9 September 2019

Telit Communications PLC

Interim results – continued improvement in financial performance

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 2019.

Financial highlights[1]

- Revenue, excluding automotive business sold in February 2019, up by 7.6% to $180.3 million (H1 2018: $167.5 million)
    - Total Group revenue, including two months contribution from the automotive business, $190.7 million (H1 2018: $201.7 million, including six months of automotive business)
- IoT Cloud and connectivity revenues up 13.3% to $18.7 million (H1 2018: $16.5 million)
- Adjusted EBITDA, excluding automotive business, up by 57.4% to $15.9 million (H1 2018: $10.1 million)
    - Total Group adjusted EBITDA, including two months contribution from the automotive business, up by 28.0% to $16.0 million (H1 2018: $12.5 million, including six months of the automotive business).
- $70.9 million improvement in profit before tax to $58.1 million (H1 2018: loss $12.8 million), including $57.2 million gain from sale of automotive business
- $8.3 million improvement in profit in cash[2] to $2.6 million (H1 2018: loss $5.7 million), driven by cash OPEX saving following restructuring plan implementation
- $78.7 million improvement in net cash position to $44.7 million at 30 June 2019 (31 December 2018: net debt $34.0 million)

Operational highlights

- Restructuring and cost rationalisation programme completed with further reduction in cash operating expenses - optimised organisation with five R&D centres
- Increased focus on high category LTE and 5G products – clear development plan to address growing demand for high bandwidth products
- Further investment in OneEdge, our integrated hardware and services offering designed to enable enterprises to manage integration and scalability
- Continued supply chain optimisation to stabilise gross margin – focus on material and manufacturing costs; plan for new production facility to counter US-China trade issues
- Received certifications for NB-IoT and LTE-M modules from leading mobile operators

Paolo Dal Pino, Chief Executive Officer, said:

"Since I joined Telit, our key focus has been on the completion of the automotive sale, the reorganisation of our management team and the refocus of our company's portfolio towards more innovative industrial IoT products and services, all of which has helped improve our financial performance.

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[1] For reconciliation from IFRS financial results to adjusted financial results, see Note 4.

[2] Profit in cash defined as Adjusted EBITDA less development costs capitalised, less capital expenditures, less lease expenses in cash

"Thanks to these efforts, we have seen significant improvement in our cash generation, driven by solid revenue growth and our cost optimisation plan is fully on track to meet our targets."

"We are encouraged by our performance in H1 and remain confident that full-year results will be in line with the Board's expectations"

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Operational review

On 27 February 2019, Telit completed the sale of its automotive business for $105 million, an important milestone in its strategy to become a leading end-to-end IoT provider enabling enterprises to successfully execute their digital transformation.

The disposal of the automotive business, which represented in 2018 approximately 17.3% of Group revenue, frees up considerable internal resources and provides the financial flexibility to accelerate the integration of IoT products and services.

The sale also means that the Group is now solely focussed on the industrial IoT market, the main driver of digital transformation for enterprises. Telit is committed to maintaining and growing its leading position in the IoT products' market, increasing the value and differentiation of its products by leveraging the combination of modules and IoT services and ensuring the better utilisation of its sales force.

Within the end-to-end model, connected devices will become more efficient and user friendly, with software playing a key role in simplifying an enterprise's approach to IoT. This integrated business approach enables Telit to focus on synergies, leveraging its combined offering of modules (cellular and short range), IoT connectivity and IoT platform and portal.

During 2018, we defined our 5G strategy, engaging with Qualcomm to shape our development plan. In just the first six months, we began the development of our first 5G product which will address the demand for high bandwidth products such as gateways and routers. We are making good progress to present advanced samples toward the end of this year.

Telit also continued to invest in the development of its "OneEdge" software suite which enables solutions for a new generation of Telit's cellular LPWA IoT modules. With integrated, secure and easy-to-use tools, "OneEdge" dramatically simplifies the design, deployment and management of IoT products and solutions, which will be critical in the new 5G super-connected environment. Combined with "SimWISE", Telit's iSIM solution, these technologies will help address long-standing challenges related to integration, scalability, management and transform their businesses.

In the first half of the year, the Group completed the restructuring plan launched in the last quarter of 2017 and, thanks to this as well as the automotive sale, now has an optimised organisation made up of five R&D centres. Telit also continued the cost rationalisation programme designed to further reduce its cash operating expenses by approximately $10 million in 2019. It is on track to achieve this goal.

In the first half of the year, Telit saw 7.6% growth in revenue, excluding the automotive business. IoT Cloud and connectivity revenues rose by 13.3%, thanks to growing market traction in the connectivity business, as well as IoT project wins with customers that started to ramp up.

Improved and stable gross margins remain a major objective for Telit. The Group continues to focus on the actions launched in 2018, including the optimisation of material and manufacturing costs as well as the planning of a new production facility to better navigate the ongoing US-China trade dispute. Due to a challenging component market and these macroeconomic conditions, the gross margin in the first half decreased slightly from 33.6% to 32.0% in comparison with the first half of 2018. However, the gross margin was up in comparison with H2 2018.

In the first half of the year, profit in cash improved significantly from a loss of $5.7 million in H1 2018 to a profit in cash of $2.6 in H1 2019, mainly as a result of the continued cash OPEX optimisation.

In the first half of the year, adjusted EBITDA, excluding the automotive business, increased by 57.4% to $15.9 million (H1 2018: $10.1 million). The adjusted EBITDA was negatively affected by lower level of R&D capitalisation and benefitted from the implementation of the IFRS 16 (see note 3).

Outlook

The IoT market remains a fast growing and dynamic space, and Telit remains well positioned to capitalise on growth opportunities in this market. The Board is fully committed to delivering value and growth for the business as a leading enabler in the industrial IoT space.

Following the automotive sale completion and the overall improvement in H1 2019, Telit is confident that its operational performance in the full year 2019 will continue to make good progress in line with the Board's expectations.

Financial review

Financial results

	H1 2019 $m	**H1 2018 $m**	**Change $m**
Revenues	**190.7**	**201.7**	**(11.0)**
Gross profit	**61.0**	**67.8**	**(6.8)**
Gross margin	32.0%	33.6%	
Other operating income	1.7	1.0	0.7
Research and development	(24.4)	(30.9)	(6.5)
Selling and marketing	(24.4)	(33.0)	(8.6)
General and administrative	(12.1)	(13.2)	(1.1)
Exceptional expenses related to restructuring	(0.4)	(0.6)	(0.2)
Other exceptional items	56.8	(0.9)	57.7
Profit operating/ (loss)- EBIT	**58.2**	**(9.8)**	**68.0**
Adjusted EBITDA	**16.0**	**12.5**	**3.5**
Adjusted EBIT	**4.1**	**(0.6)**	**4.7**
Profit/ (loss) in cash	**2.6**	**(5.7)**	**8.3**
Profit/ (loss) before tax	**58.1**	**(12.8)**	**70.9**
Adjusted profit/ (loss) before tax	**4.0**	**(3.6)**	**7.6**
Basic profit/ (loss) per share (cents)	**35.0**	**(9.1)**	**44.1**
Adjusted basic profit/ (loss) per share (cents)	**2.2**	**(3.0)**	**5.2**

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 other exceptional items; 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 other exceptional items; 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 other exceptional items less change in deferred tax assets, net.

Revenues

Revenues, excluding the automotive business, increased by 7.6% to $180.3 million (H1 2018: $167.5 million). Total Group revenues, including a two months contribution from the automotive business, which was sold in February 2019, were $190.7 million (H1 2018: $201.7 million, including six months of automotive business). IoT Cloud and connectivity revenues up 13.3% to $18.7 million (H1 2018: $16.5 million).

The split of revenues is as follows:

	H1 2019 $m	% of total revenues	H1 2018 $m	% of total revenues	Change H1-19 over H1-18	2018 $m	% of total revenues
Americas	88.1	46.2%	82.1	40.7%	7.3%	176.7	41.3%
EMEA	54.1	28.4%	53.9	26.7%	0.4%	112.3	26.3%
APAC	38.1	20.0%	31.5	15.6%	21.0%	64.4	15.1%
Total	**180.3**		**167.5**			**353.4**	
Automotive	10.4	5.4%	34.2	17.0%		74.1	17.3%
Total	**190.7**		**201.7**			**427.5**	

Americas - revenues were up by 7.3% to $88.1 million (H1 2018: $82.1 million), in line with our expectations.

EMEA - revenues slightly increased by 0.4% to $54.1 million (H1 2018: $53.9 million). This region is still slow to adopt LTE and we expect the market to grow at a faster rate with growing adoption of 4G products. In addition, the competition from low cost suppliers in this region, which still use a lot of 2G devices, is more significant.

APAC - revenues increased by 21.0% to $38.1 million (H1 2018: $31.5 million), thanks to continued improvement in performance following the recovery from a delay in a big project we suffered since 2017.

Automotive - two months contribution ahead of the disposal amounted to $10.4 million compared to $34.2 million in H1-2018, which reflected a full six-month contribution.

Gross margin and gross profit

Gross profit in H1 2019 was $61.0 million (H1 2018: $67.8 million), primarily due to the sale of the automotive business in February 2019.

In terms of gross margin, Telit saw a year-on- year decline to 32.0% (H1 2018: 33.6%), albeit improved against H2 2018. Despite the US-China trade dispute that brought supply chain challenges, margins have substantially stabilised and even slightly improved half-on-half with the LTE product margin improving through the maturity and growth in volumes.

Operating expenses

The Group's cost base and expenses were substantially reduced in H1 2019, reflecting both the removal of automotive operating costs from 28 February 2019 as well as from the restructuring plan implementation.

Gross R&D expenses as follows:

	H1 2019 $m	H1 2018 $m	Change $m
Gross research & development expenses (1)	26.1	34.7	(8.6)
Less – Capitalisation (2)	(8.1)	(13.7)	5.6
Add – Amortisation	6.2	7.5	(1.3)
Add – Impairment	0.2	2.4	(2.2)
Research and development	**24.4**	**30.9**	**(6.5)**

(1) Gross research and development expenses decreased to $26.1 million, 13.7% of revenues (H1 2018: $34.7 million, 17.2% of revenues) reflecting mainly the removal of automotive R&D from 28 February 2019.

(2) The amount capitalised in respect of internally generated development assets decreased from $13.7 million in H1 2018 to $8.1 million in H1 2019, reflecting mainly the removal of automotive R&D from 28 February 2019. The decrease is also shown, as a percentage of gross R&D expenses from 39.5% in H1 2018 to 31.0% in H1 2019. The capitalised costs in H1 2019 mainly relate to the development of additional 4G and 5G products.

Selling and marketing expenses decreased to $24.4 million, or 12.8% of revenues (H1 2018: $33.0 million, 16.3% of revenues). The decrease was mainly a result of the completion of the cost optimisation plan and the exclusion of the automotive sales team from 28 February 2019.

General and administrative expenses decreased to $12.1 million, or 6.3% of revenues (H1 2018: $13.2 million, 6.5% of revenues).

Other exceptional items:

	H1 2019 $m	**H1 2018 $m**
Capital gain from automotive sale (1)	(57.2)	-
Legal and other expenses related to crisis management (2)	0.2	0.7
Other	0.2	0.2
Total	**(56.8)**	**0.9**

(1) On February 2019 Telit completed the sale of its automotive business to TUS for a total consideration of $105 million plus working capital adjustment. (see note 7)
(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 by $13.6 million to $56.5 million (H1 2018: $70.1 million) reflecting both the automotive sale and the operating cost optimisation:

	H1 2019 $m	**H1 2018 $m**	**Change $m**
Gross research & development expenses	26.1	34.7	(8.6)
Selling and marketing expenses	24.4	33.0	(8.6)
General and administrative expenses	12.1	13.2	(1.1)
	62.6	**80.9**	**(18.3)**
Less share-based payment charges	(1.1)	(3.4)	2.3
Less other depreciation and amortisation	(6.9)	(7.4)	0.5
Add back lease expenses in cash (see note 3)	1.9	-	1.9
Total Cash OPEX	**56.5**	**70.1**	**(13.6)**

Restructuring plan

Following the review of the Group's activities, cost base and product portfolio initiated in 2017, Telit continues to optimise 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 in both 2018 and 2019. The Group is on track to achieve this goal.

Restructuring costs recognised in H1 2019 include termination fees and other employee related costs and inventory write-off related to the restructuring plan, which was completed during the period.

Finance costs, net

	H1 2019 $m	H1 2018 $m	Change $m
Bank fees and other bank expenses	0.8	0.6	0.2
Non-cash expenses related to effective interest rate on preferred loan	0.5	0.6	(0.1)
Interest related to lease liabilities (1)	0.3	-	0.3
Interest expense on bank loans and overdrafts (2)	0.6	1.5	(0.9)
Loss from Hedging Transactions (3)	0.3	0.2	0.1
Exchange rate differences, net (4)	(1.9)	0.2	(2.1)
Interest income	(0.5)	(0.1)	(0.4)
Total	**0.1**	**3.0**	**(2.9)**

(1) Interest related to IFRS 16 - see note 3.
(2) Interest expenses related to loans and overdrafts decreased by $0.9 million, due to the repayment of HSBC and BHI credit facilities, following the sale of automotive.
(3) The Company entered into a hedging arrangement to protect the operating costs denominated in Euro – as the Euro currency against the USD was lower than expected, the hedging arrangement resulted in a loss.
(4) The exchange rate income in H1 2019 derive mainly from the weakness of the GBP and the Euro over the US dollars.

Net cash/ debt and cash flow

As at June 2019, net cash was $44.7 million (31 December 2018: net debt $34.0 million). The significant improvement of $78.7 million in the cash position came mainly from the sale of the automotive business.

Cash flow generated from operating activity before working capital, increased by $4.8 million to $16.1 million (H1 2018: $11.3 million), due to the improved financial performance.
Cash flow used in operating activity, after working capital movement, was $11.8 million (H1 2018: generated from $21.1 million), the amount invested in working capital related mainly to decline in the accounts payable together with significant increase in the accounts receivable.

Following the sale of the Automotive business the Group signed a transitional service agreement (TSA) to provide certain services to support TUS International Limited ("TUS") subsidiary (Titan) in the short term, mainly with IT services, procurement and production management to the divested business. The increase in the account receivables includes approximately $24.0 million for products and services provided to Titan under the TSA of which approximately $11.5 million was overdue as at 30 June 2019. Telit is in ongoing discussions with TUS and Titan to resolve the payment delay and the future of the TSA.

Cash flow provided by investing activity was $90.9 million (H1 2018: used in $18.1 million), mainly due to the consideration of the sale of the automotive business.

Cash flow used in financing activity was $39.4 million (H1 2018: $6.6 million), mainly due to the repayment of all bank loans following the sale of the automotive business.

Dividend

The Board is not proposing to pay an interim dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2019	**2018**	**2018**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
Revenue	190,732	201,669	427,483
Cost of sales	(129,742)	(133,866)	(288,310)
Gross profit	60,990	67,803	139,173
Other operating income	1,651	1,014	1,903
Research and development expenses	(24,393)	(30,943)	(72,985)
Selling and marketing expenses	(24,430)	(32,967)	(59,139)
General and administrative expenses	(12,078)	(13,209)	(25,973)
Exceptional expenses related to restructuring	(346)	(621)	(10,842)
Other exceptional items	56,843	(892)	(5,545)
Operating Profit / (loss) - EBIT	58,237	(9,815)	(33,408)
Operating Profit / (loss) - EBIT	58,237	(9,815)	(33,408)
Share based payment charges	1,081	3,443	5,715
Exceptional expenses related to restructuring	346	621	10,842
Impairment of internally generated development assets	196	2,362	10,238
Other exceptional expenses	(56,843)	892	5,545
Amortisation of intangible assets acquired	1,084	1,907	3,381
Adjusted EBIT (*)	4,101	(590)	2,313
Finance income	2,377	86	147
Finance costs	(2,523)	(3,062)	(6,552)
Profit/ (Loss) before income taxes	58,091	(12,791)	(39,813)
Tax (expense)/ credit	(12,229)	881	3,453
Net profit/ (loss)	45,862	(11,910)	(36,360)

* 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 exceptional items 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 other exceptional items, which are not inherent to the business.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Six months ended 30 June		Year ended 31 December
	2019	**2018**	**2018**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
Net profit/ (loss)	45,862	(11,910)	(36,360)
Other comprehensive income			
Items to be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences	(3,923)	(3,936)	(5,352)
Items not to be reclassified in subsequent periods to profit and loss:			
Remeasurement loss on defined benefit plan, net of tax	182	-	(4)
Total comprehensive income for the period	42,121	(15,846)	(41,716)
Basic profit (loss) per share (in USD cents)	35.0	(9.1)	(27.9)
Diluted profit (loss) per share (in USD cents)	34.2	(9.1)	(27.9)
Adjusted basic profit (loss) per share (in USD cents)	2.2	(3.0)	(3.8)
Adjusted diluted profit (loss) per share (in USD cents)	2.2	(3.0)	(3.8)
Basic weighted average number of equity shares	131,045,493	130,222,745	130,446,810
Diluted weighted average number of equity shares	134,276,207	130,222,745	130,446,810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June		31 December
	2019	2018	2018
	Unaudited		Audited
	$'000	$'000	$'000
ASSETS			
Non-current assets			
Intangible assets	66,396	108,773	97,012
Property, plant and equipment	27,819	25,296	23,101
Other long-term assets	1,313	1,689	1,456
Deferred tax asset	2,505	16,125	19,043
	98,033	151,883	140,612
Current assets			
Inventories	21,292	27,120	27,187
Trade receivables	105,421	82,816	99,550
Income tax receivables	782	505	759
Other current assets	12,302	13,551	15,531
Deposits – restricted cash	1,611	546	345
Cash and cash equivalents	73,849	37,025	35,006
	215,257	161,563	178,378
Total assets	**313,290**	**313,446**	**318,990**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	2,167	2,165	2,165
Share premium account	49,932	49,778	49,778
Other reserve	(2,727)	(2,727)	(2,727)
Translation reserve	(21,972)	(16,633)	(18,049)
Retained earnings	101,547	79,557	55,319
Total equity	128,947	112,140	86,486
Non-current liabilities			
Long term borrowings	24,676	43,428	24,092
Post-employment benefits	2,050	3,093	2,771
Deferred tax liabilities	649	1,366	1,451
Provisions	1,658	1,138	1,373
Lease liability	8,054	-	-
	37,087	49,025	29,687
Current liabilities			
Short-term borrowings	6,107	19,184	45,238
Trade payables	107,657	105,510	120,824
Provisions	2,692	702	2,254
Income tax payables	1,218	2,255	2,836
Accruals and other current liabilities	29,582	24,630	31,665
	147,256	152,281	202,817
Total equity and liabilities	**313,290**	**313,446**	**318,990**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2019	**2018**	**2018**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
CASH FLOWS – OPERATING ACTIVITIES			
Profit/ (loss) for the period	45,862	(11,910)	(36,360)
Adjustments for:			
Depreciation of property, plant and equipment	4,891	4,603	8,905
Amortization of intangible assets	8,118	10,367	23,428
Impairment of intangible assets	196	2,362	11,829
Loss on sale of property, plant and equipment	-	-	294
Capital gain from sale of automotive business	(57,221)	-	-
Change in provision for post-employment benefits	1,098	(75)	(362)
Change in long term provisions, net	761	450	501
Finance costs, net	147	2,977	6,405
Tax expenses/ (income)	12,229	(881)	(3,453)
Share-based payment charge	46	3,443	3,659
Operating cash flows before movements in working capital	16,127	11,336	14,846
(Increase) Decrease in trade receivables	(15,998)	17,481	(326)
Decrease in other current assets	2,468	2,221	2,007
Decrease (Increase) in inventories	4,257	(3,985)	(4,238)
(Decrease) increase in trade payables	(9,757)	1,697	16,744
(Decrease) increase in other current liabilities	(6,165)	(5,569)	481
Cash from operations	(9,068)	23,181	29,514
Income tax paid	(1,852)	(179)	(10)
Interest received	451	86	142
Interest paid	(1,296)	(2,020)	(3,880)
Net cash (used in) / from operating activities	**(11,765)**	**21,068**	**25,766**
CASH FLOWS - INVESTING ACTIVITIES			
Consideration from sale of automotive, net	103,760	-	-
Acquisition of property, plant and equipment	(1,467)	(4,376)	(8,296)
Acquisition of intangible assets	(2,437)	(190)	(869)
Capitalised development expenditure	(8,074)	(13,725)	(25,300)
Proceeds from disposal of property, plant and equipment	374	334	762
Decrease (increase) in restricted cash deposits	(1,267)	(129)	28
Net cash from/ (used in) investing activities	**90,889**	**(18,086)**	**(33,675)**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Six months ended 30 June		Year ended 31 December
	2019	**2018**	**2018**
	Unaudited		**Audited**
	$'000	**$'000**	**$'000**
CASH FLOWS - FINANCING ACTIVITIES			
Proceeds from exercise of stock options	154	-	-
Proceeds from long-term borrowings	3,707	4,814	4,616
Repayment of lease liabilities	(1,822)	-	-
Repayment of long-term borrowings	(18,316)	(4,547)	(9,326)
Short-term borrowings from banks, net	(23,127)	(6,898)	6,895
Net cash (used in)/ from financing activities	**(39,404)**	**(6,631)**	**2,185**
Increase (decrease) in cash and cash equivalents	39,720	(3,649)	(5,724)
Cash and cash equivalents-balance at beginning of period	35,006	41,908	41,908
Effect of exchange rate differences	(877)	(1,234)	(1,178)
Cash and cash equivalents-balance at end of period	**73,849**	**37,025**	**35,006**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2019 (Unaudited)

	Share capital	Share premium	Other reserve	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2019	2,165	49,778	(2,727)	(18,049)	55,319	86,486
Total comprehensive income for the period						
Profit for the period	-	-	-	-	45,862	45,862
Other comprehensive income	-	-	-	(3,923)	182	(3,741)
Total comprehensive profit for the period	-	-	-	(3,923)	46,044	42,121
Transaction with owners:						
Exercise of options	2	154	-	-	-	156
Share based payment charge	-	-	-	-	184	184
Total transactions with owners	2	154	-	-	184	340
Balance at 30 June 2019	**2,167**	**49,932**	**(2,727)**	**(21,972)**	**101,547**	**128,947**

Six months ended 30 June 2018 (Unaudited)

	Share capital	Share premium	Other reserve	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'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**

NOTES TO THE INTERIM FINANCIAL STATEMENT AT 30 JUNE 2019 (Unaudited)

Note 1 - General

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

Note 2 – Basis of preparation

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 2019. 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 2018 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 2018 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.

Note 3 – Application of new International Financial Reporting Standards (IFRSs)

The Group has applied IFRS 16 Leases for the first time in the current year.

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 superseded the previous lease guidance, including IAS 17 Leases and the related interpretations, starting 1 January 2019 when it became effective. The Group adopted the initial application of IFRS 16 on 1 January 2019.

The Group has chosen the modified retrospectively application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Group did not restate comparative information. Instead, the Group recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings at the date of initial application. There was no effect on the opening balance of retained earnings.
In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 continued to apply to those leases entered or modified before 1 January 2019.
The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:
the right to obtain substantially all of the economic benefits from the use of an identified asset; and
the right to direct the use of that asset.

The Group applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 has not changed significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group:

Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments.
Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaced the previous requirement to recognise a provision for onerous lease contracts.
For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has chosen to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 1 January 2019, the Group recognised right-of-use assets of $12.9m and a corresponding lease liability of $12.9m. As at 30 June 2019, the Group had right-of-use assets of $11.1m, current lease liability of $3.2m and long-term lease liability of $8.1m.

There was also an impact to the income statement, resulting in an increase to adjusted operating profit through an operating lease expense of $1.9m being removed and replaced with a smaller depreciation charge of $1.7m. There were interest expenses under the new accounting standard amounting to $0.3m that would not have occurred under IAS 17, which substantially offset the increase in adjusted operating profit and resulted in an immaterial difference to profit before tax. There was no impact on total cash flows, however there was an increase in cash flows from operating activities of $1.6m, and a corresponding decrease in cash flows from financing activities of $1.8m.

Note 4 - Alternative performance measures

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 other exceptional items; 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 other exceptional items; 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 other exceptional items, which are not inherent to the business. Consequently, Adjusted EBIT, Adjusted EBITDA, profit / (loss) in cash, Adjusted (loss) / profit before tax and Adjusted net (loss) / profit for the year are presented in addition to the reported results.

	H1 2019	H1 2018	FY 2018
	$'000	$'000	$'000
Operating profit/ (loss) - EBIT	**58,237**	**(9,815)**	**(33,408)**
Share based payments	1,081	3,443	5,715
Exceptional expenses related to restructuring	346	621	10,842
Impairment of internally developed assets	196	2,362	10,238
Other exceptional items	(56,843)	892	5,545
Amortization- intangibles acquired	1,084	1,907	3,381
Adjusted EBIT	**4,101**	**(590)**	**2,313**
Depreciation and amortization (1)	11,947	13,063	27,770
Adjusted EBITDA	**16,048**	**12,473**	**30,083**
Capitalisation of internally generated development assets	(8,074)	(13,725)	(25,300)
Acquisition of tangible and intangible assets, net of proceeds from disposal of assets	(3,529)	(4,468)	(8,402)
Lease liabilities adjustment (IFRS 16)	(1,877)	-	-
Profit (Loss) in cash	**2,568**	**(5,720)**	**(3,619)**

	H1 2019	H1 2018	FY 2018
Profit (loss) before tax	**58,091**	**(12,791)**	**(39,813)**
Share-based payments	1,081	3,443	5,715
Exceptional expenses related to restructuring	346	621	10,842
Other exceptional items	(56,843)	892	5,545
Impairment of internally developed assets	196	2,362	10,238
Amortisation - intangibles acquired	1,084	1,907	3,381
Adjusted profit (loss) before tax	**3,955**	**(3,566)**	**(4,092)**

	H1 2019	H1 2018	FY 2018
Net profit (loss) for the period	**45,862**	**(11,910)**	**(36,360)**
Share-based payments	1,081	3,443	5,715
Exceptional expenses related to restructuring	346	621	10,842
Other exceptional items	(56,843)	892	5,545
Impairment of internally developed assets	196	2,362	10,238
Amortisation- intangibles acquired	1,084	1,907	3,381
Change in Deferred taxes debit (credit)	11,200	(1,189)	(4,268)
Adjusted net profit (loss) for the period	**2,926**	**(3,874)**	**(4,907)**

Note 5 - Net cash (debt) position:

	H1 2019	H1 2018	FY 2018
	$'000	$'000	$'000
Cash and cash equivalent	73,849	37,025	35,006
Restricted cash deposits	1,611	546	337
Working capital borrowings (1)	-	(12,658)	(24,442)
Long term loans (2)	(3,020)	(22,783)	(20,033)
Governmental loan (3)	(25,800)	(25,049)	(22,862)
Mortgage loan (4)	(1,963)	(2,122)	(1,993)
Net cash (debt)	**44,677**	**(25,041)**	**(33,987)**

(1) All credit facilities were fully repaid on February 2019. As of 2018 short term borrowings, balances reflect less than one year, committed credit facilities used for working capital. The Group is in process to secure new credit facilities for working capital financing.

(2) Representing 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. In 2018 including also long term from HSBC that was fully repaid in February 2019.

(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 IoT 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.

Note 6 – Shareholder equity

Net shareholders' equity increased to $128.9 million as at 30 June 2019 from $86.5 million as at 31 December 2018, mainly due to the net profit in the period.

In June 2019 the company granted employees and management 1,064,000 restricted shares units (RSUs). The RSUs will vest three years from the grant date, subject to share price performance conditions being met. Failure to achieve share price targets will reduce vesting by up to 50%. In addition, attainment of a defined share price target on the 18th month following the grant date, will trigger vesting of 40% of the RSUs. The vested RSUs are subject to a six-month holding period following the vesting date.

The issued share capital of Telit as at 30 June 2019, comprised 131,691,291 Ordinary Shares, each with voting rights. There are no shares held in treasury.

Note 7 - Sale of automotive business

- On 13 July 2018, Telit Communications PLC agreed to sell its automotive business to TUS International Limited ("TUS"). On 27 February 2019 the sale was completed for a total consideration of $105.0 million, including a short-term vendor loan of $38.5m which was repaid in full on 15 April 2019.

As of 27 February 2019, the net book value of the net assets, including working capital items, of the disposed business units is approximately $50.6 million includes intangible assets of approximately $37 million. The capital gain before tax was $57.2 million.

The final capital gain calculation might be adjusted once the net consideration for the sale of the automotive business is finalized. The net consideration will be calculated in the light of the net working capital items adjustment, which was initially scheduled to be completed by May 2019. The working capital adjustment date was extended at TUS's request to the 5th of August 2019, but TUS did not make that revised deadline and the adjustment is still yet to be finalized.

- In connection with its agreement to sell the automotive business to TUS, Telit agreed to provide certain transitional IT, procurement and production management services to Titan, pursuant to a transitional services agreement (TSA). Titan is required to pay Telit for these services and, as at 30 June 2019, the account receivable balance under the TSA was approximately $24 million, approximately $11.5 million was overdue. Telit is in ongoing discussions with TUS and Titan to resolve the payment delay and the future of the TSA.

Note 8 - Tax

- In May of this year, Telit Brazil received an infraction notice from the Sao Paulo state tax authority regarding allegedly failure to collect and remit indirect taxes ICMS for FY 2016-2017 under the ICMS-ST substitution rule. Telit timely filed its defence arguments in June. This is currently the first level solely administrative process. The Administrative Court has up to one year to judge this matter, and the decision from the first-level Administrative Court is generally appealable to a second-level Administrative Court where appropriate. Decisions from Administrative Courts may be subject to review in by a Court of Law. The total potential liability for this claim is approximately $4.2M consisting of the underlying ICMS claim (approximately $2.1M), interest (approximately $432k) and penalties (approximately $1.7M). Based on professional advice and the relevant facts, the Group believes, that it has strong arguments in favour of the tax treatment applied. Accordingly, no provision has been made for this claim.

- In May 2019, Telit reached a resolution of a dispute with the Italian tax authorities regarding the merits of VAT assessments for the 2004-2007 tax years. Telit's Italian subsidiary has agreed to pay approximately €400,000 without any admission of liability to close this matter and to avoid associated costs and distraction. Telit continues to vigorously defend its position with regard to tax penalty deeds separately issued against Telit in August 2015 which was announced on 19 March 2018.

Note 9 - post balance sheet events

- In July, Telit granted a total of 2,400,000 options over ordinary shares of 1p in Telit ("Ordinary Share") to Paolo Dal Pino, Telit CEO, and Yariv Dafna, Telit Finance Director and President. Of the total options awarded, Mr. Dal Pino and Mr. Dafna received 2,000,000 and 400,000 Options, respectively. The options have an exercise price of 161p per Ordinary Share. The options will vest on the third anniversary of the date of grant, subject to attainment of share price growth targets. All the options will vest if the share price has grown by 50% or more. There will be partial vesting where the share price growth is between 30% and 50% and no options will vest where the share price growth is below 30%. Unexercised Options expire on the 5th anniversary of the grant date. Accelerated vesting of the Options may apply on attainment of share price targets on a change of control.

- On 6 September the Group appointed Mazars LLP as the Company's auditor. Mazars will be the Company's auditor for the financial year ended 31 December 2019.