Telit
Annual 2006 Report

Telit is in it.

Telit's WORLD

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Telit Communications plc is a global leader in the field of machine-to-machine (m2m) communications and a prominent supplier of a range of advanced cellular phones and accessories worldwide. Telit's core strengths are innovative products, complete control over its intellectual property and its flexible, customised solutions, which enable it to offer customers the lowest cost of ownership and a future-proof product roadmap.

A combination of two successful businesses, Telit is divided into:

- **Telit Wireless Solutions (TWS)** develops, manufactures and markets communication modules which enable machines, devices and vehicles to communicate via cellular wireless networks. TWS is the market leader in CDMA m2m modules in South Korea and the third largest player in the GSM/GPRS m2m modules business in EMEA. In addition, Telit has recently launched its UMTS solutions during the 3GSM convention in Barcelona. TWS represents the strategic focal point of the Company moving forward.
- **Telit Wireless Products (TWP)** distributes and supports cellular devices from manufacturers worldwide. TWP is one of the largest CDMA mobile phones suppliers in Israel and one of the top GSM, GPRS, EDGE and UMTS mobile phone distributors in Italy.

A global player in the m2m arena

As both a producer and a marketer of advanced cellular technology and products, Telit 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.

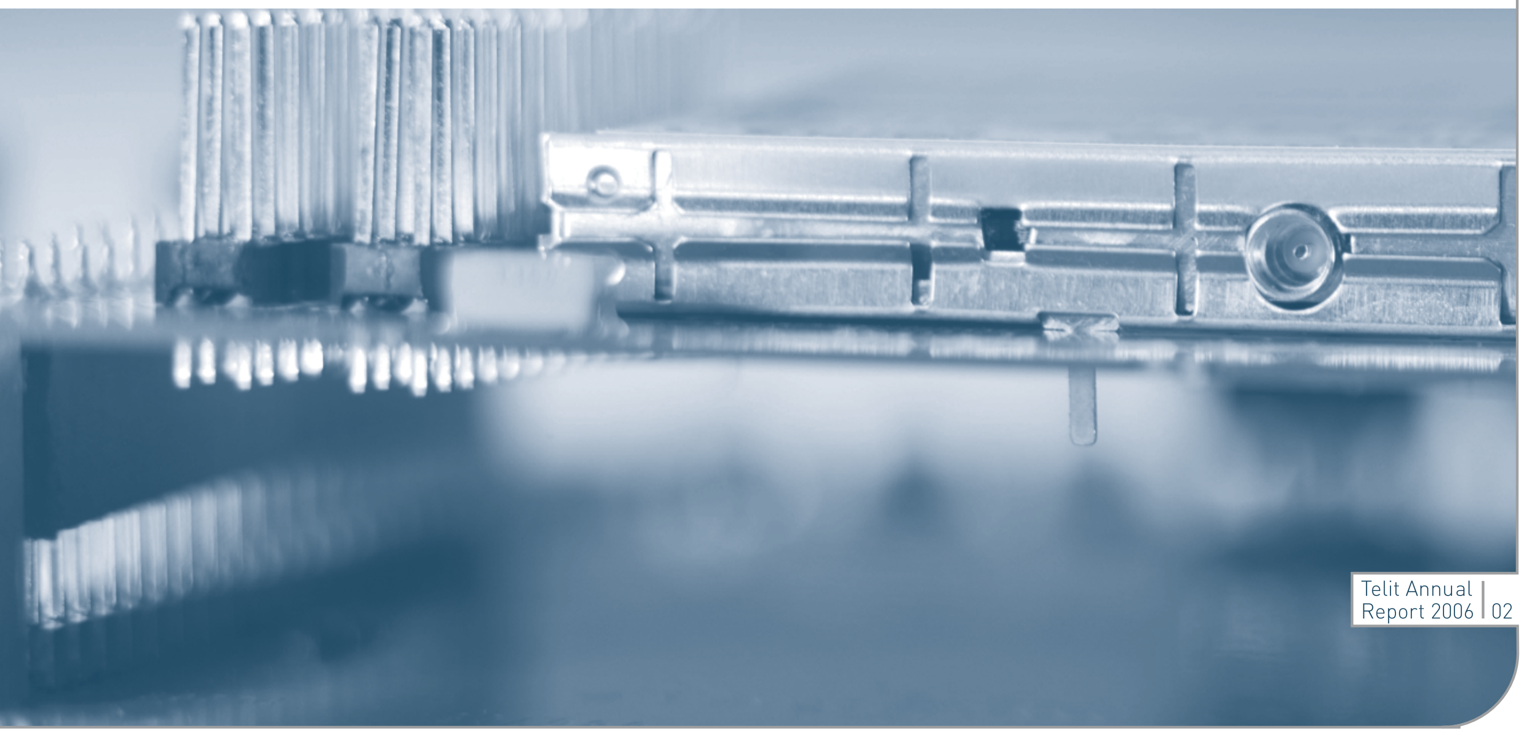
This mix of technological proficiency and marketing know-how has allowed Telit to effectively and nimbly penetrate numerous market segments by rapidly adapting existing manufacturer products to market or brand-specific demands. From feature-rich machine-to-machine cellular modules to stylish cutting-edge handsets - Telit continues to meet and exceed customer expectations.

Telit worldwide

With headquarters in Rome, Italy and sales offices worldwide, Telit provides global support to its international customers. Two decades of experience doing business across the globe have helped the company establish strong channels and excellent access to key players in all major world markets. Telit's diverse worldwide customer-base includes cellular operators, cellular distributors, as well as designers and manufacturers of cellular modules-based applications.

highlights

- Turnover €86.8 million (2005: €85.9 million)
- Gross profit €16.2 million (2005: €14.6 million)
- Growth in turnover of Telit Wireless Solutions, Telit's machine-to-machine ("m2m") business unit in excess of 82% to €27.7 million (2005: €15.2 million)
- Growth in gross profit of Telit Wireless Solutions business unit in excess of 170% to €9.2 million (2005: €3.4 million)
- Loss per share €0.26 (2005: €0.11 loss) due to significant investments in R&D and geographical expansion
- Investments in R&D and sales and marketing in TWS, is fuelling the Company's transition into a worldwide competitor in the m2m industry
- Announcement of significant capital injection into the m2m business
- Worldwide licensing agreement signed with Qualcomm in December 2006
- Certification of six Telit m2m modules by a leading US mobile services provider
- Completion of core expansion to North American and APAC markets enables the company to serve customers worldwide
- Development of m2m solutions across the full cellular spectrum, including GSM/GPRS, CDMA, UMTS.



Telit Wireless Solutions (TWS)

Telit Wireless Solutions (TWS) is a global leader in the field of machine-to-machine (m2m) communications. TWS develops, manufactures and markets communication modules which enable machines, devices and vehicles to communicate via cellular wireless networks. TWS ranks as the third largest supplier of wireless m2m modules in the European market, doubling its market share in the last 12 months. Its core strengths are innovative products, complete control over its intellectual property and its flexible, customised solutions, which enable it to offer customers the lowest cost of ownership and a future-proof product roadmap.

At the heart of all Telit m2m solutions lies our own software protocol stack 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

TWS sells its modules through a network of value added resellers to over 1,500 communications solution providers and systems integrators in 52 countries around the world. TWS's headquarters are in Rome, Italy, with regional headquarters in Raleigh NC, USA and Seoul, Korea. Its R&D centres are in Trieste and Cagliari, Italy and Seoul, Korea, with sales offices in Denmark, the UK, France, Germany, Italy, Spain, Israel, Korea and the US. TWS employs over 200 employees worldwide.

TWS's strategy is to continue leveraging its position as the high-value leader in the market, offering customers a competitive edge by reducing their total cost of ownership and optimising the performance of their offerings.

This strategy takes advantage of two key trends in the m2m market:

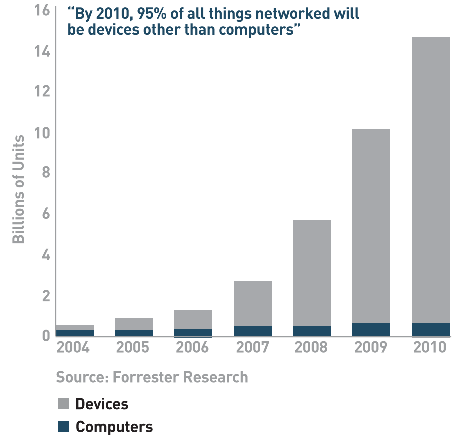
- The performance trajectory offered by many of the m2m module manufacturers overshoots the needs of the average customer, resulting in feature-rich, expensive products that deliver inferior return on investment.
- The inability of many module manufacturers to meet the demands of early adopters due to fact that they do not control the protocol stack required for customised product modifications.

To execute its strategy, TWS relies on three core competencies that differentiate it from the competition:

1. **Complete Control of the Protocol Stack.** Unlike its competitors, TWS owns and develops the Protocol Stack in its modules. The Protocol Stack controls all connectivity and communication with the GSM network and is a critical success factor in being able to offer customers the flexibility required for rolling out cost-effective m2m solutions.
2. **Commitment to Customer-Driven Innovation.** TWS's rich expertise in R&D enables it to help its customers win new business by working with them to develop the most innovative, cost-effective m2m applications.
3. **Multinational Organisation Staffed with Industry Experts.** TWS's R&D and Sales and Marketing units are comprised of a team of dynamic experts with proven industry experience in the m2m and semiconductor industry.

What is m2m?

Machine to Machine (m2m) technology enables machines, devices, or vehicles to communicate with each other using wireless networks



Source: Forrester Research

Competitive Advantage

Based on its extensive R&D experience, gained over 420 man-years, TWS has developed its own Protocol Stack as the technological basis of its solutions. This enables the company to offer customers solutions ranging from complete devices to embedded products, including fitting its platform into its customers' products.

Compared to its competitors, TWS has three major advantages:

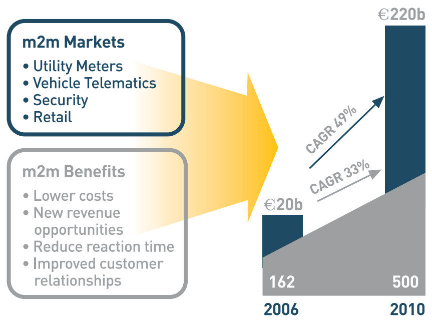
1 **Investment Protection:** TWS is the first and only m2m manufacturer that offers customers a form factor and family concept. All modules in a family have the same form factors and full software compatibility, but offer different functionality to meet the requirements of different vertical application segments - the same size, the same shape, the same connectors and the same SW interface. The advantage for users is self-evident: all modules in a family are interchangeable. Above all, customers can easily replace the modules with successive products without changing the application. This reduces effort, time and costs associated with development. As a result, TWS is able to set itself apart from the competition, which often changes the size and shape of its modules with new models. Customers, however, need modules that can be used for years in their applications.

2 **Business Scalable:** TWS's modules are tailored for various applications and different production lot sizes: for quantities of a few thousand units, the company developed the GM family, which offers low outlay and costs of integration. For applications that are produced in the tens of thousands, low production costs are the prime concern. In this case customers can turn to the GE product range with its Ball Grid Array (BGA) assembly concept. TWS is the only company offering BGA modules, which can be assembled like electronic components and integrated easily into the production line - no connectors or cables needed.

3 **Ease of Integration:** Controlling its own intellectual property enables TWS to remain on the cutting edge of product innovation. Integrating GSM/GPRS, CDMA and UMTS products into its product family concept enables customers to choose between various technologies for each module - depending on the market in which their application is being used. The main advantage is that no changes are required to the application. Consequently, TWS supplies modules that can be used worldwide without restriction. As communication technologies, such as RFID and Zigbee enter the market, TWS will build on them to ensure its customers are at the cutting edge of m2m solutions.

The m2m Market

The m2m market is growing rapidly, fuelled by a healthy momentum at the technological, economic and even regulatory level. According to market research firm IDATE, the worldwide m2m market is expected to be worth over €220 billion in 2010, compared to the current $20 billion, which translates into an annual growth rate of 49%. Market research firm Gartner sees m2m module revenues growing from €345 million in 2004 to €914 million in 2008, a 30% CAGR.



Source: IDATE 2006

Wireless m2m Market (Left) and Module Growth (Right)

■ Billions of Euros ■ Millions of Devices

Market Drivers

There are a number of market drivers that are pushing the m2m market towards mass acceptance, including:

a. Financial Incentives: For every piece of equipment, there is a company that needs to monitor or maintain it and occasionally adjust its settings. Companies spend a great deal on monitoring equipment manually and, more significantly, lose a great deal to malfunctions, leaks or false alarms. As the world becomes more and more connected, it makes less and less sense to send technicians or meter readers out in high cost vehicles just to retrieve simple pieces of data. m2m devices can provide an immediate financial upside by automating machine monitoring and control without human intervention.

b. Serving Customers Better: Customers now expect better service in less time. Using m2m applications to make sure the data is in the right place at the right time is an important step in this direction. Gaining immediate access to critical information enables companies to run their systems closer to capacity, manage resources effectively and meet customer demand better, while cutting costs.

c. Compliance: Governmental and regulatory forces are promoting a world where anything can be reached via a communications medium for safety, security and even entertainment. A particular concern at present is terrorist activity as well as widespread crimes against personal and corporate property, resulting in government intervention to improve security and tracking freight that may serve as targets.

Telit Wireless Products (TWP)

Leveraging on a global presence, in-depth market knowledge, in-house technical resources and based on distribution rights for European markets, Telit distributes and supports cellular devices from manufacturers worldwide, mainly those based in Asia-Pacific, on an OEM/ODM basis.

Telit's portfolio of devices covers all market segments - from entry level to premium phones, including data accessories such as GPRS and WLAN modems and data cards. Each device is branded, customised, localised, tested and supported for each targeted market. Moreover, Telit's R&D department develops, updates, adapts and customises software and interfaces thus adding value to the manufacturer product.

TWP distributes and supports cellular devices from manufacturers worldwide offering its customers the following benefits:

- Branded EVAR (GSM, CDMA, DATA)
- Sourcing according to demand
- Fast to market
- Own design & testing
- Intimate know-how of customer's needs
- Sales & Marketing

Chairman's Statement

We are pleased to present Telit Communications PLC's 2006 Annual Report.

I am happy to be able to inform shareholders that the strategy we outlined in our last annual report and our focus on developing the m2m business has already begun to bear fruit, and the results for the year demonstrate strong growth in our m2m business unit (in Turnover as well as in Gross Profit).

Our commitment to innovation and focus on R&D ensures we remain at the forefront of our industry and we look forward to another year of continued growth.

Avigdor Kelner
Chairman
21 March 2007

Chief Executive's Statement and Review

Avigdor Kelner
Chairman

Oozi Cats
Chief Executive Officer

Introduction

I am pleased to present Telit Communications PLC's annual report for the year ended 31 December 2006. The strategy we outlined during the year has already made a positive impact on our m2m business and its financial performance beginning in the second half of the year. We have significantly strengthened our capital base through an investment of €16 million in Telit Wireless Solutions from Bartolini After Market Electronics Services Srl ("BAMES"), the former Italian subsidiary of Celestica Inc., a leading global electronics service provider based in Vimercate, Milan. The investment values the m2m business of Telit at €144 million pre-money. Further details are provided below.

Telit's m2m business continued to show significant growth that was further boosted by the acquisition of South Korean m2m leader Bellwave, (since renamed Telit Wireless Solutions Co. Ltd., ("TWS APAC")) in May 2006. Our Wireless Products Business Unit continues to produce solid revenues despite substantial competition in the mobile handset market. We expect to sustain the Wireless Products Business Unit's operating performance in 2007 in spite of continuing inherent volatility in the market.

Financial results

Following the indications we provided in our trading update on 27 July 2006, the results for the year are in line with market expectations and underline the new course which the Company is taking, as forecast at the time of admission to the AIM market, moving the emphasis from the mature Wireless Products business to the fast growing m2m business.

Although 2006 revenues increased only slightly to €86.8 million for the full year, gross profits increased 10% to €16.2 million, and revenues for our Wireless Solutions Business Unit totalled €27.7 million, an increase of 82% over 2005, which is a result of our focus on this fast growing market.

The dynamics of our business requires that we make significant investments in R&D in order to secure a steady pipeline for the coming years. Our significant investment in R&D, coupled with our international expansion increased our operating loss to €10.4 million and our pre-tax loss to €11.4 million.

During 2006, Telit invested €3 million in the set up of its U.S. subsidiary, Telit Wireless Solutions Inc., €3 million in R&D activity in Sardinia and additional significant sums in setting up sales offices throughout the world. All these costs were expensed and the Company believes these investments will bear fruit in the future.

Investment from Electronics Service Provider BAMES

Telit has entered into an agreement according to which a capital injection of €16 million into the Company's m2m subsidiary, Telit Wireless Solutions Srl ("Telit Srl"), will be made by BAMES, within the structure of a business alliance between the two companies. This investment values Telit's m2m business at €144 million pre money.

Under the terms of transaction, BAMES will provide Telit Srl with €9 million in equity and an additional €7 million equity investment in December 2008, providing Telit meets certain m2m module purchase milestones. BAMES will receive up to 10% of the share capital of Telit Srl. We are confident that, given current market conditions and the expected growth of the Company, these milestones are attainable.

In addition to the investment agreement, Telit Srl entered into a strategic manufacturing agreement with Services For Electronic Manufacturing Srl ("SEM"), BAMES' electronics manufacturing subsidiary, for all present and future production of Telit's m2m modules, with certain exceptions, at competitive market prices for a term of not less than five years. This will enable Telit to consolidate its European manufacturing into one geographical location, and will streamline operations while keeping control of the Company's intellectual property and increasing its control over its supply chain. This is achieved by the Telit taking a 19.9% equity stake in SEM and the right to nominate one director to SEM's board of directors. SEM will also provide Telit with a €7 million line of credit for finished goods, which will defer payment until the second equity injection referred to above.

The proceeds from the investment will enable Telit to continue execution of its strategy of focusing on the rapidly growing m2m market, consolidate its international expansion, and develop its next generation m2m modules.

Telit Wireless Solutions ("TWS")

TWS is now positioned as a global leader in the field of m2m communications. TWS develops, manufactures and markets communication modules which enable machines, devices and vehicles to communicate via cellular wireless networks. TWS's core strengths are innovative products, complete control over its intellectual property and its flexible, customised solutions, which enable it to offer customers the lowest cost of ownership and a future-proof product roadmap.

As we stated in our 2005 annual report, the development of TWS is the key to the Company's future value creation, and we have continued to invest heavily in it.

TWS generated sales of €27.7 million, representing a growth of 82% compared to 2005. Compared to the first half of 2006, in the second half of the year, TWS increased sales by 64% and gross profits increased by 160%. This growth was driven by our significant investment in R&D and the international expansion of sales and marketing operations.
These investments resulted in an operating loss for TWS of €7.7 million for the year.

The global m2m market is growing rapidly, with industry analysts projecting growth rates of 50% in volumes year over year through 2008 (Source: Gartner, m2m Cellular Module Market Overview, Worldwide, 1H06). TWS ranks as the third largest supplier of wireless m2m modules in the European market, doubling its market share in the last 12 months.

In my last statement I outlined our dual objective of expanding our global reach and accelerating our leadership in product excellence. 2006 was dedicated to executing this strategy and during the year we increased the number of our customers to over 1,500 communications solution providers and systems integrators in 52 countries around the world.

Chief Executive's Statement and Review

We began 2006 as a technological leader in Europe and ended it as a global player. With our headquarters in Rome, Italy, we maintain regional headquarters in Raleigh NC, USA and Seoul, South Korea. Telit's R&D centres are based in Trieste and Cagliari, Italy and in Seoul, South Korea. With sales offices in Denmark, the UK, France, Germany, Italy, Spain, Israel, South Korea, China, Taiwan and the US, Telit has now evolved into a company with global operations, employing over 300 professionals worldwide.

Telit Wireless Products ("TWP")

Telit Wireless Products continues to remain Telit's main revenue generator. TWP 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.

Telit offers 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 brand Telit. During 2006 TWP's sales were €59.1 million, compared with €70.7 million in 2005.

Our objective for TWP moving forward is to protect our investment in the business by maintaining the excellent relationships we have built with our customers, without making any additional significant investments.

Operational Results

As we continue to execute the strategy we outlined in previous years, the following critical milestones have so far been achieved:

Opening of a new R&D centre in Sardinia: In April 2006, Telit was awarded an €11.4 million grant and a €14.1 million loan from the Italian Ministry of Industry to open a new R&D centre in Cagliari, Sardinia. As of December 31, 2006, Telit had already invested €2.5 million in this centre, which currently employs 25 engineers, whose focus is on extending Telit's product portfolio to cover the complete array of wireless technologies, including Bluetooth, Zigbee, WiFi and FM.

Acquisition of Bellwave m2m and formation of Telit Wireless Solutions APAC: In May 2006 Telit strengthened its presence in the Asian market by acquiring Bellwave m2m, the market leader in South Korea, since renamed TWS APAC. This acquisition added CDMA-UMTS technologies to our product portfolio and established our position in the APAC market. With an R&D team of over 40 engineers, TWS APAC is spearheading the development of new CDMA, UMTS and HSDPA products for the global markets, according to our Telit "unified form factor" which makes these technologies compatible with our GSM/GPRS product line. As of 31 December 2006, Telit's investment in this company and the company's results for 2006 were in line with our expectations.

Opening of Telit Wireless Solutions Americas: In July 2006 the Company expanded its operations into North America by establishing Telit Wireless Solutions, Inc., headed by a senior team of executives formerly from Sony Ericsson's m2m division. In addition to serving as our regional headquarters, TWS Americas is responsible for the approval process of GSM/GPRS products for the US market (PTCRB, IOT and carrier approval), and has already obtained certification from a leading US mobile services provider for several of Telit's products, as detailed below.

Technology licensing agreement with QUALCOMM: In December 2006, Telit entered into a worldwide licensing agreement with QUALCOMM, a leading developer of digital wireless communications products and services. Under the terms of the agreement, QUALCOMM has granted Telit a worldwide license under its CDMA patent portfolio to develop, manufacture and sell 3G WCDMA modem cards. This agreement enables Telit to offer high speed m2m wireless broadband data services to its customers.

Renewal of ISO9001-2000 certification: In December 2006, Telit renewed its ISO 9001-2000 certification for the fourth consecutive year. This certification covers Telit's business operations related to development, sales and delivery of wireless solutions m2m applications and EVAR activities. To ensure that overall quality standards are met and maintained, Telit uses ISO-certified component suppliers and works with Celestica, in Rajecko, Czech Republic, whose facility is ISO-certified, for all of its current production.

Certification by a leading US mobile services provider: In March 2007, Telit received product certifications from a leading US mobile services provider, one of the largest in North America. This mobile services provider approved six of Telit's m2m modules simultaneously, each passing a rigorous testing process. Telit's modules are now approved for activation in a range of applications that run on the mobile services provider's GSM network, such as automatic meter reading, fleet management, security and surveillance, asset tracking, and remote device management and maintenance. This is the first time this mobile services provider has certified such a large number of wireless communications modules from one company. This certification enables TWS to begin selling in to the North American market, effective immediately.

Financial Position

The Group has total net assets of €24.0 million (2005: €33.2 million), including non-current assets of €15.million (2005: €6.4 million). The increase in non-current assets reflects the Group's investment in tangible fixed assets and intangible assets, predominantly related to the acquisition of the Group's 75% stake in Bellwave M2M Co. Ltd ("TWS APAC"). The reduction in the Group's current assets from €66.9 million to €45.6 million predominantly reflects a decrease in the Group's trade receivables balance of €15.8 million, largely in the Group's Israeli subsidiary .

Net debt at 31 December 2006 is €8.4 million (2005: €8.7 million). During the year, the Group secured a bridging loan of €8.0 million, in advance of funds to be received from a grant from the Italian government to the Group's Italian subsidiary, which has been declared eligible to receive from the government a €11.4 million grant, and a €14.1 million loan facility to support a development project in Sardinia. This €8.0 million inflow was offset by a reduction in other short-term borrowings of €13.4 million, largely as a result of a reduction in working capital balances and hence there has been less requirement for short-term financing, together with repayment of an amount of €1.0 million on a parent company loan. The remaining movement in net debt results from the reduction in cash and restricted cash balances. The transaction with BAMES signed after the year-end provides the Group with additional financing, as discussed elsewhere in this report.

The acquisition of the Group's stake in Bellwave M2M Co. Ltd. was financed from the Group's existing cash resources.

Cash flow

Net cash inflow from operating activities in 2006 was €8.0 million, compared to a net cash outflow of €5.0 million in 2005, largely due to the decrease in the investment in working capital in TWP, offset in part by the increase in working capital in TWS.

Net cash used in investing activities of €11.0 million (2005: €5.0 million), is principally due to the purchase of the Group's stake in Bellwave M2M Co. Ltd (€5.4 million), the purchase of property plant and equipment (€2.1 million) and an increase in restricted cash of €3.0 million, used as security for the Group's borrowing facilities in Italy.

Net cash used in financing activities of €6.2 million (2005: net cash inflow of €22.2 million, mainly due to proceeds from share issue following admission to the AIM market), predominantly relates to the increase in short term loans which were used mainly for financing working capital needs.

Liquidity

Details of the Group's net debt position are set out above. The Group is financed from cash proceeds arising from the issuance of shares at the time of admission to the AIM market, together with short-term borrowings, made available to finance working capital, and the €8.0 million bridging loan

Chief Executive's Statement and Review

set out above. Further details on the Group's borrowings are included within note 25 to the financial statements.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance:

Competitor risks

The Group operates in a highly competitive market with significant product innovations. If competitors introduce new products that employ new technologies, or if new industry or government standards and practices emerge, the Group's existing technology and systems may become obsolete.

We are subject to competition from domestic and overseas competitors who have greater capital and other resources and superior brand recognition than the Group. Consolidation between competitors may take place in the industry, which may further intensify competition by creating stronger competitors.

Competitors may launch new products in our markets, including the updating of their existing product lines, and may adopt more aggressive pricing policies. This may manifest itself in price pressures which create downward pressure on gross margins.

To manage these risks, the Group invests in the development of new products using different communication technologies in order to expand the Group's product portfolio aimed at attracting new customers and increasing revenue from existing customers. A recent example is the Group's announcement of the launch of its range of UMTS-based products. The Group also monitors market prices on an ongoing basis.

Product development

The Group's future performance depends upon its ability to develop and introduce new products, services or enhancements which meet the needs of its customers. The Group incurs substantial product development expenditure designed to meet customers' evolving needs and to ensure compatibility with new technology in its target markets. Significant delays in product development or introduction could have a material adverse effect on the Group's business, financial condition and results of operations. Developing the Group's technology and product range entails significant technological and business risks.

The Group manages these risks through its investment in research and development capabilities, including the recruitment of experienced industry professionals. Our R&D centres are based in Trieste and Cagliari, Italy and in Seoul, South Korea. Our R&D team is responsible for managing all aspects of product development and progress reports are routinely provided to our Chief Operating Officer.

Commercial relationships

The Group has significant contracts with a limited number of suppliers, distributors and other business partners, some of which may be terminated without cause or on written notice at the expiry of their term. Damage to, or loss of, any of these relationships, or renewal on less favourable terms, could have a direct and detrimental effect on the Group's results, the impact of which could be material to the trading position and future profitability of the Group. To manage this risk, the Group meets with management of such strategic partners on a regular basis, as well as seeking to diversify, where appropriate, sources of supply. The Group has announced a recent transaction regarding its supply chain for modules (see post balance sheet events), an example of the Group's active management of this risk.

Manufacturing

The Group's products are manufactured by third parties, including outsourced manufacturers. The Group's supply of products could be disrupted for reasons beyond the Group's control such as the closure of outsourced facilities, work force actions or other issues. In addition, the Group's quality assurance over its products may be negatively affected by these outsourced relationships.

The Group manages these risks by monitoring quality assurance at outsourced manufacturers using its own test equipment on production lines, and meets with individual management from its suppliers on a regular basis.

Strategy

Our strategy for 2007 is to continue to leverage our position as a leading player in the m2m market, offering customers a competitive edge by reducing their total cost of ownership and optimising the performance of their products. We plan on doing this through continued investment in R&D and building on the foundations laid by our regional operations to date.

This strategy takes advantage of two key trends in the m2m market:

- The performance trajectory offered by many of the m2m module manufacturers overshoots the needs of the average customer, resulting in feature-rich, expensive products that deliver inferior returns on investment; and
- The inability of many module manufacturers to meet the demands of early adopters due to the fact that they do not control the protocol stack required for customised product modifications.

To execute its strategy, Telit relies on three core competencies that differentiate it from the competition:

- Complete Control of the Protocol Stack: Unlike its competitors, Telit owns and develops the Protocol Stack in its modules. The Protocol Stack controls all connectivity and communication with the GSM network and is a critical success factor in being able to offer customers the flexibility required for rolling out cost-effective m2m solutions.
- Commitment to Customer-Driven Innovation: Telit's comprehensive expertise in R&D enables it to help its customers win new business by working with them to develop the most innovative, cost-effective m2m applications.
- Multinational Organisation Staffed with Industry Experts: Telit's R&D and Sales and Marketing units are comprised of a team of dynamic experts with proven industry experience in the m2m and semiconductor industry.

Board changes

In July 2006, Mr. Maurizio Gasparri was appointed to the Board of Telit as a Non-Executive Director. Mr. Gasparri, aged 49, is currently a member of the Italian Parliament, having been elected to office in 1992. From 2001 to 2005 Mr. Gasparri held the position of Minister of Communications for Italy.

Also in July 2006, Mrs. Pnina Bitterman-Cohen was appointed to the Board of Telit as a Non-Executive Director. Mrs. Bitterman-Cohen has been Vice President of Polar Investments Ltd since 1996, where she also serves as the General Counsel and Secretary.

In addition to this appointment, Mr. Avi Israel, who was appointed as a Non-Executive Director in 2005, was appointed in July 2006 as a Deputy CEO and replaced Inbal Barak-Etzion in the position of Finance Director of the Company.

Outlook

2006 has been a year of investing heavily for the future. I believe that 2007 will prove to be a turning point for Telit as we build upon the substantial investments in R&D and in global expansion in the previous two years.

We expect our Wireless Products Business Unit to continue its current position in the market over the next financial year. As for our Wireless Solutions Business Unit - we are extremely confident in our ability to cement our position in EMEA and extend it to APAC and the Americas, generating double-digit growth and achieving break-even by the end of 2007.

Oozi Cats
Chief Executive Officer
21 March 2007

Telit's Board of Directors


Avigdor Kelner,
Chairman


Oozi Cats,
Director and Chief
Executive Officer


Avi Israel,
Finance Director and
deputy CEO


David Charles
Denholm Hobley,
Non Executive Director


Andrea Giorgio
Mandel-Mantello,
Non Executive Director


Pnina Bitterman - Cohen,
Non Executive Director


Maurizio Gasparri,
Non Executive Director


Chicco Testa,
Director in the Italian
Subsidiary

Avigdor Kelner, Chairman, aged 64

A partner in Shrem, Fudim, Kelner & Co.("SFK"), Avigdor Kelner is Chairman and CEO of Polar Investments Ltd. ("Polar") 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 Yizrael 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, Chief Executive Officer of Telit Communications, aged 46

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.

Avi Israel, Finance Director and deputy CEO, aged 43

Formerly a Vice President of Polar, Avi Israel has significant experience in US and European financial markets, and was active in a number of Polar portfolio companies, holding Director-level positions. Before his tenure with Polar, 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).

David Charles Denholm Hobley, Non Executive Director, aged 60

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 several Orange/France Telecom Group companies.

Andrea Giorgio Mandel-Mantello, Non Executive Director, aged 48

Mr. Mandel-Mantello is the founding partner of AdviCorp PLC, a UK investment banking firm regulated by the UK Financial Services Authority. Prior to his work at AdviCorp, Mr. Mandel- Mantello spent 9 years at SBC Warburg (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 SBC Warburg, 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 Frette S.r.l., Italy's leading producer and retailer of luxury Home Ware; he is a director of B.O.S. - Better On Line systems Ltd., a Nasdaq listed Israeli company. He holds a Bachelor degree in Economics and Political Science from Yale University.

Pnina Bitterman-Cohen, Non Executive Director, aged 55

Vice President of Polar since 1996, Mrs. Bitterman-Cohen also serves as its General Counsel and Secretary, and serves as director in several companies, mostly members of the Polar group. Mrs Bitterman-Cohen holds an LLB from Tel-Aviv University.

Maurizio Gasparri, Non Executive Director, aged 49

Mr. Gasparri is currently a member of the Italian Parliament, having been elected to office in 1992. From 2001 to 2005 Mr. Gasparri held the position of Minister of Communications for Italy.

Chicco Testa, Director in the Italian Subsidiary, aged 55

Born in Italy in 1952, Mr. Chicco Testa has an important professional background. Among his several experiences, between 1996 and 2002 Mr. 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. Mr. Testa is a Member of the Board of Rothschild S.p.A, Executive President at Roma Metropolitane S.p.A (the company constructing the new Underground lines in Rome), Vice Chairman of the World Energy Council and Senior Partner at Franco Bernabè Group, which owns several investments in the IT sector.

Corporate Governance

Directors

The Board of Directors comprises two Executive Directors, three 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, budget, major items of expenditure and acquisitions.

Audit Committee

The Audit Committee consists of David Hobley, Chairman, and Andrea Mandel-Mantello, two of the independent non-executive directors, and meets at least once every quarter. Avi Israel, the Finance Director, attends each meeting. The Audit Committee is primarily responsible for considering reports from the Finance Director on the half year and annual financial statements, and for reviewing reports from the auditors on the scope and outcome of the annual audit. The financial statements are reviewed in the light of these reports and the results of the review reported to the Board.

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 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 Annual General Meeting 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).

Financial performance

A 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 at each meeting of the Board.

Going concern

After making enquiries at the time of approving the accounts, the directors have satisfied themselves that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the financial statements are prepared on a going concern basis.

Directors share dealings

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

On behalf of the Board

Avi Israel
Finance Director
21 March 2007

Report on Directors' Remuneration

The remuneration committee is chaired by Andrea Mandel-Mantello and also comprises Avigdor Kelner and David Hobley. This report has been prepared in accordance with Schedule 6 of the Companies Act 1985. As required by the Act, a resolution to approve the report will be proposed at the annual general meeting of the Company, at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration policy

The remuneration packages of directors and senior managers are structured so as to reward them on the basis of their responsibilities and achievements, 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:** None of the directors receive any pension benefits, except for Avi Israel and Inbal Barak-Etzion, who are entitled to post employment benefits including pension fund benefits according to their employment agreements, as is customary in Israel.

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 is engaged pursuant to a letter of appointment with the Company dated 29 March 2005, terminable by either the Company or the director on six months' notice except in certain specific circumstances where short notice can be given by the Company. In addition, Mr. Cats provides consultancy services to Telit Communications SpA, a wholly owned subsidiary of the Company, pursuant to the terms of a consultancy agreement between Telit Communications SpA and Excalibur Consulting Group LLC ("Excalibur") dated 5 January 2004, as amended on 26 April 2006. The total payments to Excalibur for services provided during 2006 were €921,000, of which €552,000 were paid for the services provided by Mr. Cats and €369,000 for the services of other consultants.

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. On 26 July 2006 Mr. Israel was appointed deputy CEO and Finance Director. Mr. Israel is entitled to post employment benefits, as is customary for executives in Israel. The amount disclosed below represents his cumulative entitlement earned since his appointment as at 31 December 2006.

Inbal Barak-Etzion was appointed as director on 29 March 2005, and resigned from the board on 26 July 2006.

Pnina Bitterman-Cohen was appointed as a director on 26 July 2006.

Maurizio Gasparri was appointed as a director on 17 July 2006.

AUDITED INFORMATION

	Salary And Fees	Benefit In Kind	Annual Bonus	Post Employment Benefits	Total 2006	Total 2005
	€'000	€'000	€'000	€'000	€'000	€'000
Executive Directors						
Avigdor Kelner	144	-	-	-	144	-
Oozi Cats[1]	372	272	-	-	644	694
Inbal Barak-Etzion[2]	48	2	-	6	56	148
Avi Israel[3]	89	3	-	9	101	12
Yitzhak Apeloig[2]	-	-	-	-	-	186
Non executive Directors						
David Hobley	44	-	-	-	44	35
Andrea Mandel-Mantello[4]	44	-	-	-	44	35
Pnina Bitterman-Cohen[5]	16	-	-	-	16	-
Maurizio Gasparri[5]	35	-	-	-	35	-
Total 2006	**792**	**277**	**-**	**15**	**1,084**	**1,110**
Total 2005	**699**	**29**	**382**	**-**	**-**	**1,110**

remarks

1. Including relocation expenses totalling €195,000 following Mr. Cats' relocation to Italy. Other than in respect of €92,000, all payments for the services rendered by Mr. Cats to the Group were paid to Excalibur.
2. Up to the date of resignation.
3. Mr. Israel received remuneration as a non-executive director until 26 July 2006 and from that date has received remuneration as an executive director.
4. Amounts in respect of the services of Andrea Mandel-Mantello are paid directly to Advicorp plc, a company under his joint control.
5. Since date of appointment.

Andrea Mandel-Mantello
Chairman of the Remuneration Committee
21 March 2007

Directors' Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2006.

Principal activities

Telit is a global leader in the field of machine-to-machine (m2m) communications and a prominent supplier of a range of advanced cellular phones and accessories worldwide. Telit has two core businesses:

• **Telit Wireless Solutions (TWS)** develops, manufactures and markets communication modules which enable machines, devices and vehicles to communicate via cellular wireless networks. TWS is the market leader in CDMA m2m modules in South Korea and the third largest company in the GSM/GPRS m2m modules' business in EMEA. In addition, Telit recently launched its UMTS solutions during the 3GSM convention in Barcelona. TWS represents the strategic focal point of the Company moving forward.

Telit's core strengths are innovative products, complete control over its intellectual property and its flexible, customised solutions, which enable it to offer customers the lowest cost of ownership and a future-proof product roadmap.

• **Telit Wireless Products (TWP)** distributes and supports cellular devices from manufacturers worldwide. TWP is one of the largest CDMA mobile phones suppliers in Israel and one of the main GSM, GPRS, EDGE and UMTS mobile phone distributors in Italy.

Review of business and future developments

A review of business, financial position, liquidity and future developments is given within the Chief Executive Officer's statement on pages 9 to 14, together with a review of the Group's principal risks and uncertainties.

Share options

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

On 1 March 2006, an executive of Dai Telecom was granted options to purchase approximately 1.1 percent of the Company's issued and outstanding shares at an exercise price of £0.705. The options vest in four equal instalments starting from the date of grant, through to 28 February 2010. The options expire within five years from the date of grant. The number of outstanding options as of 31 December 2006 was 2,216,687, equal to approximately 5.1% of the outstanding share capital of the Company.

Research and development activities

The Group has made, and expects to continue making in the future, significant investments in research & development ("R&D") in order to invest in products aimed at achieving a steady pipeline of orders from customers in the coming years. R&D expenses in 2006 were €8.1 million, compared to €3.9 million in 2005. Telit's R&D centres are based in Trieste and Cagliari, Italy and in Seoul, South Korea. For additional details please see the Chief Executive Officer's statement and note 6 to the financial statements.

Use of financial instruments

The financial risk management objectives and policies of the Group and the exposure of the Group to financial risks are disclosed within note 27 to the financial statements.

Donations

The Group made no charitable or political donations during the year ended 31 December 2006 (2005 - €nil).

Dividends

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

Post balance sheet events

Telit has entered into an agreement according to which a capital injection of €16 million into the Company's m2m subsidiary, Telit Wireless Solutions Srl ("Telit Srl"), will be made by Bartolini After Market Electronic Services s.r.l ("BAMES"), within the structure of a business alliance between the two companies.

Under the terms of transaction, BAMES will provide Telit Wireless Solutions Srl with €9 million in equity and an additional €7 million equity investment in December 2008, providing Telit meets certain m2m module purchase milestones. BAMES will receive up to 10% of the share capital of Telit Srl.

In addition to the investment agreement, Telit Srl entered into a strategic manufacturing agreement with Services for Electronic Manufacturing Srl ("SEM"), BAMES' electronics manufacturing subsidiary, for all present and future production of Telit's m2m modules, with certain exceptions, at competitive market prices for a term of not less than five years. This will enable Telit to consolidate its European manufacturing into one geographical location, and will streamline operations while keeping control of the Company's intellectual property and increasing its control over its supply chain. This is achieved by the Telit taking a 19.9% equity stake in SEM and the right to nominate one director to SEM's board of directors. SEM will also provide Telit with a €7 million line of credit for finished goods, which will defer payment until the second equity injection referred to above.

Directors' Report

The proceeds from the investment will enable Telit to continue execution of its strategy of focusing on the rapidly growing m2m market, consolidate its international expansion, and develop its next generation m2m modules.

Directors

The following directors have held office during the year:

Avigdor Kelner	
Oozi Cats	
Inbal Barak-Etzion	(resigned 26 July 2006)
David Hobley	
Andrea Mandel-Mantello	
Avi Israel	(appointed 16 September 2005, appointed Finance Director and Deputy Chief Executive Officer on 26 July 2006)
Pnina Bitterman-Cohen	(appointed 26 July 2006)
Maurizio Gasparri	(appointed 17 July 2006)

Directors' interests in shares and share options

The directors' interests in shares in the Company are detailed in the table below. None of the directors has an interest in share options in the Company as at 31 December 2006 (2005 - nil).

	At 31 December 2006		At 31 December 2005	
Directors	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats*	2,700,357	6.25%	2,700,357	6.25%
David Hobley	15,000	0.03%	15,000	0.03%
Andrea Mandel-Mantello	nil	-	nil	-
Avigdor Kelner	nil	-	nil	-
Avi Israel	800,000	1.85%	nil	-
Pnina Bitterman-Cohen	nil	-		
Maurizio Gasparri	nil	-		

* of the Ordinary Shares held by Mr. Cats, 267,857 are subject to a call option by Polar Investments Ltd. ("Polar") if Mr. Cats ceases to be employed by the Group before 30 December 2008.

Employees

In considering applications for employment from disabled people, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the job for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Substantial shareholdings

At 28 February 2007 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 share capital
Polar Investments Limited *	22,851,427	52.88%
Gartmore Investment Management	3,882,527	8.98%
Oozi Cats	2,700,357	6.25%
Canada Life Asset Management	1,600,000	3.70%

* Polar has informed the Company that it has begun negotiations with a group of investors, including certain of the Company's management, to sell approximately 50% of its shareholding in the Company at 43p per share. Polar currently holds approximately 53% of the Company's ordinary issued share capital.

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 2006, the Group had an average of 30 days (2005: 75 days) outstanding to TWP creditors and an average of 30 days (2005: 30 days) outstanding to TWS creditors, a total average of 30 days (2005: 67 days) outstanding to creditors.

Provision of information to auditors

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with s234ZA of the Companies Act 1985.

Auditors

Deloitte & Touche LLP were appointed as auditors during the current year, replacing Baker Tilly.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Avi Israel
Finance Director
21 March 2007

Telit Com munications PLC

Statement of Director's Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the consolidated and company financial statements have been prepared in accordance with IFRS as adopted for use in the European Union; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company and the Group 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. The directors are also responsible for safeguarding the assets of the Company and the Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent Auditors' Report To The Members Of Telit Communications Plc

We have audited the group and parent company financial statements (the "financial statements") of Telit Communications PLC for the year ended 31 December 2006 which comprise the group income statement, the group and company balance sheets, the group and company cash flow statements, the group and company statements of changes in equity and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

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 (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

We also report to you if, in our opinion, 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 the directors' report and the other information contained in the annual report for the above year as described in the contents on page 1 and 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 further information outside the Annual Report.

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 circumstances of the company and the group, 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 IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985;
- The information given in the directors' report is consistent with the financial statements.

Emphasis of matter – recoverability of deferred tax asset
Without qualifying our opinion, we draw attention to the disclosures made in Notes 1 and 10 of the financial statements concerning the recognition of a deferred tax asset of €3,696,000 in the consolidated balance sheet. The recovery of this asset is dependent upon the future profitability of the Group's Italian subsidiary, Telit Communications SpA. Telit Communications SpA has been loss-making to date, including in the current year. Whilst that Company is forecasting that this asset will be recovered within the next four years, there is no certainty that the forecasts of Telit Communications SpA will be achieved sufficient to recover the deferred tax asset, in full or in part. These conditions, along with other matters as set forth in Notes 1 and 10, indicate the existence of a material uncertainty which may cast significant doubt about the carrying value of the deferred tax asset.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
London, United Kingdom
21 March 2007

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions

Telit Communications PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	2006 €'000	2005 (Restated*) €'000
Revenue	2	86,780	85,914
Cost of sales		(70,574)	(71,331)
Gross profit		16,206	14,583
Other income	4	1,438	1,134
Research and development expenses		(8,149)	(3,914)
Selling and marketing expenses		(9,317)	(5,293)
General and administrative expenses		(9,968)	(7,372)
Other expenses	5	(563)	(215)
Operating loss	6	(10,353)	(1,077)
Investment income	7	190	656
Finance costs	8	(1,169)	(938)
Share of results of associated undertakings		(41)	(164)
Loss before income taxes		(11,373)	(1,523)
Income taxes	10	(11)	(1,338)
Loss for the year from continuing operations		(11,384)	(2,861)
Loss for the year from discontinued operations	11	-	(1,306)
Loss for the year		(11,384)	(4,167)
Attributable to:			
Equity shareholders of the parent		(11,319)	(4,167)
Minority interests		(65)	-
		(11,384)	(4,167)
Basic loss per share (in euro cents)			
From continued operations		(26.2)	(7.8)
From discontinued operations		-	(3.5)
Total continuing and discontinued	12	(26.2)	(11.3)
Diluted loss per share (in euro cents)			
From continued operations		(26.2)	(7.8)
From discontinued operations		-	(3.5)
Total continuing and discontinued	12	(26.2)	(11.3)

(*) See Note 1(z).

Telit Communications PLC
BALANCE SHEETS
At 31 December 2006

	Notes	Group 2006 €'000	Group 2005 (Restated*) €'000	Company 2006 €'000	Company 2005 (Restated*) €'000
ASSETS					
Non-current assets					
Intangible assets	13	7,710	616	-	-
Property, plant and equipment	14	3,019	1,414	-	-
Investments	15	579	649	27,741	20,652
Other long term assets	17	303	73	-	-
Deferred tax asset	10	3,696	3,696	-	-
		15,307	6,448	27,741	20,652
Current assets					
Inventory	16	10,284	12,030	-	-
Trade receivables	17	17,452	33,286	-	-
Other current assets	17	6,806	4,357	574	493
Deposits – restricted cash	18	7,115	4,000	7,115	4,000
Cash and cash equivalents	18	3,926	13,207	1,376	11,781
		45,583	66,880	9,065	16,274
Total assets		60,890	73,328	36,806	36,926
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	19	627	627	627	627
Other reserve		(260)	(260)	5,894	5,894
Share premium		29,651	29,651	29,651	29,651
Translation reserve		(584)	(284)	-	-
Retained earnings		(6,669)	3,432	(318)	68
Total shareholders' equity		22,765	33,166	35,854	36,240
Minority interests		1,248	-	-	-
Total equity		24,013	33,166	35,854	36,240
Non-current liabilities					
Loan from parent company	25	2,035	3,054	-	-
Post-employment benefits	20	1,226	856	-	-
Deferred tax liabilities	10	1,193	-	-	-
Other long-term liabilities		244	106	-	-
		4,698	4,016	-	-
Current liabilities					
Short-term borrowings from banks and other lenders	21	17,375	22,823	-	-
Trade payables	21	10,584	8,955	16	65
Other current liabilities	21	4,220	4,368	936	621
		32,179	36,146	952	686
Total equity and liabilities		60,890	73,328	36,806	36,926

(*) See Note 1(z).

The financial statements on pages 27 to 65 were approved by the board and authorised for issue on 21 March 2007 and are signed on its behalf by:

Oozi Cats
Director

Telit Communications PLC

CASH-FLOW STATEMENTS

For the year ended 31 December 2006

	Group		Company	
	2006	2005 (Restated*)	2006	2005 (Restated*)
	€'000	€'000	€'000	€'000
CASH FLOWS – OPERATING ACTIVITIES				
Net cash from/ (used in) operating activities (Note 26)	8,046	(5,025)	(1,058)	(41)
CASH FLOWS - INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(2,074)	(431)	-	-
Proceeds from disposal of property, plant and equipment	25	41	-	-
Purchase of intangible assets	(513)	(622)	-	-
Acquisition of subsidiaries (nil cash acquired)	(5,396)	-	-	-
Investment in subsidiary	-	-	(13)	-
Loan to subsidiary	-	-	(6,461)	(14,500)
Additions to financial assets	-	(190)	-	-
Proceeds from disposal of financial assets	-	211	-	-
Increase in restricted cash deposits	(3,000)	(4,000)	(3,000)	(4,000)
Additions to long term receivables	(56)	(27)	-	-
Net cash used in investing activities	(11,014)	(5,018)	(9,474)	(18,500)
CASH FLOWS - FINANCING ACTIVITIES				
Repayment of short-term borrowings from banks and others	(13,224)	(7,772)	-	-
Short-term borrowings from banks	8,000	-	-	-
Repayment of loan from parent company	(1,019)	-	-	-
Proceeds from issuance of share capital	-	30,019	-	30,019
Net cash (used in)/ from financing activities	(6,243)	22,247	-	30,019
(Decrease)/ increase in cash and cash equivalents	(9,211)	12,204	(10,532)	11,478
Cash and cash equivalents - balance at beginning of year	13,207	582	11,781	-
Effect of exchange rate differences	(70)	421	127	303
Cash and cash equivalents - balance at end of year	3,926	13,207	1,376	11,781
Supplemental disclosure of cash flow information (included in cash flow from operating activities):				
Interest paid	896	1,029	-	-
Interest received	318	336	320	307
Income taxes paid	739	1,240	-	-

(*) See Note 1(z).

Year ended 31 December 2006

	Share capital	Share premium	Other reserve	Translation adjustment	Retained earnings	Total	Minority interest	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
1 January 2006	627	29,651	(260)	(284)	3,432	33,166	-	33,166
Arising on acquisition	-	-	-	-	-	-	1,317	1,317
Translation adjustments	-	-	-	(300)	-	(300)	(4)	(304)
Share-based payment charge	-	-	-	-	1,218	1,218	-	1,218
Loss for the year	-	-	-	-	(11,319)	(11,319)	(65)	(11,384)
31 December 2006	627	29,651	(260)	(584)	(6,669)	22,765	1,248	24,013

Year ended 31 December 2005

	Share capital	Share premium	Other reserve	Translation adjustment	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000
1 January 2005	-	-	-	(915)	7,067	6,152
Arising on transfer of subsidiaries under common control	-	-	(260)	-	-	(260)
Issue of share capital	627	29,651	-	-	-	30,278
Translation adjustments	-	-	-	631	-	631
Share-based payment charge	-	-	-	-	532	532
Loss for the year	-	-	-	-	(4,167)	(4,167)
31 December 2005	627	29,651	(260)	(284)	3,432	33,166

The other reserve arose on the transfer of the subsidiaries under common control and represents the nominal value of shares issued in this transaction.

Year ended 31 December 2006

	Share capital	Share premium	Other reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
1 January 2006	627	29,651	5,894	68	36,240
Loss for the year	-	-	-	(386)	(386)
31 December 2006	627	29,651	5,894	(318)	35,854

Year ended 31 December 2005

	Share capital	Share premium	Other reserve (Restated*)	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
1 January 2005	-	-	-	-	-
Issue of share capital	627	29,651	5,894	-	36,172
Loss for the year	-	-	-	68	68
31 December 2005	627	29,651	5,894	68	36,240

(*) See Note 1(z).

The other reserve arose on the issue of 1,790,785 shares to Polar Investments Ltd. ("Polar") in consideration for the transfer of Polar's investment in Dai Telecom Holdings (2000) Ltd. and Dai Telecom Ltd., the assets and liabilities of which were recorded at their previous carrying value.

1. ACCOUNTING POLICIES

(a) General information

The consolidated financial statements for the years ended 31 December 2006 and 31 December 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the provisions of the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation.

Telit Communications PLC is a public limited company registered in England and Wales. The registered office is given on page 66. The nature of the Group's operations and its principal activities are set out in note 3 and in the Chief Executive's statement and review on pages 9 to 14.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain assets and liabilities which are measured at fair value and in accordance with Companies Act 1985 and applicable IFRSs. The principal accounting policies adopted are set out below.

(b) Functional and presentational currency

The consolidated financial statements are presented in Euros as this is the primary economic environment of the Group, which differs from the functional currency of those subsidiaries that are not located in the euro zone.

The assets and liabilities of the Company's subsidiaries that have a functional currency other than the Euro are translated at the closing exchange rates prevailing on the balance sheet date. Income and expense items and cash flows are translated at the average exchange rates for the period. Exchange rate differences arising, from the translation of the above mentioned items, are recorded directly to the shareholders' equity as a separate component called "translation adjustment". Goodwill and intangible assets arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity.

(c) 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 so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with maturity of three months or less that are readily convertible to cash and are subject to an insignificant risk of changes in value.

(f) Trade receivables

Trade receivables are recognised and carried at original invoice amount, which the Directors consider to be equal to fair value. Approximate allowances for estimated uncollectible amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(g) 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 labour 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.

(h) Investments

Investments in associated undertakings

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.

Any excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill.

Company - Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

(i) Impairment of investments in associated undertakings

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

(j) 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	10-14
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 recognised in the income statement.

(k) Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each balance sheet date. Goodwill is not subject to amortisation.

For the purposes of impairment testing, goodwill is allocated to the cash-generating unit to which it relates. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(l) Other intangible assets

Other intangible assets with finite lives are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The amortisation rates are as follows:

Software- 3 years
Customer relationships – 5 years
Development cost– 3 years

(m) Impairment of tangible and intangible assets excluding goodwill

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.

(n) 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.

(o) Trade payables

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

(p) Provision for warranty costs

A 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.

(q) 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 income statement 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.

The values attributed to plan liabilities that are material to the financial statements are assessed in accordance with the advice of independent qualified actuaries.

(r) 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.

(s) Leases

Rentals payable under operating leases are charged to statement of income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

(t) Borrowing costs

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

(u) Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met.

Government grants relating to employment are recognised as income over the periods necessary to match them with the related cost and are recognised in other income.

(v) 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.

(w) 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 behavioral considerations.

(x) Loss per share

Basic and diluted loss 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*.

(y) Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity’s functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

(z) Restatements

According to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the Group has presented grant income of €530,000 within other income. Prior periods have been adjusted in order to conform with the current period presentation. This presentational change has no impact on the reported net loss.

Restricted cash of €4.0 million, previously reported within cash and cash equivalents in the cash flow statement for the year ended 31 December 2005, has been excluded as it does not meet the definition set out in IAS 7 “Cash flow statements”. The increase in the year has been shown as an investing cash outflow and the cash flow statement restated accordingly.

The Company balance sheet as at 31 December 2005 has been restated as a result of an error in the application of the accounting for the acquisition of Dai Holdings (2000) Limited and a 20% stake in Dai Telecom Limited. Investments in subsidiary undertakings and shareholders’ equity were understated by €9.2 million as a result. Investments and shareholders’ equity have been restated by this amount. There is no profit effect of this adjustment.

(aa) Critical accounting judgments and key sources of uncertainty

In the process of applying the Group’s accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Recoverability of deferred tax assets

Under IFRS, a deferred tax asset arising on trading losses is only recognised where it is probable that future taxable profits will be available to utilise the losses. The key judgments in assessing the recognition of a deferred tax asset are:

- the probability of taxable profits being available in the future; and
- the quantum of taxable profits that are forecast to arise.

This requires management to exercise judgement in forecasting future results. There are a number of assumptions and estimates involved in estimating the future results of the relevant entity in which the trading losses arose, including:

- management's expectations of growth in revenue;
- changes in operating margins; and
- uncertainty of future technological developments.

Changing the assumptions selected by management could significantly affect the Group's results.

As at 31 December 2006, the Group had recognised a deferred tax asset of € 3,696,000. See note 10 for further information.

Allocating fair values in a business combination

Acquisitions of shares in subsidiaries are accounted for using the purchase method whereby their aggregate consideration is allocated to the fair value of the assets acquired and liabilities assumed based on management's best estimates. Management is required to exercise judgment in the determination of the fair value of identified assets and liabilities, and particularly intangible assets.

As at 31 December 2006, the carrying value of intangible assets other than the goodwill acquired in business combinations was €4,343,000. For applicable amortization rate see note 1(l) above.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

There are a number of assumptions and estimates involved in calculating the net present value of future cash flows from the Group's cash-generating units, including:

- management's expectations of growth in revenue;
- changes in operating margins;
- uncertainty of future technological developments;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections could significantly affect the Group's results. As at 31 December 2006, the amount of goodwill included in the consolidated balance sheet was €1,439,000.

Recoverability of investments in associated undertaking

Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters, as noted below.

IFRS requires management to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Group management currently undertakes an annual impairment test for investments in associated undertakings at least annually to consider whether a full impairment review is required.

If the book value of an investment in a non-subsidiary investee exceeds its recoverable value, the Company recognizes an impairment loss. As at 31 December 2006, the book value of the investment in associated undertakings was €579,000.

Grant income

Income relating to government grants is recognized when there is reasonable assurance that the Company will comply with the conditions attaching to it and the grant will be received. Management is required to exercise judgement in determining when compliance with the terms of the grant and receipt of the grant are probable. The amount of grant income recognized in the income statement for the year ended 31 December 2006 was €686,000. And as at 31 December 2006 an amount of €1,044,000 is recorded in other debtors.

(ab) New standards and interpretations not yet applied

During the year, the IASB and IFRIC have issued a number of new standards, interpretations and amendments to existing standards which will be effective for the Group in future accounting periods, including:

IFRS 7	Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2—Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

2. REVENUE

	2006	2005
	€'000	€'000
		(Restated)
Sales of goods	84,940	82,614
Services	1,840	3,300
Revenue	86,780	85,914
Investment income	190	656
	86,970	86,570

3. SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into two operating divisions, Wireless Solutions and Wireless Products. These divisions are the basis on which the Group reports its primary segment information.
Principal activities are as follows:
- **Wireless Solutions business unit** – designs, develops, manufactures and sells cellular GSM/GPRS/CDMA/UMTS module products mainly to the machine-to-machine (M2M) application markets.
- **Wireless Products business unit** – distributes third party cellular handsets and accessories in European and Israel markets, including the products of Far East manufacturers, and provides the aftermarket activities for all devices sold by it.

Segmental information for these businesses is presented below.

	2006	2005 (Restated)
	€'000	€'000
REVENUE		
Wireless Products	59,086	70,677
Wireless Solutions	28,709	15,237
Total sales	87,795	85,914
Eliminations (*)	(1,015)	-
Total external sales	86,780	85,914

(*) Inter- segment transactions are charged at prevailing market prices.

	2006	2005 (Restated)
OPERATING PROFIT (LOSS)		
Wireless Products	(1,540)	4,318
Wireless Solutions	(7,680)	(4,530)
	(9,220)	(212)
Unallocated corporate expenses	(1,133)	(865)
Operating loss	(10,353)	(1,077)
Investment income	190	656
Finance costs	(1,169)	(938)
Share of results in associated undertakings	(41)	(164)
Loss before income tax	(11,373)	(1,523)

3. SEGMENTAL ANALYSIS (CONT.)

	2006 €'000	2005 €'000
Total assets		
Wireless Products	14,327	33,006
Wireless Solutions	25,135	7,433
Investment in associated undertaking	579	649
Unallocated assets	20,849	32,240
Total assets	60,890	73,328
Total liabilities		
Wireless Products	3,147	6,517
Wireless Solutions	8,124	830
Unallocated liabilities	25,606	32,815
Total liabilities	36,877	40,162

	2006		2005	
	Wireless Products €'000	Wireless Solutions €'000	Wireless Products €'000	Wireless Solutions €'000
Other segment items:				
Capitalized tangible and intangible asset additions	314	10,410	158	896
Non-cash items:				
Depreciation and amortization	110	1,359	89	571
Impairment losses	-	500	-	-
Bad debt expense	150	38	50	-
Share-based payments	878	340	433	99

GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's revenues by geographical market, irrespective of the origin of the goods or services, and the Group's carrying amount of segment assets and capital expenditure on tangible and intangible fixed assets by geographical segment:

	Revenue		Assets		Capital expenditure	
	2006 €'000	2005 €'000 (Restated)	2006 €'000	2005 €'000	2006 €'000	2005 €'000
Europe	49,356	28,161	38,663	44,965	2,934	896
Israel	31,591	52,419	10,959	28,363	314	158
Asia Pacific	5,833	5,334	10,847	-	7,308	-
Rest of World	-	-	421	-	168	-
	86,780	85,914	60,890	73,328	10,724	1,054

4. OTHER INCOME

	2006	2005 (Restated)
	€'000	€'000
Government grants	686	530
Other	752	604
	1,438	1,134

In 2006, "Other" principally relates to amounts due to a supplier that have been waived as part of the overall settlement with that supplier (see note 23.D). In 2005, "Other" principally related to €548,000 received from the final settlement of litigation, net of expenses, as described in note 23.B.

The Group's Italian subsidiary has been declared eligible to receive an €11.4 million grant, and has secured a €14.1 million loan facility, under a business development program sponsored by the Ministry of Trade and Commerce in Italy. The funds, totaling €25.5 million, were awarded to Telit Italy to invest in research and development in a new R&D centre in preferred areas in Italy. As of 31 December 2006 Telit Italy invested approximately €2.5 million in this grant project, and has received a bank loan of €8.0 million as an advance against the expected cash inflow from the Ministry of Trade and Commerce (see note 25).

5. OTHER EXPENSES

For the year ended 31 December 2006, other expenses principally comprise an impairment of intangible assets of €500,000 whilst for the year ended 31 December 2005 other expenses principally comprise amounts relating to the settlement of a VAT dispute.

6. OPERATING LOSS

Operating loss is stated after charging / (crediting)

	2006	2005
	€'000	€'000
Net foreign exchange (gains) / losses	(160)	221
Depreciation of owned fixed assets (note 14)	763	567
Amortisation of intangible assets (note 13)	706	93
Impairment of intangible fixed assets (note 13)	500	-
Research and development expenditure	8,149	3,914
Bad debt expense	188	50
Loss on disposal of property, plant and equipment	7	-
Advertising costs	1,409	903
Costs of inventory recognised as an expense	66,030	64,792

6. OPERATING LOSS (CONT.)

	2006	2005
	€'000	€'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	99	101
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	133	163
Total audit fees	232	264
Tax services	31	55
Total non-audit fees	263	319

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

7. INVESTMENT INCOME

	2006	2005
	€'000	€'000
Interest income from bank deposits	318	334
Gain on financial instruments	-	235
Interest from related parties	-	42
Exchange rate (losses)/ gains	(128)	45
	190	656

8. FINANCE COSTS

	2006	2005
	€'000	€'000
Interest expense on factoring arrangements	200	145
Interest expense on bank loans and overdrafts	792	758
Other	177	35
	1,169	938

9. EMPLOYEES

	2006	2005
	€'000	€'000
The average monthly number of persons (including executive directors) during the year was:		
Sales and marketing	50	46
Research and development	109	63
General and administration	31	33
Operations	53	33
Discontinued operations	-	42
	243	217

	2006	2005
Their aggregate remuneration comprised:		
Wages and salaries	10,862	9,088
Social security costs	1,946	1,725
Other pension costs	950	(193)
	13,758	10,620

Directors' remuneration disclosures described within the Directors' Remuneration Report as audited form part of these financial statements on page 20.

10. INCOME TAXES

	2006	2005
	€'000	€'000
A. United Kingdom corporate tax at 30%:		
Current year taxes	-	30
Overseas corporate tax:		
Current year taxes	264	1,099
Adjustment in respect of prior years	29	219
Deferred taxes:		
Overseas deferred taxes	(282)	(10)
	11	1,338

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

10. INCOME TAXES (CONT.)

C. Factors affecting the tax expense for the year

The table below explains the differences between the expected tax credit on continuing operations, at the UK statutory rate of 30% for 2006 and 2005, and the Group's total tax expense for the year:

	2006	2005
	€'000	€'000
Loss before income tax from continuing operations	(11,373)	(1,523)
Tax credit computed at 30%	(3,412)	(457)
Tax adjustments arising from:		
Expenses which are not deductible (income exempted) in determining taxable profit	(37)	612
Decrease in taxes resulting from a different tax rate of subsidiaries operating in other jurisdictions	(151)	(810)
Tax losses not utilised	3,582	1,778
Adjustments in respect of prior year	29	219
Other differences	-	(4)
Tax charge	11	1,338

D. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year, after offset of balances within countries:

	Net operating loss	Other timing differences	Total
	€'000	€'000	€'000
At 1 January 2006	3,667	29	3,696
Arising on acquisition	-	(1,374)	(1,374)
Translation adjustments	-	6	6
Credit to income	48	234	282
At 31 December 2006	3,715	(1,105)	2,610

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	€'000	€'000
Deferred tax liabilities	(1,193)	-
Deferred tax assets-non current assets	3,696	3,696
Deferred tax assets-current assets	107	-
	2,610	3,696

10. INCOME TAXES (CONT.)

The Group has previously recorded a deferred tax asset of €3.7 million relating to losses incurred in its Italian subsidiary, Telit Communications SpA. The directors consider that under existing Italian tax law, the time period over which these losses are available for relieving future profits is unlimited. Telit Communications SpA has incurred losses to date since formation in 2003, and has incurred further losses in 2006. The Group has approved a four year business plan for Telit Communications SpA. The four year business plan assumes substantial growth in revenues over this period relating to m2m modules sales. The assumed growth in revenue is based on management's best estimates, having had regard to the revenue growth experienced during 2006 in this division, which is expected to continue at a similar rate in 2007, together with independent industry analysts' market projections, and forecasts of growth in the M2M marketplace for years beyond 2007. The business plan is also showing forecast gross margins that are substantially in line with the subsidiary's current financial performance in 2007, with some further improvement due to increasing sales volumes and purchasing benefits. Operating expenses have been forecast based on the current and expected future infrastructure required to execute the assumed revenues. Additionally, Telit Communications SpA is the Group's principal supplier of m2m modules to other Group companies, predominantly in the United States, which is expected to generate additional sales for the Group. Based on the business plan prepared, management expects to begin to recover the deferred tax asset during the year ending 31 December 2008, and full recovery is forecast in the year ending 31 December 2010. As this assessment is a judgment about future events, there is no certainty as to this matter.

E. Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the finalization and acceptance of tax returns with relevant tax authorities, corporate acquisitions and disposals, changes in tax legislation and rates, the availability and use of brought forward tax losses, and the realization or otherwise of recognised deferred tax assets.

At 31 December 2006, the gross amount and expiry dates of losses available for carry forward are as follows:

	Unlimited
	€'000
Losses for which a deferred tax asset is recognised	11,266
Losses for which no deferred tax asset is recognised	18,706
	29,972

11. DISCONTINUED OPERATIONS

During year 2003 the Group reorganized 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 31 December 2005, as a separate component are as follows:

	2006	2005
	€'000	€'000
Cost of sales	-	338
Operating expenses	-	968
Loss for the year	-	1,306

12. LOSS PER SHARE

	2006	2005
	€'000	€'000
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:		
Loss for the year attributable to the equity shareholders of the parent	(11,319)	(4,167)
Weighted average number of shares:	**No. of Shares**	**No. of Shares**
For basic and diluted earnings per share	43,214,281	36,886,157
Loss per share from continuing operations (euro cents)	(26.2)	(7.8)
Loss per share from discontinued operations (euro cents)	-	(3.5)
Loss per share (euro cents)	(26.2)	(11.3)
Number of options that are antidilutive:	2,216,687	1,976,570

13. INTANGIBLE FIXED ASSETS

	Finite lived intangible assets					
	Software	Exclusive rights	Customer relationships	Development cost	Goodwill	Total
GROUP	€'000	€'000	€'000	€'000	€'000	€'000
Cost						
1 January 2005	299	-	-	-	-	299
Additions	123	500	-	-	-	623
31 December 2005	422	500	-	-	-	922
Additions	1,860	-	-	-	-	1,860
Translation adjustments	-	-	(15)	(1)	(6)	(22)
Arising on acquisition	19	-	4,306	689	1,445	6,459
31 December 2006	2,301	500	4,291	688	1,439	9,219
Accumulated impairment losses and amortization						
1 January 2005	(213)	-	-	-	-	(213)
Charge for the year	(93)	-	-	-	-	(93)
31 December 2005	(306)	-	-	-	-	(306)
Charge for the year	(67)	-	(504)	(135)	-	(706)
Impairment losses	-	(500)	-	-	-	(500)
Translation adjustments	-	-	3	-	-	3
31 December 2006	(373)	(500)	(501)	(135)	-	(1,509)
Net book value						
31 December 2006	1,928	-	3,790	553	1,439	7,710
31 December 2005	116	500	-	-	-	616

The goodwill is related to the acquisition of Bellwave M2M Company Limited, subsequently renamed Telit Wireless Solutions Co Limited, which is included within the Wireless Solutions business unit and the Asia Pacific geographical segment.

Management considers that there are no indicators of impairment in the goodwill balance at the year-end.

14. PROPERTY, PLANT AND EQUIPMENT

GROUP	Computers €'000	Office equipment €'000	Vehicles €'000	Leasehold Improvements €'000	Total €'000
COST					
As at 1 January 2005	228	2,085	244	186	2,743
Translation adjustments	10	9	17	14	50
Additions for the year	109	256	-	66	431
Disposals	-	(22)	(52)	-	(74)
As at 31 December 2005	347	2,328	209	266	3,150
Translation adjustments	(3)	(3)	(4)	(5)	(15)
Additions for the year	503	1,369	9	193	2,074
Disposals	(6)	-	(58)	-	(64)
Arising on acquisition	20	311	-	-	331
As at 31 December 2006	861	4,005	156	454	5,476
DEPRECIATION					
1 January 2005	(129)	(914)	(97)	(45)	(1,185)
Translation adjustments	(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)
Translation adjustments	5		3	2	10
Charge for the year	(96)	(608)	(23)	(36)	(763)
Disposals	-	-	32	-	32
31 December 2006	(283)	(1,975)	(99)	(100)	(2,457)
Net book value					
31 December 2006	578	2,030	57	354	3,019
31 December 2005	155	961	98	200	1,414

15. INVESTMENTS

GROUP	2006 €'000	2005 €'000
Investment in associated undertaking, Cell-Time Ltd		
Cost	1,135	1,135
Translation adjustments	(70)	(41)
Losses accumulated since acquisition	(486)	(445)
	579	649

15. INVESTMENTS (CONT.)

The accounts of Cell-Time Ltd are drawn up to 31 December 2006 for inclusion in the consolidated financial statements. The summarised financial information of Cell-Time Ltd is as follows:

	2006	**2005**
	€'000	**€'000**
Balance sheet		
Assets		
Current assets	1,198	789
Property, plant and equipment	48	52
Total assets	1,246	841
Liabilities		
Current liabilities	1,212	666
Long-term liabilities	8	6
Total liabilities	1,220	672

	2006	**2005**
	€'000	**€'000**
Income statement		
Revenue	7,536	3,288
Cost of sales	(7,198)	(3,105)
Gross profit	338	183
Operating expenses	(476)	(495)
Financial expenses, net	(1)	(3)
Loss for the year after tax	(139)	(315)

COMPANY	**Loans to subsidiaries**	**Investments in subsidiaries**	**Total**
	€'000	**€'000**	**€'000**
Investment in subsidiaries			
1 January 2005	-	-	-
Additions (Restated)	14,500	6,152	20,652
1 January 2006 (Restated)	14,500	6,152	20,652
Additions	6,497	13	6,510
Loan capitalised	(10,000)	10,000	-
31 December 2006	10,997	16,165	27,162
Investment in associated undertaking, Cell-Time Ltd			579
			27,741

15. INVESTMENTS (CONT.)

In November 2006, the Company purchased from Dai Telecom Ltd. all of its holdings in Cell-Time Ltd. (29.33% of Cell - Time Ltd's outstanding share capital) for consideration equal to the value of the Cell-Time Holdings in Dai Israel's books. Details of the associated 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
Cell-Time Ltd	Israel	Ordinary	29.33%	Development, marketing and operation of pre-call billing systems of cellular phones

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

Dai Telecom Holdings (2000) Ltd. ("Dai Holdings")	Israel	Ordinary	100%	Intermediate holding company
Dai Telecom Ltd ("Dai Telecom")	Israel	Ordinary	100%	Selling and marketing cellular phones, accessories and spare parts and after sales support
Telit Laboratories Ltd	Israel	Ordinary	100%	Technical services for cellular products
Dai Telecom Far East Pte Ltd	Singapore	Ordinary	100%	Intermediate holding company
Telit Wireless Solutions Srl	Sardinia, Italy	Ordinary	100%	Intermediate holding company
Telit Communications SpA ("Telit Italy")	Italy	Ordinary	100%	Development, manufacturing and selling data products and distributing cellular products
Telit Communications Spain SL	Spain	Ordinary	100%	Dormant
Telit Wireless Solutions Inc. ("Telit USA")	United States of America	Ordinary	100%	Selling and marketing data products
Telit Wireless Solutions Co Ltd ("Telit Korea")	Republic of Korea	Ordinary	75%	Development, manufacturing and selling data products

16. INVENTORY

GROUP	2006	2005
	€'000	€'000
Finished goods	6,345	8,128
Spare parts	2,216	1,892
Raw materials	1,723	2,010
	10,284	12,030

The Directors consider that there is no significant difference between the net book value and replacement cost of stocks held. Inventories are stated net of provisions for slow moving and obsolete items of €1,033,000 (2005: €331,000).

17. RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Within current assets:				
Trade debtors	17,452	33,286	-	-
Other debtors	6,806	4,357	268	145
Due from Group undertakings	-	-	306	348
	24,258	37,643	574	493
Within non-current assets:				
Other long term assets	303	73	-	-
Deferred tax asset (note 10)	3,696	3,696	-	-
	3,999	3,769	-	-

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. The Group's trade receivables are stated after allowances for bad and doubtful debts, an analysis of which is as follows:

	2006	2005
	€'000	€'000
At 1 January	180	130
Amounts charged to administrative and other expenses	188	50
At 31 December	368	180

18. CASH

The Group's cash resources are as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**
Deposits – restricted cash	7,115	4,000	7,115	4,000
Cash and cash equivalents	3,926	13,207	1,376	11,781
Total	11,041	17,207	8,491	15,781

The carrying amount of the Group's cash resources are denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**
Sterling	239	936	239	936
Dollar	3,122	2,067	947	1,269
Euro	7,318	14,204	7,305	13,576
Other	362	-	-	-
Total	11,041	17,207	8,491	15,781

The cash and cash equivalents comprise cash held by the Group and short term deposits with an average period at inception until maturity of three months or less. The carrying amount of these assets approximates their fair value.

Restricted cash deposits are provided as security for Telit Italy's borrowings.

19. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2006	2005
	€'000	€'000
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	627

Share options

On 30 September 2005 the employees of Dai Telecom and Telit Italy, both wholly owned subsidiaries of the Company, 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 installments starting from the date of grant, through to 30 September 2009. The options expire within five years. On 1 March 2006, an employee of Dai Telecom was granted options to purchase approximately 1.1 percent of the Company's issued and outstanding shares at an exercise price of £0.705. The options vest in four equal installments starting from the date of grant, through to 28 February 2010. The options expire within five years.
The number of outstanding options as of 31 December 2006 and the date of this report is 2,216,687, equal to 5.1% of the outstanding share capital of the Company (4.9% of the outstanding share capital of the Company, on a fully diluted basis).

20. POST-EMPLOYMENT BENEFITS

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 an unfunded 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) as a recognised pension fund.

20. POST-EMPLOYMENT BENEFITS (CONT.)

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

	2006	2005
	€'000	€'000
Movement in post employment benefit obligations		
1 January 2006	856	1,591
Expense/(income) recognised in the income statement	620	(191)
Contributions	(250)	(544)
31 December 2006	1,226	856

The liability in respect of accrued severance pay for Dai Telecom, Telit Korea and Telit USA is €151,000 and the charge to the income statement in the year is €115,000. The IAS 19 disclosures in respect of the Group's unfunded defined benefit obligations in Italy are detailed further in D and E below:

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

	2006	2005
	€'000	€'000
Current service cost	351	281
Interest cost	32	78
Actuarial loss/(gain)	122	(550)
Total (expense)/income included in income statement	505	(191)

E. The amount included in the balance sheet arising from changes in the present value of the defined benefit scheme obligation for Telit Italy are set out below:

	2006	2005
	€'000	€'000
Present value of defined benefit scheme obligation		
1 January 2006	820	1,577
Actuarial loss/(gain)	122	(550)
Employer cash contributions	351	259
Benefits paid	(250)	(544)
Interest cost	32	78
31 December 2006	1,075	820

F. Financial assumptions

	2006	2005
	%	%
Discount rate	4.40%	4.15%
Expected salary increase rate	3.50%	3.50%
Inflation	2.00%	2.00%

21. CURRENT LIABILITIES

	Group		Company	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Short-term bank loans and other borrowings	15,429	19,534	-	-
Advances on receivables factoring	927	2,270	-	-
Current maturities of long term loans	1,019	1,019	-	-
Total short-term borrowing from banks and other lenders	17,375	22,823	-	-
Trade creditors	10,584	8,955	16	65
Due to Group undertakings	-	-	761	-
Other creditors and accruals	4,220	4,368	175	621
Total current liabilities	32,179	36,146	952	686

Further information on the Group's borrowings is presented in notes 23 and 25.

The directors consider that the carrying amount of trade payables approximates to their fair value.

22. ACQUISITIONS

On 26 May 2006 Telit Communications SpA acquired 75% of the issued ordinary share capital of, and voting rights in, Bellwave M2M Co., Ltd. ("Bellwave") a company incorporated and located in Korea, engaged in the production and sale of cellular communication products for the machine to machine ("m2m") market. The cost of the business combination was €5,396,000 in cash, including directly attributable costs of €526,000. The revenues and net profit for Bellwave from the date of acquisition are €5,833,000 and €196,000 respectively.

The transaction has been accounted for by the purchase method of accounting. The fair value of the assets and liabilities of Bellwave recognised at the acquisition date is as follows:

	Book value	Fair value adjustments	Fair value
	(€'000)	(€'000)	(€'000)
Assets:			
Trade and other receivables	457	-	457
Inventory	840	-	840
Tangible assets	331	-	331
Intangible assets:			
Customer list	-	4,306	4,306
Development cost	-	689	689
Other	19	-	19
Deferred tax liabilities	-	(1,374)	(1,374)
	1,647	3,621	5,268
Minority interests			(1,317)
Goodwill			1,445
Total purchase consideration			5,396
Net cash outflow arising on acquisition			5,396

22. ACQUISITIONS (CONT.)

Goodwill has been determined on a provisional basis. The goodwill recognised is attributed to the anticipated profitability of the distribution of products in new markets and to new customers.

It is not practicable to determine the revenue and loss of the Group as if the acquisition of Bellwave had been completed on the first day of the financial year, as Bellwave was only incorporated immediately prior to acquisition by the Group to receive the trade and assets of the machine to machine business unit of Bellwave Company Limited for which separate financial information from the start of the financial year is not readily available.

23. COMMITMENTS AND CONTINGENCIES

Commitments

Legal proceedings

A. Ixfin Magneti Marelli Eletronica Ltda ("Ixfin") 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 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 23 December 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.

C. On 17 March 2005, Dai Telecom filed a law suit against Sony Ericsson Mobile Communication International Ltd. (“Sony Ericsson”) and L.M. Ericsson Israel Ltd. (“Sony Israel”) in the Tel Aviv District Court in order to obtain compensation for damages suffered as a consequence of the termination of their engagement with Dai Telecom in connection with an exclusive distribution agreement for the sale and after sale support of Sony Ericsson cellular phones. Dai Telecom claims damages and loss of future profits as a result of the termination of the agreements amounting to approximately €1.6 million. On 5 September 2005, Sony Ericsson and Sony Israel each filed separate lawsuits against Dai Telecom in the Tel Aviv Magistrates Court. Sony Ericsson claimed for €252,000 for spare parts and accessories supplied to Dai Telecom during the years 2002 and 2003. Sony Israel claimed for €55,000 for cellular phones and accessories supplied to Dai telecom during years 2001 and 2002. On 17 January 2006, following Dai Telecom’s application, the Tel Aviv Magistrates Court postponed all legal proceedings related to these two lawsuits until the Tel-Aviv District Court rules in the lawsuit Dai Telecom filed against Sony Ericsson and Sony Israel.

The parties have agreed to mediation, which is ongoing.

As the legal proceedings had been postponed, the Group cannot estimate the outcome of those legal proceedings and consequently no provision has been recorded in respect of those claims.

23. COMMITMENTS AND CONTINGENCIES (CONT.)

D. On 19 January 2004, Finmek Access S.p.A., in its capacity as assignee of the going business formerly owned by Finmek Manufacturing S.p.A, served on Telit Italy a Court order of payment issued by the Court of Padua for € 465,000, plus legal expenses.
Telit Italy opposed the court order of payment, claiming that no amounts were due to Finmek Access since the requested amount has already been paid by Telit Italy in favor of Finmek S.p.A., and summoned the latter in the legal proceedings.
On 16 February 2007, the Company and Finmek Access entered into an agreement, according to which Telit Italy has purchased from Finmek Access equipment for €235,000 and Finmek Access has waived its debt and has withdraw the claim from court. The Group has recorded a gain of €456,000 as other income relating to this settlement.

E. In March 2006, Telit Italy received an invitation for arbitration proceedings from one of its suppliers, according to which the supplier claims the enforcement of an agreement with Telit Italy to the amount of €506,000. Telit Italy rejects such claims due to the supplier's failure to deliver the agreed products and services to Telit Italy.
According to Telit Italy's management, based on the advice of its legal consultants, Telit Italy has grounded claims against the supplier and the expected outcome of such claim is to be deemed immaterial.

Operating lease commitments

F. The Group had total outstanding commitments for future minimum lease payments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2006	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**
Operating leases which expire:				
Within one year	746	350	165	114
In the second to fifth years inclusive	1,206	830	165	330
	1,952	1,180	330	444
Minimum lease payments under operating leases charged to the income statement for the year	746	350	165	165

Operating lease payments represent rentals payable by the Group for certain of its office properties.

23. COMMITMENTS AND CONTINGENCIES (CONT.)

Guarantees and liens

G. 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 favor of a bank. Moreover, liens were registered on all the funds due to Dai Telecom Ltd from its major customer in connection with specific orders received from the latter.

The following table outlines the composition of the secured liabilities:

	2006	2005
	€'000	€'000
Short-term credit	1,123	17,663
Trade accounts payable	-	14
	1,123	17,677

H. The Company provided guarantees to certain suppliers of Telit Communications SpA, to sustain credit lines to be granted by the suppliers in respect of purchases made. The guarantees shall not exceed the amount of € 12.5 million.
In addition the Company provides guarantees to certain banks in Italy and Korea, to sustain credit lines granted by those banks to the Group's subsidiaries. The guarantees shall not exceed the amount of € 14.6 million.
At the balance sheet date the Company had deposited € 7.1 million in Italian bank accounts, to act as security in relation to the credit facility granted by those banks (see note 25).

24. SHARE-BASED PAYMENTS

A.

	Number		Weighted average exercise price (pence)	
	2006	2005	2006	2005
Outstanding at beginning of year	1,976,570	-	1.40	-
Granted during the year	490,117	1,976,570	0.70	1.40
Lapsed during the year	(250,000)	-	(1.40)	-
Outstanding at year end	2,216,687	1,976,570	1.25	1.40
Exercisable at year end	431,643	-	1.40	-

The options outstanding at 31 December 2006 had a weighted average exercise price of 1.25 pence, and a weighted average remaining contractual life of 2.84 years. In 2005, options were granted on 30 September. The aggregate of the estimated fair values of the options granted on that date was €443,000. In 2006, options were granted on 1 March. The aggregate of the estimated fair values of the options granted on that date was € 188,000.

24. SHARE-BASED PAYMENTS (CONT.)

B. The Company authorised an equity-settled share option plan with effect from 30 December 2004. Under the plan, the Group's senior employees were granted 3,883,925 options exercisable into 3,883,925 ordinary shares at a nil exercise price. The options were exercised immediately prior to the Company's IPO in April 2005. 2,455,355 options granted vested at the date of grant and 1,428,570 options vest over 4 consecutive years with the first vesting period completing 24 months after the date of grant. The options expire within 5 years from the date of grant.

The 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 used to determine the fair value of the option grant at the grant date were as follows:

Share price	€ 1.792
Exercise price	Par Value (1 pence)
Expected share price volatility	40%
Expected life of options	2.5-4.5 years
Risk free rate	3.63 %

C. On 30 September 2005 the employees of Dai Telecom and Telit Italy were granted 1,976,570 equity-settled share 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 fair value of the options granted that according to management estimates will satisfy the vesting conditions is €434,000, to be expensed over the period of vesting. The inputs into the Black-Scholes model used to determine the fair value of the option grant at the grant date were as follows:

Share price	€ 1.4065
Exercise price	€ 1.792
Expected share price volatility	40%
Expected life of options	3-4.5 years
Risk free rate	3.31%

D. On 1 March 2006 an employee of Dai Telecom was granted 490,711 equity-settled share options exercisable into 490,711 ordinary shares at an exercise price of £0.705. The options vest in four equal instalments starting from the date of grant, through to 1 March 2010. The options expire within five years.

The fair value of the options granted that according to management estimates will satisfy the vesting conditions is €188,000, to be expensed over the period of vesting. The inputs into the Black-Scholes model used to determine the fair value of the option grant at the grant date were as follows:

Share price	€ 0.705
Exercise price	€ 0.705
Expected share price volatility	40%
Expected life of options	3-4.5 years
Risk free rate	3.31%

24. SHARE-BASED PAYMENTS (CONT.)

E. 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 a similar entity.

The expected life of options 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 €1,218,000 in respect of equity settled share based payment transactions for the year ended 31 December 2006 (2005: €532,000).

25. BORROWINGS

	Group	
	2006	2005
	€'000	€'000
Short-term bank loans and other borrowings	15,429	19,534
Factoring companies	927	2,270
Current maturities of long term loans	1,019	1,019
Total short-term borrowing from banks and other lenders	17,375	22,823
Long-term loan from parent company	2,035	3,054
Total borrowings	19,410	25,877

Included within short-term bank loans and other financing are:

- A drawn amount of €8.0 million on a loan with a maturity date of 6 July 2007. A further €3.0 million is available to the Group under this facility up to this date, subject to satisfaction of the lending bank that the Group has met certain qualifying expenditure targets with regard to its research and development project in Sardinia. The interest rate on this short-term bank loan is Euribor plus 1.7% per annum. The short-term bank loan is a bridging loan in advance of funds to be received from a grant from the Italian government to the Group's Italian subsidiary, which has been declared eligible to receive from the government a €11.4 million grant, and a €14.1 million loan facility to support a development project in Sardinia. The Company has provided a letter of guarantee of €11.0 million against this facility.

- A bank overdraft of €2,634,000. The overdraft facility, which is available up to €3.0 million, is cancellable on demand but is without a fixed renewal date.

- Drawn letters of credit and borrowings arising from invoice discounting totalling €3,701,000 in the Group's Italian subsidiary. These borrowings, including the bank overdraft, are secured against purchased inventory or receivables, plus cash deposits made of €7.1 million and a letter of guarantee issued by the Company of €3 million. The total available lines of credit and invoice discounting at 31 December 2006 was €16.0 million, of which €5.0 million has a maturity date of 30 April 2007, with the remainder cancellable on demand, but without a fixed maturity date.

- Drawn lines of credit against invoices totalling €3,040,000 which are cancellable on demand but without a fixed maturity date. These borrowings are denominated in New Israeli Shekels and secured against purchased inventory and receivables from customers.

25. BORROWINGS (CONT.)

- Factoring facilities against qualifying receivables totalling €927,000. These borrowings are secured against the factored receivables and are with recourse. The total available factoring facilities in the Group's Italian subsidiary are €4.5 million, provided there exists a satisfactory level of qualifying debtors, which are cancellable on demand but are without a fixed maturity date.

The Group's long-term loan to its parent company does not attract interest and will be repaid in three yearly equal installments starting December 2007.

26. RECONCILIATION OF NET CASH FLOWS TO OPERATING ACTIVITIES

	Group		Company	
	2006	2005 (Restated)	2006	2005 (Restated)
	€'000	€'000	€'000	€'000
Loss for the period from continuing operations	(11,384)	(2,861)	(386)	68
Loss for the period from discontinued operations	-	(1,306)	-	-
Loss for the period	(11,384)	(4,167)	(386)	68
Adjustment for:				
Depreciation and amortization	1,469	661	-	-
Impairment of intangible assets	500	-	-	-
Income tax expense	11	1,338	-	30
Investment income	(190)	(656)	(670)	(894)
Finance costs	1,169	938	-	-
Increase (decrease) in provision for post employment benefits	371	(735)	-	-
Share-based payment charge	1,218	532	-	-
Loss on disposal of fixed assets	7	-	-	-
Share in result of associated undertaking	41	164	-	-
Operating cash flows before movements in working capital:				
Decrease in trade receivables	15,874	3,808	-	-
(Increase) decrease in other current assets	(2,458)	4,039	27	(238)
Decrease (increase) in inventory	2,513	(5,952)	-	-
Increase (decrease) in trade payables	1,667	2,681	(49)	65
(Decrease) in other current liabilities	(1,583)	(5,743)	(300)	621
Increase in other long term liabilities	138	-	-	-
Cash generated by (used in) the operations	9,363	(3,092)	(1,378)	(348)
Income tax paid	(739)	(1,240)	-	-
Interest received	318	336	320	307
Interest paid	(896)	(1,029)	-	-
Net cash provided by (used in) operating activities	8,046	(5,025)	(1,058)	(41)

27. 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 these policies.

It is the Group's policy that no trading in financial instruments is undertaken.

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 the 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 at variable rates of interest. Cash at bank earns interest at floating rates based on daily bank deposit rates. 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 its subsidiaries to concentration of credit risk consist principally of trade receivables. The Group's trade receivables are mainly derived from sales to a major customer in Israel and other customers in Italy and Korea. 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.

As at 31 December 2006, the Group had significant concentration risk in Dai Telecom Ltd, with a balance of approximately €4 million due from one major customer (2005 – approximately €19 million). The balance is due in New Israeli Shekels and bears no interest. The average credit period taken in 2006 and 2005 was 75 days.

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 including 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.

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries and associates represent related party transactions. Transactions with subsidiaries have been eliminated on consolidation.

Except as disclosed below, no material related party transactions have been entered into, during the year, which might reasonably affect any decisions made by the users of these Consolidated Financial Statements.

A. The Group has entered into management agreement with Polar (the parent company) to provide management services during year ended 31 December 2006 in consideration for an annual payment in the amount of US $100,000 (2005 - $100,000). The amount outstanding at 31 December 2006 was €80,000 (2005 – €82,000).

B. On 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 approximately €8,000. The amount outstanding at 31 December 2006 was €54,000 (2005 – €47,000).

   On 1 October 2006 the lease agreement period was lengthen by 3 years.

C. On 1 March 2006 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 of Dai Telecom	490,711	-	490,711

   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 €188,000.

D. Remuneration of key management personnel:

	Group	
	2006	2005
	€'000	€'000
Short-term employee benefits	1,742	1,830
Post employment benefits	73	56
Total	1,815	1,886

E. Oozi Cats and, in 2006 only, a member of key management personnel and others provided consulting services to Telit Communications SpA, the Group's Italian subsidiary pursuant to a contract dated 5 January 2004, as amended on 26 April 2006, between Excalibur Consulting Group LLC ("Excalibur") and Telit Communications Spa. Excalibur charged services amounting to €921,000 for the year ended 31 December 2006 (31 December 2005 - €694,000 for Mr. Cats' services only) of which €552,000 related to consulting services provided by Oozi Cats, €159,000 related to a member of key management and €210,000 related to other consultants. No amounts were outstanding to Excalibur at 31 December 2006 and 2005.

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONT.)

F. In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Polar, a company incorporated in Israel. The parent undertaking of the smallest and largest group, which includes the Company and for which group accounts are prepared, is Polar, a company incorporated in Israel. Copies of the group financial statements of Polar Investments Limited are available from 21 Ha'arbaa Street, Tel Aviv, 64739 Israel.

The Company is party to an agreement dated 29 March 2005 with its parent company Polar, pursuant to which Polar agrees that as long as it remains a controlling shareholder the Company will be capable of carrying on its business independently of Polar and that all future transactions with it will be at arm's length.

The agreement further provides that Polar as a controlling shareholder shall procure that any director of the Company who is a director of Polar shall not be counted in the quorum on any matter, at board meetings, where in the opinion of the independent Directors there is a conflict of interests.

29. INFORMATION ON THE COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented in this Annual Report. The loss for the year amounted to €386,000 (2005: profit of €68,000).

30. SUBSEQUENT EVENTS

Telit has entered into an agreement according to which a capital injection of €16 million into the Company's m2m subsidiary, Telit Wireless Solutions Srl, will be made by Bartolini After Market Electronic Services Srl ("BAMES"), within the structure of a business alliance between the two companies.
Under the terms of transaction, BAMES will provide Telit Wireless Solutions Srl with €9 million in equity and an additional €7 million investment in December 2008, providing Telit meets certain m2m module minimum purchase commitments. BAMES will receive up to 10% of the share capital of Telit Wireless Solutions Srl. Managment currently assesses that, given current market conditions and the expected growth of the Company, these minimum purchase commitments are attainable.

In addition to the investment agreement, Telit Wireless Solutions Srl entered into a strategic manufacturing agreement with Services for Electronic Manufacturing s.r.l ("SEM"), BAMES' electronics manufacturing subsidiary, for all present and future production of Telit's m2m modules, with certain exceptions, at competitive market prices for a term of not less than five years. This will enable Telit to consolidate its European manufacturing into one geographical location, and will streamline operations while keeping control of the Company's intellectual property and increasing its control over its supply chain. This is achieved by the Telit taking a 19.9% equity stake in SEM and the right to nominate one director to SEM's board of directors. SEM will also provide Telit with a €7 million line of credit for finished goods, which will defer payment until the second equity injection referred to above.

The proceeds from the investment will enable Telit to continue execution of its strategy of focusing on the rapidly growing m2m market, consolidate its international expansion, and develop its next generation m2m modules.

Telit Communications PLC
Company information

Directors, Secretary and Advisers
Company Registration No. 05300693

Directors	Avigdor Kelner, Chairman Oozi Cats, Chief Executive Officer Avi Israel, Finance Director Pnina Bitterman-Cohen, Non-Executive Director David Hobley, Non-Executive Director Andrea Mandel-Mantello, Non-Executive Director Maurizio Gasparri, Non-Executive Director
Company Secretary	Michael A. Galai
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Solicitors	Olswang 7th Floor, 90 High Holborn London WC1V 6XX
Independent Auditors	Deloitte & Touche LLP Chartered Accountants London
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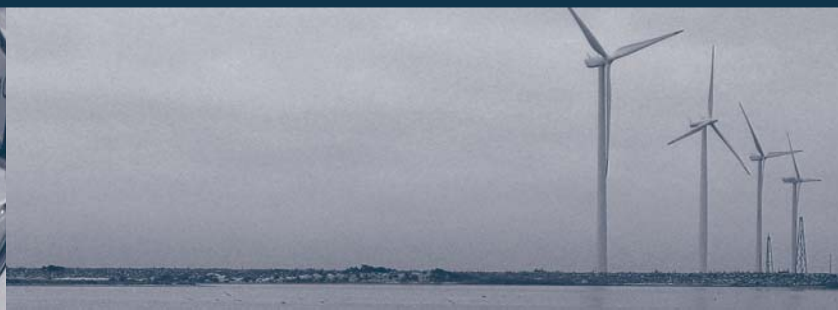

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