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Telit Communications PLC

Full year results

London, 17 March 2020– Telit Communications PLC ("Telit", "the Group", AIM: TCM), a global enabler of the Internet of Things (IoT), has published its financial results for the full year ending 31 December 2019.

Paolo Dal Pino, Chief Executive Officer of Telit, **commented**: "2019 saw significant improvement in our results thanks to Telit's positive transformation in recent years. We continued to refocus our business towards industrial IoT products and solutions as well as to optimise our operations and cost base. The benefits of these initiatives are visible in our 2019 performance and will bear further fruit in the future. The sale of our automotive business in February was an important milestone in this strategy and following the disposal we are now in a strong financial position to address any extraordinary challenges.

Our progress in transforming Telit has also helped prepare the business for addressing the COVID-19 situation. Our number one priority is the safety of our employees and we have implemented remote working initiatives to allow our team to maintain service levels while minimising risks. Our year to date trading has not been materially affected in terms of customer demand, while supply chain constraints experienced early in the quarter at our electronics manufacturing partner in China are being resolved rapidly. Demand from customers is in line with our expectations at this stage, but we cannot estimate how long the crisis around Covid-19 will last or what impact it will have on the market. This could affect future demand from customers. We are monitoring the situation closely and are taking all necessary actions to minimise the impact on our full year targets of any supply chain pressures or changes in customer demand.

Our drive to become a leading end-to-end IoT provider has been and will continue to be powered by key developments such as our award-winning software suite oneEDGE, which enables enterprises to successfully execute their digital transformation. We will continue to build on the momentum of recent years with the help of our employees around the world. We remain confident in our ability to continue to deliver improved operational and financial performance."

Financial Highlights[1]

- Group revenues, excluding automotive business revenues, (sold in February 2019), up by 8.3% to $382.8 million (2018: $353.4 million)
    - Total Group revenues, including two months' contribution from the automotive business, were $392.5 million (2018: $427.5 million, including full year revenue from automotive business)
    - IoT Cloud and connectivity revenues up by 20.2% to $41.0 million (2018: $34.1 million), driven by a strong performance of both the connectivity and the IoT platforms businesses
- Adjusted EBITDA up 26.9% to $38.2 million (2018: $30.1 million), with $15.3 million of R&D capitalisation (2018: $25.3 million)
- Operating profit (EBIT) of $63.6 million includes $54.5 million related to the capital gain from the sale of the automotive business[2] (2018: operating loss $33.4 million). Adjusted EBIT of $16.9 million (2018: $2.3 million).
- Profit before tax of $59.9 million (2018: loss $39.8 million). Adjusted profit before tax $13.2 million (2018: loss $4.1 million).

- Basic earnings per share of 36.0 cents (2018: loss per share 27.9 cents). Adjusted earnings per share of 12.5 cents (2018: loss per share 3.8 cents).
- Profit in cash[3] of $11.7 million (2018: loss $3.6 million), substantial improvement of $15.3 million in 2019 reflecting the focus on cash generation
- Net cash at 31 December 2019 of $48.2 million (31 December 2018: Net debt of $34.0 million)
- Cash flow generated from operating activities, before movement in working capital of $34.6 million (2018: $14.8 million)

Operational Highlights

- Successful completion of the sale of the automotive business, including finalisation of the working capital adjustment
- Implementation of cost optimisation plan with full effect to be realised in 2020
- Execution of first live 5G testing for industrial grade 5G product
- Further investment in OneEdge, integrated hardware and services offering designed to enable enterprises to manage IoT integration and scalability
- Introduction of new Low Power Wide Area (LPWA) cellular modules based on Qualcomm® 9205, ME910G1 and ME310G1
- Extension of SimWISE, embedded sim technology into Telit's 2G, LTE-M and NB-IoT modules
- New production agreement with a tier 1 contract manufacturer in Vietnam with mass production expected to start in the second quarter of 2020

[1] For the definition of 'Adjusted' figures and reconciliation from IFRS financial results to adjusted financial results please refer to Note 4
[2] Please refer to Note 6
[3] Profit (loss) in cash defined as Adj. EBITDA less capitalisation of internally generated assets and less acquisition of tangible and intangible assets net of proceeds from disposal of assets.

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About Telit
Telit (AIM: TCM), is a global leader in Internet of Things (IoT) enablement, with an extensive portfolio of wireless connectivity modules, platforms and virtual cellular IoT operator services, empowering hundreds of millions of connected 'things' to date, and trusted by thousands of direct and indirect customers, globally. With nearly two decades of IoT innovation experience, Telit continues to redefine the boundaries of digital business, by delivering secure, integrated end-to-end IoT solutions for many of the world's largest brands, including enterprises, OEMs, system integrators and service providers across all industries, enabling their pursuit of enterprise digital transformation.

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Chairman's statement

I am delighted to report on behalf of Telit's Board of Directors that 2019 was a good year for the Group, in which we delivered a strong financial and operational performance. Telit's management is continuing to optimise the Group's strategy and to pursue further cost reductions. We are confident that we can create long-term value by exploiting the numerous opportunities we face as a global leader in the IoT market.

In February 2019, Telit completed the sale of its automotive business for $105 million, subject to working capital adjustment. The sale has provided the Group with the financial flexibility to accelerate the integration of its IoT products and services businesses. Following the sale, the Group is now focused solely 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.

Telit's end-to-end model allows connected devices to become more efficient and user friendly, with software playing a key role in simplifying an enterprise's approach to IoT. This integrated business model enables Telit to leverage its combined offering of modules, connectivity and IoT platform and portal.

Return of Capital

Following the sale of the automotive business and subsequent repayment of most of the Company's borrowings and reflecting the strong financial performance of the business during the year, at 31 December 2019 the Company had net cash of $48.2 million. While seasonal fluctuations mean the cash position can vary materially during the course of the year, the Board nevertheless is considering the possibility of returning cash to shareholders if market circumstances mean that it is prudent to do so. To give the Board flexibility in this regard, the Board proposes to seek approval at the forthcoming Annual General Meeting to be given authority to make market purchases of the Company's shares for up to 10% of the outstanding shares or up to $20 million. Subject to any unforeseen material events, and in particular to the potential impact Covid-19 may have on Telit's business, the Board intends and expects to execute the repurchase programme during the balance of 2020. Further details will be announced in due course.

Board

In May 2019, Paolo Dal Pino and I were appointed as the Group's Chief Executive Officer and Chairman respectively. At the AGM in June 2019, one director was not re-elected to the Board and in July another director resigned after moving to Australia. Following these changes, we strengthened the Board with two new appointments. In August 2019 Marco Patuano was appointed as an independent non-executive director and chairman of the Audit Committee and in October 2019 Anthony Dixon was appointed as an independent non-executive director. Additionally, Gil Sharon assumed the role of senior independent non-executive director in August 2019. The Board now comprises five independent non-executive directors (including the chairman) and two executive directors.

I am confident the Board as currently constituted has the skills and experience to strengthen further Telit's corporate governance and to reinforce its leading position in the global industrial IoT market.

FCA Investigation

In December 2018, we informed shareholders that the FCA had expanded the scope of the investigation originally announced on 27 March 2018. The expanded scope is focused on the accuracy of both Telit's trading update of 25 April 2017 and the reasons given for the placing announced on 4 May 2017 and completed on 5 May 2017. The Group has cooperated fully with the FCA in its enquiries to date and will continue to do so with the objective of bringing this matter to a conclusion as swiftly as possible.

The Board of Directors of Telit has changed entirely since the events in question.

People

Most importantly, on behalf of both the Board and our shareholders, I would like to thank all our employees and managers worldwide for the commitment and dedication they have continually demonstrated throughout the year. Their efforts, particularly in a time of significant change for the Company, are reflected in Telit's strong performance in 2019 and in our confident outlook for the future, despite current market uncertainties.

Simon Duffy
Chairman

Chief Executive Officer's statement

I am pleased to report that in 2019 Telit made great progress towards our strategy of:

- refocusing the business on industrial IoT products and solutions;
- investing further in OneEdge, our integrated hardware and services offering, which was launched this year;
- appointment of new contract manufacturer outside China to increase scalability and reduce operational risks;
- optimising our structure to be more focused on growth, improved profitability and cash generation;
- delivering healthy growth with double digit revenue growth for IoT services.

For the full year 2019, we reported significant progress in the Group's financial performance, with revenue and profitability growing across segments.

We saw a slight improvement in our overall gross margin, which was an important objective, growing to 32.9% in 2019 compared to 2018 (32.6%). Whilst this improvement is mainly due to the automotive sale, we are focussed on improving this further. Following the move to a profit in cash in the second half of 2018, we saw further improvement in the profit in cash in 2019, from a loss for the full year 2018 of $3.6 million to a profit of $11.7 million.

Since I took on the role of CEO, I further aligned the management team to the fundamentals of our core business. This included optimisation of our operational structure, better integration of our products and services, reshaping our go-to-market strategy and a focus on improved profitability and cash generation.

Our renewed emphasis on the core business of industrial IoT products and services was the main reason for the disposal of the automotive division. The transaction closed at the end of February 2019 and is an important milestone in executing our strategy. It frees up considerable internal resources, provides significant cash inflow and the financial flexibility to accelerate the integration of our hardware products and IoT services and provides additional financial resources to expand our supply chain and direct purchasing plans.

Strategy

Telit is a key player in the industrial IoT market and has already become a leading end-to-end IoT provider enabling enterprises to successfully execute their digital transformation.

We are focused on products and connected devices that help us develop and maintain our leading position in the IoT market and are increasingly expanding into integrated and value-added software and services.

We believe in end-to-end solutions: connected devices must become more efficient and user friendly, with software playing a key role in simplifying an enterprise's approach to IoT. Our integrated business approach enables us to focus on synergies, leveraging our combined offering of modules (cellular and short range), the IoT connectivity and the IoT platform and portal.

We have identified the industrial IoT market as the main driver of the digital transformation for enterprises. We are committed to maintaining and growing our leading position in the IoT products market and increasing the value and differentiation of our products.

The digital transformation of public and private enterprises globally, in which everything becomes connected, presents a significant opportunity to us. Enterprises are increasingly realising the benefits of collecting the right information and processing it into actionable data that can be transmitted and acted upon. Efficient and intelligent data processing allows companies to solve both legacy issues and ones they may not have thought of before.

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

- **IoT Products**. A diversified portfolio of modules that allow "things" to be connected using the best available and most suitable technology (Cellular, GNSS, Wi-Fi and BT/BLE) for the applications being developed. Our products provide a significant reduction in time-to-market and total cost of ownership for customers. The Group markets its IoT products to a broad range of market segments including asset tracking, health care, security, telematics, point of sale, wearables, telemetry, industry, energy and smart metering. In order to cater to such diverse industries, Telit continues to develop a wide range of cellular products from low bandwidth 2G and NB-IoT to high category LTE and 5G modules.

- **IoT Connectivity services**. These allow scaling and global deployments of customers' IoT solutions with a single point of contact. We deliver the ease of a single bill and dedicated 24/7 IoT support services at competitive rates, without the need for in-house experts, mapping and contracting separately with multiple global MNOs. The Group continues to invest in and develop its IoT connectivity business, which covers all customer connectivity needs and provides a recurring revenue stream for Telit. We expect an increase in the number of customers adding connectivity services with the integration of SimWISE into more of our products.

- **IoT Platform services.** Telit's IoT platform is an industrial grade suite of software that provides device management, connectivity management, and application enablement, which allows for the creation and management of IoT applications, from standalone applications such as metering and asset tracking to more robust Industry 4.0 / Industrial IoT (IIoT) and factory automation solutions. The platform is designed to enable customers to manage their IoT deployments through a single IoT portal which facilitates interaction with MNOs, dash boarding tools, security and administration as well as tying in with our modules in the field. The portal is a significant tool to manage any IoT deployment efficiently, save costs, be flexible and solve issues remotely. We expect to increase the attach rate of services sold to our product's customer with our OneEdge solutions.

These three components allow Telit to enable fast deployment of IoT solutions 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.

Operational overview

In February 2019 we completed the sale of our automotive business, including finalising the working capital adjustment upon completion and as previously described. Following the closing of the sale, Telit's financial debts mainly consists of governmental loans provided to the Group's Italian subsidiary.

The disposal of the automotive business saw the Group's subsidiary in Belgium and its wholly owned subsidiary in France, being sold, together with three newly incorporated subsidiaries in Germany, Israel and Korea as part of the reorganisation. The automotive business represented approximately 17% of Telit's revenue in 2018. For further information see Note 6.

In 2019, we also continued our reorganisation and optimisation programme in order to stabilise our gross margin and improve overall profitability and cash generation. Our achievements in this regard include:

- We further focused on our 4G portfolio, including low category as well as high category, including a 5G development programme to complete the high category portfolio. Our first 5G product which will address the demand for high bandwidth products including applications like gateway and routers is expected to be certified in the first quarter of 2020.

- Our IoT connectivity business continued to grow and improved profitability highlighting the growing demand for dedicated IoT connectivity services, and the scalability achieved in this business. The Group continues to develop more flexible and cost-effective solutions including investment in MVNO licence and core network as well as further investment in IoT modules with iSIM. These investments will allow us to bring to market in 2020, new connectivity solutions which will enable us to better compete on global projects with large scale.

- We completed the reorganisation of our non-cellular business and closed R&D centres in high cost areas transferring the knowledge to lower-cost sites such as India, Italy and Korea.

- The integration of the hardware and services businesses is progressing well: the launch of OneEdge in 2019 has been a success, winning five awards to date.

- We signed an agreement with a tier 1 contract manufacturer in Vietnam in order to reduce supply chain risks and increase the overall competitiveness of our product cost.

We are pleased to see the benefits of our cost saving initiatives coming through in 2019 and future years.

R&D and investment

We continue to invest across our range of products and services, including the development of our software suite – "oneEDGE" – which enables solutions for a new generation of Telit cellular LPWA IoT modules. With integrated, secure, easy-to-use tools, it dramatically simplifies design, deployment and management of IoT products and solutions, enabling a leap ahead into the new 5G super-connected world. Combined with Telit's iSIM solution SimWISE, these technologies solve long-standing challenges related to integration, scalability, security and management.

We have developed best in class products for our customers and will continue to be an innovative global leader for IoT solutions.

Telit's investments in the last few years include not only the development of each of the solutions mentioned above but also, increasingly, the integration of the different components in order to transform our products and services into a cohesive solution which is ready to connect and send data. Telit integration is designed to simplify all aspects of IoT implementation for customers and save them time and money, reducing risks and speeding up time to market by simplifying deployment.

Impact of Covid-19 coronavirus

Telit's supply chain includes a several contract manufacturers that support its production requirements. One of the Group's suppliers in China resumed partial operations in early February 2020, following the government mandated extended closure for the Chinese New Year holiday period. The remainder of the Group's suppliers restarted production fully during February 2020. Consequently, the Group is currently facing minimal impact to its production plan but will continue to work with its suppliers and customers closely to avoid any disruption.

Demand from customers is in line with expectation at this stage, but we cannot estimate how long the crisis around the Covid-19 will last and the impact on the market, which could also affect future demand from customers.

Due to the ongoing Covid-19 situation, Telit has asked some of its employees work from home as a safety precaution. In the last 2 years, Telit already certified core business operations under the international standards of ISO 22301 and ISO 27001. As part of the implementation of these standards, we created and adjusted technological solutions to support seamless business operations and allow business as usual. Telit continuously invests in its business processes and guidelines to minimise risks and maintain service levels for our customers. To that end, Telit maintains a robust remote access network architecture to support our staff for remote working. Telit confirms that these processes worked as intended, verifying our infrastructure and business continuity standards.

Outlook

The IoT market remains fast growing and dynamic 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.

Building on the progress made over the last two years, and subject to the wider market disruptions cause by Covid-19, we are confident that our operational and financial performance in 2020 will continue to improve and we are well positioned to deliver another year of growing profit and cash. We are clearly mindful of risks to our business, including those related to COVID-19 that might affect us in the short term, but our business will benefit both from the addition of OneEdge and from new offerings within the cloud & connectivity business. In view of this and seeing the benefits of the hard work of recent years, the Board is confident in the Group's prospects for the future.

Paolo Dal Pino
Chief Executive Officer

FINANCE DIRECTOR'S STATEMENT

I am pleased to report that in 2019 Telit achieved significant improvement in its financial results based on revenue growth, a reduction in operating costs and the sale of the automotive business. In 2019 we improved the Group's overall profitability and efficiency while maintaining our future potential development and growth.

Financial results

	2019 *$M*	2018 *$M*	Change *$M*	Change %
Revenues	**392.5**	**427.5**	**(35.0)**	**(8.2%)**
Gross profit	**129.3**	**139.2**	**(9.9)**	**(7.1%)**
Gross margin	32.9%	32.6%		
Other operating incomes	3.4	1.9	1.5	78.9%
Research and development expenses	(46.7)	(73.0)	(26.3)	(36.0%)
Selling and marketing expenses	(48.2)	(59.1)	(10.9)	(18.4%)
General and administrative expenses	(25.9)	(26.0)	(0.1)	(0.4%)
Exceptional expenses related to restructuring	(1.0)	(10.8)	(9.8)	(90.7%)
Other exceptional items	52.7	(5.5)	58.2	
Adjusted EBITDA	**38.2**	**30.1**	**8.1**	**26.9%**
Profit (Loss) in cash	**11.7**	**(3.6)**	**15.3**	
Operating income (EBIT)	**63.6**	**(33.4)**	**97.0**	
Adjusted EBIT	**16.9**	**2.3**	**14.6**	**634.8%**
Profit (Loss) before tax	**59.9**	**(39.8)**	**99.7**	
Adjusted Profit (loss) before tax	**13.2**	**(4.1)**	**17.2**	
Basic earnings (loss) per share (cents)	**36.0**	**(27.9)**		
Diluted earnings (loss) per share	**35.7**	**(27.9)**		
Adjusted basic earnings per share (cents)	**12.5**	**(3.8)**		
Adjusted diluted earnings per share (cents)	**12.4**	**(3.8)**		

Adjusted EBIT is defined as Earnings Before Interest, Tax, share based payment expenses, amortisation of acquired intangibles, impairment of internally generated development assets, other exceptional items, exceptional expenses related to restructuring and the profit on disposal of the automotive business. Adjusted EBITDA is defined as Adjusted EBIT plus depreciation and other amortisation. Profit/loss in cash is defined as Adjusted EBITDA less capitalisation of internally generated development assets less acquisition of tangible and intangible assets net of proceeds from disposal of assets, less lease payments. Adjusted profit / (loss) before tax is defined as Profit / (loss) before tax plus share based payment expenses, amortisation of acquired intangibles, other exceptional items, exceptional expenses relating to restructuring, impairment of internally generated assets and the profit on disposal of the automotive business.

Reconciliation between operational and adjusted operational results:

	2019 reported *$M*	**Exceptional items** *$M*	**Impairment of internally generated assets** *$M*	**Share based payment expenses** *$M*	**Amortisation of intangibles acquired** *$M*	**2019 adjusted** *$M*
Revenues	**392.5**	-	-	-	-	**392.5**
Gross profit	**129.3**	-	-	-	-	**129.3**
Gross margin	32.9%					32.9%
Other operating income	3.4	-	-	-	-	3.4
Operating expenses	(120.8)	-	1.3	2.0	2.0	(115.5)
Exceptional items	51.7	(51.7)	-	(0.3)	-	(0.3)
Operating income (EBIT)	**63.6**	**(51.7)**	**1.3**	**1.7**	**2.0**	**16.9**
Profit before tax	**59.9**	**(51.7)**	**1.3**	**1.7**	**2.0**	**13.2**

Revenues

Group revenues, excluding the automotive business sold in February 2019, increased by 8.3% to $382.8 million (2018: $353.4 million), of which cloud and connectivity revenues were $41.0 million (2018: $34.1 million), an increase of 20.2%.

IoT products - revenue growth was driven by double digit growth in the America and APAC, while EMEA saw a smaller increase in revenue. We are well positioned to improve revenue growth in EMEA compared with the last few years based on the growing demand for LTE products in this region.

IoT services - The 20.2% increase in Cloud and connectivity revenues is encouraging, and we believe this trend will continue in the coming years. In the IoT connectivity business, we enjoyed another year of fast growth boosted by a strong performance in the US. We also saw faster than expected for revenue growth from IoT Platforms, resulting from the ramp up of certain projects and growth of several running projects.

Telit's activities in the IoT services business unit have grown in recent years and, although revenue results from this business unit still comprise about 10% of the Group's revenue, it contributed 19.3% of the gross profit and represents an important growth engine for the future.

	2019 $m	**2018 $m**	**Change**
Americas (1)	194.1	176.1	10.2%
EMEA (2)	114.2	112.8	1.2%
APAC (3)	74.5	64.5	15.5%
Total (excluding automotive)	**382.8**	**353.4**	**8.3%**
Automotive (4)	**9.7**	**74.1**	**(86.9%)**

(1) Americas- remains our biggest region with revenues growing in line with our expectation. The overall demand for LTE products continued to grow, driven by additional certifications of our CAT-1 and CAT-M1 products and the major US carriers plans to focus exclusively on LTE. We believe Telit is in a good position to continue to grow revenue in this market at a higher rate than the overall growth of the Group.

(2) EMEA- revenues increased slightly and below our expectations. EMEA continues to be impacted by cellular technology stagnation but we have started to see growing low category LTE deployment ramping up and we expect this to improve growth in this region.

(3) APAC- revenues increased significantly and slightly above our expectation mainly as a result of a faster deployment of several projects in the region.

(4) Automotive- In 2019 reflect from 1 January to 27 February 2019.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker in the Group. The chief operation decision-maker, who is responsible for allocating resources and assessing performance of the operating segments and makes strategic decisions, has been identified as the CEO. Segment performance is evaluated based on operating profit or loss, as presented below:

2019	**IoT Products**	**Cloud & Connectivity services**	**Consolidated**
	$M	**$M**	**$M**
Revenue			
External sales:	351.5	41.0	392.5
Result			
Gross profit	104.3	25.0	129.3
Gross margin	29.7%	60.9%	32.9%
Segment EBIT	27.2	0.6	27.8
	7.7%	1.4%	
Unallocated expenses [1]			(18.7)
Capital Gain (automotive disposal)			54.5
Operating profit			**63.6**

2018	**IoT Products**	**Cloud & Connectivity services**	**Consolidated**
	$M	***$M***	***$M***
Revenue			
External sales	393.4	34.1	427.5
Result			
Gross profit	118.5	20.7	139.2
Gross margin	30.1%	60.6%	32.6%
Segment EBIT	7.4	(13.9)	(6.5)
	1.9%	(40.8%)	
Unallocated expenses [1]			(26.9)
Operating loss			**(33.4)**

(1) Unallocated expenses principally including general and administrative expenses such as directors' compensation, salaries of certain senior executives, professional fees and other expenses which cannot be directly allocated to one of the segments.

Gross profit and gross margin

Gross profit was $129.3 million (2018: $139.2 million), a decline of 7.1%, due to the decline in revenue related to the automotive business. Excluding the automotive business, gross profit increased by 3.0%.

The Group's gross margin improved slightly to 32.9% (2018: 32.6%). The improvement from 2018 was below our expectations caused by an increase in the cost of goods sold due to shortage of certain components which contributed to extra costs, and by an additional write off of inventory, following the discontinuation of a product line. Whilst we are expecting LTE product margins to further improve and cloud and connectivity to grow faster and thereby improve the overall margin, we expect the future gross margins to remain in the low thirties.

Operating expenses

- Gross R&D expenses were as follows:

	2019 $m	2018 $m
Gross research & development expenses (1)	50.5	70.9
Less – capitalisation (2)	(15.3)	(25.3)
Add – amortisation	10.2	17.2
Add – impairment	1.3	10.2
Research and development, net	**46.7**	**73.0**

(1) Gross research and development expenses declined by $20.4 million mainly due to the reduction of R&D resources that supported the automotive business that left at the completion date (approximately 50% of the saving) and the remainder is due to the impact of the implementation of our cost reduction plan.

(2) The amount capitalised in respect of internally generated development assets decreased by 39.5%. As a percentage of gross R&D expenses, it decreased from 35.7% in 2018 to 30.3% in 2019. The amount capitalised declined mainly due to the automotive divestment which had a higher capitalization rate for the automotive products. The capitalisation amounts in 2019 related mainly to the development of high category LTE products (including 5G) and to a new family of CAT-M1 and NB-IoT and the development of SimWISE and OneEDGE.

- Selling and marketing expenses decreased by 18.5% to $48.2 million (2018: $59.1 million). The decrease derived from the divestment of the automotive business (approximately 40% of the saving) and the realisation of our cost saving plan.

- General and administrative expenses decreased slightly to $25.9 million (2018: $26.0 million).

- Exceptional expenses related to restructuring:

  Following the review of the Group's activities, a restructuring plan was adopted in late 2017, implemented in 2018 and has been substantially completed in 2019 explaining the decrease in exceptional expenses related to restructuring from $10.8 million in 2018 to $1.0 million in 2019. In 2019 the costs related mainly to the closure of a R&D centre in the US and moving of the knowledge and activities to a lower cost centre.

- Other exceptional items:

	2019 $m	2018 $m
Integration and transaction costs (1)	1.0	2.8
Legal and other expenses related to FCA investigation and related matters (2)	0.7	0.9
Legal expenses related to BAMES (3)	0.1	1.3
Other	(0.1)	0.5
Sub- total	**1.7**	**5.5**
Profit on disposal automotive business (4)	(54.5)	**-**
Total	**(52.8)**	**5.5**

(1) Mainly legal and other costs related to the automotive reorganisation and sale which was signed in 2018 and completed in February 2019.

(2) Costs related mainly to the ongoing FCA investigation and related matters the circumstances giving rise to which began in 2017.

(3) Costs related to defending the Group's position in the BAMES case (in 2018, including the settlement fees of approximately $1 million).

(4) Profit on disposal of the automotive businesses, see note 6

Finance costs, net

	2019 $m	2018 $m
Non-cash expenses related to effective rate interest on preferred loan	1.1	1.2
Interest expense on bank loans and overdrafts (1)	0.8	3.1
Bank fees and other bank expenses	1.1	1.2
Exchange rate differences, net	0.8	0.4
Loss from forward currency contracts (2)	0.4	0.6
Interest related to IFRS16 liabilities (3)	0.8	-
Interest income	(1.2)	(0.1)
Total	**3.8**	**6.4**

(1) *Interest expenses related to loans and overdrafts decreased by $2.3 million, due to repayment of HSBC and BHI loans in February 2019.*

(2) *Due to the uncertainty around the Euro currency, 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.*

(3) *According to IFRS 16, the finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability.*

Profitability

We measure our profitability based on adjusted figures to eliminate exceptional items and share based payment charges. The adjusted EBIT and PBT exclude:

- a share-based payment charge of $1.7 million (2018: $5.7 million);
- restructuring costs of $1.0 million (2018: $10.8 million);
- capital gain of $54.5 million related to the sale of the automotive business;
- other exceptional expenses of $1.7 million (2018: $5.5 million);
- impairment of capitalised development assets of $1.3 million (2018: $10.2 million); and
- amortisation of acquired intangible assets of $2.0 million (2018: $3.4 million).

The profit in cash is defined as Adjusted EBITDA less R&D capitalisation less capital expenditures net of proceeds on disposal. In 2019 profit in cash was $11.7 million, a significant improvement over the $3.6 million loss in cash of 2018.

Adjusted EBIT was $16.9 million (2018: $2.3 million). The operating profit was $63.6 million (2018: loss of $33.4 million). Excluding the profit on disposal automotive business, the improvement in operating profit was $42.5 million mainly driven by the decrease of $37.3 million in the operating expenses.

Adjusted EBITDA increased to $38.2 million (2018: $30.1 million) – considering similar level of R&D capitalisation, the improvement in adjusted EBITDA would be $18.1 million.

Adjusted profit before tax increased to $13.2 million (2018: loss of $4.1 million). Net profit for the year was $47.4 million (2018: loss of $36.4 million). Adjusted net profit for the year was $16.4 million (2018: loss of $4.9 million).

Adjusted basic earnings per share were 12.5 cents and diluted earnings per share were 12.4 cents (2018: loss per share 3.8 cents). Basic earnings per share were 36.0 cents and diluted earnings per share were 35.7 cents (2018: basic and diluted loss per share was 27.9 cents).

Net cash (debt) and cash flow

The net cash (debt) was comprised as the following:

	2019 $m	2018 $m
Cash and cash equivalent and deposits	81.9	35.3
Less – working capital borrowing	(3.9)	(39.2)
Less – preferred and governmental loans	(28.0)	(28.1)
Less – Mortgage loan	(1.8)	(2.0)
Net Cash (Debt)	**48.2**	**(34.0)**

Following the improvement in the overall financial performance, cash flow provided from operating activities before movements in working capital was $34.6 million (2018: $14.8 million). The total cash provided from operating activities was $14.0 million (2018: $25.8 million), reflecting increased working capital employed in the TSA and for the set-up of the new manufacturing site, the impact of direct purchasing of materials which will contribute to improvement in gross margin.

Cash flow provided from investing activity was $73.4 million (2018: cash used $33.7 million). The positive cash flow is due to the cash received from the divestment of the automotive business in 2019, offset by the capital and capitalised development expenditure.

Cash flow used in financing activity was $39.6 million (2018: cash from $2.2 million). This is mainly related to the repayment of the HSBC and Bank Hapoalim loans in February 2019, utilising the funds received from the sale of the automotive business.

Internally generated development assets, net

As at 31 December 2019, the net amount of internally generated development assets decreased by $30.3 million to $37.0 million (2018: $67.3 million). The split of the net assets by technology is as follows:

Technology	**Internally generated development assets, net as at 31 December 2019**		**Internally generated development assets, net as at 31 December 2018**		**Change (*) year over year**	
	$'m	**%**	**$'m**	**%**	**$'m**	**%**
LTE (4G & 5G)	25.1	68%	47.9	71%	(22.8)	(48%)
3G	0.4	1%	6.6	10%	(6.2)	(94%)
Other IoT Modules	8.5	23%	8.1	12%	0.4	5%
IoT Services	3.0	8%	4.7	7%	(1.7)	(36%)
31 December	**37.0**	**100%**	**67.3**	**100%**	**(30.3)**	**(45%)**

(*) during 2019, we divested as part of the automotive sale approximately $33.1 million of capitalised R&D assets

The net assets that are in the development phase, before being amortised, are 35% of the total R&D assets (2018 37%) and consist of the following products:

Technology	Net assets started to be amortised		Weighted average of remaining years to be amortised	Net assets in development process (not amortised yet)		Internally generated development assets, net as at 31 December 2019	
	$'m	%		$'m	%	$'m	%
LTE (4G & 5G)	16.6	69%	3.7	8.5	67%	25.1	68%
3G	0.1	0%	3.2	0.3	2%	0.4	1%
Other IoT Modules	4.5	19%	3.8	4.0	31%	8.5	23%
IoT Services	3.0	12%	1.4	0.0	0%	3.0	8%
31 December 2019	**24.2**	**100%**	**3.1**	**12.8**	**100%**	**37.0**	**100%**

Total equity

The increase in net shareholders' equity from $86.5 million as at 31 December 2018 to $134.3 million as at 31 December 2019 is mainly attributed to the improved net profit that include in 2019 a substantial capital gain from the sale of the automotive business.

Key Indicators

The Board and management have several indicators to measure Telit's financial and operational performance**.** Among all indicators which management defines, the following are the key indicators used to measure growth and profitability.

Revenues

2019	$392.5 million ($382.8 excluding automotive)
2018	$427.5 million ($353.4 excluding automotive)

IoT Products Revenues

2019	$351.5 million ($341.8 excluding automotive)
2018	$393.4 million ($319.3 excluding automotive)

Cloud & Connectivity Revenues

2019	$41.0 million
2018	$34.1 million

Gross Profit

2019	$129.3 million
2018	$139.2 million

Adjusted EBITDA

2019	$38.2 million
2018	$30.1 million

Profit (loss) in cash[4]

2019	$11.7 million
2018	($3.6) million

[4] Profit (loss) in cash defined as Adj. EBITDA less capitalisation of internally generated assets and less acquisition of tangible and intangible assets net of proceeds from disposal of assets

Yariv Dafna
Finance Director & President

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2019 $'000	2018 $'000
Revenue	392,537	427,483
Cost of sales	(263,277)	(288,310)
Gross profit	129,260	139,173
Other operating income	3,399	1,903
Research and development expenses	(46,687)	(72,985)
Selling and marketing expenses	(48,194)	(59,139)
General and administrative expenses	(25,849)	(25,973)
Exceptional expenses related to restructuring	(1,051)	(10,842)
Profit on disposal of the automotive business	54,472	-
Other exceptional items	(1,728)	(5,545)
Operating profit (loss)	63,622	(33,408)
Operating profit (loss)	63,622	(33,408)
Profit on disposal of the automotive business	(54,472)	-
Exceptional expenses related to restructuring	1,051	10,842
Other exceptional items	1,728	5,545
Share based payment charges	1,688	5,715
Impairment of internally generated development assets	1,316	10,238
Amortisation of intangible assets acquired	1,996	3,381
Adjusted EBIT (*)	16,929	2,313
Finance income	1,212	147
Finance costs	(4,965)	(6,552)
Profit (loss) before income taxes	59,869	(39,813)
Tax (expense) credit	(12,469)	3,453
Net profit (loss)	47,400	(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 amortisation of intangible assets acquired and the profit on disposal of the automotive business. 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 and other exceptional items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	2019	2018
	$'000	**$'000**
Net Profit (loss)	47,400	(36,360)
Other comprehensive loss		
Items to be reclassified in subsequent periods to profit and loss:		
Foreign currency translation differences	(1,021)	(5,352)
Items not to be reclassified in subsequent periods to profit and loss:		
Remeasurement loss on defined benefit plan, net of tax	(49)	(4)
Total other comprehensive loss	(1,070)	(5,356)
Total comprehensive income (loss) for the year	46,330	(41,716)
Basic earnings (loss) per share (in USD cents)	36.0	(27.9)
Diluted earnings (loss) per share (in USD cents)	35.7	(27.9)
Basic weighted average number of equity shares	131,507,097	130,446,810
Diluted weighted average number of equity shares	132,674,790	130,446,810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2019	2018
	$'000	$'000
ASSETS		
Non-current assets		
Intangible assets	64,052	97,012
Property, plant and equipment	27,153	23,101
Other long-term assets	1,179	1,456
Deferred tax asset	2,507	19,043
	94,891	140,612
Current assets		
Inventories	14,966	27,187
Trade receivables	83,351	99,550
Other trade receivables	23,309	-
Income tax receivables	1,494	759
Other current assets	15,332	15,531
Deposits – restricted cash	646	345
Cash and cash equivalents	81,304	35,006
	220,402	178,378
Total assets	315,293	318,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	2,176	2,165
Share premium account	49,935	49,778
Other reserve	(2,746)	(2,727)
Translation reserve	(19,070)	(18,049)
Retained earnings	104,054	55,319
Total equity	134,349	86,486
Non-current liabilities		
Long term borrowings	23,999	24,092
Post-employment benefits	2,230	2,771
Deferred tax liabilities	626	1,451
Long term lease liabilities	6,326	-
Provisions	1,952	1,373
	35,133	29,687
Current liabilities		
Short-term borrowings	9,782	45,238
Trade payables	95,887	120,824
Provisions	1,239	2,254
Income tax payables	2,893	2,836
Short term lease liabilities	3,848	-
Accruals and other current liabilities	32,162	31,665
	145,811	202,817
Total equity and liabilities	315,293	318,990

CONSOLIDATED STATEMENT OF CASH FLOW

	2019	2018
	$'000	$'000
CASH FLOWS - OPERATING ACTIVITIES		
Profit / (Loss) for the year	47,400	(36,360)
Adjustments for:		
Depreciation of property, plant and equipment	9,546	8,905
Amortisation of intangible assets	13,720	23,428
Impairment of intangible assets	1,316	11,829
Profit on disposal of the automotive business	(54,472)	-
(Gain) Loss on sale of property, plant and equipment	(238)	294
Increase in provision for post-employment benefits	231	(362)
Change in long term provisions, net	(362)	501
Finance costs, net	3,523	6,405
Tax income / (expense)	12,469	(3,453)
Share-based payment charge, net	1,467	3,659
Operating cash flows before movements in working capital:	34,600	14,846
Increase in trade and other receivables	(13,702)	(326)
Decrease / (Increase) in other current assets	(453)	2,007
Decrease /(Increase) in inventories	11,426	(4,238)
(Decrease) / Increase in trade payables	(17,211)	16,744
Increase / (Decrease) in other current liabilities	2,416	481
Cash from operations	17,076	29,514
Income tax paid	(2,068)	(10)
Interest received	1,212	142
Interest paid	(2,247)	(3,880)
Net cash from operating activities	13,973	25,766
CASH FLOWS - INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(4,642)	(8,296)
Acquisition of intangible assets	(2,824)	(869)
Proceeds from sale of property, plant and equipment	199	762
Capitalised development expenditure	(15,289)	(25,300)
Proceeds from sale of subsidiary, net of cash deal costs	96,292	-
(Increase) / Decrease in restricted cash deposits	(311)	28
Net cash from / (used in) investing activities	73,425	(33,675)
CASH FLOWS - FINANCING ACTIVITIES		
Proceeds from exercise of share options	168	-
Short-term borrowings, net	(20,682)	6,895
Repayment of lease liabilities	(3,924)	-
Proceeds from long term borrowings	7,047	4,616
Repayment of long term borrowings	(22,218)	(9,326)
Net cash from / (used in) financing activities	(39,609)	2,185
Increase / (decrease) in cash and cash equivalents	47,789	(5,724)
Cash and cash equivalents - balance at beginning of year	35,006	41,908
Effect of exchange rate differences	(1,491)	(1,178)
Cash and cash equivalents - balance at end of year	81,304	35,006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital $'000	Share premium Account $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2019	2,165	49,778	(2,727)	(18,049)	55,319	86,486
Issue of shares	11	157	-	-	-	168
Total comprehensive income/(loss) for the year						
Net profit for the year	-	-	-	-	47,400	47,400
Total other comprehensive income	-	-	-	(1,021)	(49)	(1,070)
Total comprehensive income/(loss) for the year	-	-	-	(1,021)	47,351	46,330
Disposal of the automotive business	-	-	(19)	-	(83)	(102)
Transactions with owners:						
Share-based payment charge	-	-	-	-	1,467	1,467
Balance at 31 December 2019	2,176	49,935	(2,746)	(19,070)	104,054	134,349

Year ended 31 December 2018

	Share capital $'000	Share premium Account $'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/(loss) for the year						
Net loss for the year	-	-	-	-	(36,360)	(36,360)
Total other comprehensive income	-	-	-	(5,352)	(4)	(5,356)
Total comprehensive income/(loss) for the year	-	-	-	(5,352)	(36,364)	(41,716)
Transactions with owners:						
Share-based payment charge	-	-	-	-	3,659	3,659
Balance at 31 December 2018	2,165	49,778	(2,727)	(18,049)	55,319	86,486

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1. This financial information is consistent with the consolidated financial statements of the group, for the year ended 31 December 2019. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

2. The financial information set out above does not constitute Telit's statutory accounts for the years ended 31 December 2019 or 2018. Statutory accounts for 2019 will be delivered to the Registrar of Companies. The auditors have reported on the 2019 and 2018 statutory accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498 (2) or 498 (3) of the Companies Act 2006.

3. **Going concern**

In assessing going concern, the Board has considered the risks related to (a) the level of demand for the Group's products which may also affect the possibility of utilising some of these facilities since they depend upon the level of sales in specific markets and in some instances to specific customers; (b) the fluctuations in the exchange rate and thus the consequence for the cost of the Group's raw materials; (c) the continuity of supply from key suppliers; and (d) the company's budgets and forecasts in current market environments.

The Board has also carefully reviewed the Group's budget for 2020 and its medium-term plans, including the new risk related to the Covid 19 Virus. The Directors are mindful that the Group operates in the IoT sector which remains a rapidly growing industry subject to ongoing change in technological and competitive landscape.

After making enquiries, the directors are confident that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the financial statements.

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

EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. Adjusted EBIT, adjusted EBITDA, 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 of internally generated development assets, other exceptional items, exceptional expenses related to restructuring and the profit on disposal of the automotive business;
- Adjusted EBITDA is defined as Adjusted EBIT plus depreciation and other amortisation; Profit/loss in cash is defined as Adjusted EBITDA less capitalisation of internally generated development assets less acquisition of tangible and intangible assets net of proceeds from disposal of assets, less lease payments;
- Adjusted profit / (loss) before tax is defined as Profit / (loss) before tax plus share based payment expenses, amortisation of acquired intangibles, other exceptional items, exceptional expenses relating to restructuring, impairment of internally generated assets and the profit on disposal of the automotive business;
- Adjusted net profit / (loss) for the year is defined as net profit / (loss) for the year plus share based payment expenses, amortisation of acquired intangibles, other exceptional items, exceptional expenses related to restructuring, impairment of internally developed assets and the profit on disposal of the automotive business 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 profit / (loss) before tax and Adjusted net profit / (loss) for the year are presented in addition to the reported results.

	2019	2018
	$'000	**$'000**
Operating profit (loss)- EBIT	**63,622**	**(33,408)**
Share-based payments	1,688	5,715
Exceptional expenses related to restructuring	1,051	10,842
Impairment of internally developed assets	1,316	10,238
Other exceptional items	(52,744)	5,545
Amortisation of intangibles assets acquired	1,996	3,381
Adjusted EBIT	**16,929**	**2,313**
Depreciation and other amortisation	21,270	27,770
Adjusted EBITDA	**38,199**	**30,083**
Capitalisation of internally generated development assets	(15,289)	(25,300)
IFRS 16 (Rental costs)	(3,897)	-
Acquisition of tangible and intangible assets, net of proceeds from disposal of assets	(7,266)	(8,402)
Profit (loss) in cash	**11,747**	**(3,619)**
Profit (loss) before tax	**59,869**	**(39,813)**
Share-based payments	1,688	5,715
Exceptional expenses related to restructuring	1,051	10,842
Impairment of internally developed assets	1,316	10,238
Other exceptional items	(52,744)	5,545
Amortisation of intangibles acquired	1,996	3,381
Adjusted profit (loss) before tax	**13,176**	**(4,092)**
Net profit (loss) for the year	**47,400**	**(36,360)**
Share-based payments	1,688	5,715
Exceptional expenses related to restructuring	1,051	10,842
Impairment of internally developed assets	1,316	10,238
Other exceptional items	(52,744)	5,545
Amortisation of intangibles acquired	1,996	3,381
Deferred tax change	15,713	(4,268)
Adjusted net profit (loss) for the year	**16,420**	**(4,907)**

5. Net cash (debt) position

	2019	2018
	$ '000	**$ '000**
Cash and cash equivalents	81,304	35,006
Restricted cash deposits	646	337
Working capital borrowing (1)	(3,934)	(24,442)
Long term loans (2)	(3,352)	(20,033)
Governmental loans (3)	(24,676)	(22,862)
Mortgage loan (4)	(1,819)	(1,993)
Net cash (debt)	**48,169**	**(33,987)**

(1) Credit facilities used for working capital of up to €10,5 million bear average interest at a rate of 0.85%.

(2) Long term loans from banks in Italy (2018: $3.4 million) with an interest rate of Euribor 6 months plus 5.50%, repayable in 6 semi-annual instalments that will commence in December 2020. The 2018 balance includes $16.6 million loans from HSBC which were fully repaid in February 2019.

(3) Representing preferential long term loans (i) of $14.5 million with fixed-rate of 0.5% and 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 and, (ii) $10.1 million with a fixed-rate of 0.80% and repayable in 16 semi-annual instalments that commenced in December 2019, supported by the Ministry of Trade and Commerce in Italy, provided in connection with the Group's business development program in Italy. These loans are initially recognised at fair value and subsequently measured at amortised cost.

(4) Representing a preferential rate loan of €3.5 million received in 2011 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 over 30 semi-annual instalments that commenced in July 2012. The loan is initially recognised at fair value and subsequently measured at amortised cost.

The directors believe that the credit facilities and loans as at year end will remain available to the Group for in the foreseeable future and that therefore the Group will be able to continue to fund its operations from these credit facilities.

6. Sale of automotive business

- On 13 July 2018, Telit Communications PLC agreed to sell its automotive business (Automotive transaction) to TUS International Limited ("TUS") for a total consideration of $105.0 million subject to working capital adjustments. On 27 February 2019 the sale was completed with a cash payment of $67.5 million and a short-term vendor loan of $38.5 million which was later repaid in full on 15 April 2019. The net amount received after the working capital adjustment was $106.6 million.

- As of 27 February 2019, the net book value of the net assets, including working capital items, of the disposed business units was $44.1 million including intangible assets of $34.7 million.

- On 30 October 2019 Telit and TUS agreed on the final adjustment to the net consideration which resulted in a total adjustment of $1.6 million that was added to the purchase price of $105 million and resulted in a final profit on disposal before tax of $54.5 million.

	$'000
Consideration receivable	106,576
Carrying amount of net assets sold	(43,985)
Transaction cost	(8,119)
Profit from disposal before tax	54,472

- Telit agreed to provide certain transitional services, mainly for IT and production management services to Titan, pursuant to a transition service agreement (TSA). At 31 December 2019, the account receivable balance under the TSA was $23.5 million, out of which $1.2 million was overdue. After ongoing discussions with TUS and Titan, and after reducing the overdue amount, Telit agreed, in early 2020 to extend the TSA beyond February 2020 and amend the terms and conditions of the TSA to better secure the collection of the outstanding amounts, including obtaining a guarantee from TUS and its parent.

7. Tax

- In May 2019, Telit Brazil received an infraction notice from the Sao Paulo state tax authority regarding alleging 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 the first level administrative process. In October, the first-level Administrative Court ruled in favour of the state, as expected, and upheld the assessments made by the tax authority. Later that month, Telit Brazil filed an appeal to a second-level Administrative Court and is awaiting judgement. Where appropriate, decisions from Administrative Courts may be subject to review by a Court of Law. The total potential liability for this claim is approximately $4.2 million consisting of the underlying ICMS claim (approximately $2.1 million), interest (approximately $432 thousands) and penalties (approximately $1.7 million). 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 December 2019, culminating the second 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 rate of amortization of certain intangible assets and the treatment of the utilization losses to offset taxable income. With respect to the amortization of intangibles, the Group recognizes that this is an uncertain tax position, and, as such, has provided for an adjustment of the rate of amortization for the relevant tax years. With respect to the utilization of losses, the potential additional tax charge to the Group is approximately $3 million. The Group has timely filed an appeal with the Tel Aviv Circuit Court, and considers, based on professional advice and the particular facts, that it has strong arguments against the disallowance of the losses. Accordingly, no provision has been made for this amount.

8. Post balance sheet events

Following the disclosure in the 2018 annual report, in early 2020 the company managed to settle the following claims:

- Claims filed by M2M Solutions LLC ("M2M") - In January 2020 the parties signed a settlement agreement for an immaterial amount and the claim was dismissed.

- Claim filed by Koninklijke KPN N.V., ("KPN") - In January 2020 the parties reached a settlement agreement according to which Telit purchased a license until 31 December 2021 and the claim was dismissed. The cost of the license has no material impact on Group results.

- Mutual claims between Telit Wireless Services Ltd. ("Telit Ltd.") and Ingeniorsfirman Sjoberg AB, a foreign Swedish Company ("Ingeniorsfirman") - As part of the preliminary hearing took place in January 2020, the parties reached a settlement approved by the court according to which Telit LTD will receive certain immaterial amounts and the mutual claims will be dismissed.