

ANNUAL REPORT
2007

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Telit Communication PLC

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Telit is a leading global wireless technology company. It develops, manufactures and markets GSM/GPRS, UMTS/HSDPA and CDMA/EVDO communication modules for machine-to-machine (m2m) applications which streamline business processes by enabling machines, devices and vehicles to communicate via mobile networks.

As both producer and marketer of advanced cellular technology and products, Telit is uniquely positioned in the m2m market. Telit has attained a strong market position and its management believes it is ranked third in the world. Telit is one of the few companies in the industry with full control over the underlying technologies in its products. Telit owns valuable patents and boasts especially strong in-house technology and development expertise.

Telit is listed on AIM (Ticker: TCM)

The M2M Market

The international market for machine-to-machine (m2m) wireless communications is widely viewed as enjoying an annual growth rate of 30% as developments in key vertical market segments such as electricity and gas meters, motor vehicles, security alarms and point of sale terminals gather ever increasing speed.

The M2M market is rapidly growing as wireless communications have become a "must-have" rather than a luxury technology. Businesses that were not interested in m2m wireless solutions in the past are now looking to incorporate this technology in their business as their operations expand and modernize.

What is m2m?

Machine to machine (m2m) technology establishes wireless communication between machines and the information centre of a business. The goal of m2m is to enable applications that allow businesses to increase productivity and competitiveness. At the heart of each m2m implementation is a communication module which receives, processes and transmits information.



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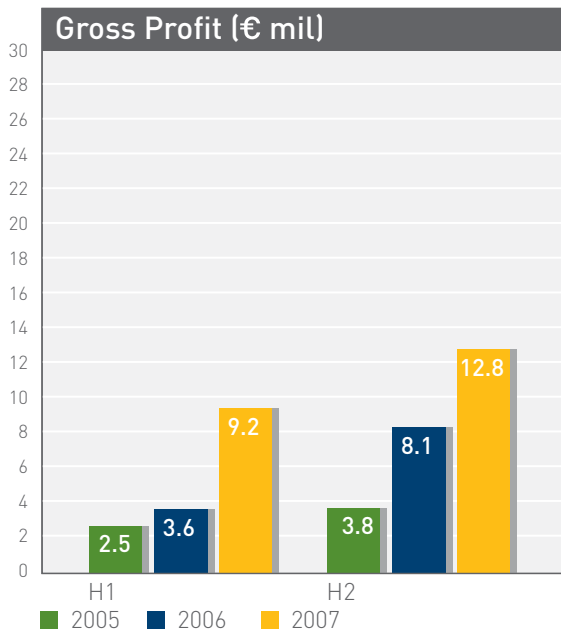
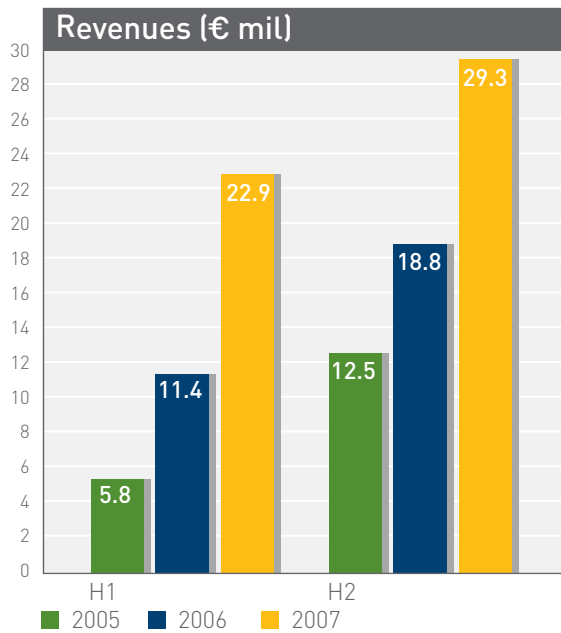
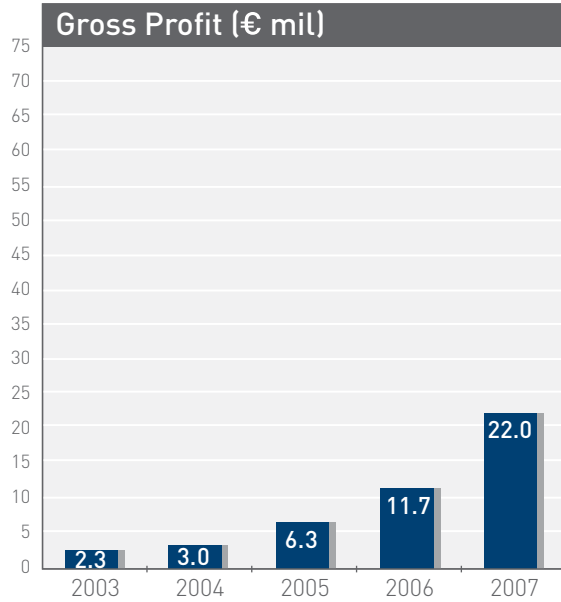
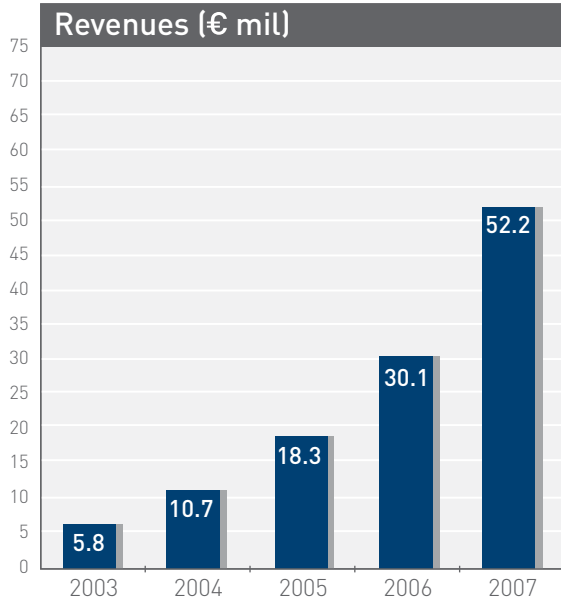
Financial Highlights

■ FY 2007

2007 revenue increased by 73% to €52.2 million (2006: €30.1 million)	H2 2007 over H1 2007 revenue up 28% to €29.3 million (H1 2007: €22.9 million)
2007 gross profit increased by 89% to €22.0 million (2006: €11.7 million)	H2 2007 over H1 2007 gross profit up 39% to €12.8 million (H1 2007: €9.2 million)
2007 gross margin increased to 42.1% (2006: 38.7%)	H2 2007 over H1 2007 gross margin up 9% to 43.7% (H1 2007: 40.2%)
2007 adjusted operating loss reduced to €1.1 million (2006: loss of €7.1 million) ¹	H2 2007 adjusted operating income of €0.9 million (H1 2007: loss of €2.0 million) ¹
2007 adjusted EBITDA of €1.4 million (2006: loss of €4.9 million) ¹	H2 2007 adjusted EBITDA of €2.0 million (H1 2007: loss of €0.6 million) ¹
2007 operating loss of €1.5 million, down from €7.1 million in 2006.	
2007 adjusted loss before tax of €0.9 million (2006: loss of €7.4 million) ¹	H2 2007 income before tax of €0.3 million (H1 2007: loss of €1.2 million) ¹
2007 adjusted net loss of €1.5 million from continuing operations (2006: loss of €7.5 million) ¹	H2 2007 adjusted net loss of €0.2 million from continuing operations (H1 2007: loss of €1.3 million) ¹
2007 net loss from continuing operations of €1.9 million, down from €7.5 million in 2006.	
Cash balances (including restricted cash) of €11.3 million (2006: €11.0 million)	
An initial investment by BAMES of €9.0 million in cash, out of a total to be received of €16.0 million, was completed in June 2007 with the remainder to complete in December 2008	

■ H1& H2 2007

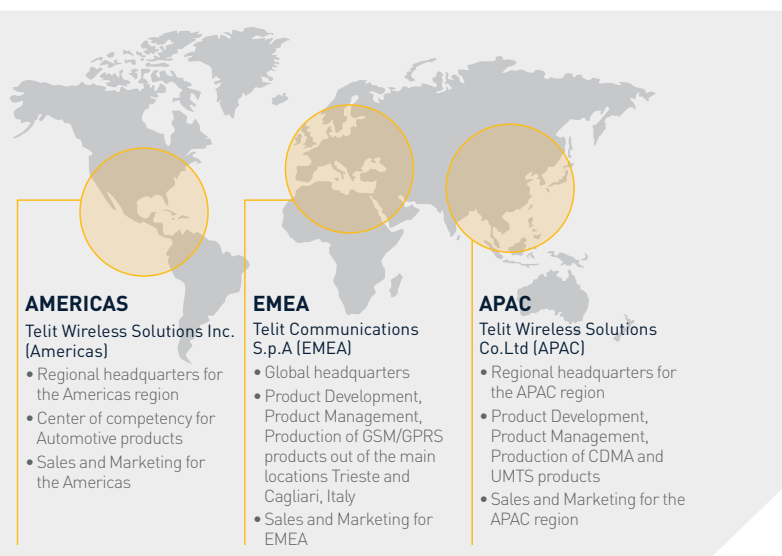
¹ Excluding certain expenses related to an unsuccessful acquisition bid of €0.4 million. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, share based payments from continuing operations and the aborted acquisition costs mentioned above. For further details please see the Chief Executive's review and note 5 to the accompanying financial statements.



Telit is growing faster than the m2m market growth rate, capturing significant market share from the competition. Success with m2m developers is based on technology, support and quality. Telit's impressive growth with a CAGR of 73% during 2003-2007 underlines its technological strength.

At the heart of Telit's m2m solutions lies a proprietary software platform including a comprehensive AT-command interface for communication between applications and modules. Telit's 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
- Emergency Communication Systems
- Healthcare
- Information Displays
- Industrial Processes
- Mobile Computing (Mobile workforce automation)
- Vending Machines



Telit Worldwide

Telit sells its products through a network of value added resellers to more than 2,000 communications solution providers and systems integrators in more than 50 countries around the world. Our customers are served directly by us or through a global network of 31 distributors.

Telit's headquarters are in Rome, Italy, with regional headquarters in Raleigh NC, USA and Seoul, Korea.

Its R&D centers are in Trieste and Cagliari, Italy and Seoul, Korea, with regional sales offices in China, Denmark, France, Germany, Great Britain, Israel, Italy, Korea, Spain, Taiwan, and the USA. Telit employs approximately 250 employees worldwide.

Telit provides global support to its international customers covering the entire spectrum of the m2m market. Its vast experience doing business across the globe has 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, manufacturers and system integrators of cellular m2m module-based applications.



Telit's Strategy

Our strategy for 2008 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 optimizing 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.

Competitive Advantage

Based on its extensive R&D experience, gained hundreds of engineering man-years, Telit 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. Underlying its superior growth rate, Telit has three major advantages:

Flexibility

Telit 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 applications segments. 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, Telit 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.

Scalability

Telit'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 for integration. For applications that are produced in the tens of thousands, low production costs are a prime concern. In this case customers can turn to the GE product range with its Ball Grid Array (BGA) assembly concept. Telit is the first company to offer BGA modules, which can be assembled like electronic components and integrated easily into the production line - no connectors or cables are needed.

Innovation

Controlling its own intellectual property enables Telit 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, Telit supplies modules that can be used worldwide without restriction. As communication technologies, such as RFID and Zigbee enter the market, Telit will build on them to ensure its customers are at the cutting edge of m2m solutions.



Chairman's Statement

Enrico Testa, Chairman of the Board

We are pleased to present Telit Communications PLC's 2007 Annual Report. I am happy to be able to state that our continuing focus on the strategy we outlined in our previous annual reports and our focus on our global footprint in the m2m market is bearing fruit. 2007 has been the first year to show a positive adjusted EBITDA from continuing operations and also marks Telit's move into positive operating profit, achieved for the second half of the year. Further information on these and other performance measures are included in the Chief Executive's Review.

During 2007 Telit continued its impressive revenue growth (73% CAGR during 2003 - 2007) while improving its gross margin and profit. This growth rate, which is substantially higher than the market average growth rate, is due to Telit's cutting edge technology, its global presence, the streamlining of its logistics and the dedication, expertise and hard work of Telit's global work force.

We expect to leverage on these and other advantages and strengths in 2008 and beyond and I look forward to present to you Telit's continued growth and increased profitability in the years to come.



Enrico Testa

Chairman of the Board
31 March 2008



Chief Executive's Statement And Review

Oozi Catz, Chief Executive Officer

I am pleased to present Telit Communications PLC's Annual Report for the year ended December 31 2007.

2007 has been a year of strong growth for Telit. We have achieved an adjusted operating profit of €0.9 million in H2 2007, as well as achieving a positive adjusted EBITDA of €1.4 million for the full year.

Impressive revenue growth of 73% has been achieved, as we have met the market's increasing awareness and demand for our superior m2m technology. Telit's performance during the second half of the year has been very positive as we have continued to win new business and gain market share. Indeed, the impressive second half over first half 2007 improvements in EBITDA performance demonstrate both the growing market opportunity and Telit's strengthening position in the marketplace.

Below are the key financial performance measures for continuing operations for 2007 and 2006:

	H2 2007 €'000	H1 2007 €'000	2007 €'000	2006 €'000
Revenue ¹	29,307	22,882	52,189	30,140
Gross profit	12,793	9,195	21,988	11,653
Gross margin	43.7%	40.2%	42.1%	38.7%
Other income	939	1,518	2,457	729
Research & Development ²	(4,719)	(3,953)	(8,672)	(8,058)
Selling & Marketing ²	(4,720)	(4,072)	(8,792)	(4,948)
General & Administrative ²	(2,990)	(3,962)	(6,952)	(6,106)
Share based compensation	(429)	(709)	(1,138)	(340)
Adjusted operating profit / (loss) ³	874	(1,983)	(1,109)	(7,070)
Other operating expenses	(400)	-	(400)	-
Reported operating profit / (loss)	474	(1,983)	(1,509)	(7,070)
Adjusted EBITDA ^{2,3}	2,024	(626)	1,398	(4,871)

¹ Including royalty income (2007: €2.3 million; 2006: €1.7 million)

² excluding share-based payment charges.

³ excluding certain other expenses related to an unsuccessful acquisition bid of €0.4 million

The success of the Group's international expansion has been a major feature of the year. The expansion of the Company's global footprint has seen over 150 new design wins secured in our operations in Telit Americas and Telit APAC. The second half of the year has been a highly successful period in terms of new client wins and this has been translated into the further operational improvements and operating profitability achieved during the last six months. Therefore, it is no exaggeration to say that 2007 has seen Telit demonstrate beyond doubt that it is now a first tier global player in the m2m market. The global m2m market is gathering momentum and Telit is very much in the ascendancy among its peers, delivering strong and sustainable growth.

The first installment of the €16 million investment by BAMES into Telit Wireless Solutions, and the strategic agreement with BAMES's electronics manufacturing subsidiary, SEM, were also major developments during the year. The agreement provides confirmation of the value and potential of Telit's technology in the m2m market. We are now working very closely with BAMES and SEM and have already begun to enjoy the fruits of this alliance.

Financial Results

The results for the year are in line with market expectations and underline the new course the Company is taking, supported by the geographical expansion begun in 2006 and strengthened during 2007.

The results for the twelve month period ended on 31 December 2007 reflect strong like-for-like growth, strong margins and excellent underlying sales momentum. Telit increased total revenue by 73% to €52.2 million, compared to €30.1 million for 2006. 2007 revenue includes royalty income of €1.5 million for the lifetime use of the tradename "Telit" by the Italian company, Bardi, as detailed in note 2 to the accompanying financial information.

The majority of revenue continues to come from repeat business with existing customers. In addition to the development of existing customer relationships, Telit has increased the number of customers to more than 2,000 OEMs, communications solutions providers and system integrators in more than 50 countries.

The split of revenue on a geographical basis for the years ended 31 December 2007 and 2006 is as follows:

	2007 (€M)	% of Total Revenue	2006 (€M)	% of Total Revenue
EMEA	36.8	71	24.2	80
APAC	13.7	26	5.8	20
AMERICAS	1.7	3	0.1	-
Total Revenue	52.2	100%	30.1	100%

The continued development of Telit's global outreach can be seen by the geographical division of revenue for 2007. The weighting of Telit's revenue is becoming increasingly distributed across the geographies, with increasingly higher contributions being made to total revenue from the APAC and Americas regions. While the majority of revenue continues to come from EMEA, we fully expect that the APAC and Americas regions will continue to increase the weightings of their contribution to total revenue performance in 2008 and beyond.

As we have previously reported, Telit's position as a global player in the m2m market was attained by the penetration into the Asia Pacific and Americas markets in 2006. Since its inception, Telit APAC has successfully established its position as a sales gateway to the region for the CDMA and GSM/GPRS product lines and as a leading R&D centre for CDMA, UMTS/HSDPA and other advanced technologies. The new sales offices opened during the year in China (Shenzhen and Shanghai) and in Taiwan (Taipei) have made excellent progress during the year and secured more than 70 design wins in the region.

In addition, Telit Americas began making headway in the region and has secured more than 80 design wins with new customers and, as previously announced, an order worth \$10 million over a period of two years. Telit Americas is now well established to meet increasing levels of demand in the region.

The market opportunity for Telit in both these regions is substantial and the level of major approvals achieved during 2007, combined with the expected new business due to the numerous design wins during the year, are testament to the success of Telit's expansion into these important growth markets.

2007 gross profit increased 89% to €22.0 million, compared to €11.7 million in 2006, resulting in an overall margin of 42.1% compared to 38.7% for 2006.

During the course of the year Telit continued to benefit from governmental grants related to our R&D activities in Trieste, Italy and recorded other income amounting to €2.1 million from such grants, up from €0.7 million in 2006.

Research and development expenses, excluding share-based payments, were €8.7 million, compared to €8.1 million in 2006. Sales and marketing expenses, excluding share-based payments, were €8.8 million, compared to €4.9 million in 2006, with a majority of the increase stemming from the full year impact of Telit APAC and Telit Americas (which were acquired and incorporated, respectively, towards the end of the first half of 2006).

General and administrative expenses, excluding share-based payments, were €7.0 million, compared to €6.1 million in 2006. The G&A expenses reflect the expansion of Telit through the acquisition and introduction of Telit APAC and Telit Americas. Share based compensation charges were €1.1 million in 2007 and €0.3 million in 2006. Other expenses of €0.4 million were incurred in the second half of the year, representing professional adviser costs associated with an unsuccessful acquisition bid, which management consider to be non-recurring in nature.

This resulted in an operating loss for 2007 of €1.1 million excluding the other expenses and €1.5 million including these expenses (operating profit during the second half of the year offsetting, in part, the operating loss in the first half of the year), down from a loss of €7.1 million in 2006. Loss before tax was €0.9 million excluding the other expenses and €1.3 million including these expenses, compared to a loss of €7.4 million in 2006. Net loss for the period from continuing operations was €1.5 million excluding the other expenses and €1.9 million including these expenses, compared to €7.5 million in 2006.

Basic and diluted loss per share for the period from continuing operations was 3.3 Euro cents excluding the other expenses and 4.3 Euro cents including these expenses, compared to a 17.4 Euro cents loss per share in 2006. The total continuing and discontinued basic and diluted loss per share was 15.3 Euro cents excluding the other expenses and 16.3 Euro cents including these expenses, compared to a 25.8 Euro cents loss per share in 2006.

Financial Position

At 31 December 2007, the Group has total net assets of €16.4 million (2006: €23.7 million), including non-current assets of €17.2 million (2006: €14.4 million). The increase in non-current assets reflects the Group's acquisition of a 19.9% equity interest in Services for Electronic Manufacturing Srl (SEM), with a carrying value of €1.6 million (2006: €nil), together with an increase in intangible assets of €2.3 million, largely due to the commencement of capitalisation of costs associated with new product development.

These increases have been partially offset by a reduction in deferred tax assets of €0.7 million, principally due to a reduction in the enacted tax rate in Italy, and a €0.4 million net reduction in property, plant and equipment as depreciation, together with the reclassification of assets to the held for sale caption, has more than offset additions in the year. The decrease in the Group's current assets from €45.5 million to €41.2 million predominantly reflects the current year reclassification of current assets relating to discontinued operations to the assets held for sale caption whereas, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, comparative information has not been similarly reclassified and which accounted for €13.3 million of 2006 current assets. Excluding this amount for discontinued operations, comparative current assets would have been €32.2 million. The current year total of €41.2 million predominantly reflects an increase in trade receivables of approximately €7.8 million.

Net debt at 31 December 2007 is €6.0 million (2006: €6.3 million excluding discontinued activities). This movement was principally due to an increase in cash of approximately €0.3 million, and early repayment of loans of €1.5 million to the Group's former parent company, Polar Investments Limited, as a result of which the Group negotiated a reduction in remaining indebtedness, realising an early settlement gain of €1.0 million, reported in the discontinued segment. These reductions were offset by an increase of €3.0 million in short-term borrowings for working capital purposes.

Cash flow from continuing operations

Net cash used in operating activities in 2007 was €1.5 million, compared to a net cash outflow of €9.6 million in 2006, largely due to reduced operating losses, as increases in trade receivables were offset by increases in trade payables and other current liabilities.

Net cash from investing activities of €3.6 million (2006: used in investing activities €10.7 million), is principally due to the purchase of property, plant and equipment (€1.3 million), expenditure on intangible assets (€3.7 million), offset by a reduction in restricted cash of €1.0 million, used as security for the Group's borrowing facilities in Italy and from net proceeds from the issue of shares in Telit Wireless Solutions Srl of €7.6 million.

Net cash from financing activities of €1.5 million (2006: €8.7 million), predominantly relates to an increase in short term loans which were used mainly for financing working capital needs of €3.0 million, offset by early settlement of other indebtedness of €1.5 million.

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, and in 2007, a capital injection of €9.0 million (before costs) into the Group's principal subsidiary, Telit Wireless Solutions Srl, together with short-term borrowings, made available to finance working capital, and an €8.0 million bridging loan in advance of funds to be received from a grant from the Italian government to the Group's Italian subsidiary. Further details on the Group's borrowings are included within note 31 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 new 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. 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 technical 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 individual management from such strategic partners on a regular basis, as well as seeking to diversify, where appropriate, sources of supply. In addition the Group has a representative on the board of its principal supplier, SEM, providing insight into that Company's activities and operations.

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 through its representation on the board of SEM.

Employees

The number of employees on a geographical basis as at 31 December 2007 and 2006 is as follows:

	31 Dec. 2007	31 Dec. 2006
EMEA	184	170
APAC	62	48
AMERICAS	11	9
Total Employees	257	227

Business Performance

During 2007 the following major developments took place that contributed to the overall performance of the Company and will contribute to the Company's future results.

Sales and Marketing:

- Reinforced distribution network by adding Rutronik, the largest independent European Distributor, CEP AG in Germany & Poland as well as MT System in Russia.
- Telit signed Symmetry Electronics as a distributor for US and Mexico. Telit signed SPI Technologies to represent Telit as a manufacturer's representative in Eastern Canada.
- Worldwide customers increased to over 2,000 customers compared to 1,500 customers in 2006. APAC and EMEA contributed to this growth by winning 150 designs.
- Extended global relationship with Arrow, one of the largest distributors of electronic components by signing distribution agreements with Arrow Asia and Sasco Holz for Central European and CIS countries.
- Selected by a major European toll-collect customer for a field trial with 10,000 units in place.
- Opened sales offices in Taiwan and China with sales staff and technical support engineers.
- Signed distribution agreement with Soanar, Singapore for the South Asia market and Arrow Asia Pac for the whole Asia Pacific market.
- \$10 million deal signed by Telit Wireless Solutions (U.S.) with major North American client.

Product Highlights:

- In October, Telit's m2m module, the GE864-PY, received PTCRB certification.
- In July, Telit introduced a new groundbreaking design in its module range, offering its customers high-performance at lower cost of ownership. The new GE863-PRO3 GSM/GPRS module simplifies m2m design for POS terminals, fleet management systems and AMR applications. Equipped with two powerful microprocessors, this quad-band module is suited for a wide range of applications requiring high processing power. The GE863-PRO3 also offers significant cost benefits for the development and production of complex m2m solutions.
- Telit introduced a new product GE863-SIM with embedded chip SIM. This product enables a higher degree of integration and provides increased reliability by eliminating the traditional SIM card and connector.
- Telit entered into an agreement with Selex for the joint development of modules according to the GSM-R standard in order to address railway operators in Europe and China.
- Signed agreement for, and completed development of, M2M Smart platform for Telefónica.
- Started process of partnership for M2M card (embedded chip SIM) with Telefónica.
- Release of new GT864-QUAD and GT864-PY terminal products that complete the Telit terminal product line.
- Release of updated low power GPRS/GPS combined products (GM862-GPS and GE863-GPS) with 35% less power consumption than the previous versions.
- Completed homologation and certification in several countries and networks including China & Taiwan (SRRC and DGT), Brazil (ANATEL), Australia (A-Tick), Israel (Cellcom and Orange), Spain (Telefonica and Vodafone), UK (O2), Ukraine and US/Canada (KORE and RACO).

- BCM865 was introduced in the Korea and China markets in February, as well as a MSM6025 based CDMA-1X embedded module for general purpose m2m applications.
- Achieved China type approval (SRRC) and Taiwan approval (DGT) for GM862, GC864 and GE864.
- Introduced a WCDMA/HSDPA embedded module product that was launched in Europe in Q4 2007.
- Having obtained approval for six products on the Cingular / AT&T network and Annetel Brazil homologation, Telit Americas is in a position to begin delivering sales to customers in the US and Latin America. Telit America will shortly achieve homologation in Mexico and is currently in the process of gaining network approvals in Canada.

Operational Highlights:

- In November Telit announced a strategic alliance with Infineon Technologies to provide 4 million GSM/GPRS chipsets for its m2m modules, effective as of Q4 2008.
- During 2007 Telit doubled its outsourced production capacity.
- During 2007 significant cost reduction was achieved in material prices and production costs, contributing to the increase in gross margin.
- Achieved the ISO 9001:2000 Telit corporate certificate for EU, US and Korean facilities.
- Successfully completed implementation of an Enterprise Resource Planning (ERP) system from SAP in the Group's major subsidiary, to be rolled out to other subsidiaries in 2008 and 2009.
- Successfully transferred production of GSM/GPRS products to SEM, subsidiary of BAMES in Italy.

EVAR Business developments

In the second half of the year Telit sold its Italian EVAR business to a third party, thus marking the final disposal of Telit's European EVAR business unit. The sale of the remaining EVAR business in Israel, announced during the second half of the year, is expected to complete by 30 June 2008.

The results of operations of this business unit are included in the Company's financial statements as "discontinued operations".

Strategy

Our strategy for 2008 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 our strategy, Telit relies on three core competencies that differentiate it from the competition:

- **Complete Control of the Protocol Stack:** 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.

Change of control

In May 2007 Boostt B.V., a consortium of investors including Oozi Cats, CEO of Telit, and a group of Italian investors led by Mr. Franco Bernabe, purchased 12,000,000 shares in Telit from Polar Investments Ltd. At a price of GBP 0.43 per share the purchase represented 27.77% of the Company's issued voting share capital. Boostt subsequently nominated Mr. Enrico Testa as Chairman of the Board of Directors of Telit and also nominated an additional director, Mr. Giovanni Stella, to the Board. These two directors replaced two directors nominated by Polar, who resigned upon completion of the transaction.

In July 2007, FB Net Holding B.V. ("FB Net") and Oozi Cats purchased an additional 750,000 shares of the Company and 250,000 shares of the Company, respectively, at a price of GBP 0.53 per share. FB Net effectively controls Franco Bernabe & T S.L. ("FBT"), which is the corporate entity that holds 50% of Boostt B.V. (50% is held by Mr. Oozi Cats). In September 2007 FBT purchased an additional 500,000 shares of the Company at a price of GBP 0.72 per share. Following these purchases, FB Net, FBT, Boostt, and Oozi Cats are interested in a total of 37.84% of the Company's outstanding shares.

Also in July 2007, Clal Insurance Enterprise Holdings Ltd., one of Israel's largest insurance and finance companies, became a substantial shareholder with holdings of approximately 4% of the Company's issued shares.

Board changes

In April 2007, having completed a mandate for two years from the listing of the Company in 2005, Mr. David Hobley, an independent non-executive director, resigned from the Board.

In May 2007, Mr. Enrico Testa and Mr. Giovanni Stella were appointed to the Board of Telit by Boostt B.V., replacing Mr. Avigdor Kelner and Mrs. Pnina Bitterman-Cohen. Mr. Testa was nominated Chairman of the Board.

Mr. Testa, aged 56, is currently the Chairman of Roma Metropolitane, the company set up by the Rome municipality to implement the city's new underground system, and a board member of Rothschild Spa and of Lloyd Adriatico. He also served as a board member of Riello Group as well as on the advisory board of the Carlyle Group.

From 1996 to 2002 Mr. Testa served as Chairman of ENEL, Italy's largest electricity company. From 1994 to 1996 he served as Chairman of ACEA, the energy and environment company of the Rome Municipality. Mr. Testa is a former member of the Italian Parliament, elected in 1987 and in 1994.

Mr. Giovanni Stella, aged 60, began his career as an Internal Auditor at Eni, the Italian oil and gas giant. During his tenure at Eni, he had an active role in the restructuring of the major subsidiary companies of the group. Mr. Stella also held a number of positions within the Eni Group of companies, including Managing Director of Enichem, Chairman of Chemfin, Chairman & CEO of Enichem Finance SA and of Agip Petroli International, Chairman of Enichem International Holding and CFO of Agip Petroli.

In 1998, Mr. Stella joined Telecom Italia to become the Assistant to the CEO. He was later appointed Senior Vice President for Finance and Control and a Member of the Board of TIM and Sirti.

In 1999 he became Chairman of Stream S.p.A. During his career, Mr. Stella was also a member of several work groups for Eni and for Consob. From 1989 to 1993 he was visiting lecturer of the Internal Auditing Course of the La Sapienza University of Rome. Mr. Stella is currently Managing Director of Rothschild S.p.A. and Vice Chairman of Kelyan S.p.A.

In August 2007, Mr. Amir Scharf was appointed to the Board of Telit, as an independent non-executive director, as well as the chairman of the audit committee. Mr. Scharf, aged 41, is a Partner and Head of Securities Law practice at Tadmor & Co., Attorneys at Law, in Tel Aviv. He is also a Director and Chairman of the audit committee at Analyst I.M.S. Investment Management Services Ltd., a full service investment house traded on the Tel Aviv Stock Exchange.

Before joining Tadmor & Co. he was the General Counsel and Corporate Secretary of El Al Israel Airlines Ltd., and before that he served as Deputy Director of the Legal Department of the Israeli Securities Authority. Between 2004 - 2006 he served as a member of The "Goshen Committee", the public committee for setting an Israeli Corporate Governance code.

Mr. Scharf was also a director of Superstar Holidays Limited in the UK between 2005 and 2006.

In September 2007, Mr. Avi Israel resigned from the position of Finance Director of the Company and took up the position of Chief Executive Officer of Telit's Wireless Products division, which the Company has decided to sell. On the same date, Mr. Michael Galai was appointed Finance Director of the Company.

Mr. Galai, 41, has served as the Company's Vice President, Legal and General Counsel since October 2006.

Before joining Telit, Mr. Galai was General Counsel of Lipman Electronic Engineering Ltd. (Nasdaq, TASE: LPMA), where he took an active part (legal, accounting and finance) in a secondary offer to the public in 2005 and the company's sale to VeriFone Holdings, Inc. (NYSE: PAY) in late 2006 for \$1 billion.

Prior to Lipman, Mr. Galai was an associate at one of Israel's leading law firms, where he took part in numerous cross-border transactions, M&A activity and public offerings. Before that, Mr. Galai spent six years with the Israel Securities Authority, holding a variety of enforcement and legal positions.

Mr. Galai holds an MBA (major in finance), an L.L.B from the Tel Aviv University School of Law and is a member of the Israeli Bar.

Outlook

Telit's competitive advantage in terms of flexibility, scalability and product innovation is helping it to now make substantial headway in the market as the main challenger to the top market players. We will continue to expand and strengthen our position as one of the world's premier m2m technology providers during 2008.

Having delivered our forecast for 2007, Telit is now entering a new chapter in its development, one of profitable growth and positive earnings performance. The year has started well and the new business book is strong in all of our geographical markets. We are confident that the growing reputation of Telit in terms of technology, service and support in a growing market, will result in a strong performance this year.

Delivering maximum returns to our shareholders is a top priority and Telit now has the operational infrastructure and financial strength to take advantage of the considerable opportunities arising in this growing global market. We are currently in the midst of a global wireless-communications revolution and I fully expect that 2008 will see further accelerated growth both of the m2m market and of Telit. I look forward to providing further news of the Company's progress over the coming months.



Ozi Cats

Chief Executive Officer
31 March 2008

Telit's Board of Directors



Enrico Testa, Chairman of the Board , aged 56

Chicco Testa has an important professional background. Among his several experiences, between 1996 and 2002 Chicco Testa was Chairman of the Board at ENEL S.p.A. (the Italian provider of power and gas) and founder and member of the Board of Directors at WIND S.p.A. Chicco Testa is a member of the Board of Rothschild S.p.A, Executive President at Roma Metropolitana S.p.A (the company realizing the new Underground lines in Rome), Vice

Chairman of the World Energy Council and Senior Partner at Franco Bernabè Group, which owns several participations in the IT sector.



Oozi Cats, Chief Executive Officer of Telit Communications, aged 47

An experienced CEO and entrepreneur, Oozi Cats, in 2000, was the founder of a high level communications engineering and distribution company (Dai Telecom Ltd) in Israel. In 2002 he was led Dai Telecom to take over Telit in Italy and turn it from a bankrupt company into a global player in the m2m market. The complex turnaround program included strategic redefinition, financial restructuring, and human resource reorganization. Headed by Mr. Cats as

CEO, Telit was listed in the London Stock Exchange in April 2005. Prior to his roll in Telit, Mr. Cats was the founder and CEO of Auto Depot Ltd, an Israeli Mass Merchandising chain for vehicle supplies and services.



**Michael Galai, Finance Director
& General Counsel Telit Communications PLC,
aged 41**

Michael Galai joined Telit Communications PLC in 2006 as VP Legal & General Counsel. Before that he was General Counsel at Lipman Electronic Engineering Ltd. (Nasdaq, TASE: LPMA) where he took an active part in a secondary offer to the public and the company's sale to VeriFone Holdings, Inc. (NYSE: PAY). Before joining Lipman, Mr. Galai was an associate with Goldfarb, Levy, Eran and Co., an Israeli general full-service business practice that serves a wide range of Israeli and foreign clients, with special emphasis on international transactions, financing, securities, mergers and acquisitions and related activities. Mr. Galai also spent six year in the Israel Securities Authority, holding a variety of positions, including spokesperson. He has an MBA (Major in Finance), and an L.L.B from the Tel Aviv University School of Law and is a member of the Israeli Bar.



Maurizio Gasparri, Independent Non-Executive Director, aged 50

Maurizio 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. Mr Maurizio Gasparri is currently not a director or partner, nor has been a director or partner within the past 5 years, of any companies or partnerships.



Andrea Giorgio Mandel-Martello, Independent Non Executive Director, aged 48

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



Giovanni Stella, Non Executive Director, aged 59

Giovanni Stella began his career as an Internal Auditor at Eni. During his career at Eni, he had an active role in the restructuring of the major subsidiary companies of the group. Mr. Stella also held a number of positions within the Eni Group's companies, including Managing Director of Enichem, Chairman of Chemfin, Chairman & CEO of Enichem Finance SA and of Agip Petroli International, Chairman of Enichem International Holding and CFO of Agip Petroli. In 1998, Mr. Stella joined Telecom Italia to become the assistant of the CEO. He was later appointed Senior Vice President for Finance and Control and a Member of the Board of TIM and Sirti. In 1999 he became Chairman of Stream S.p.A.. During his career, Mr. Stella was also a member of several work groups for Eni and for Consob. From 1989 to 1993 he was visiting lectures of the Internal Auditing Course of the La Sapienza University of Rome. Mr. Stella is currently Managing Director of Rothschild S.p.A., Italy and Vice Chairman of Kelyan S.p.A..



Amir Scharf, Independent Non-Executive Director and Chairman of the Audit Committee of Telit, aged 41

Amir Scharf, is a Partner and Head of Securities Law practice at Tadmor & Co., Attorneys at Law, in Tel Aviv. He is also a Director and Chairman of the audit committee at Analyst I.M.S. Investment Management Services Ltd., a full service investment house traded on the Tel Aviv Stock Exchange. Before joining Tadmor & Co. he was the General Counsel and Corporate Secretary of El Al Israel Airlines Ltd., and before that he served as Deputy Director of the Legal Department of the Israeli Securities Authority. In 2004 - 2006 he served as a member of The "Goshen Committee", the public committee for setting an Israeli Corporate Governance code. Mr. Scharf was also a director of Superstar Holidays Limited in the UK between 2005 and 2006.

Directors

The Board of Directors comprises three executive directors, three independent non-executive Directors, and one Non-executive Director.

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

Audit Committee

The Audit Committee consists of Amir Scharf, Chairman, and Andrea Mandel-Mantello, two of the independent non-executive directors, and meets at least once every quarter. Michael Galai, the Finance Director attends each meeting by invitation. 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, Amir Scharf and Enrico Testa, 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). During 2007 the Company recruited a Vice President for investor relations to execute on this strategy and improve its contact with its investors and other capital market participants.

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 has 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

Michael Galai

Finance Director
31 March 2008

Report on Directors' Remuneration

The remuneration committee is chaired by Andrea Mandel-Mantello and also comprises Enrico Testa and Amir Scharf.

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 Michael Galai, who is entitled to post employment benefits including pension fund benefits according to his employment agreements, as is customary in Israel.

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

Enrico Testa was appointed as a director and Chairman of the Board on 4 May 2007.

Ozi 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, since 1 October 2007 Mr. Cats has been employed by Telit Wireless Solutions Srl, in an executive position.

Until 30 September 2007, Mr. Cats provided 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 consultancy agreement was terminated on 30 September 2007.

Andrea Mandel Mantello was appointed pursuant to a letter 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 and resigned from the board on 13 September 2007.

Michael Galai was appointed as the Finance Director on 13 September 2007. Mr. Galai 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.

Giovanni Stella was appointed as director on 4 May 2007.

Amir Scharf was appointed as a director on 22 August 2007.

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 2007	Total 2006
	€'000	€'000	€'000	€'000	€'000	€'000
Executive directors						
Avigdor Kelner ¹	50	-	-	-	50	144
Enrico Testa ²	58	-	-	-	58	-
Oozi Cats ³	561	124	240	-	925	644
Avi Israel ¹	88	4	100	20	212	101
Michael Galai ²	29	1	-	6	36	-
Inbal Barak-Etzion ¹	-	-	-	-	-	56
Non-executive directors						
David Hobley ¹	14	-	-	-	14	44
Andrea Mandel Mantello ⁴	46	-	-	-	46	44
Phina Bitterman Cohen ¹	17	-	-	-	17	16
Maurizio Gasparri	60	-	-	-	60	35
Giovanni Stella ²	47	-	-	-	47	-
Amir Scharf ²	17	-	-	-	17	-
Total - 2007	987	129	340	26	1,482	
Total - 2006	792	277	-	15		1,084

¹ Up to the date of resignation.

² Since date of appointment.

³ Other than in respect of €295,100 (2006: €92,000), all payments for the services rendered by Mr. Cats to the Group were paid to Excalibur. Amounts include an annual relocation expense entitlement totalling €105,000 (2006: €195,000) following Mr. Cats' relocation to Italy in the prior year and a one-time bonus of €240,000 for Mr. Cats' role in connection with the equity investment from Bartolini After Market Electronics Services Srl (BAMES) in TWS. The bonus was paid on receipt by the Group of the €9.0 million equity investment.

⁴ Amounts in respect of the services of Andrea Mandel-Mantello are paid directly to Advicorp plc, a company under his joint control.



Andrea Mandel-Mantello

Chairman of the Remuneration Committee
31 March 2008

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2007.

Principal Activities

Telit is a leading global company in the field of machine-to-machine (m2m) communications:

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 Europe, Middle East and Africa (EMEA). Following the decision to dispose of a majority stake in the Company's cellular phone distribution business (TWP), detailed below, 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.

During the second half of 2007, Telit sold 100% of the Italian unit of Telit Wireless Products (TWP), which distributes and supports cellular devices from manufacturers worldwide. This sale marks the final disposal of Telit's European EVAR business unit. The sale of the Israeli part of this business unit is expected to complete by 30 June 2008.

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 8 to 13, 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 Communications SpA ("Telit Italy"), subsidiaries of the Company, were granted 1,976,570 options to purchase shares at an exercise price of €1.40 per share, equal to approximately 4.6 percent of the Company's issued and outstanding share capital.

On 30 June 2007 the Company bought back 1,682,570 options from their holders, being all but 4,000 options outstanding at that date, at a price of €0.15 (fifteen Euro cents) per option. A further 490,117 options, granted in March 2006, lapsed during the year.

On 2 April 2007 executives of the Company were granted 1,300,000 options to purchase approximately 3 percent of the Company's issued and outstanding shares at an exercise price of €0.43 per share. The options vest in two equal instalments on 1 January 2008 and 2009 and expire five years from the date of grant.

On 10 July 2007 employees of Telit Italy, Telit Wireless Solutions Co., Ltd. ("Telit APAC") Telit Wireless Solutions Inc. ("Telit Americas"), Telit Wireless Solutions Ltd. and Telit Communications Spain S.L. were granted options to purchase approximately 3.4 percent of the Company's issued and outstanding shares at an exercise price of €0.60 per share. 100,000 options vest in two equal instalments on 9 July 2008 and 2009 and 1,363,000 vest in three equal instalments on 9 July 2008, 2009 and 2010. All options expire five years from the date of grant.

On 11 July 2007 non-executive directors of the Company and consultants to Telit Italy were granted options to purchase approximately 3.0 percent of the Company's issued and outstanding shares at an exercise price of €0.60 per share. 1,100,000 options vest in two equal instalments on 10 July 2008 and 2009 and 195,000 options vest in three equal instalments on 10 July 2008, 2009 and 2010. All options expire five years from the date of grant.

The number of outstanding options as of 31 December 2007 was 4,062,000, equal to approximately 9.4% 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 and 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 costs of €8.9 million were expensed in the year, compared to €8.1 million in 2006. Internally-generated intangible assets arising from development costs capitalized amounted to €2.5 million (2006: €nil). 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 14 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 33 to the financial statements.

Donations

The Group made no charitable or political donations during the year ended 31 December 2007 (2006 - €nil).

Dividends

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

Directors

The following directors have held office during the year:

Avigdor Kelner	resigned 4 May 2007
Enrico Testa	appointed 4 May 2007
Oozi Cats	
David Hobley	resigned 16 April 2007
Amir Scharf	appointed 22 August 2007
Andrea Mandel-Mantello	
Giovanni Stella	appointed 4 May 2007
Avi Israel	resigned 13 September 2007
Pnina Bitterman-Cohen	resigned 4 May 2007
Michael Galai	appointed 13 September 2007
Maurizio Gasparri	

Directors' Indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors' Interests in Shares and Share Options

The directors' interests in shares in the Company are detailed in the table below.

Directors	At 31 December 2007		At 31 December 2006	
	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats	16,350,357 ¹	37.84	2,700,357	6.25
Enrico Testa	16,350,357 ²	37.84	nil	-
Giovanni Stella	16,350,357 ²	37.84	nil	-
Amir Scharf	nil	-	nil	-
Andrea Mandel-Mantello	nil	-	nil	-
Maurizio Gasparri	nil	-	nil	-
Michael Galai	nil	-	nil	-

¹ Mr. Cats directly holds 2,850,357 shares. In addition, Mr. Cats owns 50% of Boostt B.V. ("Boostt"), which holds 12,000,000 shares. Boostt's corporate parents, FB Net Holding B.V. and Franco Bernabe & T SL (together: "FBT") hold an additional 1,500,000 shares. Mr. Cats and FBT have subscribed to certain voting understandings. Therefore, Mr. Cats is deemed to be interested in all of Boostt's holdings, as well as all of FBT's holdings.

² Messers. Testa and Stella are interested parties in FBT and Boostt (minority shareholders and officers, respectively). Mr. Cats and FBT have subscribed to certain voting understandings. Therefore, Messers. Testa and Stella are deemed to be interested in all of Boostt's and FBT's holdings, as well as all of Mr. Cats' holdings.

Details of directors' share options are provided below:

	1 Jan 2007*	Granted	Exercised	31 Dec 2007	Exercise Price	Date from which exercisable	Expiry date
Oozi Cats	nil	925,000	-	925,000	43p	01/01/08	01/04/12
Enrico Testa	nil	700,000	-	700,000	60p	10/07/08	10/07/12
Giovanni Stella	nil	400,000	-	400,000	60p	10/07/08	10/07/12
Michael Galai	nil	100,000	-	100,000	43p	01/01/08	01/04/12

* or date of appointment, if later.

On 2 April 2007 Oozi Cats and Michael Galai (prior to his appointment as a director) were granted 925,000 and 100,000 options respectively, at an exercise price of £0.43 per share. The options vest in two equal instalments on 1 January 2008 and 2009 and expire within five years from the date of grant.

On 11 July 2007 Enrico Testa and Gianni Stella, chairman and non-executive directors, were granted 700,000 and 400,000 options respectively at an exercise price of £0.60 per share. The options vest in two equal instalments on 10 July 2008 and 2009 and expire five years from the date of grant.

The aggregate amount of gains made by directors on the exercise of share options in the year ended 31 December 2007 was €nil (2006: €nil).

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.

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. Trade creditor days of the Group at 31 December 2007, calculated in accordance with the requirements of the Companies Act 1985, were 60 days (2006: 60 days). This represents the ratio, expressed in days, between the amounts invoiced to the Group in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

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.
- the director has taken all the steps that he ought to have taken as a director to make himself 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 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



Michael Galai

Finance Director
31 March 2008

Statement of Directors Responsibilities

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The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the EU, (IFRSs) and have also elected to prepare financial statements for the company in accordance with IFRSs. Company law requires the directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

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 Auditor's 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 2007 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 35. 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 by 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we 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 as described in the contents section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any 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 2007 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; and
- 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 9 of the financial statements concerning the recognition of a deferred tax asset of €3,000,000 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 three 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 9, 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
31 March 2008

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 2007

		2007	2006 (Restated*)
	Note	€000	€000
Revenue	2	52,189	30,140
Cost of sales		<u>(30,201)</u>	<u>(18,487)</u>
Gross profit		21,988	11,653
Other income	4	2,457	729
Research and development expenses		(8,940)	(8,058)
Selling and marketing expenses		(8,999)	(4,948)
General and administrative expenses		(7,615)	(6,446)
Other expenses	5	<u>(400)</u>	<u>-</u>
Operating loss	10,11	(1,509)	(7,070)
Investment income	6	277	190
Finance costs	7	(1,241)	(492)
Share of results of associated undertakings	16	(2)	(41)
Gain on deemed partial disposal of subsidiary	8	<u>1,194</u>	<u>-</u>
Loss before income taxes		(1,281)	(7,413)
Income taxes	9	<u>(597)</u>	<u>(91)</u>
Loss for the year from continuing operations		(1,878)	(7,504)
Loss for the year from discontinued operations	12	<u>(5,180)</u>	<u>(3,636)</u>
Loss for the year		<u><u>(7,058)</u></u>	<u><u>(11,140)</u></u>
Attributable to:			
Equity shareholders of the parent		(7,027)	(11,136)
Minority interests		<u>(31)</u>	<u>(4)</u>
		<u><u>(7,058)</u></u>	<u><u>(11,140)</u></u>
Basic loss per share (in euro cents)			
From continuing operations		(4.3)	(17.4)
From discontinued operations		(12.0)	(8.4)
Total continuing and discontinued	13	<u><u>(16.3)</u></u>	<u><u>(25.8)</u></u>
Diluted loss per share (in euro cents)			
From continuing operations		(4.3)	(17.4)
From discontinued operations		(12.0)	(8.4)
Total continuing and discontinued	13	<u><u>(16.3)</u></u>	<u><u>(25.8)</u></u>

(*) See Note 1(z).

Telit Communications PLC

BALANCE SHEETS

At 31 December 2007

	Note	Group		Company	
		2007	2006	2007	2006
		€000	(Restated*) €000	€000	€000
ASSETS					
Non-current assets					
Intangible assets	14	9,050	6,755	-	-
Property, plant and equipment	15	2,612	3,019	-	-
Investments in associated undertakings	16	568	579	579	579
Other investments	17	1,570	-	-	-
Investments in subsidiaries	18	-	-	29,637	27,162
Other long term assets	20	310	303	-	-
Deferred tax asset	9	3,130	3,803	-	-
		<u>17,240</u>	<u>14,459</u>	<u>30,216</u>	<u>27,741</u>
Assets included in disposal group held for sale	12	<u>8,162</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current assets					
Inventories	19	8,212	10,284	-	-
Trade receivables	20	16,591	17,452	71	-
Other current assets	20	5,079	6,699	692	574
Deposits – restricted cash	22	6,132	7,115	6,132	7,115
Cash and cash equivalents	22	5,212	3,926	2,402	1,376
		<u>41,226</u>	<u>45,476</u>	<u>9,297</u>	<u>9,065</u>
Total assets		<u>66,628</u>	<u>59,935</u>	<u>39,513</u>	<u>36,806</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	23	627	627	627	627
Other reserve		(260)	(260)	5,894	5,894
Share premium account		29,651	29,651	29,651	29,651
Translation reserve		(1,734)	(584)	-	-
Retained earnings		(12,512)	(6,486)	(1,488)	(318)
Total shareholders' equity		<u>15,772</u>	<u>22,948</u>	<u>34,684</u>	<u>35,854</u>
Minority interests		<u>605</u>	<u>796</u>	<u>-</u>	<u>-</u>
Total equity		<u>16,377</u>	<u>23,744</u>	<u>34,684</u>	<u>35,854</u>
Non-current liabilities					
Other loans	31	500	2,035	500	-
Post-employment benefits	24	1,555	1,226	-	-
Deferred tax liabilities	9	329	507	-	-
Provisions	28	81	69	-	-
Other long-term liabilities	29	4,430	175	-	-
		<u>6,895</u>	<u>4,012</u>	<u>500</u>	<u>-</u>
Liabilities included in disposal group held for sale	12	<u>6,433</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities					
Short-term borrowings from banks and other lenders	25	17,336	17,375	-	-
Trade payables	25	13,498	10,584	-	16
Provisions	28	63	280	-	-
Other current liabilities	25	6,026	3,940	4,329	936
		<u>36,923</u>	<u>32,179</u>	<u>4,329</u>	<u>952</u>
Total equity and liabilities		<u>66,628</u>	<u>59,935</u>	<u>39,513</u>	<u>36,806</u>

(*) See Note 1(z).

The financial statements on pages 34 to 93 were approved by the board and authorised for issue on 31 March 2008 and are signed on its behalf by:



Oozi Cats, Director

Telit Communications PLC

CASH-FLOW STATEMENTS

For the year ended 31 December 2007

	Group		Company	
	2007	2006 (Restated*)	2007	2006
	€000	€000	€000	€000
CASH FLOWS – OPERATING ACTIVITIES				
Net cash used in continuing operations (Note 32)	(1,540)	(9,588)	(1,435)	(1,058)
Net cash (used in) /from discontinued operations (Note 12)	(2,239)	17,634	-	-
Net cash (used in) / from operating activities	(3,779)	8,046	(1,435)	(1,058)
CASH FLOWS - INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,251)	(1,760)	-	-
Purchase of intangible assets	(3,733)	(513)	-	-
Acquisition of subsidiaries (nil cash acquired)	-	(5,396)	-	-
Investment in subsidiary	-	-	-	(13)
Loan to subsidiary	-	-	(39)	(6,461)
Net proceeds from issuance of share capital in a subsidiary to third party	7,604	-	-	-
Decrease (increase) in restricted cash deposits	1,000	(3,000)	1,000	(3,000)
Additions to long term receivables	-	(56)	-	-
Net cash from / (used in) continuing operations	3,620	(10,725)	961	
Net cash used in discontinued operations (Note 12)	(741)	(289)	-	-
Net cash from / (used in) investing activities	2,879	(11,014)	961	(9,474)
CASH FLOWS - FINANCING ACTIVITIES				
Short-term borrowings from banks and others	3,000	8,660	3,000	-
Repayment of other loans	(1,500)	-	(1,500)	-
Net cash from continuing operations	1,500	8,660	1,500	
Net cash from/(used in) discontinued operations (Note 12)	1,167	(14,903)	-	-
Net cash from/(used in) financing activities	2,667	(6,243)	1,500	-
Increase/ (decrease) in cash and cash equivalents	1,767	(9,211)	1,026	(10,532)
Cash and cash equivalents - balance at beginning of year	3,926	13,207	1,376	11,781
Effect of exchange rate differences	(439)	(70)	-	127
Cash and cash equivalents - balance at end of year	5,254	3,926	2,402	1,376
Consisting of:				
Cash and cash equivalents from continuing operations	5,212	3,926	2,402	1,376
Cash and cash equivalents from discontinued operations	42	-	-	-
	5,254	3,926	2,402	1,376
Supplemental disclosure of cash flow information (included in cash flow from operating activities):				
Interest paid	934	896	-	-
Interest received	243	318	128	320
Income taxes paid	139	739	-	-

(*) See Note 1(z).

Telit Communications PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

Year ended 31 December 2007

	Share capital	Share premium account	Other reserve	Translation adjustment	Retained earnings	Total	Minority interest	Total
	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2007 (restated)	627	29,651	(260)	(584)	(6,486)	22,948	796	23,744
Reduction in minority interest in Telit APAC	-	-	-	-	-	-	(318)	(318)
Arising on deemed disposal -minority in Telit Wireless Solutions Srl	-	-	-	-	-	-	275	275
Translation adjustments	-	-	-	(1,150)	-	(1,150)	(129)	(1,279)
Repurchase of share options	-	-	-	-	(29)	(29)	-	(29)
Share-based payment charge	-	-	-	-	1,030	1,030	12	1,042
Loss for the year	-	-	-	-	(7,027)	(7,027)	(31)	(7,058)
31 December 2007	627	29,651	(260)	(1,734)	(12,512)	15,772	605	16,377

Year ended 31 December 2006 (Restated*)

	Share capital	Share premium account	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- as previously reported	-	-	-	-	-	-	1,317	1,317
Arising on acquisition- adjustment arising on provisional price allocation of Telit APAC (note 26)	-	-	-	-	-	-	(513)	(513)
Translation adjustments	-	-	-	(300)	-	(300)	(4)	(304)
Share-based payment charge	-	-	-	-	1,218	1,218	-	1,218
Loss for the year – as previously reported	-	-	-	-	(11,319)	(11,319)	(65)	(11,384)
Loss for the year – adjustment arising on provisional price allocation of Telit APAC (note 26)	-	-	-	-	183	183	61	244
31 December 2006 (restated)	627	29,651	(260)	(584)	(6,486)	22,948	796	23,744

(*) See Note 1(z).

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

Telit Communications PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

Year ended 31 December 2007

	<u>Share capital</u>	<u>Share premium account</u>	<u>Other reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
1 January 2007	627	29,651	5,894	(318)	35,854
Loss for the year	-	-	-	(1,170)	(1,170)
31 December 2007	<u>627</u>	<u>29,651</u>	<u>5,894</u>	<u>(1,488)</u>	<u>34,684</u>

Year ended 31 December 2006

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

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

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. ACCOUNTING POLICIES

(a) General information

The consolidated financial statements for the years ended 31 December 2007 and 31 December 2006 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 ("the Company") is a public limited company registered in England and Wales. The registered office is given on page 94. 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 8 to 19.

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.

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.

(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.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(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 recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized 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 recognized.

For increases in stake in existing subsidiaries, the Company accounts for such transactions based on the book values of the net assets of at the date of the injection. Where the cost of acquisition is less than the net book value of the recognized net assets of the acquiree, the excess, representing negative goodwill, is recognized immediately in profit or loss.

(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.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(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 recognized.

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 recognized 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 recognizes an impairment loss.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognized 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:

	<u>%</u>
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 recognized in the income statement.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(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.

On full or partial disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

(l) Internally developed intangible assets – development costs

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

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

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

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, typically 5 years, from the date at which such assets are available for use. Where the internally generated intangible asset is not yet available for use, it is tested for impairment annually by comparing its carrying amount with its recoverable amount.

Where no internally-generated intangible asset can be recognised, development costs are recognised as an expense in the period in which they are incurred.

(m) 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.

Amortisation rates are as follows:

	<u>%</u>
Software and license	15-33
Customer relationships	15
Acquired technology	40

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(n) 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 recognized as an expense immediately.

(o) 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.

(p) Trade payables

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

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(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, except where future service by current employees no longer qualifies for benefits in which case a Traditional Unit Credit Method is applied. Actuarial gains and losses are recognized in full in the income statement in the period in which they occur. Gains or losses on the curtailment of a defined benefit plan are recognized in the income statement when the curtailment or settlement occurs.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized 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 recognized when goods are delivered and title has passed.

Revenues from services are recognized as the services are provided.

Royalty income is recognized in accordance with the terms of the relevant royalty agreement unless, there has been an assignment of rights for a fixed fee or non-refundable guarantee under a non-cancellable contract which permits the licensee to exploit such rights freely and the Company has no remaining obligations to perform.

(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 recognized in profit or loss in the period in which they are incurred. Finance charges, including any premiums to be paid on settlement or redemption and direct issue costs and discounts relating to borrowings, are accounted for on an accruals basis and charged to the income statement using the effective interest method.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(u) Government grants

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

(v) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through the sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and the Company is committed to the sale which is expected to qualify for recognition as a completed sale within one year from the date of classification.

(w) Financial instruments

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

Financial assets

Financial assets are initially recorded at fair value, net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. The Group classifies its other financial assets as either available for sale financial assets or loans and receivables; no financial assets at fair value through profit or loss are held. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available for sale financial assets

Certain shares held by the Group are classified as being available-for-sale since they are not held for trading, have not been designated as at fair value through profit or loss and do not meet the accounting requirements for classification as loans and receivables or held-to-maturity investments. Such assets are stated at fair value or, where there is insufficient information to reliably determine fair value at the measurement date, at deemed cost, less impairment. The determination of fair values is described in note 17. Gains and losses arising from changes in fair value are recognized directly in reserves. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in reserves is included in profit or loss for the period.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest method less impairment.

Interest is recognized by applying the effective rate, except for short-term receivables when the recognition of interest would be immaterial.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(w) Financial instruments (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows have been impacted.

For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Any subsequent increase in fair value of an available for sale equity security after an impairment loss is recognized directly in equity.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual agreements.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

All the Group's financial liabilities are classified as other financial liabilities. It holds no financial liabilities 'at fair value through profit or loss'.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(x) 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 and directors. 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.

Where the Group has settled a grant of equity instruments during the vesting period, the Group accounts for the settlement as an acceleration of vesting, and recognizes immediately in the income statement the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Payments made to the employee on settlement of the grant are accounted for as the repurchase of an equity interest and deducted from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess is recognized as an expense in the income statement.

(y) 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*.

(z) Restatement

On 26 May 2006 Telit acquired 75% of the issued ordinary share capital of, and voting rights in, Bellwave M2M Co., Ltd. (since renamed Telit Wireless Solutions Co. Ltd ("Telit APAC")), 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 provisional purchase price allocation has been finalised in the year ended 31 December 2007. This has resulted in a reduction in the amount allocated to customer lists from €4,306,000 to €1,500,000 and development costs from €689,000 to €645,000 with a consequential reduction in the related deferred tax liability from €1,374,000 to €590,000. As a result of the overall reduction in the fair value of intangible assets, the fair value of assets acquired attributable to minority interests was reduced from €1,317,000 to €804,000. Goodwill has increased from €1,445,000 to €2,998,000.

(aa) Provisions

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

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(ab) Critical accounting judgments and key sources of estimation uncertainty

Critical accounting judgments

In the process of applying the Group's accounting policies, management consider the following judgments, apart from those involving estimates on future uncertain events, which are discussed further below, to have the most significant effect on the amounts recognized in the financial statements.

Grant income

Income relating to government grants is recognized when there is reasonable assurance that the Company has complied with the conditions attaching to it and the grant will be received. Management is required to exercise judgment 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 2007 was €2,139,000 (2006: €686,000). As at 31 December 2007 an amount of €3,143,000 (2006: €1,044,000) is recorded in other current assets.

Non-current assets held for sale

As noted above, non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through the sale transaction rather than through continued use. This requires the exercise of judgment as to whether the sale is highly probable and will qualify for recognition as a completed sale within one year from the date of classification.

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 2007, the carrying value of intangible assets other than the goodwill acquired in business combinations was €1,162,000 (2006: €1,835,000). For applicable amortization rates, see note 1(m) above.

Investments in unlisted entities

The Group holds equity instruments in certain unlisted entities for which no active market exists and hence which do not have a quoted market price. These are accounted for as available-for-sale investments by the Group, requiring them to be measured at fair value at inception and at each balance sheet date, unless such fair values cannot be reliably determined at the measurement date, in which case they are recorded at deemed cost less any impairment.

Determination of fair value requires the use of valuation techniques which make use of certain assumptions including historic and forecast revenues and earnings, debt levels, multiples observed for comparator companies and discounts to such multiples to take account of factors such as illiquidity. Changes in these assumptions would impact on the amount recorded in the balance sheet. As at 31 December 2007, the total value of such investments was €1,570,000.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(ab) Critical accounting judgments and key sources of estimation uncertainty (continued)

Share-based payments

The Group has granted equity-settled share-based payments to certain directors and employees. Such options are required to be fair valued in accordance with the requirements of IFRS 2 *Share-based payment*. Determination of fair value requires the exercise of judgment regarding the applicable assumptions to be used as inputs into the fair value model, including the expected volatility, risk-free rate and expected option life. Changes in these assumptions would affect the fair value of options and hence the amount recorded in the income statement. For the year ended 31 December 2007, the total amount recorded in the income statement for continuing operations was €859,000 (31 December 2006: €340,000).

Accounting for transactions with Bartolini After Market Electronic Services Srl (“BAMES”)

As disclosed further in note 8, on 20 June 2007, the Group entered into a series of related transactions with BAMES in which BAMES subscribed for 5.625 per cent of the share capital of Telit Wireless Solutions Srl for €9.0 million, and the Group acquired a 19.9 per cent interest in BAMES’s subsidiary, Services for Electronic Manufacturing Srl (“SEM”) for €1. Additionally, the Group entered into a manufacturing agreement for the manufacture by SEM of machine-to-machine modules, with certain exceptions, for a period of at least five years, together with minimum purchase quantities.

Accounting for these transactions has required the Group to determine the fair value of the acquired interest in SEM and the fair value of the interest in Telit Wireless Solutions Srl disposed, in order to determine the gain on deemed disposal of the interest in Telit Wireless Solutions Srl after attributable costs. The Group has recognized the premium received in excess of the fair value of Telit Wireless Solutions Srl given up as deferred income, representing the premium received for minimum purchase commitments given by the Group. This is being amortized to the income statement within cost of sales in accordance with the minimum purchase commitments made by the Group. The total amount amortised to the income statement for the year ended 31 December 2007 was €466,000 (2006: €nil). At 31 December 2007, the total deferred income recorded in the balance sheet from this transaction was €7,227,000 (31 December 2006: €nil).

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.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(ab) Critical accounting judgments and key sources of estimation uncertainty (continued)

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

As at 31 December 2007, the Group had recognized a deferred tax asset of €3,130,000 (2006: €3,803,000). See note 9 for further information.

Recoverability of internally developed intangible assets

Capitalization of development costs requires the exercise of management judgment in determining whether it is probable that future economic benefits to the Company arising will exceed the amount capitalized. This requires management to estimate anticipated revenues and profits from the related products to which such development costs relate. As at 31 December 2007, the amount of development costs capitalized (net of amortization) included in the Group balance sheet was €2,917,000.

Recoverability 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 2007, the amount of goodwill included in the consolidated balance sheet was €2,655,000 (2006: €2,992,000).

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 2007, the book value of the investment in associated undertakings was €568,000 (2006: €579,000).

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(ab) Critical accounting judgments and key sources of estimation uncertainty (continued)

Recoverability of investments in unlisted entities

The Group's balance sheet includes an investment in unlisted securities which is carried at deemed cost of €1,570,000. The Directors have undertaken an evaluation of whether there are any indicators of impairment associated with this investment. In doing so, the Directors have considered observable data about the investee and the outlook for the market in which it operates. This requires the Directors to form an assessment of the expected future economic benefit that may be realized from its investment holding, either through disposal or dividend income.

(ac) Adoption of new and revised standards

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

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; and
IFRIC 10 Interim Financial Reporting and Impairment.

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

(ad) 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 8	Operating Segments
IAS 23 (Revised)	Borrowing Costs
IFRIC 11	IFRS 2—Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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 when the relevant standards come into effect, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

2. REVENUE

	Group	
	2007	2006
	€000	€000
Sales of goods	49,842	28,412
Royalties	2,347	1,728
Revenue	<u>52,189</u>	<u>30,140</u>
Investment income	277	190
Continuing operations	<u>52,466</u>	<u>30,330</u>
Discontinued operations	23,331	56,640
	<u>75,797</u>	<u>86,970</u>

In November 2007 Telit entered into a lifetime license agreement with the Italian company Bardi, granting Bardi the right to use the Telit tradename in the marketing and sale in Europe of cellular phones and accessories and other electronic equipment excluding, specifically, the m2m arena, for consideration of €1.5 million. These royalties were recorded in the income statement as revenue.

3. SEGMENTAL ANALYSIS

The Group was previously organized into two operating divisions, Wireless Solutions and Wireless Products, the principal activities of which are as follows:

- **Wireless Solutions business unit** (“TWS”) – designs, develops, manufactures and sells cellular GSM/GPRS/CDMA/UMTS modules and solutions mainly to the machine-to-machine (m2m) application markets. The division also earns royalty income from the licensing of the Telit tradename to the TWP division and to third parties.
- **Wireless Products business unit** (“TWP”) – 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.

As reported in note 12, on 17 May 2007 Telit’s board of directors resolved to sell TWP and to focus solely on the Wireless Solutions division. Following the decision to sell the Group’s TWP business, the remaining continuing operations of Telit comprise a single business segment, TWS.

In accordance with IAS 14 *Segmental Reporting*, comparative segmental disclosures have been restated to reflect all operations that have been classified as discontinued at the balance sheet date.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SEGMENTAL ANALYSIS (continued)

Segmental information for each geographical region in which Telit operates is presented below.

2007

	<u>EMEA</u>	<u>APAC</u>	<u>AMERICAS</u>	<u>ISRAEL</u>	<u>Discontinued operations</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
Revenue							
External sales	47,016	13,714	1,676	13,114	(23,331)	-	52,189
Inter-segment sales (1)	3,285	-	-	-	-	(3,285)	-
Total revenue	<u>50,301</u>	<u>13,714</u>	<u>1,676</u>	<u>13,114</u>	<u>(23,331)</u>	<u>(3,285)</u>	<u>52,189</u>
Result							
Segment result	<u>(576)</u>	<u>145</u>	<u>(2,296)</u>	<u>(901)</u>	<u>4,480</u>	<u>-</u>	<u>852</u>
Unallocated corporate expenses							<u>(2,361)</u>
Operating loss							(1,509)
Investment income							277
Finance costs							(1,241)
Share of results of associated undertakings							(2)
Gain on deemed partial disposal of subsidiary							<u>1,194</u>
Loss before income taxes							(1,281)
Income taxes							(597)
Loss for the year from discontinued operations							<u>(5,180)</u>
Loss for the year							<u><u>(7,058)</u></u>

(1) Transactions between geographic segments are charged at prevailing market prices.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SEGMENTAL ANALYSIS (continued)

2006 (Restated (2))

	<u>EMEA</u>	<u>APAC</u>	<u>AMERICAS</u>	<u>ISRAEL</u>	<u>Discontinued</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>operations</u>	<u>€000</u>	<u>€000</u>
					<u>€000</u>		
Revenue							
External sales	49,316	5,833	40	31,591	(56,640)	-	30,140
Inter-segment sales (1)	1,325	-	-	-	-	(1,325)	-
Total revenue	<u>50,641</u>	<u>5,833</u>	<u>40</u>	<u>31,591</u>	<u>(56,640)</u>	<u>(1,325)</u>	<u>30,140</u>
Result							
Segment result	<u>(8,399)</u>	<u>(21)</u>	<u>(1,697)</u>	<u>1,250</u>	<u>2,947</u>	<u>-</u>	<u>(5,920)</u>
Unallocated corporate expenses							<u>(1,150)</u>
Operating loss							(7,070)
Investment income							190
Finance costs							(492)
Share of results of associated undertakings							<u>(41)</u>
Loss before income taxes							(7,413)
Income taxes							(91)
Loss for the year from discontinued operations							<u>(3,636)</u>
Loss for the year							<u>(11,140)</u>

(1) Transactions between geographic segments are charged at prevailing market prices.

(2) Included within revenue from continuing operations are revenues of €556,000 charged to discontinued operations (2006: €1,525,000) for royalties for the use of the Telit tradename based on the number of units sold to third parties by TWP; such revenues have been realized as revenue from third parties to the Group by TWP. In the 2006 published financial statements this amount was classified within the TWP division rather than shown as income relating to the Telit corporate name and hence the amount shown in the segment analysis above has been restated to revenue as part of continuing operations as the revenue is attributable to the retained Telit brand name. Additionally, also in the analysis above, an amount of €921,000 has been reclassified from TWP discontinued operations to continuing operations in the TWS division due to an incorrect product, and hence segment classification.

Unallocated corporate expenses principally comprise salary, professional fees and other expenses which cannot be directly allocated to one of the segments.

The segment result for discontinued operations is reported in note 12.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SEGMENTAL ANALYSIS (continued)

	2007	2006
	€000	(Restated)
	€000	€000
Total assets:		
Wireless Products – discontinued operation	8,162	14,327
EMEA	27,428	15,268
APAC	10,601	8,556
AMERICAS	1,580	356
Investment in associated undertaking	2,138	579
Unallocated assets	16,719	20,849
Total assets	66,628	59,935
Total liabilities:		
Wireless Products – discontinued operation	6,433	3,147
EMEA	22,729	7,116
APAC	1,033	758
AMERICAS	85	250
Unallocated liabilities	19,971	24,920
Total liabilities	50,251	36,191

Unallocated assets comprise:

	2007	2006
	€000	€000
Other long term assets	310	303
Deferred tax asset	3,130	3,803
Other debtors in respect of general entity and head office purposes	1,935	5,702
Deposits - restricted cash	6,132	7,115
Cash and cash equivalents	5,212	3,926
Unallocated assets	16,719	20,849

Unallocated liabilities comprise:

	2007	2006
	€000	€000
Other loans	500	2,035
Short-term borrowings from banks and other lenders	17,336	17,375
Other current liabilities in respect of general entity and head office purposes	1,806	5,003
Deferred tax liabilities	329	507
Unallocated liabilities	19,971	24,920

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SEGMENTAL ANALYSIS (continued)

2007

	<u>EMEA</u>	<u>APAC</u>	<u>AMERICAS</u>	<u>ISRAEL</u>	<u>Discontinued operations</u>	<u>Consolidated</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
Other segment items:						
Capitalized tangible and intangible asset additions	4,043	900	41	723	(723)	4,984
Non-cash items:						
Depreciation and amortization	1,065	729	33	158	(158)	1,827
Bad debt expense	-	45	31	-	-	76
Share-based payments	893	14	15	154	(154)	922

2006

	<u>EMEA</u>	<u>APAC</u>	<u>AMERICAS</u>	<u>ISRAEL</u>	<u>Discontinued operations</u>	<u>Consolidated</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
Other segment items:						
Capitalized tangible and intangible asset additions	2,932	6,010	168	317	-	9,427
Non-cash items:						
Depreciation and amortization	618	393	12	110	(110)	1,023
Bad debt expense	188	-	-	-	(150)	38
Share-based payments	340	-	-	878	(878)	340

4. OTHER INCOME

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Government grants	2,139	686
Other	318	43
	<u>2,457</u>	<u>729</u>

The Group's Italian subsidiary has been declared eligible to receive grants totalling €2.1 million under annual research and development programmes sponsored by the FVG region in Italy.

The Group's eligibility for the annual programmes for 2006 and 2007 was approved by the relevant grant making body during the year. The Group only recognizes such income from the regional grant-making body once it has received confirmation of eligibility and once the qualifying conditions have been satisfied and the Group is reasonably assured of receipt. The Group has recognized amounts expected to be received in respect of both grants within other income in the year ended 31 December 2007 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied. Of the total recognized of €2,139,000, €1,093,000 relates to the 2006 grant for which eligibility was only confirmed in 2007. As at 31 December 2007, the total amount receivable from the grant body was €3,143,000 (31 December 2006 - €1,044,000).

€318,000 other income in the year represents negative goodwill arising following an increase in the Group's shareholding of Telit APAC during the year, see note 26.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. OTHER EXPENSES

Other expenses relate to professional adviser costs associated with an unsuccessful acquisition bid. The Company's expenses in connection with this bid process were €400,000.

6. INVESTMENT INCOME

	<u>2007</u>	<u>2006</u>
	€000	€000
Interest income from bank deposits	277	318
Exchange rate losses	-	(128)
	<u>277</u>	<u>190</u>

7. FINANCE COSTS

	<u>2007</u>	<u>2006</u>
	€000	€000
Interest expense on factoring arrangements	112	120
Interest expense on bank loans and overdrafts	1,012	279
Other	117	93
	<u>1,241</u>	<u>492</u>

8. GAIN ON DEEMED PARTIAL DISPOSAL OF SUBSIDIARY UNDERTAKING

The Group's subsidiary, Telit Wireless Solutions Srl ("TWS"), received a capital injection of €9.0 million (before costs of €1.4 million) in exchange for new shares issued equal to 5.625% of its enlarged share capital. The Group has accounted for this transaction as a deemed disposal. As part of the same transaction, the Group acquired a 19.9 per cent interest in BAMES's subsidiary, Services for Electronic Manufacturing Srl ("SEM") for €1. As set out in note 17, the fair value of this investment at the date of acquisition was determined to be €1,570,000. Additionally, the Group entered into a manufacturing agreement for the manufacture by SEM of machine-to-machine modules, with certain exceptions, for a period of at least five years, together with minimum purchase quantities.

The gain on deemed disposal has been calculated as the difference between the estimated fair value of the 5.625% stake in TWS, net of costs, and the book value as at the date of deemed disposal. Minority interests of €275,000 were recognized on this transaction.

	<u>2007</u>
	€000
Fair value of net assets disposed, net of costs of €1.4 million	1,469
Book value of net assets disposed to minorities	(275)
Gain on deemed partial disposal of subsidiary undertaking	<u>1,194</u>

TWS holds all of the Group's investments in its Telit Wireless Solutions division. In estimating the fair value of net assets disposed, the Directors had regard to the market value of the Telit Communications PLC group as at the date of the transaction, less the estimated fair value of the Telit Wireless Products division, based on the expected disposal proceeds as this division is held for sale.

Telit Communications PLC

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For the year ended 31 December 2007

8. GAIN ON DEEMED PARTIAL DISPOSAL OF SUBSIDIARY UNDERTAKING (continued)

The Group has recognized the net premium received in excess of the fair value of the stake in TWS given up, amounting to €7,693,000 as deferred income, representing the premium received for minimum purchase commitments given by the Group. This is being amortized to the income statement within cost of sales in accordance with the minimum purchase commitments made by the Group. A total of €466,000 was recorded in the income statement for the year ended 31 December 2007. The minimum purchase commitment for 2007 was fulfilled and management currently assesses that, given current market conditions and the expected growth of the Company, the minimum purchase commitments for 2008 and 2009 are attainable.

An additional €7.0 million will be invested in December 2008, providing Telit meets certain m2m module minimum purchase commitments. Upon completion of the second investment BAMES will receive an additional 4.375% of TWS's share capital. Neither this additional investment nor the right to subscribe for such shares has been accounted for at 31 December 2007 as such subscription rights qualify as an equity instrument.

In the event of termination of the manufacturing agreement, Telit has the right, but not the obligation, to repurchase from BAMES its entire investment in TWS for €9.0 million if only the first tranche of 5.625% has been invested or €16.0 million if the second tranche has been invested and BAMES has the right, but not obligation to repurchase from Telit Italy its entire investment in SEM for a total of €1. Save for breach of contract, the manufacturing agreement may only be terminated by either party within six months of the end of the initial term or the subsequent periods of automatic renewal (yearly). No premium was paid or received in respect of such options. The Directors have determined that the fair value of such options cannot be reasonably determined.

9. INCOME TAXES

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
A.		
Overseas corporate tax:		
Current year taxes	158	211
Deferred taxes:		
Overseas deferred taxes	439	(120)
	<u>597</u>	<u>91</u>

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

Telit Communications PLC

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For the year ended 31 December 2007

9. INCOME TAXES (continued)

B. 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 2007 and 2006, and the Group's total tax expense for the year:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Loss before income tax from continuing operations	<u>(1,281)</u>	<u>(7,413)</u>
Tax credit computed at 30%	<u>(384)</u>	<u>(2,224)</u>
Tax adjustments arising from:		
Expenses which are not deductible (income exempted) in determining taxable profit	(1,007)	184
Decrease in taxes resulting from a different tax rate of subsidiaries operating in other jurisdictions	(158)	(151)
Tax losses not utilised	1,470	2,100
Decrease in deferred tax asset due to reduction in tax rate	<u>676</u>	<u>-</u>
Tax charge for continuing operations	<u>(597)</u>	<u>(91)</u>

C. 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:

	<u>Net operating loss</u>	<u>Other timing differences</u>	<u>Total</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>
At 1 January 2007	3,715	(1,105)	2,610
Prior year adjustment (note 26)	-	686	686
At 1 January 2007 as restated	<u>3,715</u>	<u>(419)</u>	<u>3,296</u>
Discontinued operation	(48)	(53)	(101)
Translation adjustments	-	45	45
(Charge) / credit to the income statement	<u>(667)</u>	<u>228</u>	<u>(439)</u>
At 31 December 2007	<u>3,000</u>	<u>(199)</u>	<u>2,801</u>

The following is the analysis of the deferred tax balances, as restated for the finalization of the purchase price accounting for Telit APAC (see note 26) for financial reporting purposes:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Deferred tax assets	3,130	3,803
Deferred tax liabilities	<u>(329)</u>	<u>(507)</u>
	<u>2,801</u>	<u>3,296</u>

Telit Communications PLC

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For the year ended 31 December 2007

9. INCOME TAXES (continued)

At 31 December 2006, the Group had recorded a deferred tax asset of €3.8 million relating to losses incurred in its Italian subsidiary, Telit EMEA. 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 EMEA has incurred losses since formation in 2003 up to and including 2007. During 2007, the taxable losses that arose principally related to the TWP activities in Italy which have now been discontinued. During the year the applicable tax rate in Italy at which the asset is expected to be recovered has been reduced from 33% to 27.5%. As a result the deferred tax asset has been reduced to €3.0 million at 31 December 2007.

In 2006, the Directors approved a four year business plan for Telit EMEA, based on which management expected to begin to recover the deferred tax asset during the year ending 31 December 2008, with full recovery forecast in the year ending 31 December 2010. The trading performance of the continuing operations of Telit EMEA for 2007 has been in line with the forecast for 2007 in the four year business plan. The Directors have approved an updated business plan for 2008-2010 which continues to support the beginning of recovery of the deferred tax asset during the year ending 31 December 2008, with full recovery forecast in the year ending 31 December 2010. However, as this assessment is a judgment about future events, there is no certainty as to this matter.

The Directors assessed whether to recognise an additional deferred tax asset for further losses incurred during 2007 by Telit EMEA. Having had regard to the fact that full recovery of the existing asset is not expected until the year ending 31 December 2010, the final year for which Board-approved forecasts have been prepared by the Company, and the inherent uncertainty attached to any forecast, the Directors concluded that there was insufficient evidence to warrant recognition of additional deferred tax assets. This judgment is kept under review by the Directors at each reporting period.

D. 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.

The gross amount and expiry dates of losses available for carry forward are as follows:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Losses for which a deferred tax asset is recognised	10,909	11,266
Losses for which no deferred tax asset is recognised	28,766	18,706
	<u>39,675</u>	<u>29,972</u>

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

10. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS AND GROUP AUDIT FEE

Loss for the year from continuing operations is stated after charging / (crediting)

	2007	2006
	€000	€000
Net foreign exchange losses	115	216
Depreciation of owned fixed assets (note 15)	934	653
Amortisation of intangible assets (note 14):		
Amortisation of purchased customer list – included in selling and marketing expenses	216	176
Amortisation of acquired technology – included in research and development expenses	261	127
Amortisation of software – included in research and development expenses	416	67
Research and development expenditure	8,940	8,058
Loss on disposal of property, plant and equipment	-	7
Costs of inventories recognised as an expense	29,534	18,060
Write-downs of inventories recognized as an expense	249	11
Impairment loss recognized on trade receivables	76	38
Pension curtailment losses (see note 24)	464	-
Settlement costs on repurchase of share options (see note 30)	271	-
Non-recurring credit relating to negative goodwill (see note 26)	(318)	-
Net loss on loans and receivables (including interest received)	133	38
Net loss on financial liabilities measured at amortised cost (including finance charges)	1,241	492

Audit fee

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	136	99	136	99
Fees payable to the Company's auditors and their associates for other services to the Group	41	-	41	-
The audit of the Company's subsidiaries pursuant to legislation	161	133	-	-
Total audit fees	338	232	177	99
Tax services	13	31	9	-
Total non-audit fees	351	263	186	99

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For the year ended 31 December 2007

11. EMPLOYEES

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
The average monthly number of persons (including executive directors) during the year was:		
Sales and marketing	47	41
Research and development	131	109
General and administration	22	19
Operations	47	42
Discontinued operations	50	32
	<u>297</u>	<u>243</u>
Their aggregate remuneration comprised:		
Wages and salaries	10,678	9,242
Social security costs	1,587	1,865
Other pension costs	595	658
	<u>12,860</u>	<u>11,765</u>

Directors' remuneration disclosures described within the Directors' Remuneration Report as audited form part of these financial statements on page 25.

The cost incurred in respect of employees (including executive directors) from discontinued operations is set out below:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Discontinued operations:		
Wages and salaries	1,696	1,620
Social security costs	110	81
Other pension costs	11	292
	<u>1,817</u>	<u>1,993</u>

12. DISCONTINUED OPERATIONS

On 17 May 2007 the Company's board of directors resolved to sell the Wireless Products division ("TWP") and to focus solely on the Wireless Solutions business unit.

On 28 June 2007 the Company executed a term sheet for the sale of 80.01% of TWP, to a group of third party investors. The consideration receivable was to be calculated according to TWP's equity as at the date of the transaction. Under the terms of the transaction, it is proposed that the Group will retain 19.9% of TWP, with no representation on its board of directors.

In conjunction with the sale of TWP, it is proposed that Telit EMEA will enter into a license agreement with TWP for the use of the Telit trade name by TWP for marketing of cellular phones and other electronic products in Israel but excluding its use in the m2m arena. Under the license agreement, it is proposed that the Group will receive royalties over a period of 5.5 years, calculated as a percentage of applicable turnover, up to a maximum of €6 million and subject to such royalties not exceeding a specified percentage of the EBITDA of TWP.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. DISCONTINUED OPERATIONS (continued)

As at the date of the approval of the financial statement, this transaction has not completed. Negotiations with the group of third party investors continue and a transaction substantially similar to the one contemplated by the term sheet is expected to complete in the first half of 2008.

The results of the discontinued operations which have been included in the consolidated statements of operations for the year ended 31 December 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Revenue	23,331	56,640
Cost of sales	(22,134)	(52,087)
Gross profit	1,197	4,553
Other income	1,518	709
Operating expenses	(7,195)	(8,209)
Net finance costs	(640)	(677)
Loss before income taxes	(5,120)	(3,624)
Income taxes	(60)	(12)
Net loss attributable to discontinued operations	<u>(5,180)</u>	<u>(3,636)</u>

During the year, net cash generated from operations in the Wireless Products Division was €2,239,000 (2006: €17,634,000), used €741,000 in respect of investing activities (2006: €289,000) and provided €1,167,000 in respect of financing activities (2006: €14,903,000).

The balance sheet of the discontinued operations which have been included in the consolidated statements as at 31 December 2007 are as follows:

	<u>2007</u>
	<u>€000</u>
Current assets:	
Inventories	1,661
Trade receivables	4,219
Other receivables	927
Cash and cash equivalents	42
Non-current assets:	
Intangible assets	523
Property, plant and equipment	664
Other	126
Total assets classified as held for sale	<u>8,162</u>
Current liabilities:	
Short-term borrowings	4,207
Trade payables	790
Other current liabilities	1,343
Non-current liabilities:	
Post-employment benefits	93
Total liabilities classified as held for sale	<u>6,433</u>

Telit Communications PLC

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For the year ended 31 December 2007

12. DISCONTINUED OPERATIONS (continued)

At 31 December 2007 €3.1 million of the trade receivables balance was due from one major customer (2006: approximately €4.0 million). No provision has been made in either year for irrecoverable amounts, since historical experience has indicated that all amounts billed have been paid. The balance is due in New Israeli Shekels and bears no interest. The average credit period taken on sales is 75 days (2006: 75 days). Management considers that the carrying amount of the trade receivables approximates their fair value.

Disclosures relating to short term borrowings relating to discontinued operations are provided in note 31.

Inventories are stated net of a provision of €353,000 (2006: €200,000) for slow moving items.

Loss for the year from discontinued operations is stated after charging / (crediting):

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Net foreign exchange losses (gains)	43	(12)
Depreciation of owned fixed assets (note 15)	158	110
Research and development expenditure	-	91
Costs of inventories recognised as an expense	20,844	48,030
Write-downs of inventories recognized as an expense	153	691
Impairment loss recognized on trade receivables	900	130
Settlement costs on repurchase of share options (see note 30)	46	-
Net loss on financial liabilities measured at amortised cost (including finance charges)	656	677

13. LOSS PER SHARE

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
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	<u>7,027</u>	<u>11,136</u>
Weighted average number of shares:	No. of	No. of
	Shares	Shares
For basic and diluted earnings per share	<u>43,214,281</u>	<u>43,214,281</u>
Loss per share from continuing operations (euro cents)	<u>(4.3)</u>	<u>(17.4)</u>
Loss per share from discontinued operations (euro cents)	<u>(12.0)</u>	<u>(8.4)</u>
Loss per share (euro cents)	<u>(16.3)</u>	<u>(25.8)</u>
Number of options that are anti-dilutive:	<u>4,062,000</u>	<u>2,216,687</u>

Telit Communications PLC

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14. INTANGIBLE FIXED ASSETS

GROUP	Finite lived intangible assets						Total €000
	Exclusivity rights €000	Software and licenses €000	Internally generated development costs €000	Customer relationships €000	Acquired development costs €000	Goodwill €000	
COST							
1 January 2006	500	422	-	-	-	-	922
Additions	-	1,481	379	-	-	-	1,860
Arising on acquisition	-	19	-	1,500	645	2,998	5,162
Translation adjustments	-	19	-	(6)	(1)	(6)	(13)
31 December 2006	500	1,922	379	1,494	644	2,992	7,931
Additions	-	1,195	2,538	-	-	-	3,733
Translation adjustments	-	(18)	-	(170)	(73)	(337)	(598)
31 December 2007	500	3,099	2,917	1,324	571	2,655	11,066
ACCUMULATED AMORTIZATION							
1 January 2006	-	(306)	-	-	-	-	(306)
Impairment losses	(500)	-	-	-	-	-	(500)
Charge for the year	-	(67)	-	(176)	(127)	-	(370)
31 December 2006	(500)	(373)	-	(176)	(127)	-	(1,176)
Charge for the year	-	(416)	-	(216)	(261)	-	(893)
Translation adjustments	-	6	-	23	24	-	53
31 December 2007	(500)	(783)	-	(369)	(364)	-	(2,016)
Net book value							
31 December 2007	-	2,316	2,917	955	207	2,655	9,050
31 December 2006	-	1,549	379	1,318	517	2,992	6,755

Goodwill, customer relationships and acquired development costs relate to the acquisition of Telit APAC which is included within the Asia Pacific geographical segment.

The impact of the finalization of the purchase price allocation in the current year on the prior year acquisition of Bellwave M2M Co. Ltd. is disclosed in note 26.

The Group tests goodwill and intangible assets not yet ready for use for impairment annually, or more frequently if there are indications that they might be impaired.

Telit APAC is determined as the cash generating unit for impairment testing purposes, being the lowest level within the Group at which goodwill is monitored for internal management purposes.

The recoverable amount of Telit APAC has been determined based on a value in use calculation using cash flow projections based on financial budgets for a period of five years. The Group's five year cash flow forecast has been derived from the most recent financial budget approved by management adjusted for expected growth for the following 4 years, based on an average estimated growth rate of 22% per year.

Telit Communications PLC

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14. INTANGIBLE FIXED ASSETS (continued)

The discount rate applied of 17% is based on the risk free rate for 30 year bonds, issued by the government in Korea, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of Telit APAC.

In developing its projections, management has had regard to its past experience and external forecasts of growth in the M2M industry. The key assumptions used in determining value in use are:

- Revenue

Management has forecast revenue mainly based on external forecasts of growth in the M2M industry for the APAC region. A declining growth rate has been applied, decreasing from 25% per year to 20% per year over the four year period beyond the most recent financial budget.

Management has forecast changes in the average sales price based on past experience and external forecasts of changes in the selling price in the M2M industry for the APAC region.

- Expected changes in operating costs

Management has forecast changes in operating costs based on the current and expected future infrastructure required to execute the assumed revenues.

- EBITDA margins

EBITDA margins are expected to be in the range of 21-23% over the five year period covered by the forecasts.

The Directors do not consider there to be any reasonably possible changes in key assumptions that would lead to an impairment loss and consequently no sensitivity analysis has been presented.

Telit Communications PLC

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15. PROPERTY, PLANT AND EQUIPMENT

GROUP	<u>Computers</u> €000	<u>Office equipment</u> €000	<u>Vehicles</u> €000	<u>Leasehold Improvements</u> €000	<u>Total</u> €000
COST					
As at 1 January 2006	347	2,328	209	266	3,150
Additions for the year	503	1,369	9	193	2,074
Disposals	(6)	-	(58)	-	(64)
Arising on acquisition	20	311	-	-	331
Translation adjustments	(3)	(3)	(4)	(5)	(15)
As at 31 December 2006	<u>861</u>	<u>4,005</u>	<u>156</u>	<u>454</u>	<u>5,476</u>
Additions for the year	225	947	-	79	1,251
Reclassified as held for sale	(240)	(256)	(156)	(418)	(1,070)
Translation adjustments	-	(85)	-	-	(85)
As at 31 December 2007	<u>846</u>	<u>4,611</u>	<u>-</u>	<u>115</u>	<u>5,572</u>
DEPRECIATION					
1 January 2006	(192)	(1,367)	(111)	(66)	(1,736)
Charge for the year	(96)	(608)	(23)	(36)	(763)
Disposals	-	-	32	-	32
Translation adjustments	5	-	3	2	10
31 December 2006	<u>(283)</u>	<u>(1,975)</u>	<u>(99)</u>	<u>(100)</u>	<u>(2,457)</u>
Charge for the year	(124)	(804)	-	(6)	(934)
Reclassified as held for sale	168	45	99	94	406
Translation adjustments	-	25	-	-	25
31 December 2007	<u>(239)</u>	<u>(2,709)</u>	<u>-</u>	<u>(12)</u>	<u>(2,960)</u>
Net book value					
31 December 2007	<u>607</u>	<u>1,902</u>	<u>-</u>	<u>103</u>	<u>2,612</u>
31 December 2006	<u>578</u>	<u>2,030</u>	<u>57</u>	<u>354</u>	<u>3,019</u>

16. INVESTMENT IN ASSOCIATED UNDERTAKING

GROUP	<u>2007</u> €000	<u>2006</u> €000
Investment in associated undertaking, Cell-Time Ltd		
Cost	1,135	1,135
Translation adjustments	(79)	(70)
Losses accumulated since acquisition	(488)	(486)
	<u>568</u>	<u>579</u>

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16. INVESTMENT IN ASSOCIATED UNDERTAKING (continued)

The accounts of Cell-Time Ltd are drawn up to 31 December 2007 for inclusion in the consolidated financial statements. The summarised financial information of Cell-Time Ltd is as follows:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Balance sheet		
Assets		
Current assets	1,454	1,198
Property, plant and equipment	51	48
Total assets	<u>1,505</u>	<u>1,246</u>
Liabilities		
Current liabilities	1,475	1,212
Long-term liabilities	9	8
Total liabilities	<u>1,484</u>	<u>1,220</u>
	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Income statement		
Revenue	10,915	7,536
Cost of sales	(10,420)	(7,198)
Gross profit	495	338
Operating expenses	(499)	(476)
Financial expenses, net	(1)	(1)
Loss for the year	<u>(5)</u>	<u>(139)</u>

17. OTHER INVESTMENTS

GROUP	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Available for sale investments carried at deemed cost:		
Unlisted equity securities	<u>1,570</u>	<u>-</u>

The Group holds 19.9% of the ordinary share capital of SEM, a company providing integrated technological and logistical services for the high-tech electronics manufacturing market. The Group has a single representative on the board of SEM, with the remaining 5 directors appointed by the other shareholder. The Group does not have any voting rights beyond those conveyed by its shareholding.

Fair value at the date of acquisition of €1,570,000 was estimated based on historic and projected multiples in earnings, revenues and net assets by reference to a basket of comparable companies for which information is publicly available. In doing so, assumptions were made that are not supported by prices from observable prices or rates. Financial information on which such a fair value determination was made is not available to the Group as at 31 December 2007 and consequently the Directors do not consider there is sufficient information available to reliably determine the fair value at that date. The investment has therefore been recorded at deemed cost at 31 December 2007. In doing so, the Directors have considered whether there have been any factors which may indicate that an impairment has arisen, and are satisfied that no such factors exist.

Telit Communications PLC

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18. INVESTMENTS IN SUBSIDIARIES

COMPANY	Loans to subsidiaries	Investments in subsidiaries	Total
	€000	€000	€000
Investment in subsidiaries			
1 January 2006	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
Additions	2,475	-	2,475
31 December 2007	13,472	16,165	29,637
Investment in associated undertaking, Cell-Time Ltd			579
			30,216

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:

•Telit Wireless Solutions Srl ("TWS")	Sardinia, Italy	Ordinary	94.375%	Intermediate holding company
••Telit Communications SpA ("Telit EMEA")	Italy	Ordinary	100%	Development, manufacturing and selling data products and distributing cellular products
•••Telit Communications Spain SL	Spain	Ordinary	100%	Selling and marketing data products
•Telit Wireless Solutions Inc. ("Telit Americas")	United States of America	Ordinary	100%	Selling and marketing data products
•Telit Wireless Solutions Co Ltd ("Telit APAC")	Republic of Korea	Ordinary	90%	Development, manufacturing and selling data products
•••Telit Wireless Solutions Ltd. ("Telit IL")	Israel	Ordinary	100%	Selling and marketing data products

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19. INVENTORIES

GROUP	2007	2006
	€000	€000
Finished goods	6,589	6,345
Spare parts	-	2,216
Raw materials	1,623	1,723
	<u>8,212</u>	<u>10,284</u>

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 €260,000 (2006: €1,033,000, of which €1,022,000 related to activities discontinued in 2007 for which inventories of €4,418,000 was held).

20. RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Within current assets:				
Trade debtors (*)	16,591	17,452	71	-
Other debtors	5,079	6,699	104	268
Due from Group undertakings	-	-	588	306
	<u>21,670</u>	<u>24,151</u>	<u>763</u>	<u>574</u>
Within non-current assets:				
Other long term assets	310	303	-	-
Deferred tax asset (note 9)	3,130	3,803	-	-
	<u>3,440</u>	<u>4,106</u>	<u>-</u>	<u>-</u>
(*) Included trade debtors classified as held for sale	<u>-</u>	<u>8,502</u>	<u>-</u>	<u>-</u>

The average credit period on trade receivables that are neither past due nor impaired is 60 days (2006: 55 days). No interest is charged on trade receivables. The Group has provided against receivables based on estimates of irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Included in the Group's trade debtors balance for the Wireless Solutions Business are debtors with a carrying amount of €3,391,000 (2006: €942,000) which are past due at the reporting date against which the Group has not made a loss provision as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 93 days (2006: 80 days).

Ageing of past due but not impaired trade debtors	2007	2006
	€000	€000
0-30 days	1,510	765
30-60 days	1,706	103
60-90 days	150	16
90-120 days	25	58
	<u>3,391</u>	<u>942</u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Telit Communications PLC

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For the year ended 31 December 2007

20. RECEIVABLES (continued)

The Group's trade receivables are stated after allowances for bad and doubtful debts, an analysis of which is as follows:

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
At 1 January	218	180
Increase in allowance recognised in profit or loss	76	38
At 31 December	<u>294</u>	<u>218</u>

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk in the Group's continuing activities is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. Credit risk in the Group's discontinued activities is disclosed in note 12.

There are no allowances for credit losses recorded against other financial assets.

21. OTHER FINANCIAL ASSETS

	<u>Group</u>		<u>Company</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
Loans and receivables:				
Due from group undertakings	-	-	588	306
Other long term assets	310	303	-	-
Other debtors	3,683	1,460	-	-
	<u>3,958</u>	<u>1,763</u>	<u>588</u>	<u>306</u>
Assets outside the scope of IFRS 7:				
Current assets				
Other debtors	1,396	5,239	104	268
<u>Non-current assets</u>				
Investments in subsidiaries (note 18)	-	-	29,637	27,162
Investments in associates (note 16) (*)	568	579	579	579
	<u>568</u>	<u>579</u>	<u>30,216</u>	<u>27,741</u>
Available-for-sale investments carried at deemed cost:				
<u>Non-current</u>				
Shares in unlisted entities (note 17)	1,570	-	-	-
Total	<u>3,534</u>	<u>5,818</u>	<u>30,320</u>	<u>28,009</u>

(*) In 2006 the investment in Cell-time was purchased by The Company from another group company for a total consideration of €579,000.

Telit Communications PLC

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For the year ended 31 December 2007

21. OTHER FINANCIAL ASSETS (continued)

Included within other debtors are amounts receivable in respect of the Group's grant claims amounting to €3,143,000 (2006: €1,044,000). These debtors do not have a specified date by which payment is due to the company and hence no ageing information is provided. The directors have assessed the credit quality of such receivables and are satisfied that as such amounts are receivable from regional government bodies, no provision for losses is required.

22. CASH

The Group's cash resources are as follows:

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Deposits – restricted cash	6,132	7,115	6,132	7,115
Cash and cash equivalents	5,212	3,926	2,402	1,376
Total	<u>11,344</u>	<u>11,041</u>	<u>8,534</u>	<u>8,491</u>

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

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Sterling	166	239	166	239
Dollar	861	3,122	-	947
Euro	9,470	7,318	8,368	7,305
Other	931	362	-	-
Total	<u>11,428</u>	<u>11,041</u>	<u>8,534</u>	<u>8,491</u>
Analyzed as:				
Cash and cash equivalents from continuing operations	11,344	11,041	8,534	8,491
Cash and cash equivalents from discontinued operations	42	-	-	-
Total	<u>11,428</u>	<u>11,041</u>	<u>8,534</u>	<u>8,491</u>

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 EMEA's borrowings. These deposits attract interest at 2% per annum, which accrues to the benefit of the Group. The deposits would only become available to the Group on cancellation of the Group's borrowing facilities (see note 31).

Telit Communications PLC

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For the year ended 31 December 2007

23. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2007	2006
	€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

The Company has one class of ordinary shares which carry no rights to fixed income.

Share options

The number of outstanding options as of 31 December 2007 and the date of this report is 4,062,000, equal to 9.4% of the outstanding share capital of the Company (8.6% of the outstanding share capital of the Company, on a fully diluted basis).

24. POST-EMPLOYMENT BENEFITS

- A. Until 1 January 2007, employees of Telit EMEA received defined benefit pension arrangements under which employees were entitled to retirement benefit based on the accumulated contributions upon attainment of the retirement age or when leaving the company. Due to changes in applicable retirement and severance benefit legislation in Italy, existing entitlements at 1 January 2007 were frozen. For all new entitlements, employees can elect to have their entitlements paid into a group defined contribution plan or alternatively, into an Italian government defined contribution plan for private sector employees. The accrued benefit at 1 January 2007 is unfunded. The actuarial present value of this frozen defined benefit obligation, the related current service cost and curtailment loss were measured using the traditional 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 term 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.
- C. The amount included in the balance sheet arising from the obligations in respect of the defined benefit scheme of Telit EMEA and the accrued severance pay of Dai Telecom, Telit APAC and Telit Americas are as follows:

	2007	2006
	€000	€000
Movement in post employment benefit obligations		
1 January 2007	1,226	856
Discontinued operation	(63)	
Expense/(income) recognised in the income statement	713	620
Contributions	(321)	(250)
31 December 2007	1,555	1,226

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For the year ended 31 December 2007

24. POST-EMPLOYMENT BENEFITS (continued)

The liability in respect of accrued severance pay for Telit APAC and Telit Americas is €226,000 (2006: €88,000) and the charge to the income statement in the year is €138,000 (2006: €88,000). 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 the income statement in respect of the defined benefit scheme are as follows:

	2007	2006
	€000	€000
Current service cost	46	351
Curtailment loss	464	-
Interest cost	65	32
Actuarial loss/(gain)	(101)	122
Total (expense)/income included in income statement	<u>474</u>	<u>505</u>

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

	2007	2006
	€000	€000
Present value of defined benefit scheme obligation		
1 January 2007	1,075	820
Actuarial loss/(gain)	(101)	122
Service cost	46	351
Curtailment loss	464	-
Interest cost	65	32
Benefits paid	(112)	(250)
Disposal	(108)	-
31 December 2007	<u>1,329</u>	<u>1,075</u>

- F. Financial assumptions

	2007	2006
	%	%
Discount rate	4.40%	4.40%
Expected salary increase rate	3.50%	3.50%
Inflation	2.00%	2.00%

- G. The experience adjustments arising on the plan liabilities at the balance sheet date, totalled €10,000 in 2007 (2006: €151,000).

Telit Communications PLC

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For the year ended 31 December 2007

25. CURRENT LIABILITIES

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Short-term bank loans and other borrowings	15,626	15,429	-	-
Advances on receivables factoring	1,710	927	-	-
Current maturities of long term loans	-	1,019	-	-
Total short-term borrowing from banks and other lenders	17,336	17,375	-	-
Trade creditors (i)	13,498	10,584	-	16
Due to Group undertakings	-	-	3,725	761
Provisions	63	280	-	-
Deferred income	2,797	-	-	-
Other current liabilities	3,229	3,940	604	175
Total current liabilities	36,923	32,179	4,329	952

The directors consider that the carrying amount of short-term borrowings, trade payables and other current financial liabilities approximates to their fair value.

- (i) The average credit period on purchases of certain goods is 60 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

26. ACQUISITIONS

On 26 May 2007 Telit acquired 75% of the issued ordinary share capital of, and voting rights in, Telit APAC. The cost of the business combination was €5,396,000 in cash, including directly attributable costs of €526,000.

At the time of preparation of the financial statements for the year ended 31 December 2006, the purchase accounting was provisionally determined and has since been finalised. This has resulted in a reduction in the amount allocated to customer lists from €4,306,000 to €1,500,000 and development costs from €689,000 to €645,000 with a consequential reduction in the related deferred tax liability from €1,374,000 to €590,000. As a result of the overall reduction in the fair value of intangible assets, the fair value of assets acquired attributable to minority interests reduced from €1,317,000 to €804,000. Goodwill has increased from €1,445,000 to €2,998,000.

The fair value allocated to customer lists has decreased due to a change in the basis of fair value determination. A relief from royalty type approach was used to determine provisional fair values in 2006. However, in finalising the purchase price allocation, the directors consider it more appropriate to use a discounted cashflow approach which entailed forecasting cash flows to be generated by existing customers net of a fair return on the all contributory assets of the business.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

26. ACQUISITIONS (continued)

The final fair value of the assets and liabilities of Bellwave recognised at the acquisition date is as follows:

	<u>Book value</u>	<u>Fair value</u>	<u>Fair value</u>
	<u>(€000)</u>	<u>adjustments</u>	<u>(€000)</u>
		<u>(€000)</u>	<u>(€000)</u>
Assets:			
Trade and other receivables	457	-	457
Inventories	840	-	840
Tangible assets	331	-	331
Intangible assets:			
Customer list	-	1,500	1,500
Development cost	-	645	645
Other	19	-	19
Deferred tax liabilities	-	(590)	(590)
	<u>1,647</u>	<u>1,555</u>	<u>3,202</u>
Minority interests			(804)
Goodwill			<u>2,998</u>
Total purchase consideration (including directly attributable costs of €526,000)			<u>5,396</u>
Net cash outflow arising on acquisition			<u>5,396</u>

The consolidated balance sheet and income statement as at and for the year ended 31 December 2006 have been restated as a result of the final purchase price allocation in accordance with the provisions of IFRS 3. The impact of the restatement is presented below:

	<u>Balance as at 31</u>		<u>Restated</u>
	<u>December 2006</u>	<u>Restatement</u>	<u>Balance</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>
Intangible assets	7,710	(955)	6,755
Deferred tax liabilities	(1,193)	686	(507)
Total shareholders' equity	(22,765)	(183)	(22,948)
Minority interests	(1,248)	452	(796)
Operating loss	(7,406)	336	(7,070)
Loss for the period	(7,748)	244	(7,504)

The impact of the restatement has been to reduce the basic and diluted loss per share by 0.42 euro cents for the year ended 31 December 2006 from that previously reported.

The impact of the finalisation of the purchase price allocation on segmental results and assets of the APAC region is summarised below:

- As a result of a reduction in the fair value of identified intangible assets and consequent reduction in amortization, the operating loss of the APAC region for the year ended 31 December 2006 reduced from €357,000 to €21,000; and
- Total assets for the APAC region at 31 December 2006 have decreased from €9,511,000 to €8,556,000.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

26. ACQUISITIONS (continued)

During May and June 2007 Telit increased its interest in Telit APAC from 75% to 90% of the issued ordinary share capital by way of a further share subscription for cash amounting to €2,403,000. The Company has accounted for this deemed acquisition based on the book values of the net assets of Telit APAC at the date of the injection. As a result of this transaction, minority interests have been reduced by €318,000. The negative goodwill of €318,000 arising has been recorded as a credit to the income statement.

	Book values prior to subscription (€000)	Subscription (€000)	Book values after subscription (€000)
Assets:			
Cash	(1,047)	2,403	1,356
Trade and other receivables	3,260		3,260
Inventories	1,595		1,595
Long term assets	253		253
Tangible assets	668		668
Intangible assets:			
Customer list	1,192		1,192
Development cost	377		377
Other	466		466
Current and long term liabilities	(2,603)		(2,603)
Deferred tax liabilities	(431)		(431)
Net assets at date of deemed acquisition	<u>3,730</u>	<u>2,403</u>	<u>6,133</u>
Minority interests:			
Prior to share subscription at 25%			931
Subsequent to subscription at 10%			613
Negative goodwill arising			<u>318</u>

27. COMMITMENTS AND CONTINGENCIES

Legal proceedings affecting continuing operations

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

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

Telit EMEA filed a defence brief. Telit EMEA 's lawyer has advised that it is probable that Telit EMEA will make no payment. Having had regard to the available evidence and having taken advice from internal counsel and external legal advisors, the Group has determined that it is not probable that there will be an outflow of economic benefits required to settle this legal claim and consequently no provision has been recognized.

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27. COMMITMENTS AND CONTINGENCIES (continued)

- B. Euroinvest S.r.l. ("Euroinvest") has made a claim for payment of a total amount of €0.5 million (VAT excluded) from Telit EMEA for a success fee in connection with assistance allegedly provided to Telit EMEA in connection with the filing of two grant applications from the Italian Ministero delle Attività Produttive.

The Group has not rejected the fact that Euroinvest was requested to provide such assistance. However, none of the sums (from which Euroinvest alleged success fee is to be calculated) have been received by the Group. Further, in the opinion of the Directors, Euroinvest has made some false representations concerning the application process and the applications finally approved by the Italian Ministero delle Attività Produttive are considered to be materially different from those with which Euroinvest are asserting that they provided assistance.

In July 2007 Euroinvest obtained from the Montepulciano Court an injunctive decree for the sum of €611,945 against Telit EMEA who served a summons in opposition to the injunction, based on the arguments mentioned above.

The first hearing had been scheduled for 26 February 2008 but has been postponed to 25 November 2008.

Having had regard to the available evidence and having taken advice from internal counsel and external legal advisors, the Group has determined that it is not probable that there will be an outflow of economic benefits required to settle this legal claim and consequently no provision has been recognized.

Legal proceedings affecting discontinued operations

- C. On 17 March 2006, 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 claimed damages and loss of future profits as a result of the termination of the agreements amounting to approximately €1.6 million. On 5 September 2006, 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 2001 and 2002.

During 2007 the parties reached an agreement according to which Dai Telecom received from Sony Ericsson \$300,000 and a waiver of any monies due to it. This matter is now closed.

- D. In March 2006, Telit EMEA received a summons for arbitration proceedings from one of its past suppliers, according to which the supplier claimed the enforcement of an agreement with Telit EMEA to the amount of €506,000. Telit EMEA rejected such claims due to the supplier's failure to deliver the agreed products and services to Telit EMEA.

In August 2007 the arbitration panel ruled in favors of the supplier and as a consequence Telit EMEA is to pay approximately €700,000 including interest and expenses. This amount has been fully provided for within discontinued operations.

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27. COMMITMENTS AND CONTINGENCIES (continued)

- E. In 2006 Telit EMEA acquired the full right to pursue the collection of an outstanding amount of approximately US\$ 1,572,000 against Nextel Operations for a consideration of US\$125,000. Previously, the claim against Nextel operations had been brought by two parties under a joint claim.

The outstanding receivable derived from the allegedly wrongful termination by Nextel of an agreement entered into in September 2002, pursuant to which Finmek Telit had agreed to develop certain products in the interest of Nextel, through the operations of its affiliated company, Telital Denmark. Telital Denmark subsequently went into voluntarily liquidation.

In November 2007 the Company entered into a settlement agreement with Nextel according to which the latter paid to the Company an amount of \$1.0 million following which the Company's claim against Nextel was dropped. Net income of €373,000, after offsetting the receivables recognised in prior periods, related to this case has been recorded as an income within discontinued operations.

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	
	2007	2006	2007	2006
	€000	€000	€000	€000
Operating leases which expire:				
Within one year	970	746	385	165
In the second to fifth years inclusive	2,504	1,206	561	165
	<u>3,474</u>	<u>1,952</u>	<u>946</u>	<u>330</u>
Minimum lease payments under operating leases charged to the income statement for the year	<u>732</u>	<u>746</u>	<u>353</u>	<u>165</u>

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

Guarantees and liens

- G. The Company provided guarantees to certain suppliers of Telit EMEA, to sustain credit lines to be granted by the suppliers in respect of purchases made. The guarantees shall not exceed the amount of €7.0 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 €20.7 million.

At the balance sheet date the Company had deposited €6.1 million in Italian bank accounts, to act as security in relation to the credit facility granted by those banks (see note 31).

- H. The Group has pledged in favour of BAMES, and to maintain such pledge in force until termination of the Strategic Alliance with BAMES, simultaneously with the first capital injections: on a quota equal to 2% of TWS' corporate capital; simultaneously with the payment made by BAMES of the second capital injection: on a quota equal to 1% of TWS' corporate capital, it being understood that the rights to votes, dividends and/or other distributions will remain with Telit Communications PLC in respect of such quotas.

Telit Communications PLC

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For the year ended 31 December 2007

27. COMMITMENTS AND CONTINGENCIES (continued)

Sardinia Grant

- I. Telit EMEA was previously declared eligible to receive an €11.4 million grant, and a €14.1 million preferential rate loan facility, under a business development program sponsored by the Ministry of Trade and Commerce in Italy. This programme was awarded to Telit EMEA to invest in research and development in a new R&D centre in preferred areas in Italy. Since the original grant approval, the Group has reduced the scale of its planned R&D programme and has resubmitted a revised plan to the Ministry of Trade and Commerce in Italy. The Group has received confirmed of acceptance of this revised plan, which will, subject to satisfaction of certain conditions, provide the Group with a grant of €6.3 million and a preferential rate loan of €7.8 million. As of 31 December 2007 Telit Italy invested approximately €3.6 million (2006: €2.5 million) in this grant project, and has received a bank loan of €8.0 million (2006: €8.0 million) as an advance against the expected cash inflow from the Ministry of Trade and Commerce (see note 31). The bank loan has a maturity date of 1 July 2008.

During the year, the Company achieved an extension in the repayment date of the bank loan it has received a bank as an advance against the expected cash inflow from the Ministry of Trade and Commerce (see note 31).

As of 31 December 2007 no income has been recognized from the grant from this project as the qualifying conditions had not been met.

28. PROVISIONS

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Warranty provision		
1 January	349	672
Utilised in the year	144	(323)
Reclassified as held for sale	(349)	-
31 December	<u>144</u>	<u>349</u>
Classified as:		
Current liabilities	63	280
Non-current liabilities	81	69
31 December	<u>144</u>	<u>349</u>

The Group provides warranty on the sale of its m2m products for a period of 15 months. The Group has provided for the estimated cost of replacement or repair of those products on which it expects to receive warranty claims during that period. The actual cost of warranty repair is dependent on the number of returns during the warranty period and the nature of the repairs to be undertaken or the product replacement cost.

29. OTHER LONG-TERM LIABILITIES

As at 31 December 2007, other long-term liabilities of €4,430,000 mainly represent deferred income expected to be recognized after more than one year on the transactions with BAMES. This amount, together with an amount of €2,797,000 included in current liabilities, represents the premium received from entering into the manufacturing agreement and is being amortised over the minimum purchase commitments given by the Group. See note 8 for further information.

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30. SHARE-BASED PAYMENTS

	Number		Weighted average exercise price (pence)	
	2007	2006	2007	2006
Outstanding at beginning of year	2,216,687	1,976,570	1.25	1.40
Settled during the year	(1,682,570)	-	1.40	-
Granted during the year	4,062,000	490,117	0.55	0.70
Lapsed during the year	(534,117)	(250,000)	(0.70)	(1.40)
Outstanding at year end	<u>4,062,000</u>	<u>2,216,687</u>	<u>0.55</u>	<u>1.25</u>
Exercisable at year end	<u>-</u>	<u>431,643</u>	<u>-</u>	<u>1.40</u>

- A. The options outstanding at 31 December 2007 had an exercise price of between £0.43 to £0.60, and a weighted average remaining contractual life of 4 years and 5 months. In 2007, options were granted on 2 April, 10 and 11 July. The aggregate estimated fair values of the options granted on those dates was € 1,212,000, equal to a fair value of £0.30 per share.
- B. On 2 April 2007 certain senior employees and executive directors were granted 1,300,000 equity-settled share options exercisable into 1,300,000 ordinary shares at an exercise price of £0.43. The options vest in two equal instalments on 1 January 2008 and 1 January 2009. The options expire five years from the date of grant.

The fair value of the options granted that according to management estimates will vest is €302,000, 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	£ 0.385
Exercise price	£ 0.43
Expected share price volatility	60%
Expected life of options	3 years
Risk free rate	4%
Fair value of option grant	15.7 pence

- C. On 10 and 11 July 2007 certain senior employees, non-executive directors and consultants to the Group were granted 2,762,000 equity-settled share options exercisable into 2,762,000 ordinary shares at an exercise price of £0.60. 1,200,000 options vest in two equal instalments on 10 July 2008 and 10 July 2009 and 1,562,000 options vest in three equal instalments on 10 July 2008, 2009 and 2010. The options expire five years from the date of grant.

The fair value of the options granted that according to management estimates will vest is €910,000, 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	£ 0.575
Exercise price	£ 0.60
Expected share price volatility	60%
Expected life of options	3-4 years
Risk free rate	4%
Fair value of option grant	25.5 pence

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30. SHARE-BASED PAYMENTS (continued)

D. Option repurchases

On June 2007, the Company repurchased 1,682,570 outstanding options which were granted on 30 September 2005 under to the Company's share option scheme. The options were settled at €0.15 per option for a total of employer cost of €299,970.

The fair value of the repurchased options at the grant date was €516,000. A total of €258,000 had been charged to the income statement as at 31 December 2006. The remaining amount of €258,000 was expensed at the date of settlement.

The fair value of the options settled on the repurchase date was €29,000. Therefore an incremental fair value charge of €271,000 was charged to the income statement in the current year, representing the difference between the consideration paid on settlement and the fair value of the repurchased options, measured at the date of repurchase.

The inputs into the Black Scholes model used to determine the fair value of options at the date of repurchase were as follows:

Share price	£ 0.52
Exercise price	£1.40
Expected share price volatility	40%
Expected life of options	1-3 years
Risk free rate	3.31%
Fair value of option grant at settlement date	0.01 pence

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 Group recognised a total expense of €1,138,000 in respect of equity settled share based payment transactions for the year ended 31 December 2007 (2006: €1,218,000).

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

31. BORROWINGS

	Group		Company	
	2007	2006	2007	2006
	€'000	€000	€000	€000
Unsecured – at amortised cost				
Short-term bank loans and other borrowings	655	-	-	-
Current maturities of long term loans	-	1,019	-	-
Total short-term borrowing from banks and other lenders	655	1,019	-	-
Other long-term loans	500	2,035	500	-
Total	1,155	3,054	500	-
Secured – at amortised cost				
Factoring companies	1,710	927	-	-
Short-term bank loans and other borrowings	19,178	15,429	-	-
Total	20,888	16,356	-	-
Disclosed in the financial statements as:				
Current borrowings (continuing operations)	17,336	17,375	-	-
Non-current borrowings (continuing operations)	500	2,035	500	-
Current borrowings (discontinued operations – see note 12)	4,207	-	-	-
Total	22,043	19,410	500	-

The other long-term loan of €500,000 in the Group and Company balance sheets does not attract interest. The fair value of the loan at the balance sheet date was €430,000.

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 1 July 2008. Management believes the availability of this facility will be extended beyond 1 July 2008, 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 Telit EMEA to support a development project in Sardinia. The Company has provided a letter of guarantee of €8 million in favour of the lending bank, under which it has guaranteed the prompt payment to the lending bank of all sums which may become due in connection with the loan.
- A bank overdraft of €4.0 million. The overdraft facility, which is available up to €6.0 million, is cancellable on demand but is without a fixed renewal date.
- Drawn letters of credit and borrowings arising from invoice advances totalling €3.6 million in Telit EMEA. These borrowings, including the bank overdraft, are secured by cash deposits provided to the lending banks of €6.1 million and a letter of guarantee issued by the Company of €3 million, under which the Company has guaranteed the prompt payment to the lending bank of all sums which may become due. As part of this guarantee, the Company has guaranteed not to dispose of any interest in subsidiaries without the prior consent of the lending bank. The total available lines of credit and invoice advance facilities at 31 December 2007 was €9.4 million, with the remainder cancellable on demand, but without a fixed maturity date.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

31. BORROWINGS (continued)

- Short-term bank loan of €4.2 million secured by liens on all the funds due from Telit Wireless Products' major customer in connection with specific orders received from that customer.
- Factoring facilities against qualifying receivables totalling €1.7 million. These borrowings are secured against the factored receivables and are with recourse to the company in the event that the receivables are not collected. The total available factoring facilities in the Group's Italian subsidiary are €2.5 million, provided there exists a satisfactory level of qualifying debtors, which are cancellable on demand but are without a fixed maturity date.

32. RECONCILIATION OF NET CASH FLOWS TO OPERATING ACTIVITIES

	Group		Company	
	2007	2006	2007	2006
		(Restated)		
	€000	€000	€000	€000
Loss for the period from continuing operations	(1,878)	(7,504)	(1,170)	(386)
Adjustment for:				
Depreciation and amortization	1,854	1,023	-	-
Impairment of intangible assets	-	500	-	-
Income tax expense	597	91	-	-
Investment income	(277)	(190)	(733)	(670)
Finance costs	1,241	492	-	-
Increase in provision for post employment benefits	402	343	-	-
Share-based payment charge	1,013	408	-	-
Non-recurring credit relating to negative goodwill	(318)	-	-	-
Gain on deemed partial disposal of subsidiary	(1,194)	-	-	-
Loss on disposal of fixed assets	-	7	-	-
Share in result of associated undertaking	2	41	-	-
Operating cash flows before movements in working capital:				
(Increase) decrease in trade receivables	(7,780)	1,462	(71)	-
Decrease (increase) in other current assets	683	(2,824)	34	27
Increase in inventories	(2,228)	(600)	-	-
Increase (decrease) in trade payables	5,155	(109)	(16)	(49)
Increase (decrease) in other current liabilities	2,647	(1,549)	393	(300)
(Decrease) increase in other long term liabilities	(629)	138	-	-
Cash used in operations	(710)	(8,271)	(1,563)	(1,378)
Income tax paid	(139)	(739)	-	-
Interest received	243	318	128	320
Interest paid	(934)	(896)	-	-
Net cash used in continuing operations	(1,540)	(9,588)	(1,435)	(1,058)

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. 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 and movements in the value of equity in unlisted securities held by the Group.

Foreign currency risk

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.

Foreign exchange exposure arises where the Group's companies transact in a currency different from their functional currency. .

The carrying amount of the Group's monetary assets and liabilities at the reporting date, denominated in currency different to the functional currency of the entity in which such monetary assets and liabilities are held is as follows:

	Assets		Liabilities	
	2007	2006	2007	2006
	€000	€000	€000	€000
Sterling	166	239	-	-
US Dollar	953	4,710	541	1,154

The following table details the Group's sensitivity to a 10 per cent change in euro against the respective foreign currencies. 10 per cent represents management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and where euro strengthens against the respective currency.

	Group	
	2007	2006
	€000	€000
Impact on profit or loss	(6)	380

There would be no impact on equity arising from foreign exchange transaction exposures.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk comprises the interest cash flow risk resulting from short-term borrowings at variable rates. As disclosed in note 31, 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.

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 1 per cent change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 1% higher/lower and all other variables were held constant, the Group's net loss would increase/decrease by € 155,000 (2006: decrease/increase by € 131,000), there is no material impact upon equity. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period due to the increase in loan balances.

Other price risks – equity price sensitivity

For 2007, the Group is for the first time exposed to equity price risks arising from the holding of equity investments in unlisted securities. The equity investment in SEM is held for strategic rather than trading purposes. The Group does not actively trade this investment which at 31 December 2007, is held at deemed cost of €1,570,000. It is not practicable to provide sensitivity analysis since it is not possible to reasonably determine fair value since this investment is an unquoted equity investment.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Financial assets that potentially subject the Company and its subsidiaries to concentration of credit risk consist principally of trade receivables. The Group's trade receivables are derived from sales to 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.

Credit risk associated with the Groups cash and cash equivalents and restricted cash deposits is managed by only placing funds on deposit with internationally recognised banks with suitable credit ratings.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL RISK MANAGEMENT (continued)

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk:

Maximum credit risk:

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Group				
Cash and cash equivalents	5,212	3,926	2,402	1,376
Deposits – restricted cash	6,132	7,115	6,132	7,115
Trade receivables	16,591	17,452	71	-
Guarantee provided to banks on subsidiary's borrowings	20,700	21,600	20,700	21,600
Guarantees provided to suppliers	7,000	12,500	7,000	12,500

Activities that give rise to credit risk and the associated maximum exposure include, but are not limited to:

- making sales and extending credit terms to customers and placing cash deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
- granting financial guarantees to lending banks which may be called in the event of failure by a subsidiary to repay amounts due to the lending bank when due. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be greater than the amount recognised as a liability as at 31 December 2007 where such guaranteed borrowings were not fully drawn at that date; and
- granting financial guarantees to suppliers which may be called in the event of failure by a subsidiary to repay amounts due to the supplier when due. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called in, which may be greater than the amount recognised as a payable at 31 December 2007.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 31 are details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The following table details the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL RISK MANAGEMENT (continued)

Group

	2007			2006		
	Weighted average effective interest rate	Less than 1 year	1 to 3 years	Weighted average effective interest rate	Less than 1 year	1 to 3 years
	%	€000	€000	%	€000	€000
Fixed rate	5.25%	1,862		5.64%	3,225	-
Variable rate debt	5.65%	15,474		5.25%	13,145	-
Non- interest bearing debt	-	-	500	-	1,005	2,035
Guarantees	-	20,700	-	-	21,600	-

Company

	2007			2006		
	Weighted average effective interest rate	Less than 1 year	1 to 3 years	Weighted average effective interest rate	Less than 1 year	1 to 3 years
	%	€000	€000	%	€000	€000
Non- interest bearing debt	-	-	500	-	-	-
Guarantees	-	20,700	-	-	21,600	-

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.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Current financial assets:				
Cash and restricted cash	11,344	11,041	8,534	8,491
Trade receivables	16,591	17,452	71	-
Loans and receivables – other debtors	3,683	1,460	-	-
Loans and receivables – due from group undertakings	-	-	588	306
Assets not meeting the definition of a financial asset				
Inventories	8,212	10,284	-	-
Other debtors	1,396	5,239	104	268
Current assets	<u>41,226</u>	<u>45,476</u>	<u>9,297</u>	<u>9,065</u>
Non-current financial assets:				
Available-for-sale investments	1,570	-	-	-
Loans and receivables	310	303	-	-
Assets not meeting the definition of a financial asset / outside the scope of IFRS 7				
Intangible assets	9,050	6,755	-	-
Property, plant and equipment	2,612	3,019	-	-
Investments in associated undertakings	568	579	579	579
Investments in subsidiaries	-	-	29,637	27,162
Deferred tax asset	3,130	3,803	-	-
	<u>17,240</u>	<u>14,459</u>	<u>30,216</u>	<u>27,741</u>

Investments in associated undertakings and investments in subsidiaries are accounted for in accordance with IAS 27 Consolidated and Separate Financial Statements and hence are outside the scope of *IFRS 7 Financial instruments: Disclosure*.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL RISK MANAGEMENT (continued)

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Financial liabilities at amortised cost				
Short-term borrowings from banks and other lenders	17,336	17,375	-	-
Trade payables	13,498	10,584	-	16
Other current liabilities –				
Due to group undertakings	-	-	3,725	761
Others	599	565	-	-
Liabilities not meeting the definition of a financial liability:				
Provisions	63	280	-	-
Other current liabilities	5,427	3,375	604	175
Total current liabilities	36,923	32,179	4,329	952
Non-current financial liabilities:				
Other loans	500	2,035	500	-
Assets not meeting the definition of a financial liabilities / outside the scope of IFRS 7				
Post-employment benefits	1,555	1,226	-	-
Deferred tax liabilities	329	507	-	-
Provisions	81	69	-	-
Other long-term liabilities	4,430	175	-	-
	6,895	4,012	500	-

None of the Group's long-term liabilities meet the definition of a financial liability set out in IAS 32 *Financial instruments: Presentation* or in the case of post-employment benefits, are outside the scope of IFRS 7 *Financial instruments: Disclosure* and hence are excluded from the table set out above.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 31, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity on page 37.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL RISK MANAGEMENT (continued)

Gearing Ratio

The Group defines debt as both long and short term borrowings as detailed in note 31. Equity includes all capital and reserves of the Group attributable to the equity holders of the parent. The Group's gearing ratio at the year-end is as follows:

	Group	
	2007	2006
	€000	€000
Debt	17,836	17,375
Cash and cash equivalents, including restricted cash	11,344	11,041
Net debt	<u>6,492</u>	<u>6,334</u>
Shareholders' equity	15,772	22,948
Net debt to equity ratio	<u>41%</u>	<u>28%</u>

The Group is not subject to any externally imposed capital requirement.

34. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

GROUP

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 entered into a management agreement with Polar (the former parent company) according to which Polar provided management services in consideration for an annual payment in the amount of US \$100,000 (2006 - \$100,000). This agreement was terminated in May 2007 and a prorated management fee of \$35,000 was paid to Polar.
- 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. Dai Telecom had an option to extend 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 2007 was €89,000 (2006 – €54,000).

Effective as from 1 October 2006 the lease agreement period was extended by 3 years, and the monthly rental was increased to €9,000 .

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

- C. On April and July 2007 the Company granted the following key personnel options exercisable into ordinary shares.

	Number of options granted unvested
Chairman of the Board	700,000
Director	400,000
CEO	925,000
CFO	100,000

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 €582,000.

- D. Remuneration of key management personnel:

	Group	
	2007	2006
	€000	€000
Share based payments	582	-
Short-term employee benefits	1,147	1,742
Post employment benefits	26	73
Total	<u>1,778</u>	<u>1,815</u>

- E. The Company's CEO, Oozi Cats and, in 2006 only, a member of key management personnel and others provided consulting services to Telit EMEA pursuant to an agreement dated 5 January 2004, as amended on 26 April 2006, between Excalibur Consulting Group LLC ("Excalibur") and Telit EMEA. Excalibur charged services amounting to €688,500 for the year ended 31 December 2007, of which €629,900 related to consulting services provided by Oozi Cats, and €30,000 related to other consultants (31 December 2006 - €921,000 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 2007 and 2006.
- F. Mr. Cats directly holds 2,850,357 Ordinary Shares, representing 6.60% of the issued share capital of the Company. Mr. Cats also holds 50% of the issued share capital of Boostt B.V. ("Boostt"). Boostt, along with its parent companies Franco Bernabe & T SL ("FBT") and FB Net Holding B.V. ("FB Net"), holds 13,500,000 Ordinary Shares, representing 31.24% of the issued share capital of the Company.

Mr. Cats has certain voting understandings with certain members of the FB Net group of companies. Therefore, the FB Net group of companies and Mr. Cats are, in aggregate, interested in 16,350,357 Ordinary Shares, representing 37.84% of the issued share capital of the Company.

Telit Communications PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

COMPANY

Related party transactions between the Company and its subsidiaries and associates are summarized below:

(a) **Accounts receivable** - See note 20.

(b) **Accounts payable** - See note 25.

(c) Trading transactions

	<u>2007</u>	<u>2006</u>
	<u>€000</u>	<u>€000</u>
Revenue from services provided to subsidiary	152	157
Cost of sale - purchases from subsidiary	55	-

(d) **Loans receivable** – See note 18.

(e) Financing transactions

The Company provided guarantees to certain suppliers of Telit EMEA amounting to €7.0 million (2006: €12.5 million).

In addition the Company provides guarantees to certain banks in Italy and Korea, amounting to €20.7 million (2006: €14.6 million).

At the balance sheet date the Company had deposited €6.1 million (2006: €7.1 million) in Italian bank accounts, to act as security in relation to the credit facilities granted by those banks to Telit EMEA.

35. 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 €1,170,000 (2006: loss of €386,000).

Company Information

Directors, Secretary and Advisers

Company Registration No. 05300693

Directors

Enrico Testa, Chairman

Oozi Cats, Chief Executive Officer

Michael Galai, Finance Director

Giovanni Stella, Non-Executive Director

Amir Scharf, Non-Executive Director

Andrea Mandel-Mantello, Non-Executive Director

Maurizio Gasparri, Non-Executive Director

Company Secretary

Michael Galai

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Chartered Accountants, London

Registrar

Capita Registrars Limited

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Company & Share Information:

Listing | London AIM, Ticker: TCM

Core Business | Machine-to-Machine Wireless Solutions

Number of Employees worldwide | 257

Number of Shares Outstanding | 43.2M

Financial Year End | December 31

Accounting Standards | IFRS

