Mobile Tornado

Unaudited Interim Report

for the six months ended 30 June 2017

Mobile Tornado Group plc
Company registration number: 5136300

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Financial Highlights

- Total revenue increased by 21% to £1.11m (H1 2016: £0.92m)
    - Recurring revenue increased by 24% to £1.04m (H1 2016: £0.84m)
- Operating expenses increased by 14% to £2.09m (H1 2016: £1.83m)
    - adversely impacted by the depreciation of sterling
- Adjusted EBITDA* loss of £1.04m (H1 2016: £0.96m)
- Group operating loss of £1.12m (H1 2016: £1.53m)
- Loss after tax of £1.06m (H1 2016: £1.56m)
- Basic loss per share of 0.42p (H1 2016: 0.63p)
- Cash and cash equivalents of £0.25m (H1 2016: £0.17m)
    - Completed a placing to raise a total of £1.19m before expenses in April 2017

*excluding exchange differences and exceptional items

Operating highlights

- Full commercial launches with two Mobile Network Operator ("MNO") customers in South Africa
- Established trading relationships with two independent Push to Talk ("PTT") operators in South America
- Completed the development of new Instant Communication platform, with significantly higher capacity and additional user features
- Software Development Kit ("SDK") upgraded and released to market
- Development of the new Dispatch Console (MDC200) completed and released to market

Financial results

Total reported turnover in the six-month period to 30 June 2017 increased by 21% to £1.11m (H1 2016: £0.92m). This increase was aided by the depreciation of Sterling during the period and at a constant currency level was an increase of 11% on the comparative period. Recurring revenues, a key performance indicator for the business, continued its upwards trajectory and increased 24% to £1.04m (H1 2016: £0.84m) as reported, and by 13% at a constant currency level. Non-recurring revenues, comprising installation fees and professional services, decreased slightly to £0.07m (H1 2016: £0.08m). As a result, gross profit increased 20% to £1.05m (H1 2016: £0.87m).

The majority of our operating expenses are denominated in New Israeli Shekels and whilst our underlying operating cost-base remained largely unchanged over the comparative period on a like-for-like basis, our reported operating expenses increased by 14% to £2.09m (H1 2016: £1.83m) due primarily to the depreciation of Sterling during the period.

The Group reported an unrealised foreign exchange gain of £0.07m (H1 2016: £0.42m loss) and recorded a net income tax credit in respect of our qualifying investment in R&D activities during the period of £0.38m (H1 2016: £0.28m).

As a result of all the above, the loss after tax for the period decreased to £1.06m (H1 2016: Loss £1.56m).

The net cash outflow from operating activities during the period increased to £1.42m (H1 2016: £0.82m) resulting in cash and cash equivalents as at 30 June 2017 of £0.25m (H1 2016: £0.17m). As at 30 June 2017, the Group had net debt of £9.71m (30 June 2016: £7.75m). Of this net debt figure, £7.87m is in respect of preference shares and associated unpaid accrued interest, held by Intechnology plc, our majority shareholder. The preference shares are redeemable at par value on 31 December 2018, or, at the Company's discretion, at any earlier date.

Chairman's report

Review of operations

I'm pleased to report a period of solid operational progress across the business.

We have seen full commercial launches from our two Mobile Network Operator ('MNO') customers in South Africa having successfully commissioned and deployed dedicated server platforms for both customers. Discussions have also commenced with one of the MNOs to explore the roll out of services across other African countries.

In South America we continue to work with one of the major MNOs operating in that territory and have now established trading relationships with two other independent Push to Talk ("PTT") operators. There is a huge market for PTT in LATAM and we are continuing to strengthen our position to ensure we can take full advantage of the opportunity as it develops.

In the Middle East we have concluded a deal with an MNO that had previously deployed the iDEN platform. As reported previously, this technology is being closed down over the next couple of years, and we hope to work with this MNO to enable them to replace their legacy MNO systems with our own platform. We are in discussions with several other MNOs in LATAM, Middle East and Europe.

We continued to invest heavily in our research and development activities. A significant proportion of our cost-base is devoted to our engineering teams based at our development centres in Israel, Ukraine and India. Our new leadership team has been focused on recruiting the engineers needed to move the business forward across a number of areas and we are delighted with the advances that have been made.

During the period we also completed the development of our new Instant Communication platform, with significantly higher capacity and additional user features. We intend during the second half of the year to release a new line of lower cost server platforms for small and medium organisations. These systems will facilitate the replacement of legacy radio systems, saving initial installation costs and significantly reduce annual operating costs.

Our Software Development Kit ('SDK') was upgraded and released to the market during the first half. The SDK is currently being used by several partners, who are working to integrate our PTT solution with existing workforce management applications. The partners operate across a number of sectors including security, logistics and transportation. I am hopeful that we will see positive results soon, and begin to access significant deployed customer bases quickly and effectively.

The development of the new Dispatch Console (MDC200) was completed and released to the market. It is being tested by a number of customers around the world and the initial feedback has been excellent.

With regard to hardware, we introduced several new low cost ruggedised devices, manufactured by our partners, and sold through our customers in developing countries, primarily South America and Africa. As cost is a primary issue in these territories, it is encouraging to see the price levels falling significantly, making our proposition even more compelling to prospective customers. Later this year, we plan to introduce screen-less 3G and 4G devices to compete with low cost radio devices. The initial response from our partners to the early prototypes has been very encouraging.

Funding & going concern

The Company completed a placing on 27 April 2017 of 23.8 million shares at 5p per share to raise a total of £1.19m before expenses. The Directors subscribed for 12,000,000 shares comprising 50.4% of the issue. The Directors believe that the Group has sufficient working capital for the foreseeable future, which also takes into consideration its currently contracted revenues, anticipated contracts and the continued support of Intechnology plc, our majority shareholder.

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Outlook

The macro outlook for our business continues to strengthen. With the global roll out of 3G/4G networks worldwide, users now have the option to use PoC for their instant communication requirements, instead of traditional radio platforms such as LMR, DMR and iDEN. The transition will intensify as the last iDEN systems shut down around the world and MNOs extend their LTE coverage.

At the same time, an increasing number of device manufacturers are adding PoC devices to their portfolio, which is bringing the prices down and allowing for greater penetration in developing countries. We are well placed, with customers and partners in each of the key territories, to take advantage of this emerging trend.

The improvements we have made to our platform over the last 12 months have been borne out by the recent wins in the Middle East and the increasing number of tenders we have been asked to participate in. Further evidence that adoption of PoC is accelerating was provided by the recent acquisition of Kodiak Networks, one of our principle competitors, by Motorola Solutions.

I am confident that our experienced management team led by Avi Tooba, our recently appointed CEO, place the Company in a strong position as the market develops. We look forward to the balance of this year and the Company’s prospects in 2018 and beyond.

Jeremy Fenn
Chairman
28 September 2017

Consolidated income statement
For the six months ended 30 June 2017

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	Note	**Six months ended 30 June 2017 Unaudited £'000**	Six months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Continuing Operations				
Revenue		**1,106**	915	2,024
Cost of sales		**(57)**	(41)	(103)
Gross profit		**1,049**	874	1,921
Other operating expenses		**(2,085)**	(1,833)	(3,885)
Group operating loss before exchange differences, exceptional items, depreciation and amortisation expense		**(1,036)**	(959)	(1,964)
Exchange differences		**66**	(421)	(642)
Exceptional items		**(88)**	(86)	(276)
Depreciation and amortisation expense		**(65)**	(66)	(203)
Total operating expenses		**(2,172)**	(2,406)	(5,006)
Group operating loss		**(1,123)**	(1,532)	(3,085)
Finance costs		**(315)**	(307)	(640)
Loss before tax		**(1,438)**	(1,839)	(3,725)
Income tax credit		**375**	277	277
Loss for the period		**(1,063)**	(1,562)	(3,448)
Loss per share (pence)				
Basic and diluted	3	**(0.42)**	(0.63)	(1.39)

Consolidated statement of comprehensive income
For the six months ended 30 June 2017

	Six months ended 30 June 2017 Unaudited £'000	Six months ended 30 June 2016 Unaudited £'000	Year ended ended 31 December 2016 Audited £'000
Loss for the period	**(1,063)**	(1,562)	(3,448)
Other comprehensive income			
Exchange differences on translation of foreign operations	**25**	(37)	(71)
Total comprehensive loss for the period	**(1,038)**	(1,599)	(3,519)

Consolidated statement of changes in equity
For the six months ended 30 June 2017

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	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,183)**	**(29,239)**	**(11,141)**
Equity settled share-based payments	-	-	-	-	-	16	16
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Loss for the period	-	-	-	-	-	(1,562)	(1,562)
Exchange differences on translation of foreign operations	-	-	-	-	(37)	-	(37)
Total comprehensive income for the period	-	-	-	-	**(37)**	**(1,562)**	**(1,599)**
Balance at 30 June 2016	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,220)**	**(30,785)**	**(12,724)**

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2016	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,220)**	**(30,785)**	**(12,724)**
Equity settled share-based payments	-	-	-	-	-	7	7
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Loss for the period	-	-	-	-	-	(1,886)	(1,886)
Exchange differences on translation of foreign operations	-	-	-	-	(34)	-	(34)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(34)**	**(1,886)**	**(1,920)**
Balance at 31 December 2016	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,254)**	**(32,664)**	**(14,637)**

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,254)**	**(32,664)**	**(14,637)**
Equity settled share-based payments	-	-	-	-	-	18	18
Issue of share capital	476	660	-	-	-	-	1,136
Transactions with owners	**476**	**660**	**-**	**-**	**-**	**18**	**1,154**
Loss for the period	-	-	-	-	-	(1,063)	(1,063)
Exchange differences on translation of foreign operations	-	-	-	-	25	-	25
Total comprehensive income for the period	-	-	-	-	**25**	**(1,063)**	**(1,038)**
Balance at 30 June 2017	**5,427**	**12,672**	**(7,620)**	**10,938**	**(2,229)**	**(33,709)**	**(14,521)**

Consolidated balance sheet
As at 30 June 2017

Mobile Tornado

	Note	**30 June 2017 Unaudited £'000**	30 June 2016 Unaudited £'000	31 December 2016 Audited £'000
Assets				
Non-current assets				
Property, plant & equipment		**281**	297	294
Intangible assets		**144**	187	162
		425	484	456
Current assets				
Trade and other receivables		**1,338**	1,266	1,313
Inventories		**1**	32	-
Tax debtor		**431**	-	-
Cash and cash equivalents		**248**	168	165
		2,018	1,466	1,478
Liabilities				
Current liabilities				
Trade and other payables		**(4,526)**	(4,248)	(4,719)
Borrowings		**(4,402)**	(2,377)	(3,667)
Net current liabilities		**(6,910)**	(5,159)	(6,908)
Non-current liabilities				
Trade and other payables		**(2,476)**	(2,512)	(2,625)
Borrowings		**(5,560)**	(5,537)	(5,560)
		(8,036)	(8,049)	(8,185)
Net liabilities		**(14,521)**	(12,724)	(14,637)
Shareholders' equity				
Share capital	4	**5,427**	4,951	4,951
Share premium	4	**12,672**	12,012	12,012
Reverse acquisition reserve		**(7,620)**	(7,620)	(7,620)
Merger reserve		**10,938**	10,938	10,938
Foreign currency translation reserve		**(2,229)**	(2,220)	(2,254)
Retained earnings		**(33,709)**	(30,785)	(32,664)
Total equity		**(14,521)**	(12,724)	(14,637)

Consolidated cash flow statement
For the six months ended 30 June 2017

	Note	**Six months ended 30 June 2017 Unaudited £'000**	Six months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Operating activities				
Cash used in operations	5	**(1,419)**	(815)	(1,721)
Tax credit received		**-**	277	277
Net cash used in operating activities		**(1,419)**	(538)	(1,444)
Investing activities				
Purchase of property, plant & equipment		**(48)**	(20)	(108)
Purchase of intangible assets		**-**	(80)	(81)
Net cash used in investing activities		**(48)**	(100)	(189)
Financing				
Issue of ordinary share capital		**1,190**	-	-
Share issue costs		**(54)**	-	-
Proceeds from borrowings		**420**	690	1,670
Net cash inflow from financing		**1,556**	690	1,670
Effects of exchange rates on cash and cash equivalents		**(6)**	9	21
Net increase in cash and cash equivalents in the period		**83**	61	58
Cash and cash equivalents at beginning of period		**165**	107	107
Cash and cash equivalents at end of period		**248**	168	165

1 General information

The financial information in the interim report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 and has not been audited or reviewed. The financial information relating to the year ended 31 December 2016 is an extract from the latest published financial statements on which the auditor gave an unmodified report that did not contain statements under section 498 (2) or (3) of the Companies Act 2006 and which have been filed with the Registrar of Companies.

2 Basis of preparation

These interim financial statements are for the six months ended 30 June 2017. They have been prepared using the recognition and measurement principles of IFRS.

The interim financial statements have been prepared under the historical cost convention.

The interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2016. The accounting policies have been applied consistently throughout the Group for the purpose of preparation of the interim financial statements.

3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £1,063,000 (30 June 2016: £1,562,000, 31 December 2016: £3,448,000) by the weighted average number of ordinary shares in issue during the period of 255,311,200 (30 June 2016: 247,553,189, 31 December 2016: 247,553,189).

	Six months ended 30 June 2017 Unaudited Basic and diluted		Six months ended 30 June 2016 Unaudited Basic and diluted		Year ended 31 December 2016 Audited Basic and diluted	
	Loss	**Loss per share**	Loss	Loss per share	Loss	Loss per share
	£'000	**pence**	£'000	pence	£'000	pence
Loss attributable to ordinary shareholders	**(1,063)**	**(0.42)**	(1,562)	(0.63)	(3,448)	(1.39)

4 Share capital and share premium

	Number of shares '000	**Share capital £'000**	**Share premium £'000**	**Total £'000**
At 1 January 2016, 30 June 2016 & 31 December 2016	**247,553**	**4,951**	**12,012**	**16,963**
Issue of shares	23,800	476	660	1,136
At 30 June 2017	**271,353**	**5,427**	**12,672**	**18,099**

Non-voting preference shares

	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2016, 30 June 2016 & 31 December 2016	**247,553**	**4,951**	**12,012**	**16,963**
Issue of shares	23,800	476	660	1,136
At 30 June 2017	**271,353**	**5,427**	**12,672**	**18,099**

Liabilities and preference shares totalling £5,702k were converted into 71,277k 8p preference shares on 28 August 2013. The preference shares are non-voting, non-convertible redeemable preference shares redeemable at par value on 31 December 2018, or, at the Company's discretion, at any earlier date. The preference shares accrue interest at a fixed rate of 10% per annum.

5 Cash used in operations

	Six months ended 30 June 2017 Unaudited £'000	Six months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Loss before taxation	**(1,438)**	(1,839)	(3,725)
Adjustments for:			
Depreciation	**65**	66	203
Share based payment charge	**18**	16	23
Interest expense	**315**	307	640
Changes in working capital:			
(Increase)/Decrease in inventories	**(1)**	(1)	31
(Increase)/Decrease in trade and other receivables	**(108)**	18	38
(Decrease)/Increase in trade and other payables	**(270)**	618	1,069
Net cash used in operations	**(1,419)**	(815)	(1,721)

6 Shareholder information

The interim announcement will be published on the company's website www.mobiletornado.com on 28 September 2017.

Corporate information

Company Registration Number:	5136300
Registered Office:	Cardale House Cardale Court Beckwith Head Road Harrogate HG3 1RY
Directors:	Peter Wilkinson (Non-Executive Director) Jeremy Fenn (Executive Chairman) Avi Tooba (Chief Executive Officer)
Nominated Advisor and Broker:	Investec Bank Plc 2 Gresham Street London EC2V 7QP
Bankers:	Barclays Bank Plc Hanover Square 50 Pall Mall London SW1Y 5AX
Solicitors:	Schofield Sweeney LLP Wellington Street Leeds LS1 2AY
Registrars:	Capita Asset Services 34 Beckenham Road Beckenham Kent BR3 4ZF
Auditors:	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds LS1 4DL

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