross margin
- cost optimization and focus on cash generation.

The Group focued its efforts on its core business, the industrial IoT products, services and solutions. This included the sale of the automotive division for $105 million, which is expected to close towards the end of the year.

In addition, to better implement the Group's strategy, Telit have changed its organization and completed recently a full integration of the products and services teams under a single structure.

The integrated business structure will enable Telit to better define and develop the products required by the market; to focus more on synergies from leveraging the combination of its modules (cellular, GNSS and short range) and the IoT Platform and Portal; gaining differentiation through these synergies and to better utilise Telit's sales force; and generally, become a more efficient and focused organisation.

Telit's saw a return to double digit growth in total revenue in H1 2018. Following the completion of the LTE IoT products certifications, the Group was able to achieve total revenue growth of 13.6% in H1 2018, and IoT cloud and connectivity revenues growth of 16.2%. Telit also saw better traction in the market, more design wins, including customers with significant IoT projects and better service level to customers.

Stabilisation and improving gross margin was a major objective of the plan. Despite a challenging component market, Telit has been able to address the pressures on gross margins faced in H2 2017 and improve it by more than 2%. This was done through several actions including optimization of product's bill of material and manufacturing costs.

As part of the turnaround plan, Telit acknowledged that gross margin will stabilize at a lower level than seen in the last few years. It therefore initiated a cost optimization plan which included analysing return on investment on its products and activities and rationalizing its investments on the different product lines and activities. The intention is to remove approximately $10 million from annual cash OPEX this year compared to 2017. The Group has already achieved approximately $4.6 million of cash OPEX savings during the first half.

Another important parameter of the plan is to reduce the number of R&D sites in order to improve efficiencies and streamline R&D management. The Group reduced the number of sites from eleven to nine in H1 2018. After completion of the sale of the automotive division, the Group will reduce the number of R&D sites to six.

In addition, as stated last year the Board introduced a new KPI, the "profit in cash". This is adjusted EBITDA less R&D capitalisation less capital expenditures and is designed to increase the Group's focus on cash generation.

In the first half of the year, profit to cash was still negative but shown significant improvement compared to H1 2017. The Board expects additional improvement in the profit in cash in H2 2018.

In terms of the profit in cash metrics, H1 2018 saw a $4.1 million improvement in the loss in cash at $5.7 million (H1 2017: loss of $9.8 million) supported by cash OPEX saving of $4.6 million to $70.1 million (H1 2017: $74.7 million).

Adjusted EBITDA $12.5 million (H1 2017: $14.7 million) reflecting mainly lower gross profit of $1.8 million and $4.2 million reduction in capitalisation of development costs.

Adjusted EBIT loss $0.6 million (H1 2017: profit $1.6 million). Operating loss of $9.8 million including $3.9 million of non-recurring expenses (H1 2017: loss $4.8 million including $0.7 million of non recurring expenses).

Adjusted basic loss per share of 3.0 cents (H1 2017: 0.8 cents). Basic loss per share of 9.1 cents (H1 2017: loss 3.5 cents).

Strategy

Telit's strategy, as laid out earlier this year, remains unchanged – the Group targets the industrial IoT market which it believes is the prime driver of the digital transformation for enterprises. IDC forecast spend in the IoT market by 2021 forecast will reach $1.4 trillion. Telit is focussed to maintain its leading position in the IoT products market and increasingly on the development of IoT solutions capabilities and become a leading end-to-end IoT provider that enables enterprises' digital transformation.

A key element of the strategy is growing by expanding into the enterprise market, as companies of all sizes around the world are now exploiting more and more digital transformation via IoT that will drive down their cost base, improve efficiencies, will lead innovation and will create new revenue streams. Despite its tremendous potential to impact the enterprise, IoT project delivery remains complex and difficult. Telit is well positioned to deliver the key components and the necessary know how to complete IoT projects successfully.

Together with the Group's extensive ecosystem of blue chip customers and suppliers, technology partners, system integrators, implementer communities and MNOs, Telit has best in class products for its customers and will continue to be an innovative global leader for IoT solutions.

Outlook

The Group has made good progress in its turnaround plan returning to double digit revenue growth, stabilising gross margin and rationalising its cost base structure.

IoT remains a fast growing and exciting space, and Telit with the established transition to LTE is well positioned in this growing market. The Board is fully committed to continue to position Telit as a leading enabler in the IoT space, delivering value and growth for our business. The recent operational successes including design wins, securing significant IoT projects and delivering better service level to customers, positions the business well for H2 2018 and subsequent years.

Trading remains in line with the Board's expectations for 2018.

Board changes

Paolo Dal Pino was appointed as Chairman of the Board on 1 September 2018. On the same date, Miriam Greenwood, who was reappointed to the Board on an interim basis on 25 June 2018 to ensure the Board and its committees remained quorate, stepped down as intended when she was reappointed.

In addition to Paolo Dal Pino's previous director appointments disclosed on 14 August 2018, in the past five years he was previously a director of Associacao Reciclanip, Associacao Nacional da Industria de Pneumaticos Anip, Prometeon Tyre Group S.R.L, Prometeon Tyre Group S.R.L (PTG S.R.L) and Prometeon Tyre Group (Suisse) S.A. There is no further information required to be disclosed under paragraph (g) of Schedule Two of the AIM Rules.

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 transformation impact is being felt broadly. The underlying objective is to collect the right information, process it into actionable knowledge, transmit that knowledge to the right person, and act on it - achieved with increasing affordability. In doing so, this allows us to solve an increasing number of problems, including many that we had not originally considered.

Telit's business is at the forefront of this digital transformation - providing the key ingredients critical to fulfil the need for real time data from the physical world. These include the following components:

- **IoT Products (modules)**. A diversified portfolio of connected modules that allow "things" to be connected using the best available and most suitable technology (Cellular - from 2G to 4G, GNSS, Wi-Fi and BLE) for the application being developed. These provide cost performance and a significant reduction in time-to-market.

  The Group markets its IoT modules 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 and a wide range of CAT-M1 and NB-IoT modules.

- **IoT Services.** A diversified portfolio of services under a unified IoT Portal designed to enable customers to manage their IoT deployments through a single portal that makes them easier, more efficient and cuts time to market. The IoT Portal provides customers with access to Connectivity Management, Device Management, Data Management and facilitates interaction with mobile network operators, dash boarding tools, security and administration.

  The Telit IoT portal ties with our modules in the field and is a significant tool to manage any IoT deployment very efficiently, save costs, be flexible, solve issues remotely and more. The 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.

- **IoT solutions.** Overall, Telit enables the creation of solutions and applications for fast deployment of IoT projects with complete life cycle management (long and short-range connectivity devices, global data plans and IoT platform), both in the traditional IoT verticals such as asset tracking, logistics, remote industrial monitoring, automated utility meter reading, telematics, mobile health devices, and for the fast-growing enterprise market.

Telit's investments in the last few years include not only the development of each of the above-mentioned components but also, increasingly, the integration of the different components in order to transform its products and services into a cohesive solution which is ready to connect and send data.

Innovative products and solutions will be a major part in the Group's future, such as simWISE which was launched on the 2G products and soon will be launched on the low category LTE products (in partnership with IDEMIA as previously announced).

simWISE is a cellular module-embedded SIM technology, the first of its kind. The new technology can act as a replacement or complement for manufacturers of cellular-connected devices using traditional SIM cards and tray. Manufacturers of connected products using Telit IoT modules with simWISE significantly reduce complexity and time to market and improve flexibility and customer experience.

The Internet of Things (IoT) market opportunity

Market Analyst firm ABI Research refers to the Internet of Everything (IoE) as a technology concept aggregating the Internet of Digital (IoD), the Internet of Things (IoT), and the Internet of Humans (IoH). The firm characterizes the IoE as the combined installed base of end markets for connected devices including Connected Car, PCs and Digital Home, Smart Home, Wearable Computing, Mobile Devices, Retail, Advertising and Supply Chain, Smart Cities and Buildings, Utilities and Industrial IoT plus other minor fragmented verticals.

In its report entitled "Internet of Everything Market Tracker, 3Q 2018" published August 16, 2018, ABI Research estimates that the installed base of devices connected by technologies in Telit's hardware, software, platforms, managed and subscription services supply domain (Bluetooth, Wi-Fi, 802.15.4 (incl. Zigbee, Z-Wave, and Others), Cellular (incl. M2M/IoT), GPS/GNS and LPWAN; will grow from 26 billion connected devices in 2016 to about 44 billion by 2022 (CAGR of about 9% in the period).

Cellular modules remain Telit's top revenue producers. ABI Research in its report entitled "M2M Embedded Cellular Modules" published on August 9, 2018, estimates that 247 million units will be shipped globally in 2018 and 2.4 billion in 2023 (CAGR of 58% in the period). The immense growth forecasted by the firm stems from aggressive shipments in Mobile IoT modules (LTE-M and NB-IoT) in the coming years. ABI estimates global revenue for these shipments to grow from $3.6 billion in 2018 to $21.4 billion in 2023 (CAGR of 43% in the period).

Berg Insight in the global M2M/IOT communications market estimates that the number of cellular IoT subscribers will grow at a compound annual growth rate (CAGR) of 33.1% to reach 2.7 billion by the end of 2022. During the same period, cellular IoT network revenues are forecasted to grow at a CAGR of 27.3% from €6.3 billion in 2017 to approximately €21.2 billion in 2022.

IoT analyst firm MachNation in its 2018 IoT application enablement scorecard published in January 2018, forecast that worldwide IoT application enablement and device management revenue will be $3.3 billion in 2017 growing to $64.6 billion by 2026 at a CAGR of 45%. Enterprises now realise that a well-built IoT Application Enablement Platform (AEP) saves significant development time and money in the creation and operation of an IoT solution.

Financial review

Financial results

	H1 2018 $m	**H1 2017 $m**	**FY 2017 $m**
Revenue	**201.7**	**177.6**	**374.5**
Gross profit	**67.8**	**69.6**	**131.6**
Gross margin	33.6%	39.2%	35.1%
Other operating income	1.0	1.3	2.4
Research and development	(30.9)	(25.5)	(66.9)
Selling and marketing	(33.0)	(35.1)	(66.8)
General and administrative	(13.2)	(14.4)	(28.6)
Exceptional expenses related to restructuring	(0.6)	-	(16.0)
Other non-recurring expenses	(0.9)	(0.7)	(5.4)
Adjusted EBITDA	**12.5**	**14.7**	**18.1**
Operating loss (EBIT)	**(9.8)**	**(4.8)**	**(49.7)**
Adjusted EBIT	**(0.6)**	**1.6**	**(10.7)**
Loss in cash	**(5.7)**	**(9.8)**	**(27.0)**
Loss before tax	**(12.8)**	**(6.7)**	**(56.8)**
Adjusted loss before tax	**(3.6)**	**(0.3)**	**(17.8)**
Basic (loss) per share (cents)	**(9.1)**	**(3.5)**	**(41.9)**
Adjusted basic (loss) per share (cents)	**(3.0)**	**(0.8)**	**(16.4)**

Adjusted EBIT is defined as Earnings Before Interest, Tax, share based payment expenses, amortisation of acquired intangibles, impairment of intangible assets, exceptional expenses related to restructuring 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, impairment of intangible assets, exceptional expenses related to restructuring 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, impairment of intangible assets, exceptional expenses related to restructuring and non-recurring expenses less change in deferred tax assets, net.

Revenues

Group revenues increased by 13.6% to $201.7 million (H1 2017: $177.6 million), out of which Cloud and connectivity revenues were $16.5 million (H1 2017: $14.2 million), an increase of 16.2%.

The split of revenues by geographical markets is as follows:

	H1 2018 $m	% of total revenue	H1 2017 $m	% of total revenue	Change H1-18 over H1-17	2017 $m	% of total revenue
Americas	86.9	43.1%	76.8	43.2%	13.1%	160.2	42.8%
EMEA	78.6	38.9%	68.2	38.4%	15.2%	147.4	39.4%
APAC	36.2	18.0%	32.6	18.4%	11.0%	66.9	17.8%
Total	**201.7**		**177.6**			**374.5**	

Americas- revenues were up by 13.1% to $86.9 million (H1 2017: $76.8 million), reflecting the growing demand to the LTE products – Telit expects further growth to come from the transition to LTE.

EMEA- revenues increased by 15.2% to $78.6 million (H1 2017: $68.2 million). This growth derived mainly from the strong performance of the Automotive business.

APAC- revenues increased by 11.0% to $36.2 million (H1 2017: $32.6 million), a significant improvement after the decline in 2017. The performance was slightly below expectations as Telit still suffered a delay in a big project in this region that negatively impacted the overall performance.

Gross margin and gross profit

Gross profit in H1 2018 was $67.8 million (H1 2017: $69.6 million), explained by increased revenues being offset by lower gross margins than the comparable period, albeit improved against H2 2017. The Group is pleased that margins appear to have stabilised and improved half-on-half, with the decline against H1 2017 a result of the faster than expected shift from 2G and CDMA, both mature technologies with higher gross margins, to LTE, which is a relatively new technology, with lower margins at this stage.

LTE product margin has started to improve through the maturity and growth in volumes, and Telit saw improvement in margin compare with H2-2017. The Group is working hard to adjust its cost structure and to increase its share of higher margin cloud and connectivity revenues.

Operating expenses

Gross R&D expenses as follows:

	H1 2018 $m	H1 2017 $m
Gross research & development expenses (1)	34.7	35.4
Less – Capitalisation (2)	(13.7)	(17.9)
Add – Amortisation	7.5	8.0
Add – Impairment (3)	2.4	-
Research and development, net	**30.9**	**25.5**

(1) Gross research and development expenses decreased slightly to $34.7 million, 17.2% of revenues (H1 2017: $35.4 million, 19.9% of revenues) reflecting mainly the restructuring of the short range business including the closure of the R&D centre in San Jose from the acquisition of GainSpan in February 2017.

(2) The amount capitalised in respect of internally generated development assets decreased from $17.9 million in H1 2017 to $13.7 million in H1 2018. The decrease is also shown, as a percentage of gross R&D expenses from 50.6% in H1 2017 to 39.5% in H1 2018. This amount capitalised mainly relate to the development of additional high category LTE products for both

industrial and automotive and low categories including the CAT-M1 and NB-IoT for the industrial IoT.

(3) An impairment of a capitalised development asset as a result of integration of a new software that made this development asset redundant.

Selling and marketing expenses decreased to $33.0 million, 16.3% of revenues (H1 2017: $35.1 million, 19.8% of revenues). The decrease was mainly due to the cost optimisation plan.

General and administrative expenses decreased to $13.2 million, 6.5% of revenues (H1 2017: $14.4 million, 8.1% of revenues). The decrease reflects mainly the impact of the departure of the former CEO.

Other non recurring expenses:

	H1 2018 $m	**H1 2017 $m**
Integration and transaction costs (1)	-	0.7
Legal and other expenses related to crisis management (2)	0.7	-
Other	0.2	-
Total	**0.9**	**0.7**

(1) Costs in H1-2017 were mainly relating to the integration GainSpan acquired in February 2017.
(2) Costs related mainly to legal and advisory costs in association with the 2017 crisis management, FCA investigation and the BAMES litigation.

Cash OPEX decrease to $70.1 million (H1 2017: $74.7 million):

	H1 2018 $m	**H1 2017 $m**
Gross research & development expenses	34.7	35.4
Selling and marketing	33.0	35.1
General and administrative	13.2	14.4
GainSpan integration costs	-	0.6
	80.9	**85.5**
Less share based payment charges	(3.4)	(3.3)
Less other depreciation and amortisation	(7.4)	(7.5)
Total Cash OPEX	**70.1**	**74.7**

Restructuring plan

Following the review of the Group's activities, cost base and product portfolio initiated in 2017, Telit continues with its actions in order to rationalise the operating cost structure and improve future profitability as part of a restructuring plan with the aim of cutting $10 million in cash operating expenses compared to 2017.

Restructuring costs recognised in H1 2018 include termination fees and other employee related costs and inventory write-off related to the restructuring plan.

Finance Cost

Net finance cost increased by $1.1 million mainly reflecting higher interest costs and bank fees, driven from the increase in credit facility utilisation and interest rates and exchange rates differences.

Dividend

The Board is not proposing to pay a dividend for the period.

Net debt and cash flow

As at June 2018, net debt was $25.0 million (31 December 2017: $30.2 million). The $5.2 million decrease was a result of the significant improvement in the cash generated from operating activities.

Cash flow from operating activity was $21.1 million, an improvement of $24.4 million, from net cash used in operating activities of $3.3 million in H1 2017.

Cash flow used in investing activity was $18.1 million (H1 2017: $36.2 million). The decrease was mainly due to a decrease in the amount spent on acquisition and in R&D capitalization.

Cash flow used in financing activity was $6.6 million (H1 2017: generated $42.1 million). The decrease was mainly due to the proceeds of $49.7 million from issue of new shares in H1 2017.

Bank covenants

Telit relies on financing mainly in the form of committed credit facilities from HSBC Bank plc and certain of its affiliates and Bank Hapoalim B.M. ("Credit Facilities").

As previously announced in 2017, Telit obtained several waivers from one of its banks and in March 2018, agreed to amend the financial covenants with that bank. The new covenants are more appropriate for the Group. Telit have met all covenants so far and the Board is closely monitoring compliance with the covenants on an ongoing basis.

Financial review

As previously announced, in 2017 the Board mandated Grant Thornton to undertake a review undertaken by Grant Thornton of certain elements of the Group's financial policies, controls, and procedures related to consolidation, third party distributors and revenue recognition. The final Grant Thornton report has been received with no material shortfalls identified and the Group has implemented a number of the recommendations as to best practice improvements made in the reports.

Internally generated development assets, net

As at 30 June 2018, the net amount of internally generated development assets is split as the following:

Technology	Internally generated development assets, net as at 30 June 2018		Internally generated development assets, net as at 31 December 2017		Change from 31 December 2017	
	$m	%	$m	%	$m	%
IoT Services	**8.6**	**11%**	**8.7**	**12%**	**(0.1)**	**(1.1%)**
4G	51.1	67%	49.7	67%	1.4	2.8%
3G	7.9	11%	9.4	12%	(1.5)	(16%)
Other IoT Modules	8.3	11%	6.8	9%	1.5	22.1%
IoT Products	**67.3**	**89%**	**65.9**	**88%**	**1.4**	**2.1%**
	75.9	**100%**	**74.6**	**100%**	**1.3**	**1.7%**

Internally generated development assets that have started to be amortised, increased to 62% of the total internally generated development assets (31 December 2017: 47%).

	30 June 2018 $m	**%**	**31 December 2017 $m**	**%**
Net assets in development process (not amortised yet)	28.6	38%	39.9	53%
Net assets in amortisation phase	47.3	62%	34.7	47%
Total	**75.9**		**74.6**	

The net assets that are in development phase, before starting to be amortised, are mainly 4G products and IoT services software. The period of amortisation is three to five years.

Total equity

Net shareholders' equity decreased from $124.5 million as at 31 December 2017 to $112.1 million as at 30 June 2018 mainly due to the net loss in the period.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2018	**2017**	**2017**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
Revenue	201,669	177,558	374,531
Cost of sales	(133,866)	(107,970)	(242,949)
Gross profit	67,803	69,588	131,582
Other operating income	1,014	1,288	2,437
Research and development expenses, net (see note 3)	(30,943)	(25,460)	(66,870)
Selling and marketing expenses	(32,967)	(35,072)	(66,786)
General and administrative expenses	(13,209)	(14,443)	(28,640)
Exceptional expenses related to restructuring	(621)	-	(15,979)
Other operating expenses	(892)	(682)	(5,412)
Operating loss	(9,815)	(4,781)	(49,668)
Operating loss	(9,815)	(4,781)	(49,668)
Share based payment charges	3,443	3,318	4,324
Exceptional expenses related to restructuring	621	-	15,979
Impairment of internally generated development assets	2,362	-	8,414
Other non-recurring expenses	892	673	5,412
Amortisation of intangible assets acquired	1,907	2,406	4,834
Adjusted EBIT (*)	(590)	1,616	(10,705)
Finance income	86	189	155
Finance costs	(3,062)	(2,083)	(7,268)
Loss before income taxes	(12,791)	(6,675)	(56,781)
Tax credit	881	2,109	4,565
Loss for the period from continuing operations	(11,910)	(4,566)	(52,216)
Profit for the period from discontinued operations	-	440	-
Net loss	(11,910)	(4,126)	(52,216)

* Adjusted EBIT is a company specific non GAAP measure which excludes share based payment charges, exceptional expenses related to restructuring, impairment of internally generated development assets, other non-recurring expenses and amortisation of intangible assets acquired. The Group's management believes that 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	Unaudited		Audited
	$'000	$'000	$'000
Net loss	(11,910)	(4,126)	(52,216)
Other comprehensive income			
Items to be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences	(3,936)	6,308	11,801
Items not to be reclassified in subsequent periods to profit and loss:			
Remeasurement loss on defined benefit plan, net of tax	-	-	(242)
Total comprehensive income for the period	(15,846)	2,182	(40,657)
Basic and diluted loss per share (in USD cents)	(9.1)	(3.5)	(41.9)
Adjusted basic and diluted loss per share[3] (in USD cents)	(3.0)	(0.8)	(16.4)
Basic and diluted weighted average number of equity shares	130,222,745	119,066,895	124,689,682

[3] Adjusted basic and 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

	30 June		31 December
	2018	2017	2017
	Unaudited		Audited
	$'000	$'000	$'000
ASSETS			
Non-current assets			
Intangible assets	108,773	123,770	110,436
Property, plant and equipment	25,296	26,364	26,545
Other long term assets	1,689	1,321	1,909
Deferred tax asset	16,125	10,837	15,068
	151,883	162,292	153,958
Current assets			
Inventories	27,120	37,899	23,829
Trade receivables	82,816	97,293	100,410
Income tax receivables	505	133	934
Other current assets	13,551	18,072	15,968
Deposits – restricted cash	546	5,745	393
Cash and cash equivalents	37,025	29,726	41,908
	161,563	188,868	183,442
Total assets	**313,446**	**351,160**	**337,400**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	2,165	2,144	2,165
Share premium account	49,778	49,647	49,778
Other reserve	(2,727)	(2,727)	(2,727)
Treasury stock fund	-	(1,085)	-
Translation reserve	(16,633)	(18,190)	(12,697)
Retained earnings	79,557	140,113	88,024
Total equity	112,140	169,902	124,543
Non-current liabilities			
Long term borrowings	43,428	20,621	42,203
Post-employment benefits	3,093	3,131	3,272
Deferred tax liabilities	1,366	2,124	1,109
Provisions	1,138	25	923
	49,025	25,901	47,507
Current liabilities			
Short-term borrowings	19,184	24,118	30,256
Trade payables	105,510	105,798	104,012
Provisions	702	232	708
Income tax payables	2,255	1,880	2,190
Accruals and other current liabilities	24,630	23,329	28,184
	152,281	155,357	165,350
Total equity and liabilities	**313,446**	**351,160**	**337,400**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2018	**2017**	**2017**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
CASH FLOWS – OPERATING ACTIVITIES			
Loss for the period from continued operations	(11,910)	(4,566)	(52,216)
Adjustments for:			
Depreciation of property, plant and equipment	4,603	4,185	8,765
Amortization of intangible assets	10,367	11,331	32,883
Impairment of intangible assets	2,362	-	10,024
Loss on sale of property, plant and equipment	-	10	99
Loss on disposal of intangible assets	-	-	446
Change in provision for post-employment benefits	(75)	(50)	(325)
Change in long term provisions, net	450	(4,564)	(3,857)
Finance costs, net	2,977	1,893	7,113
Tax income	(881)	(2,109)	(4,565)
Share-based payment charge	3,443	3,318	1,805
Operating cash flows before movements in working capital	11,336	9,448	172
Decrease in trade receivables	17,481	9,896	11,468
Decrease (increase) in other current assets	2,221	(1,781)	(376)
(Increase) decrease in inventories	(3,985)	(4,157)	8,521
Increase (decrease) in trade payables	1,697	(11,245)	(15,027)
Decrease in other current liabilities	(5,569)	(2,982)	(3,284)
Cash from operations	23,181	(821)	1,474
Income tax paid	(179)	(1,122)	(3,196)
Interest received	86	98	155
Interest paid	(2,020)	(1,447)	(3,247)
Net cash from / (used in) operating activities from continued operations	**21,068**	**(3,292)**	**(4,814)**
Profit for the period from discontinued operations	**-**	**440**	-
Decrease in provisions	**-**	**(440)**	-
Net cash from/ (used in) operating activities from discontinued operation	**-**	**-**	**-**
CASH FLOWS - INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	(4,376)	(5,679)	(10,167)
Acquisition of intangible assets	(190)	(912)	(3,997)
Proceeds from disposal of property, plant and equipment	334	79	231
Capitalised development expenditure	(13,725)	(17,944)	(31,098)
Acquisition of subsidiaries, net of cash acquired	-	(6,676)	(6,672)
Increase in restricted cash deposits	(129)	(5,052)	(196)
Net cash (used in) investing activities	**(18,086)**	**(36,184)**	**(51,899)**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Six months ended 30 June		Year ended 31 December
	2018	**2017**	**2017**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
CASH FLOWS - FINANCING ACTIVITIES			
Proceeds from exercise of options	-	4	196
Issued of shares	-	49,700	49,660
Dividend paid	-	(5,682)	(5,682)
Proceeds from other loans	4,814	14,308	21,530
Repayment of other loans	(4,547)	(3,390)	(4,116)
Short-term borrowings from banks	(6,898)	(12,811)	10,606
Net cash from financing activities	**(6,631)**	**42,129**	**72,194**
(Decrease) increase in cash and cash equivalents	(3,649)	2,652	15,481
Cash and cash equivalents-balance at beginning of period	41,908	26,547	26,547
Effect of exchange rate differences	(1,234)	527	(120)
Cash and cash equivalents-balance at end of period	**37,025**	**29,726**	**41,908**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018 (Unaudited)

	Share capital $'000	Share premium $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2018	2,165	49,778	(2,727)	(12,697)	88,024	124,543
Total comprehensive income for the period						
Loss for the period	-	-	-	-	(11,910)	(11,910)
Other comprehensive income	-	-	-	(3,936)	-	(3,936)
Total comprehensive loss for the period	-	-	-	(3,936)	(11,910)	(15,846)
Transaction with owners:						
Share based payment charge	-	-	-	-	3,443	3,443
Total transactions with owners	-	-	-	-	3,443	3,443
Balance at 30 June 2018	**2,165**	**49,778**	**(2,727)**	**(16,633)**	**79,557**	**112,140**

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)
Other comprehensive income	-	-	-	-	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**

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 2018. 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 2017 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 2017 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. 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, adjusted profit before tax and profit in cash are provided as additional information only and should not be considered as a substitute for operating profit/loss (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, impairment and non-recurring and exceptional expenses; Adjusted EBITDA as Adjusted EBIT plus depreciation and other amortisation; profit/loss in cash as Adjusted EBITDA less capitalisation of internally generated development assets, less acquisition of tangible and intangible assets net of proceeds from disposal of assets.

Adjusted (Loss) / Profit before tax as (Loss) / Profit before tax plus share based payment expenses, amortisation of acquired intangibles and non-recurring and exceptional expenses; and Adjusted net (loss) / profit for the year as net (Loss) / Profit for the year plus share based payment expenses, amortisation of acquired intangibles and non-recurring items less deferred tax (credit) / expense. 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 items, which are not inherent to the business. Consequently, Adjusted EBIT, Adjusted EBITDA, (loss) / profit in cash, Adjusted (loss) / profit before tax and Adjusted net (loss) / profit for the year are presented in addition to the reported results.

	H1 2018	H1 2017	FY 2017
	$'000	**$'000**	**$'000**
Operating loss - EBIT	**(9,815)**	**(4,781)**	**(49,668)**
Share based payments	3,443	3,318	4,324
Exceptional expenses related to restructuring	621	-	15,979
Impairment of internally developed assets	2,362	-	8,414
Non-recurring expenses	892	672	5,412
Amortization intangibles acquired	1,907	2,406	4,834
Adjusted EBIT	**(590)**	**1,615**	**(10,705)**
Depreciation and amortization	13,063	13,110	28,757
Adjusted EBITDA	**12,473**	**14,725**	**18,052**
Capitalisation of internally generated development assets	(13,725)	(17,944)	(31,098)
Acquisition of tangible and intangible assets, net of proceeds from disposal of assets	(4,468)	(6,591)	(13,933)
Loss in cash	**(5,720)**	**(9,809)**	**(26,979)**
Loss before tax (PBT)	**(12,791)**	**(6,675)**	**(56,781)**
Share-based payments	3,443	3,318	4,324
Exceptional expenses related to restructuring	621	-	15,979
Impairment of internally developed assets	2,362	-	8,414
Other non-recurring expenses	892	672	5,412
Amortisation - intangibles acquired	1,907	2,406	4,834
Adjusted loss before tax	**(3,566)**	**(279)**	**(17,818)**
Net loss for the period	**(11,910)**	**(4,126)**	**(52,216)**
Share-based payments	3,443	3,318	4,324
Exceptional expenses related to restructuring	621	-	15,979
Impairment of internally developed assets	2,362	-	8,414
Other non-recurring expenses	892	672	5,412
Amortisation of intangibles acquired	1,907	2,406	4,834
Deferred tax credit	(1,189)	(3,178)	(7,241)
Adjusted net loss for the period	**(3,874)**	**(908)**	**(20,494)**

4. Net debt position:

	H1 2018	**H1 2017**	**FY 2017**
	$'000	**$'000**	**$'000**
Cash and cash equivalent	37,025	29,726	41,908
Deposits	546	5,745	393
Working capital borrowings (1)	(12,658)	-	(22,112)
Long term loans (2)	(22,783)	(23,001)	(23,351)
Governmental loan (3)	(25,049)	(19,415)	(24,657)
Mortgage loan (4)	(2,122)	(2,323)	(2,339)
Net debt	**(25,041)**	**(9,268)**	**(30,158)**

(1) Short term borrowings, less than one year, based on committed credit facilities used for working capital. The credit facilities bear interest at a rate of 2.2% to 3.7%.

(2) Representing long term loan from HSBC in the amount of $20 million with interest at a rate of Libor plus 2.95% and is being repaid in 7 semi-annual instalments that will commence in October 2018, and long term loan from banks in Italy 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 loan with fixed-rate of 0.5% and is repayable in 14 semi-annual instalments that commenced in December 2016, supported by the Italian MISE (Ministry of Economic Development) to develop an innovative platform for the application of M2M technologies. The loan is initially recognised at fair value and subsequently measured at amortised cost.

(4) Representing a preferential rate mortgage loan from a regional fund in Italy provided in connection with the Group’s acquisition of the campus used for the Company's main R&D facility in Trieste, Italy. The mortgage loan is denominated in Euro, attracts interest at a rate of 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 loan is initially recognised at fair value and subsequently measured at amortised cost.

The directors believe that the credit facilities will remain available to the Group in the foreseeable future and that the Group will be able to continue to fund its operations from these credit facilities.

5. Sales of automotive division

As announced on 13 July 2018, Telit Communications PLC has agreed to sell its automotive division to TUS International Limited ("TUS") for a cash consideration of $105 million (subject to adjustments on completion and an overall cap of $125 million). The transaction is expected to complete by the end of 2018, subject to conditions being satisfied. The transaction requires a reorganisation of the automotive division within the Group and transfer of the IP, assets and employees who support the automotive business in R&D and sales offices in several countries.

On an unaudited proforma basis, the automotive division generated in H1 2018 approximately $34.2 million revenues (Full year 2017: $63.2 million) with an adjusted EBITDA (excluding allocated overhead costs) of $2.4 million (Full year 2017: $10.1 million).

6. Tax assessment

In August 2018, from the first stage of a tax audit, the group affiliates Telit Wireless Solutions Ltd. and Telit Wireless Services Ltd. received tax assessments from the Israeli Tax Authorities for FY 2013 and FY 2013-2016 respectively. These assessments relate to the treatment of losses arising from a statutory reorganization performed in 2014 which were offset against taxable income. The potential additional tax charge to the Group is $3m but the Group intends to appeal against these charges and considers, based on professional advice and the particular facts of the situation (including that the statutory reorganization was performed in accordance with the conditions set out in the Israeli Income Tax Ordinance) that it has strong arguments against the disallowance of the losses. Accordingly, no provision has been made for this amount.