Telit Annual Report 2005

Telit is in it.

Telit's WORLD

Telit Communications plc is an international provider of cutting-edge cellular m2m (machine-to-machine) technology, and a prominent EVAR (Enhanced Value-Added Reseller) of a range of advanced cellular phones and accessories worldwide.

With R&D facility in Italy and strategic sales offices in Copenhagen, London, Madrid, Milan, Munich, Tel Aviv, **Telit works hand-in-hand with 22 distributors in 45 countries.** Committed to performance and guided by two decades of creative innovation, Telit is driven by the highest standards of consistency and reliability.

As both a producer and a marketer of advanced cellular technology and products, Telit Communications is uniquely positioned in the cellular market. One of the few companies in the industry with **full control over the underlying technologies in its products, Telit owns a large number of valuable patents, and boasts especially strong in-house technology and development expertise.**

Telit Communications is uniquely positioned in the cellular market by holding **full control over its core technology (protocol stack).** This mix of technological proficiency and marketing know-how enables Telit to effectively penetrate numerous market segments by rapidly adapting existing products to meet market demand. From highly advanced wireless modules and customised wireless solutions to stylish cutting-edge handsets, Telit enjoys a reputation for meeting and exceeding customer expectations.

Two distinct business units:

- **Wireless Solutions Business Unit.** The design, development, manufacture, and marketing of a wide range of state-of-the-art cellular communications products for the m2m (Machine-to-Machine) market. These products enable electronic devices and equipment manufacturers to use the widely deployed GSM/GPRS cellular infrastructure to relay and accept information without human intervention.
- **Enhanced Value Added Reseller (EVAR) Business Unit.** The customisation and distribution of 'Telit' branded cellular products to mobile operators and to independent retailers.

Table Of Contents

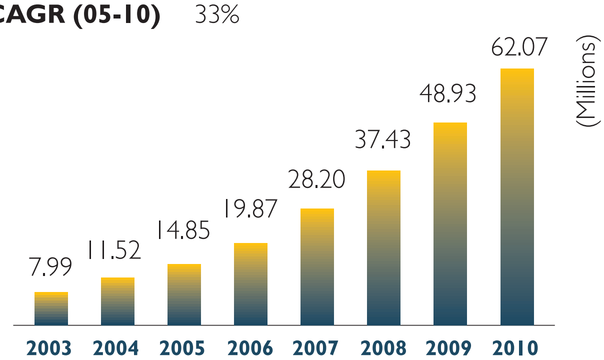
Making Machines talk.

Moderate Forecast

CELLULAR M2M MODULE SHIPMENTS

World Market, Moderate Forecasts: 2003 to 2010

CAGR (05-10) 33%



ABIresearch, Cellular Machine-to-Machine (M2M) Networks, Published 3Q 2005

Traditionally, M2M dealt with telemetry applications where remote sensors interacted with servers over a dedicated wire line link. However, the introduction of wireless M2M has opened up an infinite number of new applications. Machine-to-Machine technology provides the basis for enabling machines, equipment or vehicles to communicate with each other via mobile communications networks.

- The drive for cost savings by automating machinery and asset monitoring control without human intervention.
- The need for rapid retrieval of information over reliable communication networks
- Governmental and regulatory pressure aimed at promoting safety (auto telematics), security (surveillance), automatic meter reading (AMR) and e-government (DVBT).

M2M is a long-term, fast growing and high-tech marketplace. This is confirmed by the fact that there are at least ten times more machines, equipment, vehicles and robots than there are humans in the world. The need to transfer information efficiently between machines or to humans is extremely high. M2M's major potential is derived from the benefits that users can obtain from wireless communication between machines. These include, among others, increased efficiency, timesaving, improved customer orientation and greater flexibility.

M2M means automatically and wirelessly transferring information from machine to machine. In practical terms, this could be a server within a company that collects or forwards data for processing. The term M2M describes the transfer of information from machines to humans. For example, a vending machine can inform a member of the service team of a detected malfunction via SMS. With M2M, companies can monitor plants, check fill levels, detect malfunctions, maintain systems or control transport without any human intervention. Investment in conventional, wired technologies is not required anymore. M2M users can therefore respond more flexibly thus saving resources and costs. M2M applications can now be found in a range of industries and sectors including vending machines, remote reading systems (automated meter reading or AMR), transport and logistics, healthcare and security technology.

The Wireless Solutions Business Unit

The Wireless Solutions Business Unit

Telit has played a key role since the cellular market revolution in the mid 1990s, helping to pioneer the integration of wireless technologies across a wide range of vertical M2M applications. Today Telit is recognised as one of the industry leaders for providing M2M customers with wireless solutions backed by depth of technology, expertise and support.

Telit Makes Machines Talk

Telit's Wireless Solutions Business Unit develops, produces and markets GSM/GPRS modules and solutions for machine-to-machine communication (M2M). **Telit's vision is to become the market leader in the most important vertical M2M market segments. This endeavour is backed up by substantial experience, which spans more than 15 years or 400 man-years in the development of this software platform.**

Telit markets its M2M modules globally through direct sales offices around Europe as well as through well-known distributors in 45 countries including Arrow, the world's leading marketing company for electronic components. In the United Kingdom, Telit works with the distribution companies Round Solutions, Sequoia and Spectre. Telit's main target group includes system integrators that develop various vertical M2M applications and require communications modules.

Wide Product Range

Telit delivers a full line of wireless modules based on GSM/GPRS technology and in-house know-how by leveraging M2M standardised interfaces and protocols. **With the complete command of its core product technology, Telit provides customers of all sizes with an efficient product development cycle offering flexible, customisable, and cost-effective solutions. At the heart of all Telit M2M solutions lies a proprietary software platform and a comprehensive AT-command interface** for communication between applications and modules. Telit wireless modules can be easily applied to vertical application areas such as:

- Automatic Meter Reading
- Car Telematics
- Fleet Management and Tracking/Logistics
- Point of Sale Terminals/Handhelds
- Security Systems and Personal Tracking Devices
- Public Transportation and Road Tolling
- Vending Machines
- Mobile Computing (Mobile workforce automation)
- Industrial Processes
- Information Displays
- Healthcare
- Emergency Communication Systems

Telit to your friends

The EVAR Business Unit

Telit Communications provides a comprehensive range of sales, marketing, customisation and post-sales support services for cellular device manufacturers worldwide.

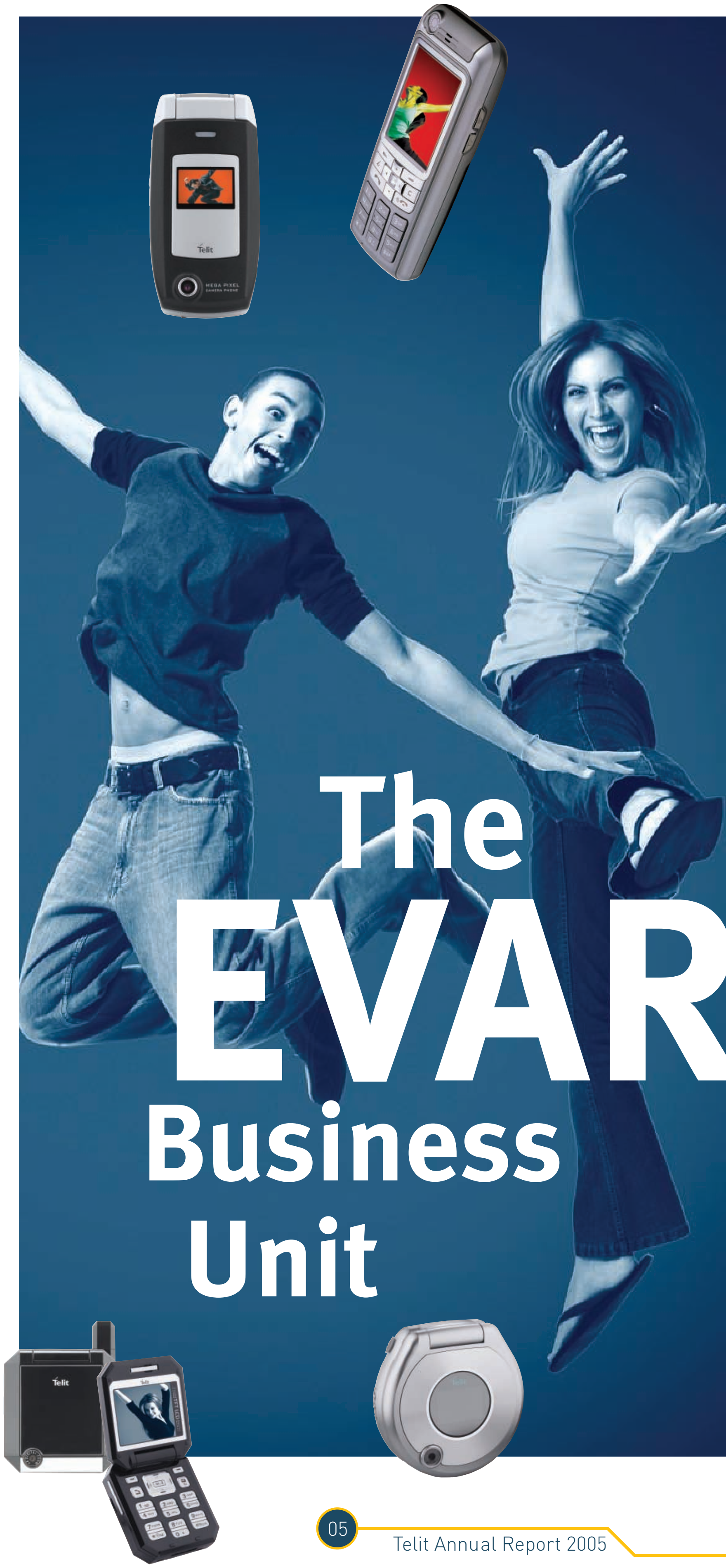
With in-depth market knowledge and in-house technical resources, Telit brands, customises, tests and supports cellular devices from manufacturers worldwide. These manufacturers, mainly Original Equipment Manufacturers (OEMs) and Original Design Manufacturers (ODMs) based in the Asia-Pacific, seek to introduce products into the European market in a cost effective manner. Telit's proposition offers these manufacturers an attractive option to penetrate European markets in a cost effective manner.

Telit's portfolio of devices covers all market segments from entry level handsets to premium phones, including data accessories such as GPRS and WLAN modems, and data cards. Telit distributes products to cellular operators directly, or works through open market wholesale and retail channels according to the region's market dynamics. Telit's EVAR (Enhanced Value-Added Reselling) Business Unit provides manufacturers with several cost-savings and benefits:

- Rapid Time-To-Market - Ongoing feedback from Telit's customers ensures that products are delivered to market only if proven attractive, well-adapted and suitably priced.
- Development and Localization - Telit offers an end-to-end solution backed by in-house technological expertise, providing technical and testing services.
- After Sales Support - Telit offers end-to-end after sales service, saving manufacturers the time and expenses associated with setting up a service infrastructure.
- Marketing and Sales Support - Telit's central location and contacts with operators and the open market enables quick penetration of new products to the European and Israeli markets.

Added Value

Telit offers operators enhanced competitiveness and added value by branding, testing, developing, customising and supporting each device it distributes.



Chairman's Statement

We are pleased to present Telit Communications PLC's first Annual Report since the Company's admission to trading on the AIM market of the London Stock Exchange plc in April 2005. I am delighted to be able to inform shareholders that, in line with the indications we provided in our preliminary results on 1 March 2006, the results for the year demonstrate significant improvement in the Company's performance. We have achieved significant growth, especially in the second half of the year, during which we have won several important new contracts, both in the Wireless Solutions as well as in the EVAR Business Units.

Our technical innovation and focus on R&D has ensured that we remain at the forefront of our industry. We look forward to another year of continued growth.

Avigdor Kelner
Chairman

21 June 2006

Chief Executive's Statement and Review

Introduction

We are pleased to present Telit Communications PLC's preliminary report for the year ended 31 December 2005, and I am delighted to be able to inform shareholders that we have achieved strong growth, especially in the second half of the year.

Corporate governance

Telit has established itself as a UK company with high levels of corporate governance, financial reporting and controls, and investor relations. At Telit, we have put in place a professional and experienced board, with two independent directors as well as remuneration and audit committees. We report under International Financial Reporting Standards, and we have recently launched a new investor relations website at www.telit.com.

Financial results

In line with the indications we provided in our preliminary results on 1 March 2006, the results for the year demonstrate significant improvement in the Company's performance.

Sales reached €86.4 million for the full year, an increase of 16%. Gross profit increased 33% to €15.1 million with the gross profit margin reaching a level of 17.5%, an increase of 15% against 2004.

These improvements in sales and gross profit margin have led to a 44% decrease in operating losses and in pre-tax loss.

The Company made significant progress during the second

Avigdor Kelner
Chairman

Oozi Cats
Chief Executive Officer

half of 2005 by achieving a 36% increase in turnover and a 77% decrease in operating loss from €1.2 million to €0.2 million compared to the first half of the year.

EVAR Business Unit

The EVAR Business Unit is currently Telit's main revenue and profit generator.

The EVAR Business Unit develops software and hardware in its laboratories located in Trieste, Italy and Tel Aviv, Israel for integration into cellular phones as well as other cellular-communication-based devices. We offer a comprehensive product portfolio that includes several different types of mobile handsets, including CDMA, GSM, Smart phones and UMTS end user equipment. Telit incorporates its own comprehensive design and then distributes the products to mobile operators and independent resellers under the well-known brand Telit.

During 2005, Branded EVAR sales increased by approximately 11% compared to 2004. In addition to the increase in sales, the gross profit margin increased by 20% reaching a level of 16% in 2005.

These results have led to an 11% increase in operating profits for the Branded EVAR Business Unit compared to the corresponding period last year.

We have significantly increased sales to operators, particularly in Israel and Italy, and during the second half of 2005 this division increased sales by 20% compared to the first half.

Sales to Italian operator Wind continued with a new model that was launched exclusively. We maintained our ongoing sales to Vodafone, Eplus, KPN and Telcel Mexico and have introduced a new UMTS model that was launched by Telecom Italia Mobile (TIM). We believe that more products will follow in the future.

During 2005 the Company increased its number of suppliers from three in 2004 to seven in 2005. New agreements with cellular equipment suppliers from the Far East, including Bellwave, Amoi and Pantech & Curitel will enable us to broaden our line of products, as well as to offer a full range of devices to the market from entry level to UMTS phones. In addition, we have maintained our strong relationship with Curitel, a Korean supplier, in the CDMA market and have expanded our cooperation with a new line of UMTS devices.

New supplier agreements have allowed Telit's EVAR to introduce a total of twelve new handsets this year compared with the five handsets that we introduced in 2004.

Our sales in the open market in Italy were generated by distribution agreements with some of the largest distributors in Italy. We have continued our productive relationship with ADR throughout Italy, and new agreements were signed with "Rilcla" in Italy (a retail chain with 2,000 stores), "Merchantone Uno" (an Italian retail chain), "APF" in Slovenia (a distributor) and "Davon Business SL" in Spain.

As a result of these sales activities, we expect to be able to sustain our growth rates in this highly profitable and cash generative business. Customer satisfaction with our Company's products is encouraging, and we expect sales to increase as customers experience Telit's quality of service.

Wireless Solutions Business Unit

The development of the Wireless Solutions Business Unit is the key to our future value creation, and we have invested heavily in it.

The Wireless Solutions Business Unit conducts intensive research and development to enable the Company to offer an advanced and diverse portfolio of products. We have a full line of machine-to-machine (m2m) GSM/GPRS products based on our proprietary technology. Our data products are suitable for a variety of applications, including remote metering and monitoring, vending machines, security systems, fleet management and point of sales terminals.

The Wireless Solutions division achieved sales growth of 47% compared to 2004, and this has led to a 24% decrease in operating loss.

During the second half of 2005 this division increased sales by 150%, leading to a 53% decrease in operating loss compared to the first half of the year.

Performance during 2005, along with our reinforced focus on the m2m business, has positioned Telit as a leading supplier in the Italian market. Our sales growth exceeds the industry's (GSM/GPRS) growth, which as indicated in ABI research grew only by 6.7% in 2005 while our sales grew by 47%.

Our product offering that contained two products in 2004 has been diversified into four families of products offering seven products during 2005. Our products are cost optimised, scalable solutions offering the latest technology from leading suppliers such as Infineon and SiRF. Our customers benefit from our IPR, GPRS Platform and protocol stack and our fully furnished test laboratory for CE and R&TTE measurements that support them.

Telit outsources the manufacturing of its products utilising electronics manufacturing services (EMS). In 2005 the major EMS-manufactured product has been Solectron, based on regular leaded process. In 2005, the Company established a new production line at Celestica Rajecko for RoHS (European Union Restriction of Hazardous Substances) processes. The focus of production activities in 2005 was the transition of production process from leaded to lead-free. This activity was completed successfully and all new production starting from Q1/06 will be based on a lead-free (RoHS compliant) process (EU Directive 2002/95/EG).

The Company uses other EMS facilities for prototyping and small production series.

Celestica is a world leader in the delivery of innovative EMS. Celestica operates a highly sophisticated global manufacturing network with operations in Asia, Europe and the Americas, providing a broad range of integrated services to leading original equipment manufacturers (OEMs) across a variety of industries. Celestica's expertise in quality, technology and supply chain management and leadership in the global deployment of Lean principles, enable the company to provide competitive advantage to our customers by improving time-to-market, scalability and manufacturing efficiency.

Celestica is our main contract manufacturer (EMS), supplying us with finished goods (turn-key) according to our manufacturing forecast and purchase orders.

Telit renewed its ISO9001: 2000 certification in November 2005, for the 3rd consecutive year. This certification covers Telit's business operations related to: development, sales and delivery of wireless solutions m2m applications and EVAR activities.

Furthermore, to ensure that overall quality standards are met and maintained, Telit uses ISO-certified component suppliers and works with Celestica, in Rajecko, Czech Republic for all of its production. The Celestica facility is ISO-certified.

Telit received the approval of two patent applications filed in 2004; these patents enhance the Company's IP portfolio.

Chief Executive's Statement and Review

We offer our customers a competitive edge by reducing solution cost and optimising performance of their applications. We offer a wide variety of features and services such as Quad-band GSM/GPRS technology, unique BGA mounted module, application engineering for design-in support and complete application development, technical approvals including FTA and CE preparations and co-ordination, customisation services: Integration of specific customer features in the product, support hotline for feedback on customers' requests within 48 hours worldwide, full control of production line, fast hardware customisation as well as full project development chain.

To continue the Company's successful growth within the cellular m2m market, we implemented a systematic product and sales strategy that converts opportunities into customers within a six to twelve months sales cycle. The Company currently utilises direct and indirect distribution channels to reach the market. In addition to setting up our own sales offices in Copenhagen, London, Madrid, Milan, Munich, Rome and Tel Aviv, we have extended our global distribution network to include most relevant component distributors as well as product specialists for cellular solutions covering 45 countries to date:

- Microdis covering Turkey, Poland, Czech Republic, Slovakia, Hungary, Baltic States and CIS countries,
- Azzurri Technologies covering Germany, Austria and Switzerland,
- Sequoia covering UK and Ireland
- Elektroinvest covering Bulgaria
- Arrow, global market leader in electronic component distribution - a new contract was signed with Arrow Nordic covering the Nordic and Baltic countries.
- Glynn - a new contract was signed covering Australia and New Zealand.

New customers were acquired and we supplied wireless data cards to cellular operators Wind (Italy) and KPN (Netherlands), and signed agreements with Base (Belgium) and Eplus (Germany) for future sales.

Our commitment to global marketing was demonstrated by our participation in international exhibitions including the 3GSM World Congress in Cannes, France and CeBit 2005 in Hanover, Germany. By displaying Telit's portfolio of products in this way, we have generated a network of connections, and have developed processes and customisations for future customers, which we expect to yield significant benefits in terms of increased sales over the next two years.

The potential growth of the Wireless Solutions Business Unit depends on our continuing successful development of state of the art products as well as on securing the necessary distribution agreements as well as our direct sales. At this point, our team of engineers are supporting over 500 new customer designs in progress.

We are pleased to report a number of developments, which we believe will significantly increase future sales over the next two years. These developments include:

- Winning contracts with IBM for the development and supply of a GPRS based communications solution as part of an AMR project. The Telit designed AMR solution allows for automated meter readings whereby energy providers will be able to read their customers' electricity and gas meters through m2m ("machine to machine") wireless communication. Telit's GPRS modules will be integrated into electricity meters in households in Europe as part of the AMR rollout within the utility sector.

Due to the extensive R&D necessary for the project, Telit's module will be an integral part of the design and functionality of the AMR device. Shipments are planned for March 2006 and we have plans to supply around 250,000 units within the next 2 years.

Chief Executive's Statement and Review

- Selection by DKTS, a leading systems integrator, to supply GPRS modules for the connection of cash registers in Serbia and Montenegro. IR Electronic, an Arrow company, will act as Telit's distribution partner for this transaction. We expect the Company's participation in this new application field to lead to significant future sales.
- Signing a Memorandum of Understanding with the European Commission's Emergency Call initiative ("eCall") in order to secure an EU-wide commitment to creating an in-vehicle emergency call service to help reduce the number of fatalities and accidents on European roads. An on-board GSM-based emergency call system can significantly shorten the time it takes emergency services to be deployed. The consequence of the eCall campaign is that all cars sold from 2009 will be equipped with GPRS modules. Telit will be at the forefront of this campaign and we will be able to position ourselves as a key supplier.

The Company has appointed Chicco Testa as a member of the Board of Directors of our Italian subsidiary. Mr. Testa served as Chairman of the Board at ENEL SpA (the Italian provider of power and gas) and was a founder and member of the Board of Directors at WIND SpA. Mr. Testa is currently a member of the Board of Directors of Rothschild SpA, Executive President at Roma Metropolitane SpA (the company building the new underground lines in Rome), Vice Chairman of the World Energy Council and Senior Partner of the Franco Bernabe Group, which owns several investments in the IT sector.

The Company has appointed Tommaso Pompei as Chairman of the Italian Subsidiary. Tommaso Pompei is the CEO of Tiscali, the main independent European Internet Communication Company, since October 31st 2005. Since 1997 Mr. Pompei was CEO at Wind, the main alternative operator to Telecom Italia on the Italian TLC market, guiding the company from the start-up to the sale. Prior to Wind, he had been CEO of Pronto Italia – which later merged to become Omnitel Pronto Italia and today Vodafone Italia - and of Sigma, a company specialised in the development of value-added information technology services owned by IRI and Ferrovie dello Stato.

Board changes

In September 2005, Avigdor Kelner was appointed to replace Yitzhak Apeloig as Chairman of the Board. Mr. Kelner's vast experience and contacts within Telit's marketplace is a great resource for our Group. Mr Kelner is a partner of Shrem, Fudim, Kelner & Co. and Chairman and CEO of Polar Investments Ltd., as well as Urdan Industries. Mr Kelner co-founded Telit and in his career spanning over 30 years, managed numerous global mergers and acquisitions and acquired vast experience and expertise in the communications, technology, industrial and real estate sectors.

Also in September 2005, Avi Israel was appointed to the Board as a non-executive Director. Mr. Israel, with his strong background in the industry and experience with public companies, is making a significant contribution to Telit. Mr. Israel is currently Vice President and Chief Financial Officer of Polar Investments Ltd. Previously Mr. Israel was employed at Formula Systems Group, a NASDAQ traded Company.

Outlook

Telit is positioned within strong growth markets and, over the past year, we have achieved significant increases in turnover whilst dramatically reducing operating losses.

We expect the profitable Branded EVAR Business Unit to continue its steady growth over the next financial year and are confident that losses from the Wireless Solutions Business Unit will further reduce over the period.

21 June 2006

Oozi Cats
Chief Executive Officer

Telit's Board of Directors

Avigdor Kelner,
Chairman

Oozi Cats, Director and
Chief Executive Officer

Inbal Barak-Etzion,
Director and Financial
Director

David Charles
Denholm Hobley,
Non Executive Director

Avigdor Kelner, Chairman

A partner in Shrem, Fudim, Kelner & Co., Mr. Kelner is Chairman and CEO of Polar Investments Ltd. and of Urdan Industries Ltd. For over three decades, Mr. Kelner has been involved in investments in Israel and overseas, and has acquired vast experience and expertise in industrial, real estate communication and technology projects. Prior to joining SFK in 1994, Mr. Kelner held senior management positions in the Clal Group, including CEO of Azorim Investment Development & Construction Ltd. (1988-1993). Under Mr. Kelner's leadership, Azorim became a profitable division of Clal. Mr. Kelner is dedicated to serving the community, acting as Chairman of the Board of Trustees -Emek Yezreel College, member of the Board of Governors of the Ben-Gurion University in Beer Sheva, and previously a member of the Board of Governors of the Weizmann Institute of Science. Mr. Kelner holds a B.A. in Economics and Statistics and an MBA from the Hebrew University in Jerusalem and is a graduate of the Harvard University Management Program. Mr. Kelner is a Colonel (res.) in the Israeli Army.

Oozi Cats, Director and Chief Executive Officer

Mr. Cats has 18 years experience creating and leading business ventures. Mr. Cats co-founded the Telit Group in 2000, and has managed it since its inception. From 1994 to 1999 Mr. Cats founded and managed Auto Depot Ltd, the Israeli mass merchandising chain for vehicle supplies and services. From 1997 to 2002 Mr. Cats acted as a director at HaMashbir Fashion Ltd, an Israeli mass merchandising public company, traded on the Tel Aviv Stock Exchange. Mr. Cats has studied at the University of Haifa, and attended special courses in Finance at the University of Massachusetts and Bentley College.

Inbal Barak-Etzion, Director and Financial Director

Ms. Barak-Etzion has been acting as Chief Financial Officer of the Telit Communications since January 2002. Prior to this position, from 1999 to 2002, she was an Executive of New Pharm Drugstores Ltd and April Cosmetics Chain Ltd, leading retailers, with more than 60 stores throughout Israel, where she held the position of Chief Financial Officer from 2000. Ms Barak-Etzion holds a BA in Business Administration and Accounting from the College of Management Academic Studies located in Rishon LeZion, Israel's leading academic college, and is a certified Public Accountant. She originally trained as an accountant at KPMG in Israel.

David Charles Denholm Hobley, Independent Non Executive Director

Mr. Hobley is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified at Deloitte and subsequently employed at Coopers and Lybrand Geneva. Since 1971, he has worked in investment banking firstly with SG Warburg & Co. Ltd. (later SBC Warburg) for some 25 years and then since 1998 with Deutsche Bank, London. In his banking career, he has undertaken significant M&A assignments, provided advice to Central Banks and Governments and undertaken many IPOs and privatisations. He is an independent director of Orange SA and of several Orange Group companies.

Telit's Board of Directors

Andrea Giorgio Mandel-Mantello, Non Executive Director

Avi Israel, Non Executive Director

Tommaso Pompei, Director of Italian Subsidiary

Chicco Testa, Director in the Italian Subsidiary

Andrea Giorgio Mandel-Mantello, Independent Non Executive Director

Mr. Mandel-Mantello is the founding partner of AdviCorp PLC, a UK investment Bank regulated by the UK Financial Services Authority. Prior to his work at AdviCorp, Mr. Mandel-Mantello spent 9 years at SBC Warburg ("SBCW" now known as UBS) in London in various management positions including Executive Director of SBC Warburg, member of the Board of SBC Warburg Italia SIM S.p.A., and Country Head for Israel. Prior to working at SBCW, Mr. Mandel-Mantello spent 2 years at Chemical Bank International Ltd. In London and 3 years at Banca Nazionale dell'Agricoltura in Rome. Mr. Mandel-Mantello is a director of Coraline S.p.A., a company which has recently acquired the business of Frette S.p.A. Italy's leading producer and retailer of Home Ware; he is a director of MOTO S.p.A. a joint venture in the motorway restaurants business Compass Group PLC and Cremonini S.p.A.; he is a director of B.O.S. Better On Line systems, a Nasdaq listed Israeli company involved in VoIP and enterprise solutions. He holds a Bachelor degree in Economics and Political Science from Yale University.

Avi Israel, Non Executive Director

The Vice President of Polar investments, Mr. Israel has significant experience in US and European financial markets, and is active in a number of Polar Investments portfolio companies, holding Director-level positions. Previously, he served as Vice President M&A for Matrix IT, and Vice President Finance and CFO for New Applicom. Mr. Israel holds an EMBA from Bar Ilan University, a BA in Economics & Accounting from Bar Ilan University, and is also a Certified Public Accountant (Israel).

Tommaso Pompei, Director of Italian Subsidiary

Tommaso Pompei is the CEO of Tiscali, the main independent European Internet Communication Company, since October 31st 2005. Previously he has been - since 1997 - CEO in Wind, the main alternative operator to Telecom Italia on the Italian TLC market, guiding the company from the start-up to the sale. Before that, he had been CEO of Pronto Italia - later merged to become Omnitel Pronto Italia and today Vodafone Italia - and of Sigma, a company specialized in the development of value-added information technology services owned by IRI and Ferrovie dello.

Chicco Testa, Director in the Italian Subsidiary

Born in Italy in 1952, Chicco Testa has an important professional background. Among his several experiences, between 1996 and 2002 Chicco Testa was Chairman of the Board at ENEL S.p.A. (the Italian provider of power and gas) and founder and member of the Board of Directors at WIND S.p.A. Chicco Testa is actually Member of the Board of Rothschild S.p.A, Executive President at Roma Metropolitane S.p.A (the company realizing the new Underground lines in Rome), Vice Chairman of the World Energy Council and Senior Partner at Franco Bernabè Group, which owns several participations in the IT sector.

Corporate Governance

Introduction

Telit Communications PLC was listed on the AIM Market operated by the London Stock Exchange on 4 April 2005. Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance ("the Code"), the Company fully supports the principles set out in the Code and will attempt to comply wherever appropriate, given the Company's size, the constitution of the Board and the resources available to the Company. Details are provided below of how the Company applies those parts of the Code, which it believes to be appropriate.

Directors

The Board of Directors comprises two Executive Directors, two independent Non-executive Directors, and two Non-executive Directors nominated by the majority shareholder of the Company, Polar Investments Ltd., one of whom is Chairman.

The Board generally meets a minimum of once every quarter and receives a Board pack comprising a report from senior management together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

Audit Committee

The Audit Committee consists of David Hobley, Chairman, Andrea Mandel-Mantello and Inbal Barak-Etzion and meets at least twice a year. The Audit Committee is primarily responsible for ensuring that the financial performance of the Company is properly measured and reported on, for reviewing reports from the auditors relating to the Company's accounting and internal controls and for reviewing the effectiveness of the Company's systems of internal control.

Remuneration Committee

The Remuneration Committee consists of Andrea Mandel-Mantello, Chairman, David Hobley and Avigdor Kelner, and meets at least once a year. The Remuneration Committee has a primary responsibility to review the performance of the Company's executive directors and senior employees and to set their remuneration and other terms of employment. The remuneration committee is also responsible for administering the employee share option scheme.

Shareholder relations

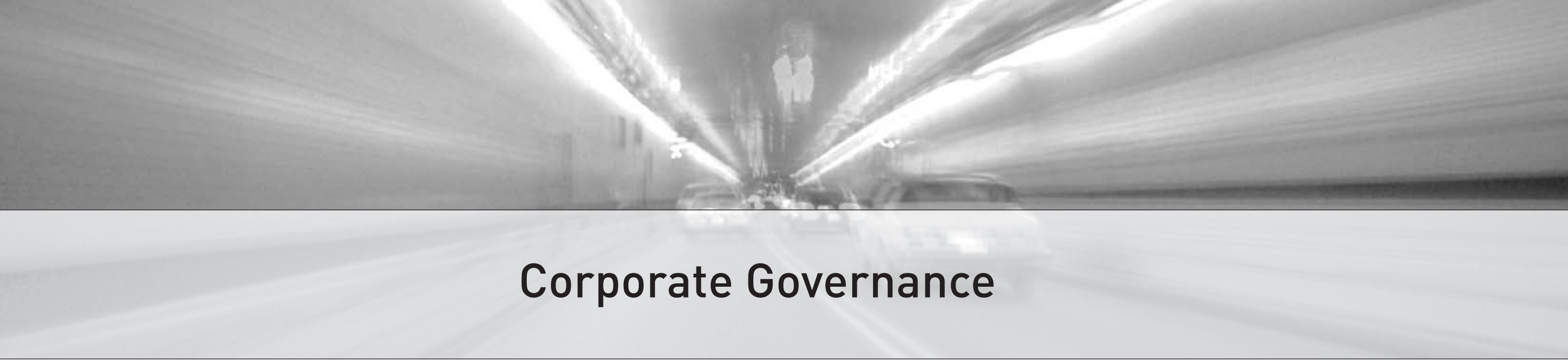
The Company meets with its institutional shareholders and analysts from time to time and will use the AGM to encourage communication with private shareholders. In addition, the Company intends to facilitate communication with shareholders via the annual report and accounts, interim statement, press releases as required during the ordinary course of business and the Company web site (www.telit.com).

Going concern

The directors have satisfied themselves that the Company and Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements are prepared on a going concern basis.

Internal control

The Board is responsible for the system of internal control and



Corporate Governance

for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the Audit Committee reviews the effectiveness of these systems. This is achieved primarily by considering the risks potentially affecting the Group and from discussions with the external auditors.

Each year, the Group is subject to internal audit, the results of which are presented to the Audit Committee.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, as compared against budget, are reported to the Board on a quarterly basis and discussed in detail at each meeting of the Board.

The Group maintains appropriate insurance cover in respect of any legal actions against the Directors as well as against material loss or claims against the Group and reviews the adequacy of the cover regularly.

The Company has adopted a code for dealings in its shares by Directors and senior employees who are appropriate for an AIM-quoted company.

On behalf of the Board,

Inbal Barak-Etzion
Director

21 June 2006

Report on Director's Remuneration

The remuneration committee is headed by Andrea Mandel-Mantello and also comprises Avigdor Kelner and David Hobley.

Remuneration policy

The remuneration packages of directors and senior managers are structured so as to reward them on the basis of their achievements and responsibilities, and to encourage them to remain with the Company for the long-term benefit of shareholders. The main components of these remuneration packages are:

- **Basic salary:** An individual's salary is reviewed and determined by the committee, taking into account his additional incentives and to align their interests within the Group.
- **Service contracts:** No service contracts have notice periods of more than six months.
- **Bonus arrangements:** The Company operates a discretionary bonus scheme and the directors have a right to participate in any bonus arrangement. The Remuneration Committee will determine bonuses for executive directors.
- **Pension arrangements:** Except for Inbal Barak-Etzion, who is covered for retirement, death or disability through insurance (as is customary in Israel), none of the directors receives any pension benefits.

The services of the directors are provided to the Group as follows:

Avigdor Kelner was appointed as a director and Chairman of the Board on 30 September 2005.

Oozi Cats and **Inbal Barak-Etzion** are each engaged pursuant to letters of appointment with the Company dated 29 March 2005, terminable by either the Company or the director on 6 months' notice except in certain specific circumstances where short notice can be given by the Company.

David Hobley and **Andrea Mandel Mantello** were appointed pursuant to letters of appointment with the Company dated 29 March 2005, terminable on 6 months' rolling notice.

Avi Israel was appointed as a director on 16 September 2005.

	Salary and fees	Benefit in kind	Annual bonus	Total 2005	Total 2004
	€	€	€	€	€
Executive					
Avigdor Kelner	-	-	-	-	-
Oozi Cats	372	22	300	694	405
Yitzhak Apeloig	144	-	42	186	144
Inbal Barak-Etzion	101	7	40	148	109
Non executive					
David Hobley	35	-	-	35	-
Andrea Mandel-Mantello	35	-	-	35	-
Avi Israel	12	-	-	12	-
Total	**699**	**29**	**382**	**1,110**	**658**

21 June 2006

Andrea Mandel-Mantello
Chairman of the Remuneration Committee

Directors' Report

The directors submit their report and the financial statements of the Group for the period ended 31 December 2005.

Incorporation and admission onto the AIM Market

1. The Company was incorporated on 30 November 2004 with a share capital of £50,000 divided into 50,000 ordinary shares of £1 each of which two shares were in issue.
2. On 22 December 2004 the subscriber shares were transferred to Polar Industries Ltd in consideration of that company's undertaking to pay up such shares in full.
3. On 17 February 2005 the Company allotted 49,499 ordinary shares of £1 each to Polar Investments Ltd and 499 Ordinary shares of £1 each to Polar Industries Ltd.
4. On 24 March 2005, 499 ordinary shares of £1 each were transferred from Polar Industries Ltd to Polar Investments Ltd.
5. On 24 March 2005 the Company passed an ordinary resolution to sub-divide the issued authorised ordinary shares of £1 each in the capital of the Company into 100 shares of 1p each, and an ordinary resolution to increase the authorised share capital of the Company to £ 800,000 divided into 80,000,000 shares of lp each.
6. Pursuant to the Share Purchase Deed dated 24 March 2005, the Company issued to its parent company - Polar Investments Ltd, 17,901,785 ordinary shares of 1p each in the capital of the Company.
7. Under the terms of the Share Purchase Deed, dated 24 March 2005, the Company allotted 3,883,925 ordinary shares of 1p each to certain officers and directors of the Group, in consideration for their waiver of options held by them over shares in Dai Telecom Ltd. and Dai Telecom Holdings (2000) Ltd. Pursuant to the Share Purchase Deed, under certain conditions, Polar Investments Ltd, the parent company of the Company, has a call option for no consideration, in respect of part of such shares issued to officers and directors, in the event that the officers and directors ceases to hold office within the Group.

Share options

On 30 September 2005 the employees of Dai Telecom and Telit Italy were granted options to purchase approximately 5 percent of the Company's issued and outstanding shares at an exercise price of £1.40. The options vest in four equal instalments starting from the date of grant, through to 30 September 2009. The options expire within five years.

Review of business and future developments

A full business review is given within the Chief Executive Officer's statement on pages 6 to 10.

Dividends

The Company is unable to pay a dividend in respect of the period.

Directors’ Report

Directors

The following directors have held office during the year:

Yizhak Apeloig	(appointed 29 March 2005; resigned 30 September 2005)
Avigdor Kelner	(appointed 30 September 2005)
Oozi Catz	(appointed 29 March 2005)
Inbal Barak-Etzion	(appointed 29 March 2005)
David Hobley	(appointed 29 March 2005)
Andra Mandel-Mantello	(appointed 29 March 2005)
Avi Israel	(appointed 16 September 2005)

Directors'- interests in shares and share options

	At the balance sheet date		Following Admission	
Directors	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares capital	Percentage of ordinary share
Yizhak Apeloig	401,785	0.93%	401,785	0.93%
Oozi Cats*	2,700,357	6.25%	2,142,857	4.96%
Inbal Barak-Etzion**	267,857	0.62%	267,857	0.62%
David Hobley	15,000	0.03%	nil	-
Andrea Mandel- Mantello	nil	-	nil	-
Avigdor Kelner	nil	-	nil	-
Avi Israel	nil	-	nil	-

* of the Ordinary Shares held by Mr Cats, 535,714 are subject to a call option by Polar Investments Ltd if Mr Cats ceases to be CEO of the Group prior to 30 December 2006 and 267,857 are subject to the call option if Mr Cats ceases to be employed by the Group after 30 December 2006 but before 30 December 2008.

** of the shares held by Ms Barak-Etzion, two thirds are subject to a call option by Polar Investments Ltd if Ms Barak-Etzion ceases to be employed by the Group before 30 December 2006, and one third are subject to the call option if Ms Barak-Etzion ceases to be employed by the Group after 30 December 2006 but before 30 December 2008.

Substantial shareholdings

At 19 May 2006 the Company has been informed of the following interests of 3% or more in its ordinary shares of 1p each in issue at that date:

	Number of shares	Percentage of issued
Polar Investments Limited	22,556,685	52.20%
New Star Asset Management (New Star Hedge Fund)	2,749,848	6.36%
Oozi Cats	2,700,357	6.25%
Chase Nominees Limited	1,528,609	3.53%

Supplier payment policy

The Group does not operate a standard code in respect of payments to suppliers. It has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 60 days of the date of invoice, except where different arrangements have been agreed with suppliers. At 31 December 2005, the Group had an average of 75 days outstanding to EVAR creditors and an average of 30 days outstanding to M2M creditors, a total average of 67 days outstanding to creditors.

Auditors

Baker Tilly have resigned as auditors of the Company, effective as of the date of the adoption by the shareholders of the financial statements, and Deloitte have agreed to offer themselves for appointment as auditors of the Company.

21 June 2006

Inbal Barak-Etzion
Director

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards. Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

a. Select suitable accounting policies and then apply these consistently;

b. Make judgments and estimates that are reasonable and prudent;

c. State whether applicable accounting standards have been followed, subject to any material changes disclosed and explained in the financial statements;

d. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TELIT COMMUNICATIONS PLC

We have audited the financial statements on pages 20 to 48.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chief Executive's Statement, Directors' Report, Remuneration Report and Report of the Directors on Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's and Company's affairs as at 31 December 2005 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

BAKER TILLY
Registered Auditor
Chartered Accountants
2 Bloomsbury Street, London WC1B 3ST

21 June 2006

Telit Communications PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 €'000	2004 €'000
Revenues	1	86,444	74,522
Cost of sales		71,331	63,174
Gross profit		15,113	11,348
Research and development expenses		(3,914)	(4,201)
Selling and marketing expenses		(5,293)	(2,143)
General and administrative expenses	2	(7,372)	(7,602)
Operating loss		(1,466)	(2,598)
Financial costs, net	3	(282)	(650)
Operating loss after financial expenses, net		(1,748)	(3,248)
Other income	6	389	12,914
(Loss) income before income taxes		(1,359)	9,666
Income taxes	5	(1,338)	(327)
(Loss) income after income taxes		(2,697)	9,339
Share of results of associate		(164)	(321)
Net (loss) income for the year from continuing operations		(2,861)	9,018
Loss for the year from discontinued operations	7	(1,306)	(596)
(Loss) income for the year		(4,167)	8,422
Basic (loss) earnings per share from continued operation		(7.76)	50.38
Basic loss per share from discontinued operation		(3.54)	(3.33)
Basic (loss) earnings per share	8	**(11.3)**	**47.05**
Diluted (loss) earnings per share from continued operation		(7.76)	50.38
Diluted (loss) earnings per share from discontinued operations		(3.54)	(3.33)
Diluted (loss) earnings per share		**(11.3)**	**47.05**

Telit Communications PLC

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	Notes	2005 €'000	2004 €'000
ASSETS			
Current assets			
Cash and cash equivalents		17,207	582
Trade accounts receivable	9	33,286	34,777
Receivables and other current assets	9	4,357	8,400
Inventory	10	12,030	6,093
		66,880	49,852
Non-current assets			
Investment in associate	11	649	746
Deferred expenses		73	46
Property, plant and equipment	12	1,414	1,558
Intangible assets	13	616	86
Deferred income tax asset		3,696	3,687
		6,448	6,123
		73,328	55,975
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings from banks and other lenders	14	22,823	28,022
Trade accounts payable		8,955	6,297
Payables and other current liabilities		4,368	9,633
		36,146	43,952
Non current liabilities			
Loan from parent company	15	3,054	4,121
Retirement benefit costs	16	856	1,591
Provisions and other long-term liabilities	15	106	159
		4,016	5,871
Shareholders' equity			
Share capital	18	627	-
Other reserve	19	(260)	-
Share premium		29,651	-
Translation adjustments		(284)	(915)
Retained earnings		3,432	7,067
		33,166	6,152
		73,328	55,975

The financial statements on pages 20 to 48 were approved by the board and authorised for issue on 21 June 2006 and are signed on its behalf by:

Oozi Cats
Director

Telit Communications PLC

COMPANY BALANCE SHEET
AT 31 DECEMBER 2005

	Notes	2005 €'000
ASSETS		
Current assets		
Cash and cash equivalents		15,781
Trade accounts receivable		-
Receivables and other current assets	9	145
Related parties	9	348
		16,274
Non-current assets		
Investments	11	11,426
		11,426
		27,700
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable		65
Payables and other current liabilities		621
	14	686
		-
Shareholders' equity		
Share capital	18	627
Other reserve	19	(260)
Share premium		29,651
Translation adjustments		631
Retained earnings		(3,635)
		27,014
		27,700

The financial statements on pages 20 to 48 were approved
by the board and authorised for issue on 21 June 2006

and are signed on its behalf by:

Oozi Cats
Director

Telit Communications PLC

CONSOLIDATED CASH-FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 €'000	2004 €'000
CASH FLOWS – OPERATING ACTIVITIES		
Net (loss) income for the year	(4,167)	8,422
Adjustments to reconcile loss to net cash provided by (used in) continuing operating activities (Appendix A)	443	(43,366)
Net cash used in continuing operating activities	(3,724)	(34,944)
Net cash used in continuing discontinued activities	(1,301)	(429)
Net cash used in operating activities	(5,025)	(35,373)
CASH FLOWS - INVESTING ACTIVITIES		
Additions to fixed assets	(431)	(298)
Proceeds from disposal of fixed assets	41	215
Additions to financial assets	(190)	-
Investment in associate	-	(409)
Addition to intangible assets	(622)	(10)
Additions to long-term receivable	(27)	-
Sales of financial assets	211	-
Net cash used in investing activities	(1,018)	(502)
CASH FLOWS - FINANCING ACTIVITIES		
Short-term borrowings from banks and others, net	(7,772)	26,234
Proceeds from issuance of share capital	368	-
Loan from parent company	-	4,121
Proceeds from issuance of capital	29,651	-
Net cash provided by financing activities	22,247	30,355
Effect of exchange rate differences	421	(1)
Increase (decrease) in cash and cash equivalents	16,625	(5,521)
Cash and cash equivalents-balance at beginning of year	582	6,103
Cash and cash equivalents-balance at end of year	17,207	582
Supplemental disclosure of cash flow information:		
Interest paid	1,029	503
Income taxes paid	1,240	609

Telit Communications PLC

CONSOLIDATED CASH-FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

Appendix A - Adjustments to reconcile net income to net cash provided by operating activities

	2005 €'000	2004 €'000
Income and expenses not involving cash flows:		
Depreciation and amortisation	661	665
Deferred taxes	9	(5)
Other income	(2)	(3)
Write-off of long term loan	-	(12,090)
(Decrease) increase in liability for retirement benefit costs	(735)	33
Capital fund to employees	532	-
(Increase) decrease in deposit designated for investment in associate	(24)	3
Equity in results of associate	164	321
Discontinued operations	1,306	596
Income from financial assets	(21)	-
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	3,439	(24,685)
Decrease (increase) in receivables and other current assets	4,039	(685)
Increase in inventory	(5,952)	(1,889)
Increase (decrease) in trade payables	2,681	(4,563)
Decrease in other current liabilities	(5,654)	(1,064)
	443	(43,366)

Telit Communications PLC
STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2005

Year ended 31 December 2005

	Share capital €'000	**Other reserve** €'000	**Share premium, Net** €'000	**Translation adjustment** €'000	**Retained earnings** €'000	**Total** €'000
1 January 2005	-	-	-	(915)	7,067	6,152
Reverse acquisition capital adjustment	-	(260)	-	-	-	(260)
Issue of share capital	388	-	-	-	-	388
Initial public offering	239	-	29,651	-	-	29,890
Translation adjustments, net	-	-	-	631	-	631
Compensation for employee Options plan	-	-	-	-	532	532
Loss for the year	-	-	-	-	(4,167)	(4,167)
31 December 2005	627	(260)	29,651	(284)	3,432	33,166

Year ended 31 December 2004

	Share capital €'000	**Translation adjustment** €'000	**Retained earnings** €'000	**Total** €'000
1 January 2004	-	(645)	(1,355)	(2,000)
Translation adjustments, net	-	(270)	-	(270)
Income for the year	-	-	8,422	8,422
31 December 2004	-	(915)	7,067	6,152

Basis of accounting

The consolidated financial statements for the years then ended 31 December 2005 and 31 December 2004 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The principal accounting policies used for the preparation of the financial statements are set out below.

Reverse acquisition accounting

The consolidated financial statements of the Company and the Group have been prepared based upon the accounting policies set out in the financial statements of Dai Telecom Holdings (2000) Ltd for the year ended 31 December 2004 .The Group has adopted IFRS2 *Share-based payment* for the first time in these financial statements.

The Company has treated the acquisition of Dai Telecom Holdings (2000) Ltd in accordance with the reverse acquisition method described in IFRS 3 *Business combinations*. Accordingly the acquisition has been treated as if Dai Telecom Holdings (2000) Ltd had acquired the Company. The comparative figures relate to Dai Telecom Holdings (2000) Ltd. The accounting policies applied in these financial statements are consistent with those of Dai Telecom Holdings (2000) Ltd for the year ended 31 December 2004 which were prepared under International Financing Reporting Standards (IFRS).

Functional and presentational currency

The consolidated financial statements are presented in Euros, which differs from the Company's functional currency for its operations in Israel (the New Israeli Shekel- NIS).

The assets and liabilities of the company's operations are translated at the closing exchange rates prevailing on the balance sheet date. Income and expense items and cash flow data are translated at the average exchange rates for the period. Exchange rate differences arising, from the retranslation of opening equity, are recorded directly to the shareholders' equity as a separate component of shareholders equity.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December, each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity (including leased going concern) so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to align the accounting policies to those of the Group.

All significant intra-group transactions and balances between the group's companies are eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents include bank demand deposits, as well as unrestricted short-term deposits with original maturities of less than three months.

Trade accounts receivable

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Inventories

Commercial finished goods are presented at the lower of cost or net realisable value, with cost determined on a "first-in, first-out" method.

Produced finished goods are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Raw materials - are presented at the lower of cost or net realisable value, with cost calculated using the weighted average method.

Investments in associate

An associate is an entity over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the associate.

The results, and assets and liabilities of the associate are incorporated in the financial statements using the equity method of accounting. The investment in the associate is carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the group's interest in those associates are not recognised.

Impairment of investments in associate

The Company considers at each balance sheet date whether there are any indications of impairment in the value of its investments in the associate. If the book value of an investment in a non-subsidiary investee exceeds its recoverable value, the Company recognises an impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost over the estimated useful life of the assets, using the straight-line method.

Depreciation rates are as follows:

	%
Office furniture and equipment	6-15
Computers and software	33
Vehicles	15
Leasehold improvements	10
Machines and equipment	10-25

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the income statement.

Internally-generated intangible assets - research and development costs

The cost of research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's expenditure on development is recognized only if all of the following conditions are met:

- An asset is created that can be identified (such as software or a new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development costs are recognised as an expense in the period in which they are incurred.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash- generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Income taxes

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Provision for warranty costs

The provision for warranty costs is recognised at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Group's liability.

Retirement benefit costs

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenues from services are recognised as the services are provided.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to statement of income on a straight-line basis over the term of the relevant lease.

Advertising costs

Advertising costs are recognised in the financial statements in the period in which they are incurred.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured using the Black & Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural consideration.

(Loss) earnings per share

Basic and diluted (loss) earnings per share is computed on the basis of the weighted average of paid up capital shares during the year in accordance with IAS 33 (Revised) *Earnings per share*.

Foreign currencies

Transactions in currencies other than the Euro are recorded at the rates of exchange prevailing on the dates of the transactions or translated at the average exchange rates for the period. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

1 REVENUES

	2005 €'000	2004 €'000
Sales of goods	82,614	71,402
Services	3,300	2,918
Government grants	530	202
	86,444	74,522

SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into two operating divisions, Wireless Solutions and Enhanced Value Added Reseller ("EVAR"). These divisions are the basis on which the Group reports its segment information. Segmental information for these businesses is presented below.

	2005 €'000	2004 €'000
REVENUES		
EVAR	70,677	63,784
WIRELESS SOLUTIONS	15,767	10,738
Total revenue	86,444	74,522
OPERATING PROFIT (LOSS)		
EVAR	3,929	3,541
WIRELESS SOLUTIONS	(4,530)	(6,000)
	(601)	(2,459)
Unallocated corporate expenses	(865)	(139)
Operating loss	(1,466)	(2,598)
Net assets		
EVAR	33,006	33,465
WIRELESS SOLUTIONS	7,433	6,306
Investment in equity method associated	649	746
Discontinued segment assets	122	193
Unallocated assets	32,118	15,265
Total assets	73,328	55,975

GEOGRAPHICAL SEGMENTS

The Group's operations are located in Israel and Italy. The Group's BEVAR activity is located in Israel and Italy. The design, development, manufacturing of Data Products is carried out in Italy and selling in Europe and Israel. The following table provides an analysis of the Group's revenues by geographical market, irrespective of the origin of the goods or services:

Revenues by geographical market:

	2005 €'000	2004 €'000
Europe	28,691	20,485
Israel	52,419	50,521
Other	5,334	3,516
	86,444	74,522

The following table provides an analysis of the group's carrying amount of assets by geographical segment:

Assets by geographical market

	2005 €'000	2004 €'000
Europe	44,965	28,998
Israel	28,363	26,977
	73,328	55,975

2 GENERAL AND ADMINISTRATIVE EXPENSES

Composition:

	2005 €'000	2004 €'000
Wages and fringe benefits	2,993	2,316
Consulting fees and business brokerage	1,747	3,000
Rental and maintenance	752	712
Depreciation and amortisation	383	485
Travel	284	417
Professional fees	610	273
Vehicle expenses	58	95
Management fees to related parties	82	81
Doubtful debt	50	79
Others	413	144
	7,372	7,602
Auditors' remuneration		
Audit services (1)	264	74
Non audit services (2)	55	56

(1) Includes €100,800 payment to the Group auditors (2004: € nil).
(2) Includes €13,940 payment to the Group auditors (2004: € nil).

In addition to the above, amount of €210,000 payable to the Group auditors and €50,000 to other auditors have been charged to the share premium account.

3 FINANCIAL INCOME (EXPENSES)

	2005 €'000	2004 €'000
Financial income		
Interest income from bank deposits	(334)	-
Gain on financial instruments	(235)	-
Interest from related parties, net	(42)	7
Exchange rate gains (losses)	(45)	(43)
	(656)	(36)
Finance cost		
Interest expense on bank credit, net	903	389
Interest on customer and supplier credit, net	3	193
Bank fees and others	32	104
	938	686
Financial expenses, net	282	650

4 EMPLOYEES

	2005 No.	2004 No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Discontinued operating	42	42
Sales and marketing	46	32
Research and development	63	64
General and administration	33	45
Operating	33	17
	217	200

	2005 €'000	2004 €'000
Staff costs for above persons:		
Wages and salaries	9,088	6,833
Social security costs	1,725	1,488
Other pension costs	(193)	372
	10,620	8,693

	2005 €'000	2004 €'000
Directors' emoluments		
Remuneration for management services	1,110	658
Details of highest paid director's emoluments		
Emoluments	694	405

5 INCOME TAXES

	2005 €'000	2004 €'000
A. Current taxes	1,129	269
Deferred taxes	(10)	(5)
Adjustment in respect of prior years	219	63
	1,338	327

B. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

C. Effective tax rate:
The charges for the year can be reconciled to the profit per the income statement as follows:

	2005 €'000	2004 €'000
(Loss) income before income tax	(1,359)	9,666
Ordinary rates of income tax (in Israel)	34%	35%
Tax computed using ordinary rates	(466)	3,383
Tax adjustments arising from:		
Expenses which are not deductible (income exempted) in determining taxable profit	612	(4,389)
Decrease in taxes resulting from a different tax rate	(752)	-
Utilisation of tax losses	1,778	1,283
Income on which tax expense was not recorded		62
Adjustments in respect of prior year	219	-
Other differences	(53)	(12)
	1,338	327

6 OTHER INCOME

Other income in 2005 includes income of €548,000 resulting from the final settlement of litigation as described in note 17B, net of expenses.
Other income for 2004 includes the write off of a loan made in the amount of €12.1 million.

7 DISCONTINUED OPERATIONS

During year 2003 the Group reorganised its activities, at which point the Group discontinued the activity of developing, manufacturing and selling its own cellular handsets in Italy.
The results of the discontinued operations which have been included in the consolidated statements of operations statement for the year ended 2005, as a separate component (profit (loss) from discontinued operations) are as follows:

	2005 €'000	2004 €'000
Cost of sales	338	596
Operating expenses	968	-
	1,306	596

8 (LOSS) INCOME PER SHARE

Basic and diluted earnings	2005 €'000	2004 €'000
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:		
(Loss) income for the year	(4,167)	(9,666)

Weighted average number of shares	2005 No. of Shares	2004 No. of shares
For basic and diluted earnings per share	36,886,157	17,901,785
Loss per share	(11.3p)	(47.05p)

9 RECEIVABLES

	2005 €'000	2004 €'000
GROUP		
Due within one year:		
Trade debtors	33,286	34,777
Other debtors	4,357	8,400
	37,643	43,177
Due after one year:		
Deferred income tax asset	3,696	3,687

	2005 €'000
COMPANY	
Due within one year:	
Due from Group undertakings	348
Other debtors	129
Prepayments and accrued income	16
	493

10 INVENTORY

	2005 €'000	2004 €'000
GROUP		
Finished goods	8,128	3,891
Spare parts	1,892	711
Raw materials	2,010	1,491
	12,030	6,093

11 INVESTMENTS

GROUP

Investment in associated undertaking, Cell-Time Ltd	2005 €'000	2004 €'000
Cost of shares	1,135	927
Translation adjustments	(41)	(83)
Losses accumulated since acquisition	(445)	(281)
	649	563
Deposit in trust for associate	-	183
	649	746

Cost of shares includes goodwill as follows:

Cost	875	666
Translation adjustments	(92)	(64)
Amortisation	(184)	(117)
	599	485

Summarised financial information of Cell-Time Ltd is as follows:

Balance sheet	2005 €'000	2004 €'000
Assets		
Current assets	789	378
Property, plant and equipment	52	48
Total assets	841	426
Liabilities		
Current liabilities	666	163
Long-term liabilities	6	2
Total liabilities	672	165
Income statement		
Revenues	3,288	892
Cost of sales	(3,105)	(840)
Gross profit	183	52
Operating expenses	(495)	(390)
Financial (expenses) income, net	(3)	7
	(315)	(331)
Income tax	-	-
Loss for the year	(315)	(331)

11 INVESTMENTS (CONT.)

COMPANY	Investment in Dai Telecom Ltd	Investment in Dai Telecom Holdings (2000) Ltd	Total €'000
Investment in subsidiaries			
Additions	(554)	(2,520)	(11,426)
31 December 2005	(554)	(2,520)	(11,426)

Details of the investments undertakings of the Company are as follows:

Name of company	Country of incorporation and operation	Type of shares	Ownership interest and voting rights	Principal activity
Dai Telecom Holdings (2000) Ltd. ("Dai Holdings") (formerly: "Polar Trade and Services Ltd").	Israel	Ordinary	100%	Intermediate holding company
Subsidiaries of Dai Telecom Holdings (2000) Ltd:				
Dai Telecom Ltd ("Dai Telecom")	Israel	Ordinary	100%	Selling and marketing cellular phones, accessories and spare parts and after sales support
Telit Communications SpA (Formerly: Dai Telecom SpA), ("Telit Italy")	Italy	Ordinary	100%	Development, manufacturing and selling data products and distributing cellular products
Dai Telecom Far East Pte Ltd	Singapore	Ordinary	100%	Intermediate holding company
Telit Communications Spain SL	Spain	Ordinary	100%	Dormant
Telit Laboratories Ltd	Israel	Ordinary	100%	Technical services for cellular products
Cell – Time Ltd	Israel	Ordinary	29%	Development, marketing and operation of pre-call billing systems of cellular phones.

12 PROPERTY, PLANT AND EQUIPMENT

GROUP	Computers	Office equipment	Vehicles	Leasehold Improvements	Total
	€'000	€'000	€'000	€'000	€'000
COST					
1 January 2005	228	2,085	244	186	2,743
Exchange rate differences	10	9	17	14	50
Charge for the year	109	256	-	66	431
Disposals	-	(22)	(52)	-	(74)
As at 31 December 2005	347	2 ,328	209	266	3 ,150
DEPRECIATION					
1 January 2005	129	914	97	45	1,185
Exchange rate differences	9	2	7	3	21
Charge for the year	54	459	36	18	567
Disposals	-	(8)	(29)	-	(37)
31 December 2005	192	1 ,367	111	66	1 ,736
Net book value					
31 December 2005	155	961	98	200	1,414
31 December 2004	99	1 ,171	147	141	1 ,558

13 INTANGIBLE FIXED ASSETS

	Software	Exclusive rights	Total
GROUP	€'000	€'000	€'000
Cost			
1 January 2005	299	-	299
Additions	123	500	623
31 December 2005	422	500	922
Amortisation			
1 January 2005	(213)	-	(213)
Charge for the year	(93)	-	(93)
31 December 2005	(306)	-	(306)
Net book value			
31 December 2005	116	500	616
31 December 2004	86	-	86

14 CURRENT LIABILITIES

GROUP	2005 €'000	2004 €'000
Bank overdraft	-	2
Short-term bank loans	19,535	24,230
Factoring companies	2,270	3,790
Current maturities of long term loans	1,018	-
Total short-term borrowing from bank and other lenders	22,823	28,022
Trade creditors	8,955	6,297
Other creditors and accruals	4,368	9,633
Total current liabilities	36,146	43,952

Short terms bank loan are repayable on demand and secured as described in note 17.

COMPANY	2005 €'000
Trade creditors	65
Accruals and deferred income	621
	686

15 LONG-TERM LIABILITIES

	2005 €'000	2004 €'000
GROUP		
Loan from parent company	3,054	4,121
Provisions and others long-term liabilities	106	159
	3,160	4,280
Analysis of bank and other loans:		
Repayable within one year	1,019	-
Repayable in two to five years	3,054	4,121
	4,073	4,121

The long-term loans from parent company bears no interest.

16 PROVISIONS FOR LIABILITIES AND CHARGES

A. The Group operates a defined benefit scheme for all employees of Telit Italy. Under the scheme, employees are entitled to retirement benefit based on the accumulated contributions upon attainment of the retirement age or when leaving the company. The scheme is a funded scheme and no other post retirement benefit is provided.

The actuarial present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

B. The Group's liability for severance pay for Israeli resident employees is calculated pursuant to the Israeli Severance Pay Law, based on the most recent salaries and length of employment, and is covered by payments to insurance companies and pension funds. Amounts accumulated in the insurance companies and pension funds are not included in the financial statements since they are not under the control and management of the Group .The accrued severance pay liability included in the balance sheet in respect of the Israeli resident employees represents the balance of the liability not covered by the above-mentioned deposits and/or insurance policies for which a fund is maintained (in the Group's name) at a recognised pension fund.

C. The amount included in the balance sheet arising from the obligations in respect of the defined scheme of Dai Italy and the accrued severance pay of Dai Telecom is as follows:

	2005 €'000	2004 €'000
Net liability		
1 January 2005	1,591	1,558
Expense recognised in the income statement	(191)	500
Contributions	(544)	(467)
31 December 2005	856	1,591

D. Amounts recognised in income statement in respect of the defined benefit scheme are as follows:

	2005 €'000	2004 €'000
Current service cost	281	284
Interest cost	78	81
Experience adjustments	-	264
Actuarial gain	(550)	(129)
Total (expense) income included in income statement	(191)	500

E. Financial assumptions

	2005	2004
Discount rate	4.15%	5.40%
Salary increase rate	3.50%	3.50%
Inflation	2.00%	2.00%

17 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

Legal proceedings

A. Ixfin Magneti Marelli Eletronica Ltda summoned Telit Italy before the Court of Sumaré, San Paolo (Brazil) in order to obtain compensation for damages suffered as a consequence of Finmek Telit SpA's several breaches of the obligations provided by two contracts ("Contracts") executed between the parties on 28 October 2002 and assigned to Telit Italy by Finmek Telit SpA by a lease of going concern agreement entered into on December 23, 2002.

The lawsuit was filed by IXFIN on November 2004, seeking the sum of €3,260,000.

Telit Italy filed a defence brief. Telit Italy's lawyer has advised that it is probable that Telit Italy will make no payment.

B. Following the final settlement of all litigation between the Company's subsidiary Telit Italy and Nuove Iniziative SpA and the mutual waivers of all claims filed by Telit Italy and Finmek SpA, Telit Italy recorded net income of €548,000 resulting from offsetting of all the outstanding balances between the parties as other income in the income statement for the year ended 31 December 2005.

Guarantees and liens

A. As security for loans and guarantees provided to it, Dai Telecom Ltd has registered a floating lien on all of its assets, including rights and insurance proceeds, in favour of a bank. Moreover, liens were registered on all the funds due to Dai from its major customer in connection with specific orders received from the later.

The following table outlines the composition of the secured liabilities:

	2005 €'000	2004 €'000
Composition:		
Short-term credit	17,663	29,283
Trade accounts payable	14	89
	17,677	29,372

B. The Company provides certain guarantees for its subsidiary; Telit Communications SpA ("Telit Italy"). On 6 November 2005, the Company's Board of Directors authorised the Company to provide a guarantee to a modules supplier of Telit Italy, to sustain a credit line to be granted by the modules supplier in respect of purchases made by Telit Italy. The guarantee shall not exceed the amount of € 7 million or a higher amount to be agreed from time to time. In addition, the Company deposited an amount of € 4 million, in a bank account, bearing annual interest of 2.3%, as security in favour of a credit line granted to Telit Italy by an Italian bank.

C. See Note 23.

	2005 €'000	2004 €'000
18 SHARE CAPITAL		
GROUP		
Authorised 80,000,000 ordinary shares of 1 Pence each.		
Allotted, issued and fully paid:		
43,214,281 ordinary shares of 1 Pence each	627	-
Issued in the year	627	-
	627	-

Under reverse acquisition accounting, the share capital at the start of the period represents the amount of share capital in this Company's subsidiary undertaking, Dai Holdings (2000) LTD (formerly: Polar trade and services). The additions in the year represents the share capital issued in Telit Communications PLC.

Incorporation and admission onto the AIM Market

The Company was incorporated on 30 November 2004 with a share capital of £50,000 divided into 50,000 ordinary shares of £1 each of which two shares were in issue.

On 22 December 2004 the subscriber shares were transferred to Polar Industries Ltd in consideration of that company's undertaking to pay up such shares in full.

On 17 February 2005 the Company allotted 49,499 ordinary shares of £1 each to Polar Investments Ltd and 499 Ordinary shares of £1 each to Polar Industries Ltd.

On 24 March 2005, 499 ordinary shares of £1 each were transferred from Polar Industries Ltd to Polar Investments Ltd.

On 24 March 2005 the Company passed an ordinary resolution to sub-divide the issued authorised ordinary shares of £1 each in the capital of the Company into 100 shares of 1p each, and an ordinary resolution to increase the authorised share capital of the Company to £800,000 divided into 80,000,000 shares of lp each.

Pursuant to the Share Purchase Deed dated 24 March 2005, the Company issued to its parent company - Polar Investments Ltd, 17,901,785 ordinary shares of 1p each in the capital of the Company.

Under the terms of the Share Purchase Deed, dated 24 March 2005, the Company allotted 3,883,925 ordinary shares of 1p each to certain officers and directors of the Group, in consideration for their waiver of options held by them over shares in Dai Telecom Ltd. and Dai Telecom Holdings (2000) Ltd. Pursuant to the Share Purchase Deed, under certain conditions, Polar Investments Ltd, the parent company of the Company, has a call option for no consideration, in respect of part of such shares issued to officers and directors, in the event that the officers and directors ceases to hold office within the Group.

Share options

On 30 September 2005 the employees of Dai Telecom and Telit Italy were granted options to purchase approximately 5 percent of the Company's issued and outstanding shares at an exercise price of £1.40. The options vest in four equal instalments starting from the date of grant, through to 30 September 2009. The options expire within five years.

19 OTHER RESERVE

In connection with the acquisition of Dai Telecom Holdings (2000) Ltd by Telit Communications plc, the Company issued to Polar investment Ltd 1,790,785 shares for transferring the investments. The other reserve represents the par value of these shares.

20 SHARE - BASED PAYMENTS

A. Composition:

	Number	
	2005	**2004**
Outstanding at beginning of year	3,883,925	-
Granted during the year	1,976,570	3,883,925
Outstanding at year end	5,860,495	3,883,925

B. Telit Communications PLC had authorised an equity-settled share option plan with effect from 30 December 2004. According to the plan, the Group's senior employees were granted 3,883,925 options exercisable into 3,883,925 ordinary shares free from exercise price. 2,455,355 options granted are vested at the date of grant and 1,428,570 options were equally granted throughout two vesting periods over 4 consecutive years with the first vesting period scheduled 24 months after the date of grant. The options expire within 5 years from the date of grant.
The incremental fair value of the options granted that according to management estimates will satisfy the vesting conditions is €1,693,000 to be expensed over the period of vesting. The inputs into the Black & Scholes model are as follows:

Share price	€ 1.792
Exercise price	Par Value (1 Pence)
Expected volatility	40%
Expected life	2.5-4.5
Risk free rate	3.63 %

C. On 30 September 2005 the employees of Dai Telecom and Telit Italy were granted 1,976,570 options exercisable into 1,976,570 ordinary shares (approximately 5% of Telit's issued and outstanding shares) at an exercise price of £1.40. The options vest in four equal instalments starting from the date of grant, through to 30 September 2009. The options expire within five years.
The incremental fair value of the options granted that according to management estimates will satisfy the vesting conditions is €434 thousand, to be expensed over the period of vesting. The inputs into the Black & Scholes model are as follows:

Share price	€ 1.4065
Exercise price	€ 1.792
Expected Volatility	40%
Expected life	3-4.5
Risk free rate	3.31%

D. Additional information:
The expected volatility was determined as a weighted average of the historical volatility of Telit's share price calculated over the period from share listing through options awards and the historical volatility of similar entity.
The expected life used in the model has been determined based on management's best estimates for effects of non-transferability, exercise restrictions and behavioural considerations.
The Company recognised a total expense of €532,000 in respect of the options granted in the year ended 31 December 2005.

21 FINANCIAL RISK MANAGEMENT

Financial risk management is an integral part of the way the group is managed. The Board establishes the Group's financial policies and the Chief Executive officer establishes objectives in line with this policies.

In the course of its business the Group is exposed mainly to financial market risks and credit risks. Financial market risks are essentially caused by exposure to foreign currencies and interest rates.

Foreign currency risk
Foreign currency risk arises because the Group undertakes transactions in foreign currency such as import and sale of cellular handsets. The Group uses short-term borrowings from banks in the same foreign currency of those transactions to reduce the Group's exposure to foreign currency risk.

Translation exposure arises because the Group's financial information is presented in Euros while some of the Group's transactions are denominated in other currencies. As a result, material fluctuations in the exchange rate between the Euro and other currencies (mainly US Dollar and NIS) can have an impact on the Group's financial results.

Interest rate risk
Interest rate risk comprises the interest cash flow risk resulting from short-term borrowings at variable rates. The Group's working capital is funded through short-term borrowings of variable interest rate. As a result, material fluctuations in the market interest rate can have an impact on the Group's financial results.

Concentration of credit risk
Financial instruments that potentially subject the company and his subsidiaries to concentration of credit risk consist principally of trade receivables. The Group's trade receivables are mainly derived from sales to major costumer in Israel and other customers in Italy. The Group performs ongoing credit evaluations of its customers and to date has

not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the company has determined to be doubtful from collection.

Fair value of financial instruments
The financial instruments held by the group are primarily comprised of non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, trade accounts receivable and other receivables; non-derivative liabilities include bank loans,

trade accounts payable, other payables and other current liabilities). Due to the nature of these financial instruments, there are no material differences between the fair value of the financial instruments and their carrying amount included in the financial statements.

22 ALANCES AND TRANSACTION WITH RELATED PARTIES

A. The Group is engaged in management agreement with Polar Investment Ltd ("Polar") (parent company) Polar provided management services during year ended 31 December 2005 in consideration for an annual payment in the amount of US $100,000.

B. In 1 October 2003 Dai Telecom entered into a lease agreement with Polar, for a three-year period, of facilities located in Tel Aviv, for a monthly rental payment of approximately €4,500. Each party to the agreement has an option to lengthen the lease period for additional two periods of 3 and 4 years upon 2 months notice, for monthly rental of app. €8,000.

C. On 30 December 2004 the Company granted the following key personnel options exercisable into ordinary shares with no exercise price.

	Number of options granted	Vested at date of grant	Unvested at date of grant
Chief Executive Officer	2,142,857	1,607,143	535,714
Former director	401,785	401,785	-
Financial director	267,857	89,286	178,571
Senior manager	294,642	98,214	196,428
Former Chief Executive Officer in Israel	294,642	98,214	196,428
Chief Operating Officer in Telit Italy	160,714	53,571	107,143
Chief of marketing	267,857	89,286	178,571

The compensation attributable to the key personnel calculated as the incremental fair value of the options to be expensed over the period of vesting is €635 thousand.

23 SUBSEQUENT EVENTS

A. The Company provides certain guarantees for its subsidiary, Telit Italy. On 10 April 2006, the Company's Board of Directors authorised the Company to provide a guarantee to a supplier of Telit Italy in the handset business, to sustain a credit line to be granted by the supplier in respect of purchases made by Telit Italy. The guarantee shall not exceed the amount of € 1.5 million.

On 17 May 2006, the Company's Board of Directors authorised the Company to provide a guarantee to a modules supplier of Telit Italy, to sustain a credit line to be granted by the modules supplier in respect of purchases made by Telit Italy. The guarantee shall not exceed the amount of € 4 million.

B. On May 30, 2006 the company signed agreement to acquire 75% of Bellwave m2m Co. Ltd, the machine to machine ("m2m") division of Bellwave Co. Ltd ("Bellwave"), a South Korea wireless communications developer, in a cash transaction totaling US $6.18 million.

Bellwave Co. Ltd will retain the remaining 25% of Bellwave m2m, however, Telit holds a call option to purchase the remaining 25% for US$2 million exwrcisable until December 2006. Bellwave m2m business has a net asset value of approximately US$2 million.

Bellwave m2m, which developed and marketed the world's smallest CDMA data communications module, has currently 40 employees the majority of who are engineers. The company will focus on the development of CDMA 1X and EVDO products for Asian and American markets and the development of WCDMA/UMTS products for global distribution. The company will also serve as Telit's sales gateway to the emerging Asia Pacific markets for both CDMA and GSM/GPRS product line.

The company acquisition closed on June 5, 2006.

C. On April 18, 2006, Telit Italy has been declared eligible to receive €11.4 million grant, and has secured €14.1 million loan facility, from the Ministry of Attivita Produttive in Italy. The funds, totaling €25.5 million, were awarded to Telit Italy to invest in a new research and development center in preferred areas in Italy.

Telit Communications PLC
COMPANY INFORMATION

Directors, Secretary and Advisers
Company Registration No. 05300693

Directors	Avigdor Kelner, Chairman Oozi Cats, Chief Executive Officer Inbal Barak-Etzion, Finance Director Avi Israel, Non-Executive Director David Hobley, Non Executive Director Andrea Mandel-Mantello, Non Executive Director
Company Secretary	Gravitas Company Secretarial Services Limited
Registered Office	110 Cannon St. London EC4N 6AR
Nominated Adviser and Broker	Seymour Pierce Limited Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL
Solicitors	Halliwells 1 Threadneedle Street London EC2R 8AW
Independent Auditors	Baker Tilly 2 Bloomsbury Street, London WC1B 3ST
Registrar	Capita Registrars Limited The Registry 34 Beckenham Road, Beckenham, Kent BR3 4TU

Telit Offices World Wide

Telit UK
Regus House – Highbridge
Oxford Road – Uxbridge UB8 1HR
London, United Kingdom
Phone +44 (0) 8703517290
Fax +44 (0) 870 351 7291

Telit Israel
3 Nirim St.
Tel Aviv 67060, Israel
Phone +972 3 7914000
Fax +972 3 7914008

Telit Italy
Via della Stazione di Prosecco 5/B
Sgonico, Trieste – Italy
Phone +39 040 4192 491
Fax +39 040 4192 383

C.so Vercelli 11
20144 Milan, Italy
Phone + 39 02 430019079
Fax + 39 02 430019060

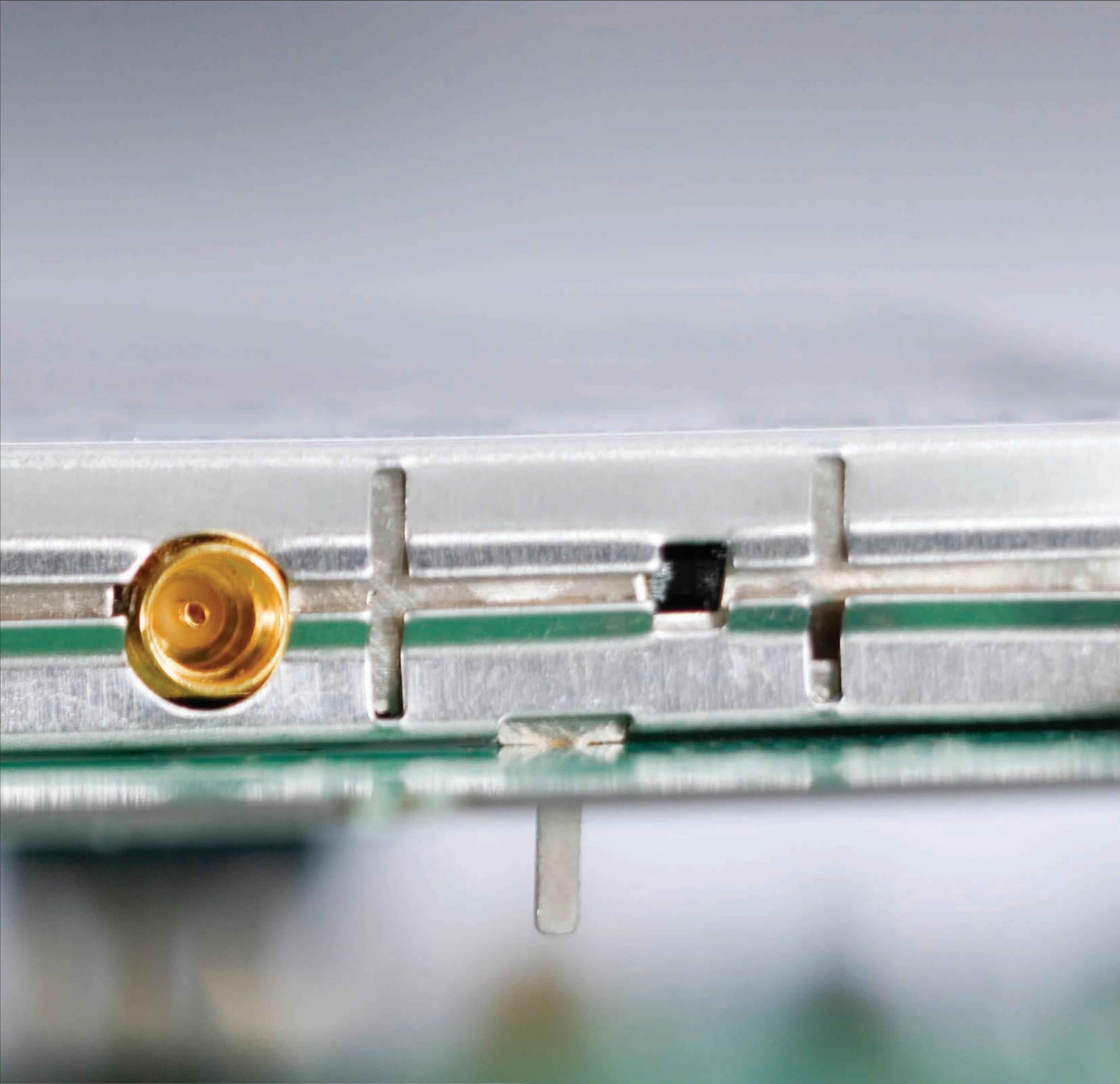
Telit Germany
Joseph Wild Str. 20 - 81829
Munich, Germany
Phone +49 (0)8943737902

Telit Nordics
Walgerholm 3, 3500 Vaerloese
Denmark
Mobile +45 2345 7112

Telit Spain
Paseo della castellana 141
Planta 20, 28046 Madrid, Spain
Phone + 34 91 749 8000
Office + 34 91 7893491
Fax + 34 91 570 7199

Telit Korea
Bellwave M2M Co., Ltd.
Korea Specialty Construction Building
395-70, Shindaebang-Dong
Dongjak-Gu, Seoul, Korea 156-714

Design & Production: www.portnov-mishan.com



Telit

Regus House - Hughbridge
Oxford Road - Uxbridge UB8 1HR
London, United Kingdom
Ph +44 0 870 351 7290
Fx +44 0 870 351 7291

3 Nirim St.
Tel Aviv 67060, Israel
Tel +972 3 791 4000
Fax +972 3 791 4008