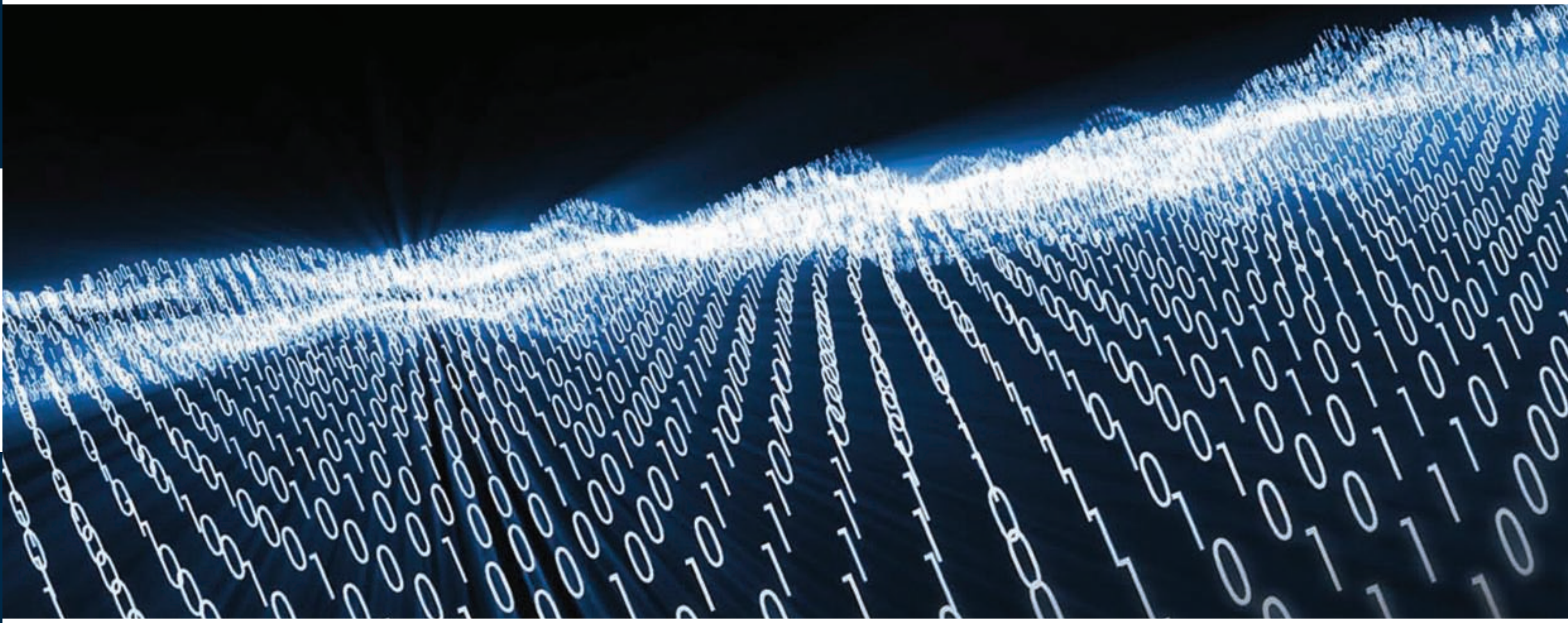
Annual Report | 2008



Telit Communications PLC

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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, CDMA/EVDO and short range RF (including WiFi and ZigBee) 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 a 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 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 modernise.

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.

Financial Highlights

Revenue increased by 13% to €59.1 million (2007: €52.2 million)

Revenue includes licence income of €1.5 million for the use of the Telit nominative trade-name by SEM (2007 included licence income of €1.5 million from the Italian company, Bardi)

Gross profit increased by 32% to €29.1 million (2007: €22.0 million)

Gross margin increased to 49.2% (2007: 42.1%)

Operating profit for the year €0.6 million (2007: loss of €1.5 million)

Adjusted EBITDA[1] for the year €3.7 million (2007: €1.4 million)

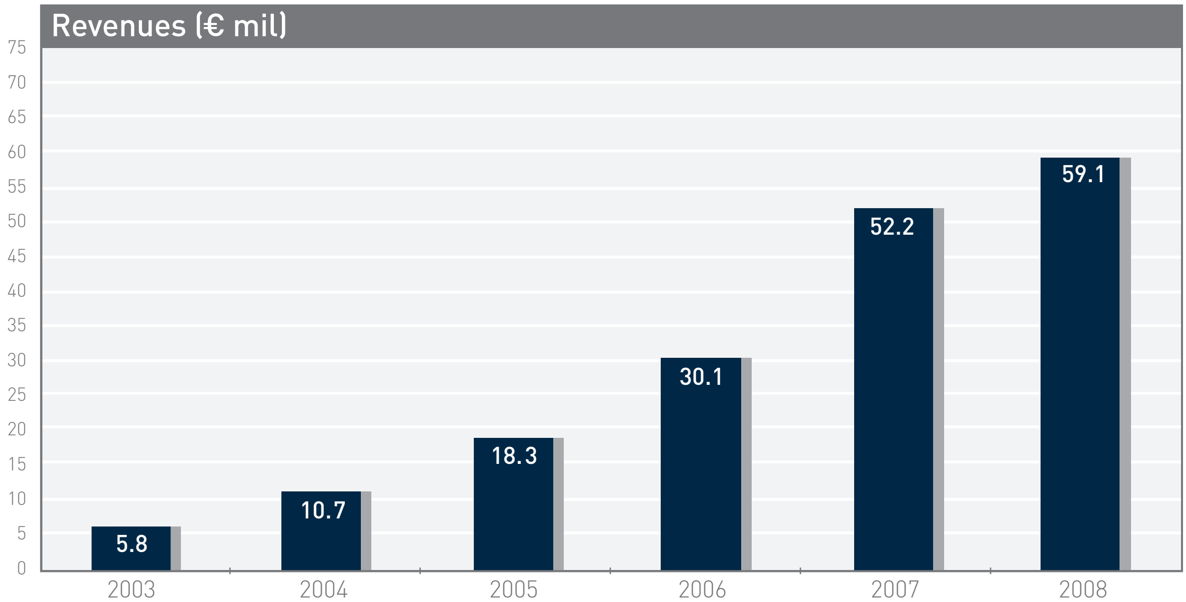
Profit before tax from continuing operations of €1.2 million (2007: loss of €1.3 million)

Loss for the year from continuing operations, after writing down deferred tax assets by €3.0 million, of €1.4 million (2007: loss of €1.9 million)

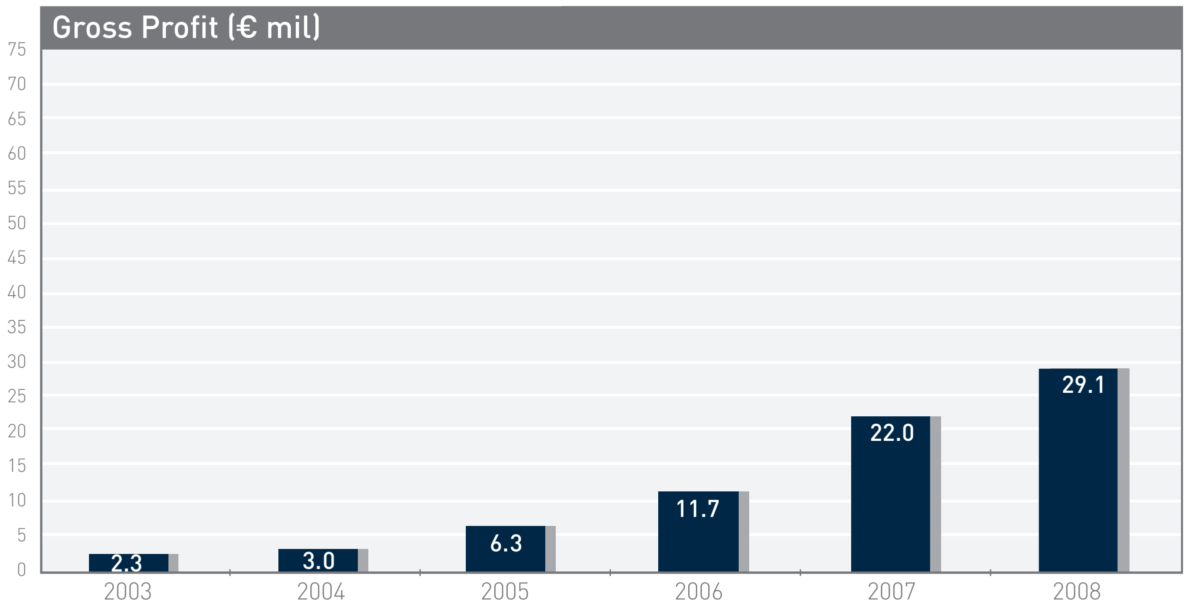
Loss for the year, including discontinued operations, decreased by 54% to €3.2 million (2007: €7.1 million).

The second and last investment by BAMES into Telit Wireless Solutions Srl of €7.0 million in cash, out of a total of €16.0 million, was completed in December 2008.

[1] Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization and share based payments from continuing operations and, for 2007 only, expenses related to aborted transaction costs.



Revenues (€ mil)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
0
5.8
10.7
18.3
30.1
52.2
59.1
2003
2004
2005
2006
2007
2008

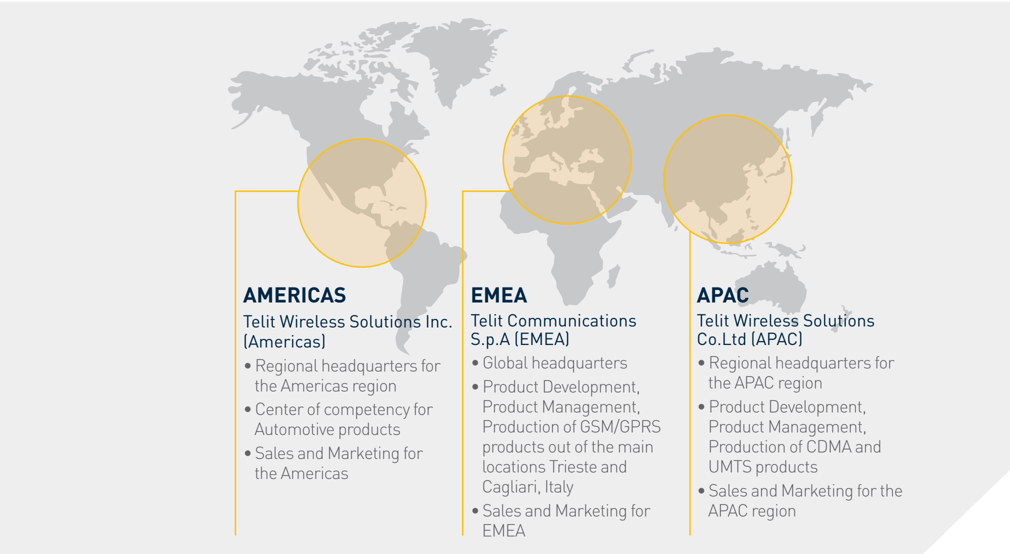


Gross Profit (€ mil)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
0
2.3
3.0
6.3
11.7
22.0
29.1
2003
2004
2005
2006
2007
2008

6 We live m2m

At the heart of Telit 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:

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



Telit Worldwide

Telit sells its products through a network of value added resellers to more than 3,000 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 more than 35 distributors.

Telit's headquarters are in Rome, Italy, with regional headquarters in Trieste, Italy, Tel-Aviv, Israel, Raleigh NC, USA, Sao Paulo, Brazil and Seoul, Korea. Its R&D centers are in Trieste and Cagliari, Italy, Seoul, Korea and Sofia Antipolis, France, with regional sales offices in Brazil, China, Denmark, France, Germany, Great Britain, Israel, Italy, Korea, Spain, the Republic of South Africa, Taiwan, and the USA. Telit employs approximately 350 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 and cellular distributors, as well as designers, manufacturers and system integrators of cellular m2m module-based applications.

Telit's Strategy

Our strategy for 2009 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, as expanded during 2008.

Competitive Advantage

Based on its extensive R&D experience, gained through 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. Underpinning 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 same size, the same shape, the same connectors and the same software interface. The advantage for users is self-evident: all modules in a family are interchangeable. Above all, customers can easily replace the modules with successive products without changing the application. This reduces effort, time and costs associated with development. As a result, 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 the 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 offering 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 technologies 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 & Chief Executive's Statement

Chairman's Statement

Enrico Testa, Chairman of the Board

We are pleased to present Telit Communications PLC's 2008 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. 2008 has been the first year to show full year positive EBIT from continuing operations and also marks Telit's move into a full year profit before tax. Further information on these and other performance measures are included in the Chief Executive's Review.

During 2008 Telit continued its revenue growth while improving its gross margin and profit, achieved in a year that has seen the worst economic climate in decades. Telit's continued growth 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 workforce.

We expect to leverage on these and other advantages and strengths in 2009 and beyond and I look forward to presenting to you Telit's continued growth and increased profitability in the years to come.

Enrico Testa

Chairman of the Board
29 May 2009

Chief Executive's Statement And Review

Oozi Catz, Chief Executive Officer

2008 has been another year of growth for Telit, in spite of the global economic slowdown. We achieved a revenue growth of 13%, an operating profit of €0.6 million, a positive adjusted EBITDA of €3.7 million and, I am very pleased to note, a profit before tax from continuing operations of €1.2 million. Naturally, the global recession has taken its toll on Telit as sales did not achieve the growth rates of previous years, although the results were in line with market expectations, with EBIT and adjusted EBITDA above expectations. We acted swiftly in preparing detailed plans for meeting the immense challenges, and opportunities that the recession presents to us, while continuing to win new business, gain market share and retain our existing customer base.

Although we have continued to feel the effects of the global recession in the first months of the current year, we continue to believe in the sound base of the m2m market and of our growing stake in it and are confident that our business will continue to grow even in these troubled times.

Below are the key financial performance measures for continuing operations for 2008 and 2007:

	2008 €'000	2007 €'000
Revenue [1]	59,083	52,189
Gross profit	**29,096**	**21,988**
Gross margin	49.2%	42.1%
Other income	1,002	2,457
Research & Development [2]	(9,577)	(8,672)
Selling & Marketing [2]	(10,694)	(8,792)
General & Administrative [2]	(8,827)	(6,952)
Share based compensation	(436)	(1,138)
Other Expenses	-	(400)
Operating profit / (loss)	564	(1,509)
Adjusted EBITDA	3,673	1,398

[1] Including licence and royalty income (2008: €1.7 million; 2007: €2.3 million)
[2] excluding share-based payment charges.

During 2008, Telit continued to invest in its global expansion by opening new offices in the Republic of South Africa and in Brazil, where local outsourced manufacturing commenced in July 2008. We see the Brazilian market as a major field for future growth both locally and as a gateway to the Latin American market. Telit also increased the number of employees in a number of existing key locations, mainly China and the U.S.

In November 2008, Telit completed the acquisition of One RF Technology S.A.S. (since renamed Telit RF) for a consideration of 1,300,000 new ordinary shares in the Company. Telit RF, a private French company which designs wireless data transmission solutions for m2m and telemetry applications and developed its own ZigBee™ solutions that complement Telit's existing product offering and business. Telit RF's strategic acquisition will enable Telit to capture m2m market segments that require short range solutions or combined solutions integrating short range and cellular technologies. Telit RF has two product lines for the m2m market based on standard ZigBee™ and proprietary mesh IEEE 802.15.4 protocols. These products are based on proprietary software developed by Telit RF. Telit has already added these products to its offering to existing and potential m2m customers. Furthermore, based on this technology Telit will develop and offer routers and gateways that will ease the deployment of short range mesh networks connected via cellular infrastructure. Telit RF and its 15 employees have been fully integrated with the 40 employees Telit has in its Solutions R&D centre located in Sardinia.

Chief Executive's Statement

The second and last installment of the €16.0 million investment by BAMES into Telit Wireless Solutions was completed in December 2008, as Telit met all the conditions prerequisite to the investment.

Towards the end of 2008 we entered into a transaction with BAMES' electronics manufacturing subsidiary, SEM. This transaction included price reductions for past and future purchases made by the Group under its existing outsourced manufacturing agreement with SEM and also provided SEM the right to use the "Telit" nominative trade name in SEM's line of WiMax products, for a total consideration of €3.5 million, €1.5 million of which has been recognised as licence income in 2008 (see notes 1(ab) and 2 to the financial statements for further details). The agreement provides confirmation of the value and potential of Telit's brand name in the m2m and associated markets. The Group holds a 19.9% interest in SEM.

Financial Results

Following the indications we provided in our trading update on 15 December 2008, the results for the year are in line with market expectations and underline the strength of the Company's position in the global m2m market, supported by the geographical expansion begun in 2006 and strengthened during 2007 and 2008. In spite of the global recession, the Company's results for 2008 show substantial growth in revenue with a continued improvement of its results, both in the operational and the bottom line parameters.

The results for the year ended on 31 December 2008 reflect substantial like-for-like growth, strong margins and underlying sales momentum. Telit increased revenue in 2008 by 13% to €59.1 million, compared to €52.2 million in 2007.

Revenues include one-time licence income of €1.5 million for the lifetime use of the nominative trade name "Telit" by the Italian company, SEM, in its line of WIMAX products as detailed in notes 1(ab) and 2 to the financial statements (2007 revenues included licence income of €1.5 million from the Italian company, Bardi).

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 3,000 OEMs, communications solutions providers and system integrators in over 56 countries.

Gross profit increased 32% to €29.1 million, compared to €22.0 million in 2007, resulting in an overall margin of 49.2% compared to 42.1% for 2007.

During the course of the year Telit continued to benefit from governmental grants related to our R&D activities in Trieste, Italy and for the first time this year, other European Union grants and recorded other income amounting to €1.0 million from such grants, compared to €2.1 million in 2007.

In September 2008 the Company received the first installment of €6.5 million, from the previously announced grant from the Italian Ministry of Economic Development. The first instalment of the award, which was obtained in 2006, is split into a €2.6 million grant and a €3.9 million loan at favourable terms, provided by the Italian government with a repayment schedule spanning 10 years. The total value of the award is approximately €13 million and the next installment is expected at the end of 2009.

Research and development expenses, excluding share-based payments, were €9.6 million, compared to €8.7 million in 2007. Sales and marketing expenses, excluding share-based payments, were €10.7 million, compared to €8.8 million in 2007, with a majority of the

increase stemming from the conversion of the previous Telit Wireless Products ("TWP") operations in Israel to a wireless solutions centre, the formation of new sales offices in the Republic of South Africa and Brazil and the increase in the number of employees in China. General and administrative expenses, excluding share-based payments, were €8.8 million, compared to €7.0 million in 2007, with a majority of the increase stemming from the conversion of the previous TWP operations in Israel to a wireless solutions centre. Share based compensation charges were €0.4 million in 2008 compared to €1.1 million in 2007.

This resulted in an operating profit for 2008 of €0.6 million, compared to a loss of €1.5 million in 2007. Profit before tax was €1.2 million, compared to a loss before tax of €1.3 million in 2007. After writing down deferred tax assets by €3.0 million, the net result for the year from continuing operations is a net loss of €1.4 million, compared to a net loss of €1.9 million in 2007. Loss from discontinued operations was €1.9 million, compared to a loss of €5.2 million in 2007.

Basic and diluted earnings per share from continuing operations were a loss of 2.7 Euro cents for the period compared to a loss of 4.3 Euro cents loss per share in 2007. The total continuing and discontinued basic and diluted loss per share was 7.0 Euro cents, compared to a 16.3 Euro cents loss per share in 2007.

Liquidity

The Group finances its operations mainly from short term borrowings from banks. At 31 December 2008 and 2007, the Group's net debt position was as follows:

	2008 €'000	2007 €'000
Short term borrowings (continuing operations)	19,026	17,336
Short-term borrowings (discontinued operations)	-	4,207
Long term loans	3,531	500
Cash and cash equivalents, including restricted cash of €6.0 million (2007: €6.1 million)	(10,619)	(11,344)
Cash and cash equivalents (discontinued operations)	-	(42)
Net debt	11,938	10,657

The Directors believe, based on the past performance of the relevant subsidiaries and the history of the Group's relationships with its lending banks, that the credit facilities provide the Group with adequate funding to meet the Group's current forecast requirements and will remain available to the Group in the foreseeable future. Further information in respect of the Directors' consideration of the going concern assumption that has been used in the preparation of the financial statements and the liquidity position of the Group is set out in notes 1(b), 31 and 33 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.

Impact of Government Regulation on the Demand in the m2m Market

Government regulations are a significant driver of the growth of the global m2m market, as such regulations require certain businesses to convert to wireless communications for a variety of reasons. A cancellation or postponement of the due date of such regulations could materially decrease demand for our products, as well as those of our competitors, thus adversely affecting our results of 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.

Impact of Global Economic Conditions on Demand in the m2m Market

The worldwide recession which is well underway has adversely affected demand for our products, as well as those of our competitors and our suppliers. A deepening recession and/or a slower than expected global economic recovery may continue to adversely affect the demand for our products and services or affect our ability to procure components used in the manufacture of our products.

Effects of Foreign Exchange

49% of Telit's revenue in the period ended 31 December 2008 was generated in Euro (70.5% in 2007), with the remaining 51% generated in, or linked to, U.S. dollars and South Korean Won (29.5% in 2007). However, a substantial part of the Group's purchased materials cost was denominated in U.S. dollars during the period.

Therefore, despite the negative impact of the sharp depreciation in the value of the U.S. dollar and Korean Won against the Euro on Telit's revenue in 2008 compared to 2007 exchange rates, there is limited impact on the gross profit in the period.

Regional Information

The split of revenue on a geographical basis for the years ended 31 December 2008 and 2007 is as follows:

	2008 (€M)	% of Total Revenue	2007 (€M)	% of Total Revenue
EMEA	44.2	74.8%	36.8	70.5%
APAC	9.6	16.2%	13.7	26.2%
AMERICAS	5.3	9.0%	1.7	3.3%
Total Revenue	59.1	100%	52.2	100%

The performance in the APAC region has been negatively impacted by the sharp devaluation of the Korean currency against the Euro (the exchange rate of the Korean Won against the Euro declined by more than 25% during 2008). Revenues from this region are expected to increase during 2009 and beyond. Revenues generated by Telit Americas, which have also been negatively affected by the weakening of the U.S. dollar against the Euro during 2008, have began to show a healthy momentum and are expected to continue to grow during 2009 and beyond.

We expect that the Americas region will continue to increase the weighting of its contribution to total revenue in 2009 and beyond and that the APAC region will also show renewed growth, mainly deriving from our sales and marketing operations in China which are now well established.

During 2008, sales offices were established in the Republic of South Africa and in Brazil. Our Sao Paolo, Brazil office also coordinates local outsourced manufacturing for the Brazilian market which commenced in the second half of the year.

Employees

The number of employees in the continuing operations of the Group on a geographical basis as at 31 December 2008 and 2007 is as follows:

	31 Dec. 2008	31 Dec. 2007
EMEA	252	184
APAC	76	62
AMERICAS	21	11
Total Employees	349	257

A majority of the increase in EMEA stems from the conversion of the previous TWP operations in Israel to a wireless solutions centre, and the majority of the increase in the Americas region stems from the formation of a new sales office in Brazil.

Business Performance & sales

During 2008 the following major developments took place that contributed to the overall performance of the Company and will contribute to the Company's future results:

- Telit acquired One RF Technology S.A.S. (since renamed Telit RF), which designs wireless data transmission solutions for m2m and telemetry applications and developed its own ZigBee™ solutions that complement Telit's existing product offering and business.
- Telit presented a wide range of new and updated modules at the Mobile World Congress in Barcelona (3GSM).
    - WE865-DUAL, a WiFi companion module to the GE863-PRO3;
    - GE864-Automotive which is based on the well proven GE864 and designed to be more rugged to meet the special needs of the automotive industry;
    - GE863-SIM with integrated SIM card; and
    - UMTS/HSDPA module UC864 which is available in three versions.

- Telit presented its Firmware Over The Air Update (FOTA) Services at the Mobile World Congress 2008 in Barcelona. The FOTA services enable Telit customers to update the software of the M2M modules integrated in their applications remotely over the air. The service helps customers extend the lifetime of their M2M products, thereby protecting their investment while saving money and decreasing the total cost of ownership of the products. Telit is one of the first players in the M2M market to employ such a service in its product range. The FOTA standard underpins Telit Infinata Services, launched in early 2009.
- The primary goal of Telit Infinata Services is to simplify m2m solution deployment and maintenance of device software. Telit Infinita Services support customers in managing device populations throughout their lifetime via a powerful back-end solution. The Premium FOTA Management greatly increases the operational reliability of an m2m application. Malfunctions due to changes made to the network or new software versions with additional functions mean regular updates of the module firmware are required. With Premium FOTA Management, these updates can now be performed remotely over the air, fast and reliably. Telit m2m modules embed RedBend's vCurrent® agent, a proven and tested technology powering hundreds of millions of cellular handsets world-wide (www.redbend.com). The firmware upgrade process is based on an algorithm sending only the "delta" of changes in the firmware.
- Telit has been harnessing the expertise of microcontroller leader Atmel for the development of its high-performance M2M modules. The GE863-PRO3 is the first product in Telit's dual-processor range to feature an Atmel AT91SAM9260 ARM9-based processor running the customer application in tandem with a dedicated processor for GPRS communication. It provides extremely high processing power and flexibility to support today's rapidly changing M2M market that demands more advanced features and more processing power at ever-shorter intervals. Its standard form factor and easy integration make it particularly attractive for applications such as POS terminals or fleet management. The GE863-PRO3 has been enthusiastically received by the market since its launch in Q4 2007.
- Telit's M2M technology was certified on the Vivo cellular network in Brazil. The GE863-QUAD is the first Telit module certified by the largest operator in Brazil.
- iControl networks selected Telit M2M technology to enhance its next generation home security solution. Cellular technology provides reliable backup when wired connection is lost, offering greater peace-of-mind to consumers. Telit's M2M module with anti-jamming features adds unmatched cellular back-up capabilities to iControl's platform, offering home protection companies and service providers a complete next generation home security solution.

Update on the Strategic alliance with Bartolini After Market Electronics Services s.r.l. ("BAMES")

In June 2007 BAMES invested €9.0 million in the share capital of the company's subsidiary, Telit Wireless Solutions Srl (TWS), the first installment of a €16.0 million investment in TWS' share capital. The second installment of €7.0 million was completed in December 2008.

In December 2008 we entered into a transaction with BAMES' electronics manufacturing subsidiary, SEM, providing SEM the right to use the "Telit" nominative trade name in SEM's line of WiMax products, and providing Telit with price reductions over past and future purchases. The total consideration was €3.5 million, €1.5 million of which has been recognised as licence income in 2008. The agreement provides confirmation of the value and potential of Telit's brand name in the m2m and associated markets.

Strategy

Our strategy for 2009 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 the introduction of our Infinita services and the integration of cellular and short range technologies into a complete m2m offering.

This strategy takes advantage of 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;
- 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 customized product modifications; and
- Diversification of technology and increasing requirements for combined solutions based on cellular and short range technologies.

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 Organization Staffed with Industry Experts: Telit's R&D and Sales and Marketing units are a team of dynamic experts with proven industry experience in the m2m and semiconductor industry.

Board changes

In August 2008, Mr. Giovanni Stella, a non-executive director, nominated to the Board of Telit by Boostt B.V., resigned due to an increased workload from his other commitments.

In February 2009 Boostt B.V. nominated Mr. Massimo Testa to the Board of Telit as a replacement of Mr. Stella. Mr. Testa, aged 51, established his first company in 1984, which provided construction, transportation and auxiliary services to the real estate sector. Over 25 years operating in the field, Mr. Testa has established a group that today works alongside manufacturers of raw materials for international real estate development companies. Mr. Testa is currently a director and shareholder of Techvisory S.A. and Wireless Solution Management S.L., which are corporate parents of Boostt B.V., a significant shareholder of the Company. Mr. Testa is the brother of Mr. Enrico (Chicco) Testa, Chairman of the Board of Directors of the Company.

Also in February 2009, Mr. Maurizio Gasparri, an independent non-executive director, resigned from the Board due to an increased workload from his other commitments.

Outlook

The outlook for the rest of 2009 and the future looks positive for Telit despite the global economic downturn, the effects of which have continued to be felt by Telit during the first months of the year, and fluctuating foreign exchange rates which fuelled the decrease in unit prices in 2008 and may continue to do so in the future. While our marketplace becomes more challenging we believe we are well positioned to take advantage of the opportunities ahead. We are confident in our strong position within our industry and look forward to continued business expansion. We are constantly seeking further expansion opportunities through new technologies or by gaining access to new territories and new market segments.

Telit's management's main focus is and will continue to be to expand and strengthen our position as one of the world's premier m2m technology providers, while striving to anticipate and respond to market conditions that are beyond our control, such as the effects of the global downturn and the effect of fluctuating exchange rates on our financial results.

The hard work and dedication of Telit's staff across the globe is and will continue to be crucial to Telit's success. I would like to thank the company's management team and employees for their commitment to the company and its success. Their dedication is an invaluable asset, indeed the core asset of the company.

At the end of this period I very much hope that it is apparent that all the efforts we have invested and are still investing have created a solid business platform, the benefits of which our customers, shareholders and other stakeholders can enjoy.

Telit intends to continue to take advantage of the considerable opportunities arising in this growing global market. I look forward to providing further news of the Company's progress over the coming months.

Oozi Cats

Chief Executive Officer
29 May 2009

Telit's Board of Directors

Enrico Testa, Executive Chairman of the Board, aged 58

Between 1996 and 2002 Enrico Testa was Chairman of the Board at ENEL S.p.A. (the Italian provider of power and gas) and founder and member of the Board of Directors at WIND S.p.A. Mr. Testa is currently a managing director of Rothschild S.p.A,. Between 2004 and 2009 Mr. Testa was Executive President at Roma Metropolitane S.p.A (the company realizing the new Underground lines in Rome), Chairman of the Organising Committee of the 20th World Energy Congress and Senior Partner at Franco Bernabè Group, which owns several companies in the IT sector. Mr. Testa is the brother of Mr. Massimo Testa, a non executive director of the Company.

Oozi Cats, Chief Executive Officer of Telit Communications, aged 49

An experienced CEO and entrepreneur, Oozi Cats, in 2000, was the founder of a communications engineering and distribution company (Dai Telecom Ltd) in Israel. In 2002 he led the takeover of Telit in Italy and its subsequent transformation 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 role at 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 43

Michael Galai joined Telit Communications PLC in 2006 as VP Legal & General Counsel. He was previously 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 full-service general 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 years 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.

Andrea Giorgio Mandel-Martello, Independent Non Executive Director, aged 51

Andrea Giorgio Mandel-Mantello is the founding partner of AdviCorp PLC, a UK investment bank regulated by the UK Financial Services Authority. Prior to his work at AdviCorp, Mr. Mandel-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 two years at Chemical Bank International Limited in London and three 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 homeware; he is a director of MOTO S.p.A. a joint venture in the motorway restaurants business between 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.

Amir Scharf, Independent Non-Executive Director and Chairman of the Audit Committee of Telit, aged 43

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.

Massimo Testa, Non-Executive Director, aged 51

Mr. Testa established his first company in 1984, which provided construction, transportation and auxiliary services to the real estate sector. Over 25 years operating in the field, Mr. Testa has established a group that today works alongside manufacturers of raw materials for international real estate development companies. Mr. Testa is the brother of Mr. Enrico Testa, Chairman of the Board of Directors of the Company

Corporate Governance

Directors

The Board of Directors comprises three Executive Directors, two 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, 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 uses the Annual General Meeting to encourage communication with private shareholders. In addition, the Company intends to facilitate communication with shareholders via the annual report and accounts, interim statement, press releases as required during the ordinary course of business and the Company web site (www.telit.com).

Financial performance

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

Going concern

After making enquiries at the time of approving the accounts, the directors have satisfied themselves that there is a reasonable expectation that the Company and Group 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. Further information in respect of the Directors' consideration of going concern is included in note 1(b) to the financial statements.

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
29 May 2009

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.
- **Share options:** Certain of the executive directors have been granted share options as described in the directors' report below. The share options are subject to time-based vesting conditions to incentivise medium-term performance and assist in retention. None of the group's share option schemes are subject to performance conditions.

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.

Oozi Cats is engaged pursuant to a letter of appointment with the Company dated 29 March 2005, terminable by either the Company or the director on six months' notice except in certain specific circumstances where short notice can be given by the Company. In addition, since 1 October 2007 Mr. Cats has been employed by Telit Wireless Solutions Srl. in an executive position. Mr. Cats' remuneration from Telit Wireless Solutions Srl. includes his remuneration under the service agreement with the Company.

Andrea Mandel Mantello was appointed pursuant to a letter of appointment with the Company dated 29 March 2005, terminable on 6 months rolling notice.

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 a director on 4 May 2007 and resigned on 31 July 2008.

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

Maurizio Gasparri was appointed as a director on 17 July 2006 and resigned on 13 February 2009.

Audited Information

	Salary and fees	Benefit in kind	Annual bonus	Post employment benefits	Total 2008	Total 2007
	€'000	€'000	€'000	€'000	€'000	€'000
Executive directors						
Avigdor Kelner [1]	-	-	-	-	-	50
Enrico Testa [2]	100	-	50	-	150	58
Oozi Cats [3]	750	95	250	100	1,195	925
Avi Israel [1]	-	-	-	-	-	212
Michael Galai [2]	114	5	19	24	162	36
Non-executive directors						
David Hobley [1]	-	-	-	-	-	14
Andrea Mandel-Mantello [3]	40	-	-	-	40	46
Pnina Bitterman Cohen [1]	-	-	-	-	-	17
Maurizio Gasparri	60	-	-	-	60	60
Giovanni Stella [1]	41	-	-	-	41	47
Amir Scharf [2]	40	-	-	-	40	17
Total - 2008	**1,145**	**100**	**319**	**124**	**1,688**	
Total - 2007	**987**	**129**	**340**	**26**		**1,482**

[1] Up to the date of resignation.
[2] Since date of appointment.
[3] 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
29 May 2009

Directors' Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2008.

Principal Activities

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

Telit develops, manufactures and markets communication modules which enable machines, devices and vehicles to communicate via cellular wireless networks. It 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).

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.

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 17, together with a review of the Group's principal risks and uncertainties.

Share Options

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.

On 2 April 2008, a grant of 35,000 options was made to an employee of the Group at an exercise price of £0.70 per share. The options vest over three years in equal annual instalments.

The number of outstanding options as of 31 December 2008 was 3,524,834, equal to approximately 7.9% 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 €9.7 million were expensed in the year, compared to €8.9 million in 2007. Internally-generated intangible assets arising from development costs capitalized amounted to €4.4 million (2007: €2.9 million), after setting off grant contributions received of €2.6 million. Telit's R&D centres are based in Trieste and Cagliari, Italy, Seoul, South Korea and Sofia Antipolis, France. For additional details please see the Chief Executive Officer's statement and note 1(ab) 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 2008 (2007 - €nil).

Dividends

The Company is unable to pay a dividend in respect of the period (2007: nil).

Directors

The following directors have held office during the year and subsequently:

Enrico Testa	
Oozi Cats	
Michael Galai	
Amir Scharf	
Andrea Mandel-Mantello	
Giovanni Stella	resigned 15 August 2008
Maurizio Gasparri	resigned 13 February 2009
Massimo Testa	appointed 13 February 2009

Directors' Indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors in respect of their roles as directors of the company and, where applicable, as directors or senior employees of subsidiary undertakings, which were made during 2007 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.

	At 31 December 2008		At 31 December 2007	
Directors	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats[1]	16,460,357	36.98	16,350,357	37.84
Enrico Testa[2]	16,460,357	36.98	16,350,357	37.84
Amir Scharf	nil	-	nil	-
Andrea Mandel-Mantello	nil	-	nil	-
Maurizio Gasparri	nil	-	nil	-
Michael Galai	nil	-	nil	-

[1] Mr. Cats directly holds 3,110,357 shares. In addition, Mr. Cats owns 50% of Boostt B.V. ("Boostt"), which holds 12,100,000 shares. Boostt's corporate parents, Techvisory S.A. and Wireless Solutions Management SL (together: "Techvisory") hold an additional 1,250,000 shares. Mr. Cats and Techvisory 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 Techvisory's holdings.

[2] Mr. Testa is an interested party in Techvisory and Boostt, by virtue of his holding office therein. Therefore, Mr. Testa is deemed to be interested in all of Boostt's and Techvisory's holdings, as well as all of Mr. Cats' holdings. Mr. Testa's brother, Massimo Testa, was appointed to the board in February 2009. Mr. Massimo Testa is a shareholder of Techvisory and therefore the Company considers him to be interested in the same amount of shares as Messers Oozi Cats and Enrico Testa. Mr Massimo Testa also personally holds 323,000 share of the Company and Messers. Oozi Cats and Enrico Testa are considered as having an interest in these shares as well.

Details of directors' share options are provided below:

	1 Jan 2008	Granted	Exercised	Expired	31 Dec 2008	Exercise Price	Date from which exercisable	Expiry date
Oozi Cats	925,000	-	-	-	925,000	43p	01/01/08	01/04/12
Enrico Testa	700,000	-	-	-	700,000	60p	10/07/08	10/07/12
Michael Galai	100,000	-	-	-	100,000	43p	01/01/08	01/04/12
Giovanni Stella[1]	400,000	-	-	200,000	200,000	60p	10/07/08	30/06/09

[1] Resigned during the year.

The highest and lowest closing prices of the Company's shares on AIM during 2008 were 92p (26 February) and 17.50p (15 December).

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 vested 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 was granted 700,000 options at an exercise price of £0.60 per share. The options vested 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 2008 was €nil (2007: €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 2008, calculated in accordance with the requirements of the Companies Act 1985, were 83 days (2007: 85 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; and
- 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.

By order of the Board

Michael Galai

Finance Director
29 May 2009

Statement of Directors Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS regulation to prepare the group financial statements under IFRSs (IFRSs) as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with 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

Independent Auditors' Report to the Members of Telit Communications PLC

We have audited the group and parent company financial statements (the "financial statements") of Telit Communications PLC for the year ended 31 December 2008 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. We have also audited the information in the Directors' Remuneration Report that is described as having been audited

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, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Director's Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group 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 affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited 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.

Deloitte LLP

Deloitte LLP

Chartered Accountants
and Registered Auditors
London, United Kingdom
4 June 2009

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 2008

	Note	2008 €000	2007 €000
Revenue	2	59,083	52,189
Cost of sales		(29,987)	(30,201)
Gross profit		29,096	21,988
Other operating income	4	1,002	2,457
Research and development expenses		(9,647)	(8,940)
Selling and marketing expenses		(10,829)	(8,999)
General and administrative expenses		(9,058)	(7,615)
Other operating expenses	5	-	(400)
Operating profit (loss)	10,11	564	(1,509)
Investment income	6	192	277
Finance costs	7	(1,171)	(1,241)
Share of results of associated undertakings	16	18	(2)
Gain on deemed partial disposal of subsidiary	8	1,614	1,194
Profit (loss) before income taxes		1,217	(1,281)
Income taxes	9	(2,586)	(597)
Loss for the year from continuing operations		(1,369)	(1,878)
Loss for the year from discontinued operations	12	(1,864)	(5,180)
Loss for the year		(3,233)	(7,058)
Attributable to:			
Equity shareholders of the parent		(3,052)	(7,027)
Minority interests		(181)	(31)
		(3,233)	(7,058)
Basic loss per share (in euro cents)			
From continuing operations		(2.7)	(4.3)
From discontinued operations		(4.3)	(12.0)
Total continuing and discontinued	13	(7.0)	(16.3)
Diluted loss per share (in euro cents)			
From continuing operations		(2.7)	(4.3)
From discontinued operations		(4.3)	(12.0)
Total continuing and discontinued	13	(7.0)	(16.3)

Telit Communications PLC

BALANCE SHEETS

At 31 December 2008

		Group		Company	
		2008	**2007**	**2008**	**2007**
	Note	**€000**	**€000**	**€000**	**€000**
ASSETS					
Non-current assets					
Intangible assets	14	9,883	9,050	-	-
Property, plant and equipment	15	3,779	2,612	4	-
Investments in associated undertakings	16	629	568	579	579
Other investments	17	1,570	1,570	-	-
Investments in subsidiaries	18	-	-	27,392	29,637
Other long term assets	20	3,437	310	-	-
Deferred tax asset	9	548	3,130	-	-
		19,846	17,240	27,975	30,216
Assets included in disposal group held for sale	12	-	8,162	-	-
Current assets					
Inventories	19	10,750	8,212	-	-
Trade receivables	20	14,575	16,591	247	71
Other current assets	20	4,799	5,079	845	692
Deposits - restricted cash	22	6,000	6,132	6,000	6,132
Cash and cash equivalents	22	4,619	5,212	633	2,402
		40,743	41,226	7,725	9,297
Total assets		60,589	66,628	35,700	39,513
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	23	644	627	644	627
Other reserve		(260)	(260)	5,894	5,894
Share premium account		30,188	29,651	30,188	29,651
Translation reserve		(3,464)	(1,734)	-	-
Retained earnings		(15,143)	(12,512)	(2,498)	(1,488)
Total shareholders' equity		11,965	15,772	34,228	34,684
Minority interests		77	605	-	-
Total equity		12,042	16,377	34,228	34,684
Non-current liabilities					
Other loans	31	3,531	500	-	500
Post-employment benefits	24	1,807	1,555	-	-
Deferred tax liabilities	9	245	329	-	-
Provisions	28	748	81	-	-
Other long-term liabilities	29	119	4,430	-	-
		6,450	6,895	-	500
Liabilities included in disposal group held for sale	12	-	6,433	-	-
Current liabilities					
Short-term borrowings from banks and other lenders	25	19,026	17,336	500	-
Trade payables	25	11,140	13,498	74	-
Provisions	28	142	63	-	-
Other current liabilities	25	11,789	6,026	898	4,329
		42,097	36,923	1,472	4,329
Total equity and liabilities		60,589	66,628	35,700	39,513

The financial statements on pages 32 to 92 were approved by the board and authorized for issue on 29 May 2009 and are signed on its behalf by: Oozi Cats, Director

Telit Communications PLC

CASH-FLOW STATEMENTS

For the year ended 31 December 2008

	Group		Company	
	2008	2007	2008	2007
	€000	€000	€000	€000
CASH FLOWS - OPERATING ACTIVITIES				
Net cash used in continuing operations (Note 32)	(6,735)	(1,540)	(1,592)	(1,435)
Net cash used in discontinued operations (Note 12)	(1,441)	(2,239)	-	-
Net cash used in operating activities	(8,176)	(3,779)	(1,592)	(1,435)
CASH FLOWS - INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,732)	(1,251)	(4)	-
Proceeds from disposal of property, plant and equipment	46	-		
Purchase of intangible assets	(4,888)	(3,733)		-
Proceeds from grant contribution	2,606	-		
Acquisition of subsidiaries (Group: net of cash acquired)	(15)	-	(23)	-
Loan to subsidiary	-	-	(150)	(39)
Net proceeds from issuance of share capital in a subsidiary to third party	7,000	7,604	-	-
Decrease in restricted cash deposits	-	1,000	-	1,000
Net cash from / (used in) continuing operations	3,017	3,620	(177)	961
Net cash used in discontinued operations (Note 12)	-	(741)	-	-
Net cash from / (used in) investing activities	3,017	2,879	(177)	961
CASH FLOWS - FINANCING ACTIVITIES				
Short-term borrowings from banks and others	757	3,000	-	3,000
Preferential rate loan (note 31)	3,909	-	-	-
Repayment of other loans	-	(1,500)	-	(1,500)
Net cash from continuing operations	4,666	1,500	-	1,500
Net cash from discontinued operations (Note 12)	-	1,167	-	-
Net cash from financing activities	4,666	2,667	-	1,500
(Decrease)/ increase in cash and cash equivalents	(493)	1,767	(1,769)	1,026
Cash and cash equivalents - balance at beginning of year	5,212	3,926	2,402	1,376
Effect of exchange rate differences	(100)	(439)	-	-
Cash and cash equivalents - balance at end of year	4,619	5,254	633	2,402
Consisting of:				
Cash and cash equivalents from continuing operations	4,619	5,212	633	2,402
Cash and cash equivalents from discontinued operations	-	42	-	-
	4,619	5,254	633	2,402
Supplemental disclosure of cash flow information (included in cash flow from operating activities):				
Interest paid	988	934	-	-
Interest received	177	243	139	128
Income taxes paid	92	139	-	-

Year ended 31 December 2008

	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 2008	627	29,651	(260)	(1,734)	(12,512)	15,772	605	16,377
Issuance of shares	17	537	-	-	-	554	-	554
Arising on deemed disposal -minority in Telit Wireless Solutions Srl	-	-	-	-	-	-	(188)	(188)
Translation adjustments	-	-	-	(1,730)	-	(1,730)	(174)	(1,904)
Share-based payment charge	-	-	-	-	421	421	15	436
Loss for the year	-	-	-	-	(3,052)	(3,052)	(181)	(3,233)
31 December 2008	644	30,188	(260)	(3,464)	(15,143)	11,965	77	12,042

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	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 2008

	Share capital	Share premium account	Other reserve	Retained earnings	Total
	€000	**€000**	**€000**	**€000**	**€000**
1 January 2008	627	29,651	5,894	(1,488)	34,684
Issuance of shares	17	537	-	-	554
Loss for the year			-	(1,010)	(1,010)
31 December 2008	644	30,188	5,894	(2,498)	34,228

Year ended 31 December 2007

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

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.

1. ACCOUNTING POLICIES

(a) General information

The consolidated financial statements for the years ended 31 December 2008 and 31 December 2007 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 93. 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 17.

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) Basis of preparation - Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 12 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive Officer's Review on pages 10 to 11. In addition notes 7, 20, 29, 31 and 33 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk

The Group meets its day to day working capital requirements through overdraft facilities, invoice advance facilities and factoring. In the main, these facilities are cancellable on demand or have renewal dates within one year of the date of approval of the financial statements. In addition, the Group has received a long-term preferential rate loan. Further information is provided within note 31. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products which may also affect the possibility of utilizing some of these facilities since they depend upon the level of sales in specific markets and in some instances to specific customers; (b) the exchange rate between Euro and U.S. dollars and thus the consequence for the cost of the Group's raw materials; (c) the availability of bank finance in the foreseeable future; (d) the continuity of supply from key suppliers; and (e) the uncertainty over forecasts in current market environments.

The Group's forecasts and projections, taking account of the fact that there has been a loss after taxation for the year from continuing operations, that the Group has net current liabilities, of the general economic environment and impact on specific markets supplied, reasonably possible changes in trading performance, the Group's history of successfully renewing its facilities in the past and the fact that there are actions available to the Group to address these risks, show that the Group should be able to operate within the level of its current facilities. The Group has held discussions with its bankers about its future borrowing needs and the process and timing of renewal negotiations in respect of its facilities, and will open formal renewal negotiations in due course. The Group has at this stage not sought any written commitment that the facilities will be renewed, but no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

(c) 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.

(d) 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.

(e) 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 recognized.

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.

(e) Business combinations (continued)

For increases in stake in existing subsidiaries, the Company accounts for such transactions based on the book values of the net assets of the subsidiary 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.

(f) 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.

(g) Trade receivables

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

Trade receivables classified as non-current assets are recognized at the original invoice amount, discounted to present value where the effect is material.

(h) 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 realizable 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 realizable 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.

(i) 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.

(j) 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.

(k) 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:

	%
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.

(l) 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 re-valued 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.

(m) 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.

(m) Internally developed intangible assets - development costs (continued)

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.

(n) 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:

	%
Software and license	15-33
Customer relationships	15
Acquired technology	20-40

(o) 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.

(p) 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.

(p) Income taxes (continued)

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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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.

(q) Trade payables

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

(r) 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.

(s) 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; in such circumstances, revenue is recognized when collection of the fee is reasonably assured.

(t) 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.

(u) 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.

(v) 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 received in respect of costs which have been capitalized as development costs are deducted from the carrying amount of the asset.

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

(w) 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.

(x) 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, except for derivative financial instruments, which are set out below. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(x) Financial instruments (continued)

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.

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 of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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 considered 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.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(x) Financial instruments (continued)

In respect of available for sale equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

De-recognition 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', except for derivative financial instruments, which are set out below.

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.

De-recognition of financial liabilities

The Group de-recognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group has entered into an interest rate swap to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in note 29 to the financial statements.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. The resulting gain or loss is recognized in profit or loss immediately as the Group has not designated the derivative as a hedging instrument.

(x) Financial instruments (continued)

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

(y) 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 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.

(z) 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*.

(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.

(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.

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

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 2008 was €1,002,000 (2007: €2,139,000). As at 31 December 2008 an amount of €2,908,000 (2007: €3,143,000) is recorded in other current assets. The amount of grant income offset against capitalized intangible assets for the year ended 31 December 2008 was €2,606,000 (2007: €nil).

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 2008, the carrying value of intangible assets other than the goodwill acquired in business combinations was €842,000 (2007: €1,162,000). For applicable amortization rates, see note 1(n) above.

Investments in unlisted entity

The Group holds equity instruments in an unlisted entity 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. As at 31 December 2008, the Group is not able to make such a determination on the basis of reliable assumptions in respect of its available for sale investment. The determination of the fair value of available for sale investment would impact the amount recorded on the balance sheet. Changes in these assumptions would impact on the amount recorded in the balance sheet. As at 31 December 2008, the total value of such investments was €1,570,000.

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 2008, the total amount recorded in the income statement for continuing operations was €414,000 (31 December 2007: €859,000).

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

*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. In December 2008, BAMES subscribed for an additional 4.375 per cent of the share capital of Telit Wireless Solutions Srl for €7.0 million, thus completing the agreed investment and increasing BAMES' holdings to a total of 10 per cent of the share capital of Telit Wireless Solutions Srl.

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 amortized to the income statement for the year ended 31 December 2008 was €5,134,000 (2007: €466,000). At 31 December 2008, the total deferred income recorded in the balance sheet from this transaction was €7,667,000 (31 December 2007: €7,227,000), which includes an additional premium arising in December 2008 on completion of the additional 4.375 per cent subscription in Telit Wireless Solutions Srl.

*Accounting for transactions with Services for Electronic Manufacturing Srl ("**SEM**")*

As disclosed further in note 2, in 2008 the Group entered into a transaction with SEM in which SEM:

- purchased from the Group a perpetual worldwide license for the "Telit" nominative trade name and the "Telit by SEM Wimax" trade name and trademark to use within the "Telit by SEM WiMax" tradename and trademark in the worldwide marketing and sale of base stations ("BTS") and customer premises equipment ("CPE") for commercial networks running the WiMax technology; and
- agreed a price reduction in respect of the Group's purchases made to 30 September 2009 under the manufacturing agreement with SEM.

The consideration receivable by the Group in respect of these agreements is €3,500,000 payable in three instalments from March 2010 to March 2012 (€3.1 million net present value). In addition, the credit terms made available to the Group by SEM have been extended with effect from 1 November 2008. A further price reduction has been agreed starting from 1 October 2009.

Accounting for this transaction has required the Group to estimate the fair value of the components of the transaction. The fair values allocated have been determined at present value to reflect the time value of money. The fair value allocated to the license is €1,500,000, which has been determined by reference to a comparable transaction entered into by the Group in 2007. The Group has recognized €0.9 million in respect of the price reduction for 2008 with a further €0.7 million to be recognized in 2009.

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.

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

Recoverability of deferred tax assets

Under IFRS, a deferred tax asset arising on trading losses or deductible temporary differences is only recognized where it is probable that future taxable profits will be available to utilize 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 judgment 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;
- uncertainty of future technological developments; and
- uncertainty over global and regional economic conditions and demand for the Group's services.

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

As at 31 December 2008, the Group had recognized a deferred tax asset of €548,000 (2007: €3,130,000). 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 2008, the amount of development costs capitalized (net of amortization) included in the Group balance sheet was €4,356,000 (2007: €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;
- uncertainty over global and regional economic conditions and demand for the Group's products;
- long-term growth rates; and
- selection of discount rates to reflect the risks involved.

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

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 2008, the amount of goodwill included in the consolidated balance sheet was €2,301,000 (2007: €2,655,000).

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 2008, the book value of the investment in associated undertakings was €629,000 (2007: €568,000).

Recoverability of investments in unlisted entity

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.

Provisions

The Group is currently the subject of ongoing tax audits in respect of tax returns made in certain jurisdictions. The calculation of the Group's charges to taxation, including income tax, employment tax, sales taxes and other taxes involves the exercise of judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The probable outcome of the tax audits has been considered in determining the appropriate level of provision for such taxes. The final resolution of some of these items may give rise to material profit and loss and/or cash flow variances.

(ac) Adoption of new and revised standards

Two new interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC11, IFRS2 - Group and treasury share transactions and IFRIC 14 'IAS19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. 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:

IAS 1 (Revised 2007)	Presentation of financial statements
IAS 23 (Revised)	Borrowing Costs
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating segments
IAS 27 (Revised 2008)	Consolidated and separate financial statements
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
Improvements to IFRS	

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for the inclusion of additional disclosures when IFRS 8 comes into effect from 1 January 2009 and, as a result of the amendment to IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” as part of the Improvements to IFRS project, which will require loans received from a government at below market rates of interest to be recognized in accordance with the measurement principles of IAS 39 “Financial Instruments: Recognition and Measurement” for loans received after 1 January 2009.

2. REVENUE

	Group	
	2008	2007
	€000	€000
Sales of goods	57,426	49,842
Royalties	1,657	2,347
Revenue	59,083	52,189
Investment income	192	277
Continuing operations	59,275	52,466
Discontinued operations	1,288	23,331
	60,563	75,797

In December 2008 Telit entered into a perpetual license agreement with SEM, granting SEM the right to use the Telit trade name, within the "Telit by SEM WiMax" trade name and trademark, in the worldwide marketing and sale of Base Stations (BTS) and Customer Premises Equipment (CPE) for communication networks running the WiMax technology and agreed a price reduction in respect of the Group's purchases made to 30 September 2009 under the existing manufacturing agreement with SEM. The consideration of €3.5 million is payable in three installments between 2010-2012. Of this amount, €1.5 million were recognized as royalties and recorded in the income statement as revenue. This transaction is discussed further in note 1(ab).

In November 2007 Telit entered into a lifetime license agreement with the Italian company Bardi, granting Bardi the right to use the Telit trade-name 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 were 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 trade-name to the TWP division (prior to its discontinuance) 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. During the second half of 2007 Telit sold its Italian TWP business to a third party, thus marking the final disposal of Telit's European TWP business. During the first half of 2008, following the termination of the proposed transaction to sell the Israeli TWP business, Telit converted this division into a wireless solutions centre as an integral part of its ongoing wireless solutions business and abandoned its TWP activity.

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

3. SEGMENTAL ANALYSIS (continued)

2008

	EMEA	APAC	AMERICAS	ISRAEL	Discontinued operations	Eliminations	Consolidated
	€000	€000	€000	€000	€000	€000	€000
Revenue							
External sales	29,035	9,553	5,277	16,506	(1,288)	-	59,083
Inter-segment sales (1)	10,662	5,109	-	-	-	(15,771)	-
Total revenue	39,697	14,662	5,277	16,506	(1,288)	(15,771)	59,083
Result							
Segment result	5,834	(240)	(2,531)	(1,563)	1,850	-	3,350
Unallocated corporate expenses (2)							(2,786)
Operating profit							564
Investment income							192
Finance costs							(1,171)
Share of results of associated undertakings (4)							18
Gain on deemed partial disposal of subsidiary							1,614
Profit before income taxes							1,217
Income taxes							(2,586)
Loss for the year from discontinued operations							(1,864)
Loss for the year							(3,233)

2007

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

(1) Transactions between geographic segments are charged at prices based upon intragroup transfer pricing agreements.
(2) Unallocated corporate expenses principally comprise salary, professional fees and other expenses which cannot be directly allocated to one of the segments.
(3) The segment result for discontinued operations is reported in note 12.
(4) The share of results of associated undertaking arises from activities in Israel.

3. SEGMENTAL ANALYSIS (continued)

	2008	2007
	€000	€000
Total assets:		
Wireless Products - discontinued operation	-	8,162
EMEA	27,906	27,428
ISRAEL	6,300	-
APAC	8,240	10,601
AMERICAS	3,293	1,580
Fixed asset investments	1,570	1,570
Investment in associated undertaking	629	568
Unallocated assets	12,651	16,719
Total assets	60,589	66,628
Total liabilities:		
Wireless Products - discontinued operation	-	6,433
EMEA	21,016	22,729
ISRAEL	2,639	-
APAC	909	1,033
AMERICAS	475	85
Unallocated liabilities	23,508	19,971
Total liabilities	48,547	50,251

Unallocated assets comprise:

	2008	2007
	€000	€000
Other long term assets	337	310
Deferred tax asset	548	3,130
Other debtors in respect of general entity and head office purposes	1,147	1,935
Deposits - restricted cash	6,000	6,132
Cash and cash equivalents	4,619	5,212
Unallocated assets	12,651	16,719

Unallocated liabilities comprise:

	2008	2007
	€000	€000
Other loans	3,531	500
Short-term borrowings from banks and other lenders	19,026	17,336
Other current liabilities in respect of general entity and head office purposes	587	1,806
Other long term liabilities	119	-
Deferred tax liabilities	245	329
Unallocated liabilities	23,508	19,971

3. SEGMENTAL ANALYSIS (continued)

2008

	EMEA	APAC	AMERICAS	ISRAEL	Discontinued operations	Consolidated
	€000	€000	€000	€000	€000	€000
Other segment items:						
Capitalized tangible and intangible asset additions	5,022	1,028	57	513	-	6,620
Non-cash items:						
Depreciation and amortization	(1,382)	(629)	(61)	(602)	-	(2,674)
Bad debt expense	688	-	79	-	(688)	79
Share-based payments	393	17	26	22	(22)	436

2007

	EMEA	APAC	AMERICAS	ISRAEL	Discontinued operations	Consolidated
	€000	€000	€000	€000	€000	€000
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

4. OTHER INCOME

	2008	2007
	€000	€000
Government grants	1,002	2,139
Other	-	318
	1,002	2,457

The Group's Italian subsidiary has been declared eligible to receive grants totaling €0.85 million under annual research and development programs sponsored by the FVG region in Italy.

The Group's eligibility for the annual programs for 2008 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 the grant within other income in the year ended 31 December 2008 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied. As at 31 December 2008, the total amount receivable from the grant body was €2,778,800 (31 December 2007 - €3,143,000). Of the total grant income recognized in the year of €1,002,000, €145,000 relates to a further European program which will run for three years.

€318,000 other income in the year ended 31 December 2007 represents negative goodwill arising following an increase in the Group's shareholding of Telit APAC during the year, see note 26.

5. OTHER EXPENSES

Other expenses in 2007 relate to professional adviser costs associated with an unsuccessful acquisition bid. The Company's expenses in connection with this bid process were €400,000 in the year ended 31 December 2007.

6. INVESTMENT INCOME

	2008	2007
	€000	€000
Interest income from bank deposits	192	277

7. FINANCE COSTS

	2008	2007
	€000	€000
Interest expense on factoring arrangements	370	112
Interest expense on bank loans and overdrafts	1,138	1,012
Fair value movement on derivative financial instrument	119	-
Exchange rates differences	(456)	117
	1,171	1,241

8. GAIN ON DEEMED PARTIAL DISPOSAL OF SUBSIDIARY UNDERTAKING

The Group's subsidiary, Telit Wireless Solutions Srl ("TWS"), received in June 2007 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, with a further capital injection to take place for €7.0 million in December 2008 in exchange for new shares to be issued equal to 4.375% of the enlarged share capital of TWS. The Group 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 was 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.

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

In December 2008, TWS received a further capital injection of €7.0 million in exchange for new shares issued equal to 4.375% of its enlarged share capital. The Group has accounted for this transaction as a deemed disposal.

	2008
	€000
Fair value of net assets disposed	1,426
Book value of net liabilities disposed to minorities	188
Gain on deemed partial disposal of subsidiary undertaking	1,614

TWS holds most 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 original transaction.

In the year ended 31 December 2007 the Group 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. In the year ended 31 December 2008 the Group recognized the net premium received in excess of the fair value of the additional 4.375% stake in TWS given up, amounting to additional €5,574,000, as deferred income, representing the premium received for minimum purchase commitments given by the Group. The total net premium received under the transaction is €13,267,000.

The net premium is being amortized to the income statement within cost of sales in accordance with the minimum purchase commitments made by the Group. The minimum purchase commitments for 2007 and 2008 were fulfilled and management currently assesses that, given current market conditions and the expected growth of the Company, the minimum purchase commitment for 2009 is attainable. A total of €466,000 was recorded in the income statement for the year ended 31 December 2007 and €5,134,000 for the year ended 31 December 2008. If the minimum purchase commitments were not achieved, BAMES would have the right to terminate the manufacturing agreement and receive payment from Telit based upon the impact of the actual level of achieved purchases. Telit would have the right, but not the obligation, to repurchase from BAMES its entire investment in TWS for €1.

In the event of termination of the manufacturing agreement for any other reason, Telit has the right, but not the obligation, to repurchase from BAMES its entire investment in TWS for €16.0 million and BAMES has the right, but not the 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

	2008	2007
	€000	€000
A.		
Overseas corporate tax:		
Current year taxes	(13)	158
Deferred taxes:		
Overseas deferred taxes	2,599	439
	2,586	597

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

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 28.5% for 2008 and 30% for 2007, and the Group's total tax expense for the year:

	2008	2007
	€000	€000
Profit/(loss) before income tax from continuing operations	1,217	(1,281)
Tax (charge)/ credit computed at 28.5% (2007-30%)	(347)	384
Tax adjustments arising from:		
Expenses which are not deductible (income exempted) in determining taxable profit	114	(1,007)
Impairment of deferred tax asset	(3,000)	-
Decrease in taxes resulting from a different tax rate of subsidiaries operating in other jurisdictions	197	(158)
Tax losses not utilised	450	1,470
Decrease in deferred tax asset due to reduction in tax rate	-	676
Tax charge for continuing operations	(2,586)	(597)

C. Deferred tax

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

	Net operating loss	Other timing differences	Total
	€000	€000	€000
At 1 January 2008	3,000	(199)	2,801
Reclassified from discontinued operations	122	18	140
Arising from acquisition	-	(67)	(67)
Translation adjustments	9	19	28
(Charge) / credit to the income statement	(2,700)	101	(2,599)
At 31 December 2008	431	(128)	303

9. INCOME TAXES (continued)

At 31 December 2007, the Group had recorded a deferred tax asset of €3.0 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.

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 ended 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 was in line with the forecast for 2007 in the four year business plan. At December 2007, the Directors approved an updated business plan for 2008-2010 which continued to support the beginning of recovery of the deferred tax asset during the year ended 31 December 2008, with full recovery forecast in the year ending 31 December 2010.

Whilst the directors remain confident about the future trading of Telit EMEA, in light of the global economic conditions and the stringent requirement of IAS 12, this asset has been impaired.

The Group has recognized deferred tax assets in respect of Telit APAC of €0.4 million and Dai Telecom of €0.2 million in the year ended 31 December 2008. Telit APAC and Dai Telecom have both generated taxable losses in the year ended 31 December 2008 but have a recent history of taxable profits and the Directors consider that these businesses will return to profitability within 12 months.

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, the resolution of inquiries from tax authorities (discussed further in note 1(ab), 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 recognized deferred tax assets.

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

	2008	2007
	€000	€000
Losses for which a deferred tax asset is recognized	1,599	10,909
Losses for which no deferred tax asset is recognized	42,499	28,766
	44,098	39,675

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

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

	2008	2007
	€000	€000
Net foreign exchange (gain)/losses	(456)	115
Depreciation of owned fixed assets (note 15)	1,154	934
Amortization of intangible assets (note 14):		
Amortization of purchased customer list - included in selling and marketing expenses	199	216
Amortization of acquired technology - included in research and development expenses	171	261
Amortization of software - included in research and development expenses	1,150	416
Research and development expenditure	9,647	8,940
Costs of inventories recognized as an expense	28,239	29,534
Write-downs of inventories recognized as an expense	474	249
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 (gain)/loss on loans and receivables (including interest received)	(113)	133
Net loss on financial liabilities measured at amortized cost (including finance charges)	1,446	1,241

Audit fee

	Group		Company	
	2008	2007	2008	2007
	€000	€000	€000	€000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	126	136	126	136
Fees payable to the Company's auditors and their associates for other services to the Group	24	41	13	41
The audit of the Company's subsidiaries pursuant to legislation	171	161	-	-
Total audit fees	321	338	139	177
Tax services	4	13	-	9
Total fees	325	351	139	186

11. EMPLOYEES

	2008	2007
	€000	€000
The average monthly number of persons (including executive directors) during the year was:		
Sales and marketing	54	47
Research and development	182	131
General and administration	50	22
Operations	43	47
Discontinued operations	10	50
	339	297
Their aggregate remuneration comprised:		
Wages and salaries	12,695	10,678
Social security costs	2,256	1,587
Other pension costs	1,093	595
	16,044	12,860

Directors' remuneration disclosures described within the Directors' Remuneration Report as audited form part of these financial statements on page 22.
During the second half of 2008 the company directly employed 2 sales persons in the UK.

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

	2008	2007
	€000	€000
Discontinued operations:		
Wages and salaries	197	1,696
Social security costs	9	110
Other pension costs	30	11
	236	1,817

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. This agreement was not consummated. During the second half of 2007 the Company sold its Italian TWP business to a third party, thus marking the final disposal of Telit's European TWP business. During the first half of 2008, following the termination of the transaction to sell the Israeli TWP business, the Company converted this division into a wireless solutions centre as an integral part of its ongoing wireless solutions business and abandoned its TWP activities.

12. DISCONTINUED OPERATIONS (continued)

The results of the discontinued operations which have been included in the consolidated statements of operations for the year ended 31 December 2008 and 2007 are as follows:

	2008	2007
	€000	€000
Revenue	1,288	23,331
Cost of sales	(1,832)	(22,134)
Gross profit	(544)	1,197
Other income	43	1,518
Operating expenses	(1,349)	(7,195)
Net finance costs	(14)	(640)
Loss before income taxes	(1,864)	(5,120)
Income taxes	-	(60)
Net loss attributable to discontinued operations	(1,864)	(5,180)

During the year, net cash used in operations in the Wireless Products Division was €1,441,000 (2007: €2,239,000), €nil used in respect of investing activities (2006: €741,000) and €nil provided in respect of financing activities (2007: €1,167,000).

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

	2008	2007
	€000	€000
Net foreign exchange losses	14	43
Depreciation of owned fixed assets	-	158
Costs of inventories recognized as an expense	1,243	20,844
Write-downs of inventories recognized as an expense	589	153
Impairment loss recognized on trade receivables	688	900
Settlement costs on repurchase of share options (see note 30)	-	46
Net loss on financial liabilities measured at amortized cost (including finance charges)	-	656

The loss from discontinued operations in 2008 includes a charge of €1,031,000 in respect of the Telit EMEA TWP business arising from adjustments to the gain on disposal of discontinued operations following resolution of uncertainties arising from the terms of the disposal transaction and arising from and directly related to the operations of the TWP business before its disposal, including write-downs of trade receivables not recovered and the resolution of certain legal matters related to the discontinued activity. The resolution of these uncertainties has resulted in changes to the amounts recorded in respect of these amounts based on their estimated effect as at 30 June 2008, leading to an increase in the charge of €877,000

13. LOSS PER SHARE

	2008	2007
	€000	€000
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:		
Loss for the year attributable to the equity shareholders of the parent	(3,052)	(7,027)
Weighted average number of shares:	No. of Shares	No. of Shares
For basic and diluted earnings per share	43,430,948	43,214,281
Loss per share from continuing operations (euro cents)	(2.7)	(4.3)
Loss per share from discontinued operations (euro cents)	(4.3)	(12.0)
Loss per share (euro cents)	(7.0)	(16.3)
Number of options that are anti-dilutive:	3,524,834	4,062,000

14. INTANGIBLE FIXED ASSETS

	Finite lived intangible assets					
GROUP	Software and licenses €000	Internally generated development costs €000	Customer relationships €000	Acquired technology €000	Goodwill €000	Total €000
COST						
1 January 2007	1,922	379	1,494	644	2,992	7,431
Additions	1,195	2,538	-	-	-	3,733
Translation adjustments	(18)	-	(170)	(73)	(337)	(598)
31 December 2007	3,099	2,917	1,324	571	2,655	10,566
Additions	831	4,057	-	-	-	4,888
Grant contribution	-	(2,606)	-	-	-	(2,606)
Arising on acquisition	-	-	-	248	249	497
Reclassified from held for sale	-	523	-	-	-	523
Translation adjustments	(130)	(51)	(246)	(127)	(603)	(1,157)
31 December 2008	3,800	4,840	1,078	692	2,301	12,711
ACCUMULATED AMORTIZATION						
1 January 2007	(373)	-	(176)	(127)	-	(676)
Translation adjustments	6	-	23	24	-	53
Charge for the year	(416)	-	(216)	(261)	-	(893)
31 December 2007	(783)	-	(369)	(364)	-	(1,516)
Charge for the year	(666)	(484)	(199)	(171)	-	(1,520)
Translation adjustments	33	-	94	81	-	208
31 December 2008	(1,416)	(484)	(474)	(454)	-	(2,828)
Net book value						
31 December 2008	2,384	4,356	604	238	2,301	9,883
31 December 2007	2,316	2,917	955	207	2,655	9,050

Goodwill, customer relationships and acquired technology relate to the acquisition of Telit APAC which is included within the Asia Pacific geographical segment, and to the acquisition of One RF Technologies (subsequently renamed Telit RF) which is included within the EMEA geographical segment. The amount of goodwill attributable to the Asia Pacific segment is €2,052,000 (2007: €2,639,000) and €249,000 to the EMEA segment (2007: €nil). The amount of customer relationships and acquired technology attributable to the Asia Pacific segment is €605,000 (2007: €1,178,000) and €237,000 to the EMEA segment (2007: €nil)

14. INTANGIBLE FIXED ASSETS (continued)

Capitalized development costs relates to development of the UMTS and CDMA modules and will be amortized over a five year period beginning in 2009. €3 million of the amount capitalised relates to the UMTS product line with the balance relating to the CDMA product line.

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 and Telit RF are determined as the cash generating units for impairment testing purposes, being the lowest levels 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 27% per year over the five year period.

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 20% per year to 18% per year over the four year period beyond the most recent financial budget. No growth is assumed after this five year period.
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 20-22% 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.

15. PROPERTY, PLANT AND EQUIPMENT

GROUP	Computers €000	Office equipment €000	Vehicles €000	Leasehold Improvements €000	Total €000
COST					
As at 1 January 2007	861	4,005	156	454	5,476
Additions for the year	225	947	-	79	1,251
Reclassified as held for sale	(240)	(256)	(156)	(418)	(1,070)
Arising on acquisition					
Translation adjustments	-	(85)	-	-	(85)
As at 31 December 2007	846	4,611	-	115	5,572
Arising on acquisition	5	42	-	-	47
Reclassified from held for sale	340	298	72	430	1,140
Additions for the year	207	1,502	22	1	1,732
Disposals	(35)	(2)	(39)	-	(76)
Translation adjustments	16	(150)	5	31	(98)
As at 31 December 2008	1,379	6,301	60	577	8,317
DEPRECIATION					
1 January 2007	(283)	(1,975)	(99)	(100)	(2,457)
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	(239)	(2,709)	-	(12)	(2,960)
Charge for the year	(278)	(804)	(12)	(60)	(1,154)
Disposals	10	-	20	-	30
Reclassified from held for sale	(213)	(68)	(46)	(144)	(471)
Translation adjustments	(15)	46	(3)	(11)	17
31 December 2008	(735)	(3,535)	(41)	(227)	(4,538)
Net book value					
31 December 2008	644	2,766	19	350	3,779
31 December 2007	607	1,902	-	103	2,612

16. INVESTMENT IN ASSOCIATED UNDERTAKING

GROUP	2008	2007
	€000	€000
Investment in associated undertaking, Cell-Time Ltd		
Cost	1,135	1,135
Translation adjustments	(36)	(79)
Losses accumulated since acquisition	(470)	(488)
	629	568

The accounts of Cell-Time Ltd. are drawn up to 31 December 2008 for inclusion in the consolidated financial statements. The summarized financial information of Cell-Time Ltd is as follows:

	2008	2007
	€000	€000
Balance sheet		
Assets		
Current assets	1,905	1,454
Non-current assets	42	51
Total assets	1,947	1,505
Liabilities		
Current liabilities	1,849	1,475
Long-term liabilities	13	9
Total liabilities	1,862	1,484

	2008	2007
	€000	€000
Income statement		
Revenue	14,389	10,915
Cost of sales	(13,773)	(10,420)
Gross profit	616	495
Operating expenses	(539)	(499)
Financial expenses, net	(15)	(1)
Profit/ (loss) for the year	62	(5)

Details of the associated undertakings of the Group are as follows:

Name of company	Country of incorporation and operation	Type of shares	Effective ownership interest and voting rights	Principal activity
Cell-Time Ltd	Israel	Ordinary	29.33%	Development, marketing and operation of pre-paid billing systems of cellular phones

17. OTHER INVESTMENTS

GROUP	2008	2007
	€000	€000
Available for sale investments carried at deemed cost:		
Unlisted equity securities	1,570	1,570

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 a fair value determination may be made is not fully available to the Group as the Group does not receive and does not have access to financial forecasts or monthly management accounts information and consequently the Directors do not consider there is sufficient information available to reliably determine the fair value at the balance sheet date. The investment has therefore been recorded at deemed cost. In doing so, the Directors have considered whether there have been any factors which may indicate that an impairment has arisen, including review of the annual financial statements of SEM, and are satisfied that no such factors exist.

18. INVESTMENTS IN SUBSIDIARIES

COMPANY	Loans to subsidiaries	Investments in subsidiaries	Total
	€000	€000	€000
Investment in subsidiaries			
1 January 2008	13,472	16,165	29,637
Additions	150	577	727
Repayments	(2,972)	-	(2,972)
Loan capitalized	(2,500)	2,500	-
31 December 2008	8,150	19,242	27,392
Investment in associated undertaking, Cell-Time Ltd			579
			27,971

18. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiary undertakings of the Company are as follows ([1] indicates the entity is held directly by the Company; [2] indicates that the subsidiary is indirectly held; [3] indicates that the subsidiary is held 20% directly by the Company and 80% indirectly):

Name of company	Country of incorporation and operation	Type of shares	Effective ownership interest and voting rights	Principal activity
Telit RF Technology S.A.S.[1]	France	Ordinary	100%	Development, manufacturing and selling short-range data products
Telit Wireless Solutions Srl[1] ("TWS")	Sardinia, Italy	Ordinary	90%	Intermediate holding company
Telit Communications SpA[2] ("Telit EMEA")	Italy	Ordinary	90%	Development, manufacturing and selling data products and distributing cellular products
Telit Wireless Solutions GmbH[2]	Germany	Ordinary	90%	Selling and marketing data products
Telit Wireless Solutions Inc. [2] ("Telit Americas")	United States of America	Ordinary	90%	Selling and marketing data products
Telit Communications Spain SL[2]	Spain	Ordinary	90%	Selling and marketing data products
Telit Wireless Solutions Tecnologia E Servicos Ltda[2]	Brazil	Ordinary	90%	Selling and marketing data products
Telit Wireless Solutions Co Ltd[2] ("Telit APAC")	Republic of Korea	Ordinary	81%	Development, manufacturing and selling data products
Dai Telecom Holdings (2000) Ltd.[1]	Israel	Ordinary	100%	Intermediate holding company
Telit Wireless Solutions Ltd. ("Telit IL")[2]	Israel	Ordinary	100%	Selling and marketing data products
Dai Telecom Ltd. ("Dai Telecom")[3]	Israel	Ordinary	100%	Selling and marketing data products
Telit Wireless Solutions (Pty) Ltd. [2] ("Telit RSA")	Republic of South Africa	Ordinary	100%	Selling and marketing data products

19. INVENTORIES

GROUP	2008	2007
	€000	€000
Finished goods	8,789	6,589
Raw materials	1,961	1,623
	10,750	8,212

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 €734,000 (2007: €260,000).

20. RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	€000	€000	€000	€000
Within current assets:				
Trade receivables	14,575	16,591	247	71
Other receivables	4,799	5,079	25	104
Due from Group undertakings	-	-	820	588
	19,374	21,670	1,092	763
Within non-current assets:				
Other long term assets	3,437	310	-	-
Deferred tax asset (note 9)	548	3,130	-	-
	3,985	3,440	-	-

The average credit period on trade receivables that are neither past due nor impaired is 77 days (2007: 60 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 are debtors with a carrying amount of €3,494,000 (2007: €3,391,000) 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 recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 105 days (2007: 93 days).

	2008	2007
	€000	€000
Ageing of past due but not impaired trade debtors		
0-30 days	1,842	1,510
30-60 days	325	1,706
60-90 days	835	150
90-120 days	492	25
	3,494	3,391

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

20. RECEIVABLES (continued)

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

	2008 €000	2007 €000
At 1 January	294	218
Arising from acquisition	227	-
Increase in allowance recognized in profit or loss	290	76
At 31 December	811	294

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 amount outstanding from the Group's ten largest customers at 31 December 2008 was €11.5 million, representing 78.9% of the Group's trade receivables. In addition, €3.1 million (at net present value) is receivable from SEM in relation to the transaction described in note 1(ab). No other customers represented more than 5% of the Group's trade receivables at that date, with the remainder of the balance arising from a large number of unrelated customers. Management reviews carefully every past due amount in light of the global economic situation. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. There are no allowances for credit losses recorded against other financial assets.

21. OTHER FINANCIAL ASSETS

	Group		Company	
	2008 €000	2007 €000	2008 €000	2007 €000
Loans and receivables:				
Due from group undertakings	-		820	588
Other long term assets	3,437	310	-	-
Other debtors	4,235	3,683	-	-
	7,672	3,993	820	588
Assets outside the scope of IFRS 7:				
Current assets				
Other debtors	564	1,396	25	104
Non-current assets				
Investments in subsidiaries (note 18)	-	-	27,392	29,637
Investments in associates (note 16)	629	568	579	579
	629	568	27,971	30,216
Available-for-sale investments carried at deemed cost:				
Non-current				
Shares in unlisted entities (note 17)	1,570	1,570	-	-
Total	2,763	3,534	27,997	30,320

21. OTHER FINANCIAL ASSETS (continued)

Included within other debtors are amounts receivable in respect of the Group's grant claims amounting to €2,908,000 (2007: €3,143,000). 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	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Deposits - restricted cash	6,000	6,132	6,000	6,132
Cash and cash equivalents	4,619	5,212	633	2,402
Total	10,619	11,344	6,633	8,534

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Sterling	332	166	332	166
Dollar	1,390	861	-	-
Euro	8,325	9,470	6,301	8,368
Other	572	931	-	-
Total	10,619	11,428	6,633	8,534
Analyzed as:				
Cash and cash equivalents from continuing operations	10,619	11,344	6,633	8,534
Cash and cash equivalents from discontinued operations	-	42	-	-
Total	10,619	11,386	6,633	8,534

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 3% 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).

23. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2008	2007
	€000	€000
Authorised 80,000,000 ordinary shares of 1 pence each.		
Allotted, issued and fully paid:		
44,514,281 ordinary shares of 1 pence each (2007: 43,214,281 ordinary shares of 1 pence each).	644	627

1,300,000 ordinary shares were issued in November 2008 as consideration for the purchase of Telit RF as discussed further in note 26.

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 2008 was 3,524,834 and at the date of this report was 6,656,834, equal to 7.9% and 15.0% of the outstanding share capital of the Company (7.3% and 13.0% 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 benefits 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 recognized pension fund.

24. POST-EMPLOYMENT BENEFITS (continued)

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 and Telit APAC are as follows:

	2008	2007
	€000	€000
Movement in post employment benefit obligations		
1 January 2008	1,555	1,226
Discontinued operation	63	(63)
Expense recognised in the income statement	470	713
Contributions	(281)	(321)
31 December 2008	1,807	1,555

The liability in respect of accrued severance pay is €498,000 (2007: €226,000) and the charge to the income statement in the year is €428,000, of which €156,000 was actually paid as severance pay to departing employees (2007: €138,000). 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 recognized in the income statement in respect of the defined benefit scheme are as follows:

	2008	2007
	€000	€000
Current service cost	-	46
Curtailment loss	-	464
Interest cost	68	65
Actuarial loss	(26)	(101)
Total expense included in income statement	42	474

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:

	2008	2007
	€000	€000
Present value of defined benefit scheme obligation		
1 January 2008	1,329	1,075
Actuarial loss	(26)	(101)
Service cost	-	46
Curtailment loss	-	464
Interest cost	68	65
Benefits paid	(62)	(112)
Disposal	-	(108)
31 December 2008	1,309	1,329

24. POST-EMPLOYMENT BENEFITS (continued)

F. Financial assumptions

	2008	2007
	%	%
Discount rate	5.90%	4.40%
Expected salary increase rate	-	3.50%
Inflation	2.00%	2.00%

G. The experience adjustments arising on the plan liabilities at the balance sheet date, totaled €27,968 (2007: €10,000).

25. CURRENT LIABILITIES

	Group		Company	
	2008	2007	2008	2007
	€000	€000	€000	€000
Short-term bank loans and other borrowings	17,117	15,626	-	-
Advances on receivables factoring	1,031	1,710	-	-
Current maturities of long term loans	878	-	500	-
Total short-term borrowing from banks and other lenders	19,026	17,336	500	-
Trade creditors (i)	11,140	13,498	74	-
Due to Group undertakings	-	-	738	3,725
Provisions	142	63	-	-
Deferred income	7,667	2,797	-	-
Other current liabilities	4,122	3,229	160	604
Total current liabilities	42,097	36,923	1,472	4,329

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 83 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

A. 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 was recorded as a credit to the income statement in the year ended 31 December 2007.

	Book values prior to subscription	**Subscription**	**Book values after subscription**
	(€000)	**(€000)**	**(€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	3,730	2,403	6,133
Minority interests:			
Prior to share subscription at 25%			931
Subsequent to subscription at 10%			613
Negative goodwill arising			318

B. On 5 November 2008 Telit acquired 100% of the issued ordinary share capital of, and voting rights in, One RF Technology S.A.S., a company incorporated in France, in return for consideration of 1,300,000 newly issued ordinary shares in the Company. The fair value of the shares issued at market price on 5 November 2008 was €554,000. The total cost of the business combination, including directly attributable costs of €24,000, was €578,000.

26. ACQUISITIONS (continued)

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

	Book value (€000)	Fair value adjustments (€000)	Fair value (€000)
Assets:			
Property, plant and equipment	47	-	47
Acquired technology	-	248	248
Cash	9	-	9
Trade and other receivables	218	-	218
Inventories	316	(45)	271
Current liabilities	(348)	-	(348)
Non-current liabilities	(50)	-	(50)
Deferred tax	-	(67)	(67)
	192	136	328
Goodwill			249
Total purchase consideration (including directly attributable costs of €24,000)			577
Net cash outflow arising on acquisition			15

The goodwill is attributable to the expected profitability of the acquired business and the synergies that are expected to arise from the integration of Telit RF's short-range technology products with the wider Telit product portfolio and the additional revenue opportunities arising from offering these products to Telit's existing customer base.

27. COMMITMENTS AND CONTINGENCIES

Legal proceedings affecting continuing operations

A. During the first half of 2008 the Company settled the outstanding legal claims which were pending with Ixfin Magneti Marelli Eletronica Ltda, with no impact on the Company's income statement.

B. In July 2007 Euroinvest S.r.l. ("Euroinvest") obtained an injunctive degree from the Montepulciano Court for the sum of €611,945 against Telit EMEA in relation to a claim 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.

In November 2008 Telit EMEA and Euroinvest entered into a settlement agreement and the claim was withdrawn. According to the settlement, Telit EMEA paid Euroinvest the sum of €140,000, VAT included and, upon receipt by Telit EMEA of the second installment of the grant from the Ministry, an additional sum of €140,000, VAT included, will be paid to Euroinvest.

27. COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments

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

	Land and buildings		Other	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Operating leases which expire:				
Within one year	895	970	316	385
In the second to fifth years inclusive	144	456	202	561
	1,039	1,426	518	946
Minimum lease payments under operating leases charged to the income statement for the year	720	732	383	353

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

Guarantees and liens

D. In 2007, the Company provided guarantees of up to €7 million to certain suppliers of Telit EMEA, to sustain credit lines to be granted by the suppliers in respect of purchases made. The guarantees were terminated during 2008.

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 €12.5 million.

At the balance sheet date the Company had deposited €6.0 million in Italian bank accounts, to act as security in relation to the credit facility granted by those banks (see note 31).

E. The Group has pledged in favor of BAMES, and to maintain such pledge in force until termination of the strategic alliance with BAMES on a quota equal to 3% 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.

Sardinia Grant

F. 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 program 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 program 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 €5.3 million and a preferential rate loan of €7.8 million.

27. COMMITMENTS AND CONTINGENCIES (continued)

As of 31 December 2008 Telit Italy has invested approximately €10.5 million (2007: €3.6 million) in this grant project. A bank loan of €8.0 million was obtained against the expected cash inflow from the Ministry of Trade and Commerce and was outstanding at 31 December 2007. In September 2008 the Company received the first instalment of the grant and preferential rate loan from the Italian Ministry of Trade and Commerce equal to €6.5 million, which was used to pay down the bank loan. The terms of the bank loan have been revised to a €5.2 million facility maturing on 1 January 2010, secured against the expected cash inflow from the second instalment of the grant. The €5.2 million facility has been fully drawn as at 31 December 2008 (see note 31).

Of the €6.5 million received, €3.9 million represents a preferential rate long-term loan (see note 31) and €2.6 million a grant. The grant has been recorded as a reduction in the capitalized development costs in the consolidated balance sheet (see note 14).

28. PROVISIONS

	2008	**2007**
	€000	**€000**
1 January	144	349
Utilized in the year	(203)	-
Provided in the year	600	144
Reclassified from/(as) held for sale	349	(349)
31 December	890	144
Classified as:		
Current liabilities	142	63
Non-current liabilities	748	81
31 December	890	144

The Group provides warranties on the sale of its m2m products for a period of 12 to 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.

The Group is currently the subject of ongoing tax audits in respect of tax returns made in certain jurisdictions. The calculation of the Group's charges to taxation, including income tax, employment tax, sales taxes and other taxes involves the exercise of judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The probable outcome of the tax audits has been considered in determining the appropriate level of provision for such taxes. The final resolution of some of these items may give rise to material profit and loss and/or cash flow variances.

29. OTHER LONG-TERM LIABILITIES

As at 31 December 2008, the Group had outstanding a €3.0 million interest rate swap that started on 10 January 2008 and has an end date of 10 January 2011. The Group pays a fixed rate of interest and receives floating rate interest. The fair value of the derivative has been determined to be €119,179.

As at 31 December 2007, other long-term liabilities mainly represent deferred income expected to be recognized after more than one year on the transactions with BAMES (see note 8).

30. SHARE-BASED PAYMENTS

	Number		Weighted average exercise price (pence)	
	2008	**2007**	**2008**	**2007**
Outstanding at beginning of year	4,062,000	2,216,687	0.55	1.25
Settled during the year	-	(1,682,570)	-	1.40
Granted during the year	35,000	4,062,000	0.70	0.55
Lapsed during the year	(572,166)	(534,117)	(0.60)	(0.70)
Outstanding at year end	3,524,834	4,062,000	0.54	0.55
Exercisable at year end	1,689,667	-	0.53	-

The options outstanding at 31 December 2008 had an exercise price of between £0.43 to £0.70, and a weighted average remaining contractual life of 3 years and 5 months. 35,000 options were granted on 31 March 2008. The aggregate estimated fair value of the options granted on this date was €30,958, equal to a fair value of £0.70 per share.

The Group recognised a total expense of €436,000 in respect of equity settled share based payment transactions for the year ended 31 December 2008 (2007: €1,138,000).

31. BORROWINGS

	Group		Company	
	2008	2007	2008	2007
	€'000	€000	€000	€000
Unsecured - at amortized cost				
Short-term bank loans and other borrowings	55	655	-	-
Current maturities of long term loans	878	-	500	-
Total short-term borrowing from banks and other lenders	933	655	500	-
Other long-term loans	3,531	500	-	500
Total	4,464	1,155	500	500
Secured - at amortized cost				
Factoring companies	1,031	1,710	-	-
Short-term bank loans and other borrowings	17,062	19,178	-	-
Total	18,093	20,888	-	-
Disclosed in the financial statements as:				
Current borrowings (continuing operations)	19,026	17,336	500	-
Non-current borrowings (continuing operations)	3,531	500	-	500
Current borrowings (discontinued operations - see note 12)	-	4,207	-	-
Total	22,557	22,043	500	500

The other long-term loan of €3,531,000 represents the long-term element of a preferential rate loan from the Ministry of Trade and Commerce in Italy of €3,909,000 provided in connection with the Group's business development program in Sardinia (see note 27). The loan is fully drawn. The loan attracts interest at a rate of 0.75% and is repayable in ten annual installments commencing on 15 March 2010 and ending on 15 March 2018. The fair value of the loan at the balance sheet date was €3,619,000.

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

- A short-term loan of €500,000 which does not attract interest. The fair value of the loan at the balance sheet date was €475,000 (2007: €430,000). The loan is held by the Company. The loan is fully drawn.

- The short-term element of the preferential rate loan from the Ministry of Trade and Commerce in Italy, amounting to €378,000.

- A drawn amount of €5.2 million on a loan with a maturity date which has been extended post year-end to 1 January 2010, 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 €5.2 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. The loan is fully drawn.

31. BORROWINGS (continued)

- Bank overdrafts of €5.6 million. The overdraft facilities, which are available up to €6.0 million, are cancellable on demand but are without a fixed renewal date.

- Drawn letters of credit and borrowings arising from invoice advances totalling €3.6 million in Telit EMEA. These borrowings, and the bank overdrafts, are secured by cash deposits provided to the lending banks of €6 million and letters of guarantee issued by the Company of €6.25 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 2008 was €9.9 million, with the remainder cancellable on demand, but without a fixed maturity date.

- A short-term bank loan of €1.6 million secured by liens on all the funds due from Dai Telecom Limited's major customer in connection with specific orders received from that customer. The total available facility is €5.2 million.

- Factoring facilities against qualifying receivables totalling €1 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 €3 million, provided there exists a satisfactory level of qualifying debtors, which are cancellable on demand but are without a fixed maturity date.

The Directors believe, based on the past performance of the relevant subsidiaries and the history of the relationships with the lending banks, that the credit facilities will remain available to the Company in the foreseeable future and that therefore the Company will be able to continue to fund its operations from these credit facilities. The Company's liquidity risks are discussed in note 33.

32. RECONCILIATION OF NET CASH FLOWS TO OPERATING ACTIVITIES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Loss for the period from continuing operations	(1,369)	(1,878)	(1,010)	(1,170)
Adjustment for:				
Depreciation and amortization	2,674	1,854	-	-
Income tax expense	2,586	597	-	-
Investment income	(192)	(277)	(139)	(733)
Finance costs	1,171	1,241	-	-
Increase in provision for post-employment benefits	302	402	-	-
Share-based payment charge	436	1,013	-	-
Non-recurring credit relating to negative goodwill	-	(318)	-	-
Gain on deemed partial disposal of subsidiary	(1,614)	(1,194)	-	-
Share in result of associated undertaking	(18)	2	-	-
Operating cash flows before movements in working capital:	3,976	1,442	(1,149)	(1,903)
Increase in trade receivables	(1,785)	(7,780)	(176)	(71)
Decrease (increase) in other current assets	284	683	(21)	34
Increase in inventories	(2,638)	(2,228)	-	-
(Decrease) increase in trade payables	(1,853)	5,155	74	(16)
(Decrease) increase in other current liabilities	(4,370)	2,647	(459)	393
Increase (decrease) in provisions and other long term liabilities	554	(629)	-	-
Cash used in operations	(5,832)	(710)	(1,731)	(1,563)
Income tax paid	(92)	(139)	-	-
Interest received	177	243	139	128
Interest paid	(988)	(934)	-	-
Net cash used in continuing operations	(6,735)	(1,540)	(1,592)	(1,435)

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.

33. FINANCIAL RISK MANAGEMENT (continued)

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	
	2008	2007	2008	2007
	€000	€000	€000	€000
Sterling	624	166	-	-
US Dollar	1,652	953	1,514	541

The following table details the Group's sensitivity to a 10 or 20 per cent change in euro against the respective foreign currencies, which represent management's assessment of possible changes 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	
	2008	2007
	€000	€000
Impact on profit or loss of a 10% change	57	58
Impact on profit or loss of a 20% change	114	116

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

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. In the current period, the Group has begun to use derivative financial instruments to manage interest rate risk.

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.

33. FINANCIAL RISK MANAGEMENT (continued)

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 €202,000 (2007: decrease/increase by €155,000); 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

The Group is 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 2008, 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 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 principally derived from sales to customers in Israel, Italy, the USA and Korea. The Group performs ongoing credit evaluations of its customers and to date has not experienced any material losses, other than in its discontinued segment (see note 3). 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 Group's cash and cash equivalents and restricted cash deposits is managed by only placing funds on deposit with internationally recognised banks with suitable credit ratings.

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	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Group				
Cash and cash equivalents	4,619	5,212	633	2,402
Deposits - restricted cash	6,000	6,132	6,000	6,132
Trade receivables	14,575	16,591	247	71
Due from Group undertakings	-	-	820	588
Other long term assets	3,437	-	-	-
Loan (or investment in) to subsidiaries	-	-	8,150	13,472
Guarantee provided to banks on subsidiary's borrowings	-	-	12,450	20,700
Guarantees provided to suppliers	-	7,000	-	7,000

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 2008 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 2008.

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.

33. FINANCIAL RISK MANAGEMENT (continued)

Group

	2008			2007		
	Weighted average effective interest rate	**Less than 1 year**	**More than 1 year**	**Weighted average effective interest rate**	**Less than 1 year**	**More than 1 year**
	%	**€000**	**€000**	**%**	**€000**	**€000**
Fixed rate	6.00%	2,338	-	5.25%	1,862	-
Fixed rate preferential loan	0.75%	378	3,531			
Variable rate debt	4.34%	15,810	-	5.65%	15,474	
Non- interest bearing debt	-	500	-	-	-	500

Company

	2008			2007		
	Weighted average effective interest rate	**Less than 1 year**	**More than 1 year**	**Weighted average effective interest rate**	**Less than 1 year**	**More than 1 year**
	%	**€000**	**€000**	**%**	**€000**	**€000**
Non- interest bearing debt	-	500	-	-	-	500
Guarantees	-	12,450	-	-	20,700	-

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, other than as discussed in note 1(ab) in respect of the non-current receivable from SEM and note 31 in respect of certain liabilities.

33. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	Group		Company	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Current financial assets:				
Cash and restricted cash	10,619	11,344	6,633	8,534
Trade receivables	14,575	16,591	247	71
Loans and receivables - other debtors	4,235	3,683	-	-
Loans and receivables - due from group undertakings	-	-	820	588
Assets not meeting the definition of a financial asset				
Inventories	10,750	8,212	-	-
Other debtors	564	1,396	25	104
Current assets	40,743	41,226	7,725	9,297
Non-current financial assets:				
Available-for-sale investments	1,570	1,570	-	-
Loans and receivables	3,437	310	-	-
Assets not meeting the definition of a financial asset / outside the scope of IFRS 7				
Intangible assets	9,883	9,050	-	-
Property, plant and equipment	3,779	2,612	4	-
Investments in associated undertakings	629	568	579	579
Investments in subsidiaries	-	-	27,392	29,637
Deferred tax asset	548	3,130	-	-
	19,846	17,240	27,975	30,216

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*.

33. FINANCIAL RISK MANAGEMENT (continued)

	Group		Company	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Financial liabilities at amortized cost				
Short-term borrowings from banks and other lenders	19,026	17,336	500	-
Trade payables	11,140	13,498	74	-
Other current liabilities				
Due to group undertakings	-	-	738	3,725
Other current liabilities	1,256	599	-	-
Liabilities not meeting the definition of a financial liability:				
Provisions	142	63		-
Other current liabilities	10,533	5,427	160	604
Total current liabilities	42,097	36,923	1,472	4,329
Non-current financial liabilities at amortized cost:				
Other loans	3,531	500	-	500
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	119	-	-	-
Liabilities not meeting the definition of a financial liabilities / outside the scope of IFRS 7				
Post-employment benefits	1,807	1,555	-	-
Deferred tax liabilities	245	329	-	-
Provisions	748	81	-	-
Other long-term liabilities	-	4,430	-	-
	6,450	6,895	-	500

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 35.

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	
	2008	2007
	€000	€000
Debt	22,557	17,836
Cash and cash equivalents, including restricted cash	(10,619)	(11,344)
Net debt	11,938	6,492
Shareholders' equity	11,965	15,772
Net debt to equity ratio	99.7%	41.2%

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. On April and July 2007 the Company granted the following key personnel options exercisable into ordinary shares. Below is a table setting forth the numbers of options that were vested, unvested or expired as at 31 December, 2008:

	Vested	Unvested	Expired	Total
Chairman of the Board	350,000	350,000	-	700,000
Director [(1)]	200,000		200,000	400,000
CEO	462,500	462,500	-	925,000
Finance Director	50,000	50,000	-	100,000
Total	1,062,500	862,500	200,000	2,125,000

The compensation attributable to the key personnel, calculated as the incremental fair value of the options to be expensed over the period of vesting, for the year is €71,000 (2007: €582,000)

(1) Resigned during the year.

34. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

B. The key management personnel of the Group consist of the board of directors, whose remuneration is set out below and in the remuneration report:

	Group	
	2008	**2007**
	€000	**€000**
Share based payments	71	582
Short-term employee benefits	1,564	1,456
Post employment benefits	124	26
Total	1,759	2,064

C. The Company's CEO, Oozi Cats, provided consulting services to Group companies 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. The Agreement with Excalibur was terminated with effect from 1 October 2007. No amounts were outstanding to Excalibur at 31 December 2008 and 2007.

D. Mr. Cats directly holds 3,110,357 Ordinary Shares, representing 7.0% of the issued share capital of the Company. Mr. Cats also holds 50% of the issued share capital of Boostt B.V. ("Boostt"). Boostt holds 12,100,000 Ordinary Shares, representing 27.2% of the issued share capital of the Company. The other 50% of Boostt is held by Wireless Solutions Management S.L., formerly Franco Bernabe & T SL and Techvisory S.A. (together, the "Techvisory Group"), which holds an additional 1,250,000 Ordinary Shares, representing 2.80% of the issued share capital of the Company. Mr. Massimo Testa, a director of the Company and a shareholder in Techvisory S.A. and therefore an interested party in the Techvisory Group, holds 323,000 Ordinary Shares, representing 0.7% of the issued share capital of the Company. Mr. Enrico Testa, chairman of the board of the Company is also a director of the Techvisory Group.

Mr. Cats has certain voting understandings with certain members of the Techvisory Group. Therefore, the Techvisory Group, Mr. Cats, Mr. Massimo Testa and Mr. Enrico Testa are, in aggregate, interested in 16,783,357 Ordinary Shares, representing 37.70% of the issued share capital of the Company.

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

	2008	**2007**
	€000	**€000**
Revenue from services provided to subsidiary	-	152
Cost of sale - purchases from subsidiary	438	55

(d) Loans receivable - See note 18.

34. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

(e) Financing transactions

The Company has no outstanding guarantees to suppliers of Telit EMEA at 31 December 2008 (2007: €7.0 million).

The Company has provided an unlimited guarantee to a supplier of Telit Brazil covering all of Telit Brazil's undertaking to said supplier according to the agreement between these parties (2007: €nil).

The Company provides guarantees to certain banks in Italy and Korea, amounting to €12.5million (2007: €20.7 million).

At the balance sheet date the Company had deposited €6.0 million (2007: €6.0 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 €1,010,000 (2007: loss of €1,170,000).

Company Information

Directors, Secretary and Advisers

Company Registration No. 05300693

Directors

Enrico Testa, Chairman

Oozi Cats, Chief Executive Officer

Michael Galai, Finance Director

Amir Scharf, Non-Executive Director

Andrea Mandel-Mantello, Non-Executive Director

Massimo Testa, Non-Executive Director

Company Secretary

Michael Galai

Registered Office

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Nominated Adviser and Broker

Seymour Pierce Limited
20 Old Bailey London EC4M 7 EN

Solicitors

Olswang
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Independent Auditors

Deloitte LLP
Chartered Accountants London

Registrar

Capita Registrars Limited
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Telit Offices World Wide

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TELIT INFINITA SERVICES





Company & Share Information:

Listing | London AIM, Ticker: TCM

Core Business | Machine-to-Machine Wireless Solutions

Number of Employees worldwide | 350

Number of Shares Outstanding | 44.5M

Financial Year End | December 31

Accounting Standards | IFRS