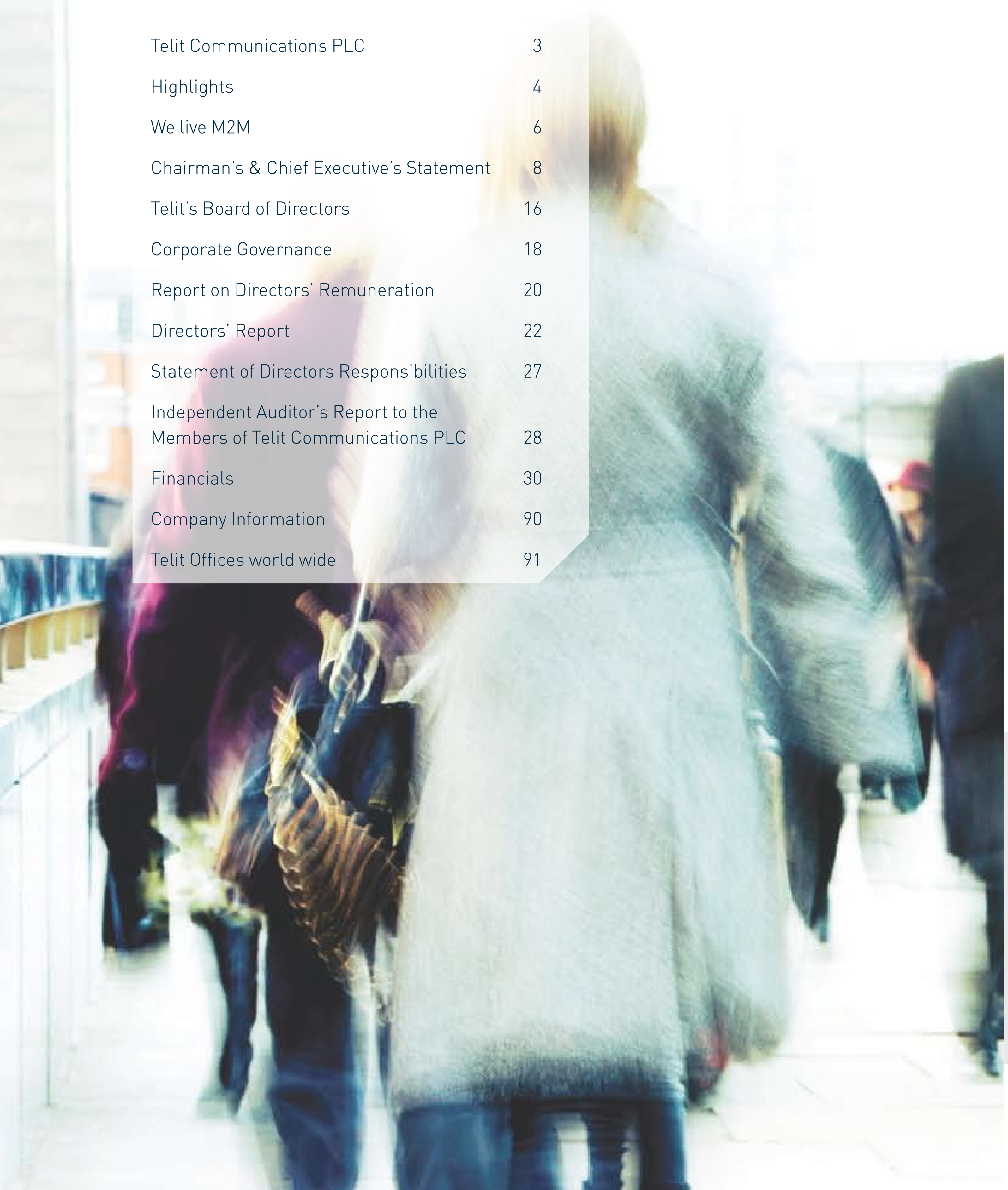
Telit

Annual Report 2009

Telit Communications PLC

Table of Content



Telit Communications PLC

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 into their business as their operations expand and modernize.

What is M2M?

Machine to machine (M2M) technology establishes wireless communication between machines and the information centre of a business.

The goal of M2M is to enable applications that allow businesses to increase productivity and competitiveness.

At the heart of each M2M implementation is a communication module which receives, processes and transmits information.

Highlights

Financial

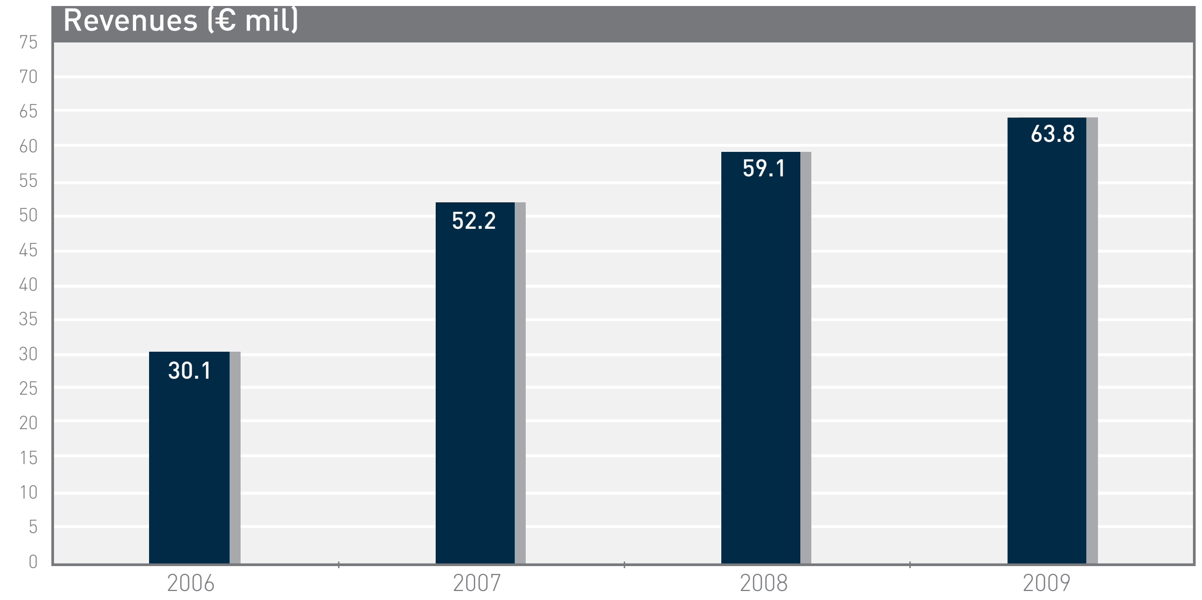
- Revenue increased by 10.7% to €63.8 million (2008: €57.6 million, excluding non-recurring royalties of €1.5 million).
- Revenue in H2-2009 increased by 30% to €36.0 million (H1-2009: €27.8 million).
- Gross profit increased by 11% to €30.6 million (2008: €27.6 million, excluding non-recurring royalties of €1.5 million)
- Adjusted operating profit[2] for the year (excluding one time compensation charges of €2.75 million) of €0.6 million (2008: €0.6 million)
- Adjusted EBITDA[1] for the year €4.2 million (2008: €3.7 million)
- Loss before tax of €2.9 million (2008: profit of €1.2 million)
- Loss for the year of €3.0 million (2008: loss of €3.2 million)

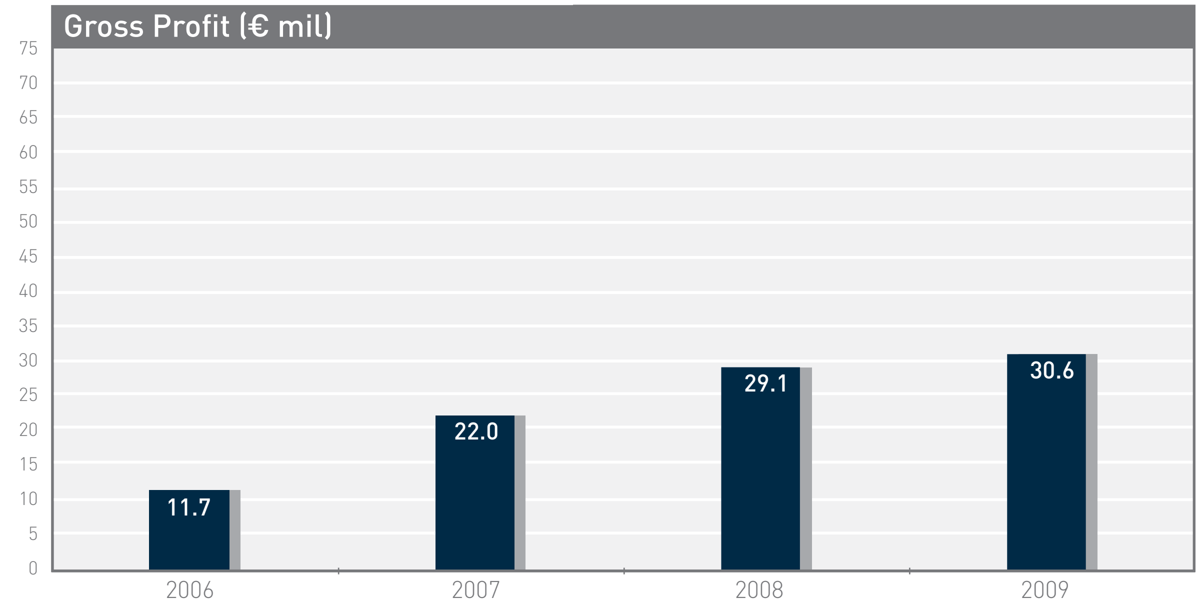
Operational

- Accelerated growth of Telit's Americas and APAC regions increases Telit's diversification.
- The transfer of the manufacturing of Telit's products to China was substantially completed at the end of the year.
- The Company continued its penetration of the automotive sector by entering into agreements with Magneti Marelli (Italy), a leading global supplier in the sector; with MetaSystem (Italy) and with Positron (Brazil), a PST Electronics company.
- The Company entered into a strategic collaboration agreement with Deutsche Telekom and T-Mobile which will see the three companies working closely together, worldwide, on sales and marketing in their target markets and to jointly develop innovative M2M products and services in the future.

Services and Products

- Launched INFINITA Services offering with Premium FOTA and extended Hardware warranty
- Presented new Short-Range product series and the smallest GSM/GPRS M2M module in the world
- Presented extremely powerful and cost-effective GPS module SE867-AGPS





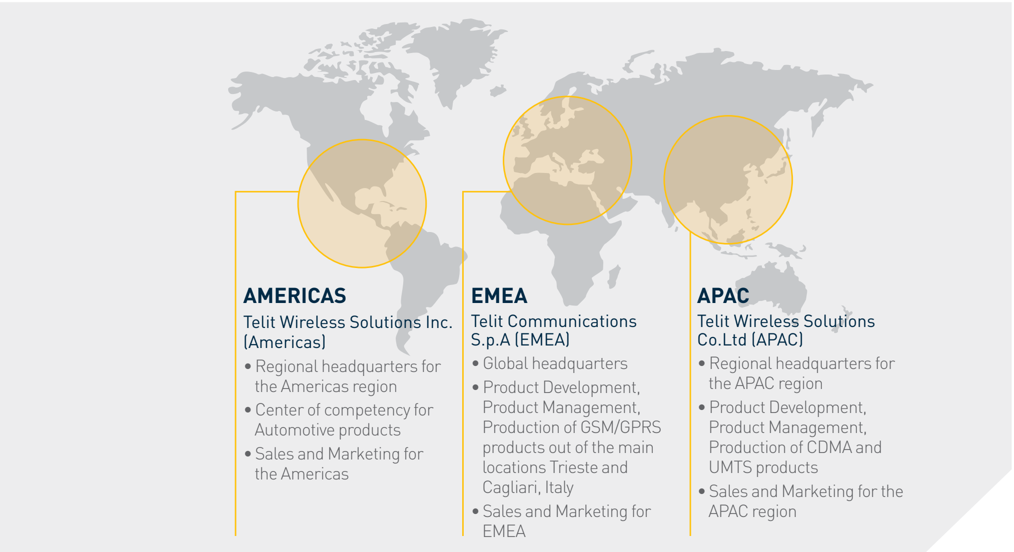
1. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization and share based payments from continuing operations and, for 2009 only, expenses related to manufacture restructuring costs.

2. Adjusted operating profit is defined as operating profit with other expenses added back.

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



Telit Worldwide

Telit sells its products through a network of 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 30 distributors.

Telit's headquarters is in Rome, Italy, with regional headquarters in Raleigh NC, USA 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. On average during the year ended 31 December 2009, Telit employed 362 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 2010 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. This will be supported by the transfer of the manufacturing of the vast majority of our products to a lower cost manufacturer in China.

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:

1. 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 application 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.

2. 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.

3. 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 Statement

Enrico Testa, Chairman of the Board

2009 has been a very challenging year for the global economy, and the M2M market was no exception. We focused this year on continued revenue growth, while trying to minimize operating costs. In 2009 we did incur substantial costs in connection with the transfer of the manufacturing of our products to our new manufacturing partner in China, resulting in termination costs that are reflected in our results for the year. These expenses were an investment facilitating the achievement of our goal of decreasing manufacturing costs and we believe that the long term return on this investment will be substantial and will cement Telit's position as a market leader in the M2M arena.

Board changes

In February 2009 Boostt B.V. nominated Mr. Massimo Testa to the Board of Telit as a replacement of Mr. Stella. 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.

Enrico Testa

Chairman of the Board
4 May 2010

Chief Executive's Statement And Review

Oozi Catz, Chief Executive Officer

Introduction

2009 has been another year of growth for Telit, in spite of the global economic slowdown which severely affected our industry and main competitors. During this very difficult year we still managed to achieve a revenue growth of 10.7%, an adjusted operating profit of €0.6 million (excluding one-time items) and an increase of the adjusted EBITDA to €4.2 million (2008: €3.7 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 above expectations. We continued to adjust, react and prepare during the year for the immense challenges and opportunities that the recession presents to us (including the transfer of the manufacturing of our products to China), while continuing to win new business, gain market share and retain our existing customer base.

Although the first half of the year was a very difficult one and a direct continuation of the last quarter of 2008, the second half of the year saw a dramatic increase of 30% in revenues (€36.0 million) over the first half (€27.8 million).We view 2010 as the recovery year for the M2M industry and believe that the future of this industry, and Telit's positioning at its forefront, is bright.

Below are the key financial performance measures for continuing operations for 2009 and 2008:

	2009 €'000	2008 €'000
Revenue[1]	63,761	59,083
Gross profit	**30,632**	**29,096**
Gross margin	48%	49.2%
Other income	49	1,002
Research & Development	(10,866)	(9,647)
Selling & Marketing	(11,137)	(10,829)
General & Administrative	(8,105)	(9,058)
Other Expenses[2]	(2,750)	-
Operating (loss) / profit	(2,177)	564
Adjusted EBITDA	4,234	3,673

1 2008- Including licence and royalty income
2 One-off payments in connection with the termination of the exclusivity manufacture by SEM.

Financial Results

Following the indications we provided in our trading update on 9 February 2010, the results for the year are above market expectations and underline the strength of the Company's position in the global M2M market, supported by the geographical expansion that began in 2006 and strengthened during 2007 and 2008. In spite of the global recession, the Company's results for 2009 show substantial growth in revenue with a continued improvement in the adjusted EBITDA.

The results for the year ended on 31 December 2009 reflect substantial growth (especially taking the global economic environment into account) when excluding one-time items, strong margins and underlying sales momentum.

- Revenues for the year increased by 10.7% to €63.8 million (2008: €57.6 million, excluding non-recurring royalties of €1.5 million received in 2008). After a slow start to the year, H2 revenues increased 30% to €36.0 million over the €27.8 million revenues in H1.
- Gross profit increased by 11% to €30.6 million (2008: €27.6 million excluding non-recurring royalties of €1.5 million).
- Other income decreased to €0.05 million (2008: €1.0 million). This is due to a delay in obtaining the necessary approvals for the recognition of €0.8 million in relation to governmental grants in Italy. The grants had initially been expected to be recognised in 2009 but this was delayed due to external reasons which are not under the Company's control.
- Research & Development expenses (€10.9 million during the year), as a percentage of revenues, increased slightly to 17.0% (2008: 16.3%, €9.6 million).

- Sales & Marketing expenses (€11.1 million during the year), as a percentage of revenues, decreased to 17.4% (2008: 18.3%, €10.8 million).
- General & Administrative expenses (€8.1 million during the year), as a percentage of revenues, decreased to 12.7% (2008: 15.3%, €9.0 million).
- Adjusted EBITDA increased to €4.2 million (2008: €3.7 million).
- Share based compensation charges were €0.4 million in 2009 and in 2008.

This resulted in an operating profit for 2009 of €0.6 million (excluding certain one-time items), compared to a profit of €0.6 million in 2008 and a loss before tax (excluding one-time items) of €0.2 million, compared to a profit before tax of €1.2 million in 2008.

Certain one-time items in 2009 relates to compensation payment agreed during July 2009 with BAMES in order to convert the agreement with SEM, a leading global electronics service provider, to be non-exclusive. As a result of the cancellation of the exclusivity, SEM is entitled to a compensation of €2.75 million to be settled by set-off against the receivable balance Telit has from the license agreement entered into by the parties in December 2008.

Basic and diluted loss per share from continuing operations were 7.6 Euro cents for the period compared to a loss of 7.0 Euro cents loss per share in 2008.

Cash

The Group continues to use cash in its operating activities, investing heavily in R&D and S&M. Despite this, the Group's net debt position at the end of 2009 improved to €7.2 million (2008: net debt of €11.9 million) due the successful placing of 28 million shares in August and December 2009 for a gross consideration of £5.7 million.

Net Debt position

	2009	2008
	€ '000	**€'000**
Current borrowings (1)	15,425	13,417
Non-current borrowings (2)	3,150	3,531
Cash and cash equivalents	(7,898)	(4,619)
Restricted cash deposits	(3,456)	(391)
Total	7,221	11,938

1. Included within current borrowings are:

- The short-term element of the preferential rate loan from the Ministry of Trade and
- Commerce in Italy, amounting to €0.4 million.
- A drawn amount of €5.2 million on a loan with a maturity date of 15 October 2010. The interest rate on this short-term bank loan is Euribor plus 2.325% 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 Italy to support a development project in Sardinia which was successfully completed on December 31, 2009.
- Drawn letters of credit and borrowings arising from invoice advances totaling €8.2 million
- Factoring facilities against qualifying receivables totaling €1.6 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.

2. The €3.15 million represents the long-term element of a preferential rate loan from the Ministry of Trade and Commerce in Italy of €3.9 million provided in connection with the Group's business development program in Sardinia. The loan attracts interest at a rate of 0.75% and is repayable in ten annual installments commenced on 20 March 2009.

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 Group in the foreseeable future and that therefore the Group will be able to continue to fund its operations from these credit facilities.

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 investment in its 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.

Impact of Global Economic Conditions on Demand in the M2M Market

The worldwide recession 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 modules.

Effects of Foreign Exchange

40% of Telit’s revenue in the period ended 31 December 2009 was generated in Euro (49.0% in 2008), with the remaining 60% (2008:51%) generated in, or linked to, U.S. dollars, Brazilian Real and South Korean Won. However, a substantial part of the Group’s purchased materials cost was denominated in U.S. dollars during the period.

This situation become more substantial since the production has moved to China (purchasing in USD). In response to this change, the Group has opted to change the presentational currency of the consolidated financial statements from Euro to USD with effect from 1 January 2010. Nevertheless, despite the negative impact of the depreciation in the value of the U.S. dollar against the Euro on Telit’s revenue in 2009, there is limited impact on the gross profit in the period

The decision will help management to better manage the Company’s currency exposure. The management will continue to follow and monitor the currency risk on a quarterly basis and will take the necessary actions to limit these risks

Regional Information

In spite of the global economic crisis, Telit continued to increase its revenues. This was achieved in a period when the M2M market did not grow at all, with certain segments even contracting. The weakness in the European market was more than compensated for by the strong growth in the Americas and APAC regions, resulting in an increasingly diversified geographical split of our revenues. The split of revenue on a geographical basis for the years ended 31 December 2009 and 2008 is as follows:

	2009 (€M)	% of Total Revenue	2008 (€M)	% of Total Revenue
EMEA	38.5	60.3%	44.2	74.8%
APAC	15.1	23.7%	9.6	16.2%
Americas	10.2	16.0%	5.3	9.0%
Total Revenue	63.8	100%	59.1	100%

We expect that the Americas and APAC regions will continue to increase their weighting of its contribution to total revenue in 2010 and beyond.

Employees

The number of employees in the continuing operations of the Group on a geographical basis as at 31 December 2009 and 2008 is as follows:

	31 Dec. 2009	31 Dec. 2008
EMEA	266	244
APAC	74	73
Americas	22	22
Total Employees	362	339

Business Performance & sales

During 2009 the following major developments took place that contributed to the overall performance of the Company and will contribute to the Company's future results:

Products and Services

- Telit presented its new short-range product series and the smallest GSM/GPRS module in the world.
- Telit began offering extended warranty periods with the Infinita Services.
- Telit´s CDMA M2M cellular module earned certification on Sprint's Wireless Network.
- The CC864-DUAL module certified on Crossbridge solution's wireless CDMA data network.
- The CC864-DUAL module certified on Aeris Communications' CDMA Network in North America.

Partnerships

- Signed Memorandum of Understanding with Magneti Marelli in the Field of Telematic Devices for Automotive.
- Meta System (Italy) chose Telit's GE863–SIM module for its MetaSat RC06 MBK telematics device.
- Developed a wireless communication system for Eurocopter.
- Isabella Products selects Telit's M2M module to enable two-way cellular communication on digital frame vizit digital photo frame.

Strategy

Our strategy for 2010 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, through our Infinita Services and the integration of cellular and short range technologies into a complete M2M offering. The strengthening of our competitive edge and continued acquisition of market share will be supported, to a large degree, by the cost reduction achieved by the move of manufacturing to China in the second half of 2009.

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 thatdeliver 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.

Outlook

The outlook for the rest of 2010 and the future looks positive for Telit. 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.

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
4 May 2010

Telit's Board of Directors

Enrico Testa, Executive Chairman of the Board, aged 59

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 Organizing 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 50

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 on 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 44

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 Mandel-Mantello, Independent Non Executive Director, aged 52

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 home wear; 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 44

Amir Scharf is a Partner and Head of Securities Law practice at Tadmor & Co., Attorneys at Law, in Tel Aviv. 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 52

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 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 and Yariv Dafna, the CFO, attend 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
4 May 2010

Report on Directors' Remuneration

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

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.

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

Massimo Testa was appointed as a director on 13 February 2009.

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

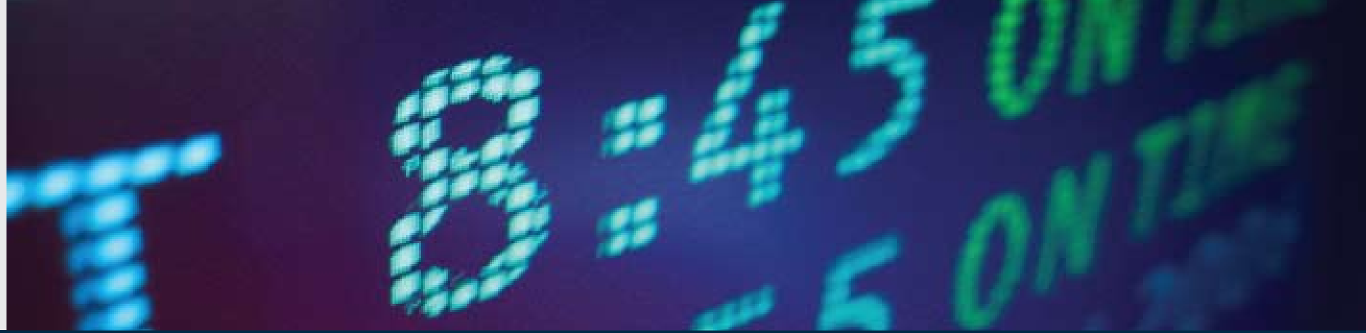
	Salary and fees	Benefit in kind	Annual bonus	Post employment benefits	Total 2009	-Total 2008
	€'000	€'000	€'000	€'000	€'000	€'000
Executive Directors						
Enrico Testa	88	67	-	-	155	150
Oozi Cats	693	44	-	51	788	1,195
Michael Galai	92	7	-	25	124	162
Non-Executive Directors						
Andrea Mandel-Mantello[1]	35	-	-	-	35	40
Maurizio Gasparri [2]	-	-	-	-	-	60
Giovanni Stella [2]	-	-	-	-	-	41
Amir Scharf	35	-	-	-	35	40
Massimo Testa [3]	31	-	-	-	31	-
Total – 2009	**974**	**118**	**-**	**76**	**1,168**	**-**
Total – 2008	**1,145**	**100**	**319**	**124**		**1,688**

1. Amounts in respect of the services of Andrea Mandel-Mantello are paid directly to Advicorp plc, a company under his joint control.
2.Up to the date of resignation.
3.Since date of appointment.

Andrea Mandel-Mantello

Chairman of the Remuneration Committee
4 May 2010

Directors' Report



The directors present their annual report and the financial statements of the Group for the year ended 31 December 2009.

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 15, 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% of the Company's issued and outstanding shares at an exercise price of £0.43 per share. The options vest in two equal installments 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% of the Company's issued and outstanding shares at an exercise price of £0.60 per share. 100,000 options vest in two equal installments on 9 July 2008 and 2009 and 1,363,000 vest in three equal installments 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% 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 installments on 10 July 2008 and 2009 and 195,000 options vest in three equal installments 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 installments.

On 29 January 2009 the majority of the options outstanding as at that date were cancelled by their holders, for no consideration. On the same date, executives, employees and consultants of the Company and its subsidiaries were granted 6,407,000 options to purchase approximately 14.4% of the Company's issued shares at the time, at an exercise price of £0.20 per share. The options vest in two or three equal annual installments starting from 29 January 2009 and expire five years from the date of grant.

The number of outstanding options as at 31 December 2009 was 6,286,667, equal to approximately 8.7% 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 €10.9 million were expensed in the year, compared to €9.6 million in 2008. Cumulative internally-generated intangible assets arising from development costs capitalized amounted to €4.4 million, after setting off grant contributions received of €5.2 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 32 to the financial statements.

Donations

The Group made no charitable or political donations during the year ended 31 December 2009 (2008 - €nil).

Dividends

The Company is unable to pay a dividend in respect of the period (2008: nil).

Directors

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

Enrico Testa	
Oozi Cats	
Michael Galai	
Amir Scharf	
Andrea Mandel-Mantello	
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 2009		At 31 December 2008	
Directors	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats[1]	20,283,357	27.97	16,460,357	36.98
Massimo Testa[2]	20,283,357	27.97	-	-
Enrico Testa[3]	20,283,357	27.97	16,460,357	36.98
Amir Scharf	nil	-	nil	-
Andrea Mandel-Mantello	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 15,600,000 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. 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.
3. 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' and Mr. Massimo Testa's holdings.

Details of directors' share options are provided below:

	Existing on 1 Jan 2009	Expired	Exercised	Granted	Existing on 31 Dec 2009	Exercise Price	Date from which exercisable	Expiry date
Oozi Cats	925,000	925,000	-	2,000,000	2,000,000	20p	29/01/09	29/01/14
Enrico Testa	700,000	700,000	-	1,000,000	1,000,000	20p	29/01/09	29/01/14
Michael Galai	100,000	100,000	-	200,000	200,000	20p	29/01/09	29/01/14

The highest and lowest closing prices of the Company's shares on AIM during 2009 were 35p (8-12 June 2009) and 12p (4, 5, 6 & 9 March and 2 April 2009).

On 29 January 2009, after having waived their existing options, Messers Cats, Testa and Galai were granted 2,000,000, 1,000,000 and 200,000 options, respectively, at an exercise price of £0.20 per options. The options vest over a 2 years period, as follows: 925,000 (Mr. Cats), 700,000 (Mr. Testa) and 100,000 (Mr. Galai) of the options, respectively, were vested on the date of the grant with the remaining options vesting in 2 equal annual installments on January 29 2010 and 2011.

The aggregate amount of gains made by directors on the exercise of share options in the year ended 31 December 2009 was €nil (2008: €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 90 days of the date of invoice, except where different arrangements have been agreed with suppliers. Trade creditor days of the Group at 31 December 2009, calculated in accordance with the requirements of the Companies Act 2006, were 94 days (2008: 83 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.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Michael Galai

Finance Director
4 May 2010

Statement of Directors Responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Telit Communications PLC

We have audited the financial statements of Telit Communications PLC for the year ended 31 December 2009 set out on pages 30 to 89. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

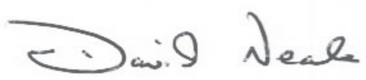
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Neale
(Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc,
Statutory Auditor

Chartered Accountants
20 Farringdon Street

London
EC4A 4PP

4 May 2010

Telit Communications PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	2009 €000	2008 €000
Revenue	2	63,761	59,083
Cost of sales		(33,129)	(29,987)
Gross profit		30,632	29,096
Other income	4	49	1,002
Research and development expenses		(10,866)	(9,647)
Selling and marketing expenses		(11,137)	(10,829)
Administrative expenses		(8,105)	(9,058)
Other expenses	5	(2,750)	-
Operating (loss)/profit	10,11	(2,177)	564
Investment income	6	85	192
Finance costs	7	(857)	(1,171)
Share of results of associated undertakings	16	-	18
Gain on deemed partial disposal of subsidiary	8	-	1,614
(Loss)/profit before income taxes		(2,949)	1,217
Income tax expense	9	(81)	(2,586)
Loss for the year from continuing operations		(3,030)	(1,369)
Loss for the year from discontinued operations	12	-	(1,864)
Loss for the year		(3,030)	(3,233)
Total comprehensive income			
Foreign currency translation differences (net of tax)		43	(1,904)
Other comprehensive income for the year		(2,987)	(5,137)
Loss attributable to:			
Owners of the Company		(3,466)	(3,052)
Minority interest		436	(181)
Loss for the year		(3,030)	(3,233)
Total comprehensive income attributable to:			
Owners of the Company		(3,606)	(4,782)
Minority interest		619	(355)
Loss for the year		(2,987)	(5,137)
Total comprehensive income for the year		(2,987)	(5,137)
Basic loss per share (in euro cents)			
From continuing operations		(7.6)	(2.7)
From discontinued operations		-	(4.3)
Total continuing and discontinued	13	(7.6)	(7.0)
Diluted loss per share (in euro cents)			
From continuing operations		(7.6)	(2.7)
From discontinued operations		-	(4.3)
Total continuing and discontinued	13	(7.6)	(7.0)

Telit Communications PLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

		Group		Company	
	Note	2009 €'000	2008 €'000	2009 €'000	2008 €'000
ASSETS					
Non-current assets					
Intangible assets	14	8,819	9,883	6,329	-
Property, plant and equipment	15	3,294	3,779	3	4
Investment in associated undertaking	16	605	629	-	579
Other investments	17	1,570	1,570	-	-
Investments in subsidiaries	18	-	-	27,766	27,392
Other long term assets	20	393	3,437	4	-
Deferred tax asset	9	316	548	-	-
		14,997	19,846	34,102	27,975
Current assets					
Inventories	19	6,021	10,750	29	-
Trade receivables	20	21,676	14,575	453	247
Other current assets	20	5,554	4,799	679	845
Deposits – restricted cash	22	3,456	391	5,000	6,000
Cash and cash equivalents	22	7,898	4,619	3,166	633
		44,605	35,134	9,327	7,725
Total assets		59,602	54,980	43,429	35,700
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	23	956	644	956	644
Other reserve		(260)	(260)	5,894	5,894
Share premium account		36,043	30,188	36,043	30,188
Translation reserve		(3,604)	(3,464)	-	-
Retained earnings		(18,207)	(15,143)	(7,432)	(2,498)
Total shareholders' equity		14,928	11,965	35,461	34,228
Minority interests		1,115	77	-	-
Total equity		16,043	12,042	35,461	34,228
Non-current liabilities					
Other loans	31	3,150	3,531	-	-
Post-employment benefits	24	2,030	1,807	-	-
Deferred tax liabilities	9	69	245	-	-
Provisions	28	832	748	-	-
Other long-term liabilities	29	221	119	-	-
		6,302	6,450	-	-
Current liabilities					
Short-term borrowings from banks and other lenders	25	15,425	13,417	-	500
Trade payables	25	18,026	11,140	409	74
Provisions	28	151	142	-	-
Other current liabilities	25	3,655	11,789	7,559	898
		37,257	36,488	7,968	1,472
Total equity and liabilities		59,602	54,980	43,429	35,700

The financial statements on pages 30 to 89 were approved by the board and authorized for issue on 4 May 2010 and are signed on its behalf by: Oozi Cats, Director

Company number: 05300693

Telit Communications PLC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
CASH FLOWS - OPERATING ACTIVITIES				
Loss for the period from continuing operations	(3,030)	(1,369)	(5,153)	(1,010)
Adjustments for:				
Depreciation and amortization	3,259	2,674	205	-
Impairment of investments in subsidiaries	-	-	3,000	-
Gain on disposal of associated undertaking	-	-	(50)	-
Income tax expense	81	2,586	-	-
Investment income	(85)	(192)	(85)	(139)
Finance costs	857	1,171	-	-
Increase in provision for post-employment benefits	203	302	-	-
Share-based payment charge	402	436	219	-
Gain on deemed partial disposal of subsidiary	-	(1,614)	-	-
Share in result of associated undertaking	-	(18)	-	-
Operating cash flows before movements in working capital:	1,687	3,976	(1,864)	(1,149)
Increase in trade receivables	(4,059)	(1,785)	(210)	(176)
Decrease/(increase) in other current assets	1,871	284	166	(21)
Decrease/(increase) in inventories	4,846	(2,638)	(29)	-
Increase /(decrease) in trade payables	6,832	(1,853)	335	74
(Decrease)/increase in other current liabilities	(8,649)	(4,370)	5,076	(459)
Increase in provisions and other long term liabilities	186	554	-	-
Cash from (used in) operations	2,714	(5,832)	3,474	(1,731)
Income tax paid	(29)	(92)	-	-
Interest received	85	177	85	139
Interest paid	(857)	(988)	-	-
Net cash from (used in) continuing operations	1,913	(6,735)	3,559	(1,592)
Net cash from (used in) continuing operations	1,913	(6,735)	3,559	(1,592)
Net cash used in discontinued operations (Note 12)	-	(1,441)	-	-
Net cash from/(used in) operating activities	1,913	(8,176)	3,559	(1,592)
CASH FLOWS - INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(940)	(1,732)	-	(4)
Proceeds from disposal of assets	99	46	-	-
Purchase of intangible assets	(3,182)	(4,888)	(6,533)	-
Proceeds from grant contribution	-	2,606	-	-
Acquisition of subsidiaries (Group: net of cash acquired)	-	(15)	(25)	(23)
Loan to subsidiary	-	-	(1,635)	(150)
Net proceeds from issuance of share capital in a subsidiary to third party	-	7,000	-	-
Decrease/(increase) in restricted cash deposits	(3,065)	1,570	1,000	-
Net cash (used in) from investing activities	(7,088)	4,587	(7,193)	(177)

Telit Communications PLC

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
CASH FLOWS - FINANCING ACTIVITIES				
Issuance of shares	6,167	-	6,167	-
Short-term borrowings from banks and others	2,555	(813)	-	-
Proceeds from preferential rate loan (note 31)	-	3,909	-	-
Repayment of other loans	(381)	-	-	-
Net cash from financing activities	8,341	3,096	6,167	-
Increase/(decrease) in cash and cash equivalents	3,166	(493)	2,533	(1,769)
Cash and cash equivalents - balance at beginning of year	4,619	5,212	633	2,402
Effect of exchange rate differences	113	(100)	-	-
Cash and cash equivalents - balance at end of year	7,898	4,619	3,166	633

Non – cash transactions:

1) On January 1, 2009 the Company sold its investments in Cell time Ltd to Dai Telecom Holdings (2000) Ltd for a consideration of €632 thousand. The Company provided Dai Telecom Holdings (2000) Ltd with a new loan to fund this acquisition. See also note 18.

2) On June 30, 2009 The Company converted a loan in the amount of €1 million in consideration for 1,865 ordinary shares of Dai Telecom (2000) Ltd.

Telit Communications PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

Year ended 31 December 2009

	Share capital	Share premium Account	Other reserve	Translation reserve	Retained earnings	Total	Minority interest	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Balance at 1 January 2009	644	30,188	(260)	(3,464)	(15,143)	11,965	77	12,042
Total Comprehensive Income for the year								
Loss for the year	-	-	-	-	(3,466)	(3,466)	436	(3,030)
Foreign currency translation differences	-	-	-	(140)	-	(140)	183	43
Total comprehensive income	-	-	-	(140)	(3,466)	(3,606)	619	(2,987)
Transactions with owners								
Issuance of shares	312	5,855	-	-	-	6,167	-	6,167
Share-based payment charge	-	-	-	-	402	402	-	402
Arising on deemed disposal -minority in Telit Wireless Solutions Srl	-	-	-	-	-	-	419	419
Total transactions with owners	312	5,855	-	-	402	6,569	419	6,988
Balance at 31 December 2009	956	36,043	(260)	(3,604)	(18,207)	14,928	1,115	16,043

Year ended 31 December 2008

	Share capital	Share premium Account	Other reserve	Translation reserve	Retained earnings	Total	Minority interest	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Balance as 1 January 2008	627	29,651	(260)	(1,734)	(12,512)	15,772	605	16,377
Total Comprehensive Income for the year								
Loss for the year	-	-	-	-	(3,052)	(3,052)	(181)	(3,233)
Foreign currency translation differences	-	-	-	(1,730)	-	(1,730)	(174)	(1,904)
Total comprehensive income	-	-	-	(1,730)	(3,052)	(4,782)	(355)	(5,137)
Transactions with owners								
Issuance of shares	17	537	-	-	-	554	-	554
Arising on deemed disposal -minority in Telit Wireless Solutions Srl	-	-	-	-	-	-	(188)	(188)
Share-based payment charge					421	421	15	436
Total transactions with owners	17	537	-	-	421	975	(173)	802
Balance at 31 December 2008	644	30,188	(260)	(3,464)	(15,143)	11,965	77	12,042

Telit Communications PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

Year ended 31 December 2009

	Share capital	Share premium account	Other reserve	Retained earnings	Total
	€000	€000	€000	€000	€000
1 January 2009	644	30,188	5,894	(2,498)	34,228
Issuance of shares	312	5,855	-	-	6,167
Share based payment charge	-	-	-	219	219
Loss for the year	-	-	-	(5,153)	(5,153)
Total comprehensive income	-	-	-	(5,153)	(5,153)
31 December 2009	956	36,043	5,894	(7,432)	35,461

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)
Total comprehensive income	-	-	-	(1,010)	(1,010)
31 December 2008	644	30,188	5,894	(2,498)	34,228

The other reserve arose on the issue of 1,790,785 shares to Polar Investments Ltd. (“Polar”) in 2005 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

Telit Communications PLC (the "Company") is a company incorporated and domiciled in the UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

(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 Chief Executive's Statement and Review on pages 11 to 14. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive's Statement and Review on pages 9 to 11. In addition notes 20, 29, 31 and 32 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 from the Ministry of Trade and Commerce in Italy. 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 loss after taxation for the year from continuing operations, the general economic environment and impact on specific markets supplied, 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 will open renewal negotiations with the banks in due course and has at this stage not sought any written commitment that the facilities will be renewed. However, the management has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. In addition, during 2009 the Company raised additional funds of £5.7 million through a share issue in the stock market and management believe that further funds can be raised, if will be needed, to support its growth.

1. ACCOUNTING POLICIES (continued)

(b) Basis of preparation - Going Concern (continued)

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 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 at 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 other comprehensive income 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 at the balance sheet date.

Commencing on 1 January, 2010 the consolidated financial statements will be presented in US dollar.

(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 statement of comprehensive income 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.

1. ACCOUNTING POLICIES (continued)

(e) Business combinations (continued)

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.

Where the Company increase its 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

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 or Comapny 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 or Company's share of the net assets of the associate, less any impairment in the value of individual investments.

1. ACCOUNTING POLICIES (continued)

(i) Investments (continued)

Losses of the associate in excess of the Group's or Company's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's or Company'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.

A gain or loss on partial disposals of investments in subsidiary that do not result in a loss of control are recognized in the statement of comprehensive income.

(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 statement of comprehensive income.

(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 or business recognised at the date of acquisition.

Goodwill is initially recognised as an asset held 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, but is subject to testing for impairment.

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.

1. ACCOUNTING POLICIES (continued)

(l) Goodwill (continued)

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 statement of comprehensive income 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.

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 statement of comprehensive income 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
Trademark	12.5

(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.

1. ACCOUNTING POLICIES (continued)

(o) Impairment of tangible and intangible assets excluding goodwill (continued)

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally 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 statement of comprehensive income, 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 non interest bearing and are stated at their fair 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 statement of comprehensive income in the period in which they occur. Gains or losses on the curtailment of a defined benefit plan are recognized in the statement of comprehensive income 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.

1. ACCOUNTING POLICIES (continued)

(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 statement of comprehensive income using the effective interest method.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense charged to the statement of comprehensive income. This change in accounting policy was due to the adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

(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.

1. ACCOUNTING POLICIES (continued)

(w) Non-current assets held for sale (continued)

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 fair value less impairment. 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’s 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.

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.

1. ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

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 90 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.

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 collateralized borrowings 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.

1. ACCOUNTING POLICIES (continued)

(x) Financial instruments (continued)

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.

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 had not vested 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 an appropriate valuation model, for example 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.

1. ACCOUNTING POLICIES (continued)

(y) Share-based payments (continued)

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 statement of comprehensive income 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 statement of comprehensive income.

(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. Other provisions are recognize in accordance with IAS 37 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.

Grant income

Income relating to government grants is recognized when there is reasonable assurance that the Company has complied with the conditions attaching to them 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 regional grant income recognized in the statement of comprehensive income for the year ended 31 December 2009 was €49,000 (2008: €1,002,000).
As at 31 December 2009 an amount of €3,715,000 (2008: €2,908,000) is recorded in other current assets. The amount of grant income offset against capitalized intangible assets for the year ended 31 December 2009 was €2,594,000 (2008: €2,606,000).

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 2009, the carrying value of intangible assets other than the goodwill acquired in business combinations was €355,000 (2008: €842,000). For applicable amortization rates, see note 1(n) above.

1. ACCOUNTING POLICIES (continued)

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

Investments in unlisted entity

The Group holds equity instruments in an unlisted entity for which no active market exists and hence a quoted market price does not exist. 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 entity specific factors such as illiquidity. As at 31 December 2009, the Group is not able to make such a determination on the basis of reliable assumptions in respect of its available for sale investment. However, the value of such investments as of 31 December 2009 represents the Group's equity share in the unlisted entity. 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 2009, the total value of such investments was €1,570,000 (2008: €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 statement of comprehensive income. For the year ended 31 December 2009, the total amount recorded in the statement of comprehensive income for continuing operations was €402,000 (31 December 2008: €436,000).

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

As disclosed further in note 8, on 20 June 2007, the Group entered into a series of related transactions with BAMES in which BAMES subscribed for 5.625% of the share capital of Telit Wireless Solutions Srl for €9.0 million, and the Group acquired a 19.9% 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% 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% 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 statement of comprehensive income within cost of sales in accordance with the minimum purchase commitments made by the Group. The total amount amortized to the statement of comprehensive income for the year ended 31 December 2009 was €7,667,000 (2008: €5,134,000).

1. ACCOUNTING POLICIES (continued)

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

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 installments 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 €0.7 million in respect of the price reduction for 2009 (2008: €0.9 million). See also note 5.

Key sources of estimation uncertainty

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

Recoverability of deferred tax assets

Under IFRS, a deferred tax asset arising on trading losses 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 2009, the Group had recognized a deferred tax asset of €316,000 (2008: €548,000). 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 2009, the amount of development costs capitalized (net of amortization and grants) included in the Group balance sheet was €4,426,000 (2008: €4,356,000).

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.

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 2009, the amount of goodwill included in the consolidated balance sheet was €2,426,000 (2008: €2,301,000).

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 2009, the book value of the investment in associated undertakings was €605,000 (2008: €629,000).

1. ACCOUNTING POLICIES (continued)

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

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 (2008: €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) New Accounting Standards, interpretations and amendments to existing standards that are adopted for the first time in these financial statements

The Group adopted the following standards as from January 1, 2009:

Revised IAS 1 - "Presentation of Financial Statements" (hereinafter- IAS1R)

IAS1R set comprehensive requirements for presenting financial statements, guidelines for the structure of financial statements and minimum requirements on content. Among other things, IAS1R mandates to present income and expense items recognized in equity and that do not stem from transactions with shareholders (hereinafter – other comprehensive income items) separately from owner-related equity transactions. All comprehensive income items need to be presented in the statement of comprehensive income. However, entities may elect whether to present all income and expense items recognized in the period in one or two statements: a statement that presents income or loss components (income statement) and a second statement that starts with income or loss and presents other comprehensive income components (statement of comprehensive income). The Group elected to present all income and expense items recognized in the period in one statement - statement of comprehensive income. According to IAS1R, comparative information was restated. This change in presentation does not affect the results of the Group and earnings per share.

The Group presents in the consolidated statement of changes in shareholders equity all owner changes in equity, whereas all non – owner changes in equity are presented in the consolidated statement of comprehensive income.

IFRS 7 'Financial instruments – disclosures' (amendment), (effective 1 January 2009)

As part of the IFRS improvement project, two aspects of IFRS 7 disclosure requirements have been made:

• enhancing disclosures over fair value measurements relating to financial instruments, specifically in relation to disclosures over the inputs used in valuations techniques and the uncertainty associated with such valuations; and

1. ACCOUNTING POLICIES (continued)

(ac) New Accounting Standards, interpretations and amendments to existing standards that are adopted for the first time in these financial statements (continued)

• improving disclosures over liquidity risk to address current diversity in practice in how such disclosure requirements are being interpreted and applied, proposing quantitative disclosures based on how liquidity risk is managed and strengthening the relationship between quantitative and qualitative liquidity risk disclosures.

As a result of this change, further disclosures have been added to the financial statements this year.

International Financial Reporting Standard No. 8 – "Operating Segments" – (hereafter IFRS8).

IFRS 8 replaces IAS 14 "Segment Reporting". The new standard requires the application of a 'management approach', whereby segment information is presented on the same basis as that used for internal reporting purposes.

The application of the standard did not have any effect on the Group's segment reporting. Goodwill is allocated by management to groups of cash-generating units based on segments levels.

Amendment to International Accounting Standard No. 38 – "Intangible Assets" (hereafter – the amendment to IAS 38).

The said amendment is part of the annual improvements project of the IASB published in May 2008 and relates to advertising and promotional activities. Under the Amendment to IAS 38, it is allowed to recognize a prepayment as an asset to the extent that the prepayment was made prior to the point at which the entity had the right to access the goods purchased or up to the point of receipt of services. As a result, the Group applies the said amendment to IAS 38 commencing 1 January 2009 with retroactive effect.

IAS 23 (revised) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009)

IFRS 2 deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for share-based payments; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group applies IFRS 2 (amendment) as from 1 January 2009. The amendment did not have a material impact on the Group or Group's financial statements for the reported years.

1. ACCOUNTING POLICIES (continued)

(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:

Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-controlled entity or Associate
Amendment to IFRS 2 Group Cash-settled share-based payment transactions
IFRS 3 (Revised) Business Combinations
Amendment to IFRS 7 Improving disclosures about financial instruments
IAS 27 (Revised 2008) Consolidated and separate financial statements
Amendment to IFRIC 9 and IAS 39 Embedded derivatives
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distribution of non-cash assets to owners
IFRIC 18 Transfers of assets from customers
Amendment to IAS 36 Impairment of Assets
Amendment to IAS 39 Reclassification of financial assets: Effective date and transition
Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged items

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.

2. REVENUE

	Group	
	2009	**2008**
	€000	**€000**
Sales of goods	63,761	57,426
Royalties*	-	1,657
Revenue	63,761	59,083
Investment income	85	192
Continuing operations	63,846	59,275
Discontinued operations	-	1,288
	63,846	60,563

* 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 statement of comprehensive income as revenue. This transaction is discussed further in note 1(ab).

3. SEGMENTAL ANALYSIS

The Group

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker in the Group. The chief operation decision-maker, who is responsible for allocating resources and assessing performance of the operating segments and makes strategic decisions, has been identified as the Chief Executive Officer.

The Group is organized on a worldwide basis into three geographical segments: EMEA, APAC and Americas. There are no other segments.

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

3. SEGMENTAL ANALYSIS (continued)

2009

	EMEA	APAC	Americas	Total	Eliminations	Consolidated
	€000	€000	€000	€000	€000	€000
Revenue						
External sales	38,430	15,098	10,233	63,761	-	63,761
Inter-segment sales (1)	26,014	627	222	26,863	(26,863)	-
Total revenue	64,444	15,725	10,455	90,624	(26,863)	63,761
Result						
Segment result	2,689	330	(1,589)	1,430	-	1,430
Unallocated corporate expenses (2)						(3,607)
Operating profit						(2,177)
Investment income						85
Finance costs						(857)
Profit before income taxes						(2,949)
Income taxes						(81)
Loss for the year						(3,030)

2008

	EMEA	APAC	Americas	Discontinued operations (3)	Total	Eliminat-ions	Consolid-ated
	€000	€000	€000	€000	€000	€000	€000
Revenue							
External sales	45,541	9,553	5,277	(1,288)	59,083	-	59,083
Inter-segment sales (1)	10,662	5,109	-	-	15,771	(15,771)	-
Total revenue	56,203	14,662	5,277	(1,288)	74,854	(15,771)	59,083
Result							
Segment result	4,271	(240)	(2,531)	1,850	3,350	-	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)

(1) Transactions between geographic segments are charged at market prices.
(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 undertakings arises from activities in Israel.

3. SEGMENTAL ANALYSIS (continued)

	2009	2008
	€000	€000
Total assets:		
EMEA	29,889	36,405
APAC	9,317	8,240
Americas	3,266	3,293
Unallocated assets	17,130	7,042
Total assets	59,602	54,980
Total liabilities:		
EMEA	19,578	23,655
APAC	1,664	909
Americas	660	475
Unallocated liabilities	21,657	17,899
Total liabilities	43,559	42,938

Unallocated assets comprise:

	2009	2008
	€000	€000
Other long term assets	393	337
Deferred tax asset	316	548
Other debtors in respect of general entity and head office purposes	5,067	1,147
Deposits - restricted cash	3,456	391
Cash and cash equivalents	7,898	4,619
Unallocated assets	17,130	7,042

Unallocated liabilities comprise:

	2009	2008
	€000	€000
Other loans	3,150	3,531
Short-term borrowings from banks and other lenders	15,425	13,417
Other current liabilities in respect of general entity and head office purposes	2,792	587
Other long term liabilities	221	119
Deferred tax liabilities	69	245
Unallocated liabilities	21,657	17,899

3. SEGMENTAL ANALYSIS (continued)

2009

	EMEA €000	APAC €000	Americas €000	Consolidated €000
Other segment items:				
Capitalized tangible and intangible asset additions	2,953	1,081	88	4,122
Non-cash items:				
Depreciation and amortization	(2,513)	(692)	(54)	(3,259)
Bad debt expense	244	23	33	300
Share-based payments	352	23	27	402

2008

	EMEA €000	APAC €000	Americas €000	Discontinued operations €000	Consolidated €000
Other segment items:					
Capitalized tangible and intangible asset additions	5,535	1,028	57	-	6,620
Non-cash items:					
Depreciation and amortization	(1,984)	(629)	(61)	-	(2,674)
Bad debt expense	688	-	79	(688)	79
Share-based payments	415	17	26	(22)	436

4. OTHER INCOME

	2009 €000	2008 €000
Government grants	49	1,002

The Group's eligibility for the annual programs for 2008 and 2009 were 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 regional grant within other income in the year ended 31 December 2009 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied. As at 31 December 2009, the total amount receivable from the regional grant body was €1,121,000 (31 December 2008: €2,778,800).

5. OTHER EXPENSES

Other expense relates to compensation payment agreed during July 2009 with BAMES in order to convert the agreement with SEM, a leading global electronics service provider, (the Vimercate, Milan based manufacturing arm of BAMES), to be non-exclusive. The agreement provided for SEM to produce all of Telit's M2M modules (with some exceptions) for a five year period starting from March 12, 2007.

5. OTHER EXPENSES (continued)

As a result of the cancellation of the exclusivity, SEM is entitled to a compensation of €2.75 million to be settled by set-off against the receivable balance Telit has from the license agreement entered into by the parties in December 2008.

6. INVESTMENT INCOME

	2009 €000	2008 €000
Interest income from bank deposits	85	192

7. FINANCE COSTS

	2009 €000	2008 €000
Interest expense on factoring arrangements	78	370
Interest expense on bank loans and overdrafts	748	1,138
Fair value movement on derivative financial instrument	102	119
Exchange rates and other differences	(71)	(456)
	857	1,171

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 % 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.

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

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

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 statement of comprehensive income within cost of sales in accordance with the minimum purchase commitments made by the Group. During 2009 the group recognized the remaining balance of the deferred income and recorded amount of €7,667,000 (2008: €5,134,000) in the statement of comprehensive incomes.

During July 2009 the Group signed an agreement with BAMES in order to convert the agreement with SEM to be non-exclusive. See also note 5.

9. INCOME TAXES

	2009	2008
	€000	€000
A.		
Overseas corporate tax:		
Current year taxes	36	(13)
Deferred taxes:		
Overseas deferred taxes	45	2,599
	81	2,586

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

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% for 2009 and 28.5% for 2008, and the Group's total tax expense for the year:

	2009	2008
	€000	€000
(Loss)/profit before income tax from continuing operations	(2,949)	1,217
Tax credit/ (charge) computed at 28% (2008:28.5%)	826	(347)
Tax adjustments arising from:		
(Income exempted) /expenses which are not deductible in determining taxable profit	(2,049)	114
Impairment of deferred tax asset	(124)	(3,000)
(Increase)/decrease in taxes resulting from a different tax rate of subsidiaries operating in other jurisdictions	(15)	197
Tax losses not utilised	1,598	450
Other differences	(317)	-
Tax charge for continuing operations	(81)	(2,586)

9. INCOME TAXES (continued)

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 2009	431	(128)	303
Translation adjustments	15	(26)	(11)
(Charge) / credit to the statement of comprehensive income	(146)	101	(45)
At 31 December 2009	300	(53)	247

The Group has recognized deferred tax assets in respect of Telit APAC of €0.3 million in the year ended 31 December 2009. Telit APAC has generated taxable losses in the year ended 31 December 2009 but have a recent history of taxable profits and the Directors consider that this business 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:

	2009	2008
	€000	€000
Losses for which a deferred tax asset is recognized	1,364	1,599
Losses for which no deferred tax asset is recognized	44,358	42,499
	45,722	44,098

10. (LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS AND GROUP AUDIT FEE

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

	2009 €000	2008 €000
Net foreign exchange gain	(71)	(456)
Depreciation of owned fixed assets (note 15)	1,379	1,154
Amortization of intangible assets (note 14):		
Amortization of purchased customer list – included in selling and marketing expenses	286	199
Amortization of acquired technology – included in research and development expenses	238	171
Amortization of software – included in research and development expenses	1,356	1,150
Research and development expenditure	10,866	9,647
Costs of inventories recognized as an expense	32,772	28,239
Write-downs of inventories recognized as an expense	(22)	474

Audit fee

	Group		Company	
	2009 €000	2008 €000	2009 €000	2008 €000
Fees payable to the Company's auditors for the audit of the Company's annual accounts:				
Current auditors	123	-	123	-
Preceding auditors	-	126	-	126
Fees payable to the Company's auditors and their associates for other services to the Group:				
Current auditors	12	-	6	-
Preceding auditors	19	24	-	13
The audit of the Company's subsidiaries pursuant to legislation:				
Current auditors	124	-	-	-
Preceding auditors	20	171	-	-
Total audit fees	298	321	129	139
Tax services:				
Current auditors	19	-	5	-
Preceding auditors	-	4	-	-
Total fees	317	325	134	139

11. EMPLOYEES

The average monthly number of persons (including executive directors) during the year was:

	2009	2008
Sales and marketing	64	54
Research and development	186	182
General and administration	58	50
Operations	54	43
Discontinued operations	-	10
	362	339

Their aggregate remuneration comprised:

	2009 €000	2008 €000
Wages and salaries	12,524	12,695
Social security costs	2,691	2,256
Other pension costs	552	1,093
	15,767	16,044

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

The Company directly employed 2 sales persons in the UK.

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.

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

	2008 €000
Revenue	1,288
Cost of sales	(1,832)
Gross profit	(544)
Other income	43
Operating expenses	(1,349)
Net finance costs	(14)
Loss before income taxes	(1,864)
Income taxes	-
Net loss attributable to discontinued operations	(1,864)

12. DISCONTINUED OPERATIONS (continued)

During the year, net cash used in operations in the Wireless Products Division was €nil (2008: €1,441,000)

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

	2009	2008
	€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	(3,466)	(3,052)
Weighted average number of shares:	No. of Shares	No. of Shares
For basic and diluted earnings per share	45,608,802	43,430,948
Loss per share from continuing operations (euro cents)	(7.6)	(2.7)
Loss per share from discontinued operations (euro cents)	-	(4.3)
Loss per share (euro cents)	(7.6)	(7.0)
Number of options that are anti-dilutive:	6,286,667	3,524,834

14. INTANGIBLE FIXED ASSETS

	Finite lived intangible assets					
	Software and licenses	Internally generated development costs	Customer relationships	Acquired technology	Goodwill	Total
GROUP	€000	€000	€000	€000	€000	€000
COST						
1 January 2008	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
Additions	174	3,008	-	-	-	3,182
Grant contribution	-	(2,594)	-	-	-	(2,594)
Disposals	(49)	-	-	-	-	(49)
Translation adjustments	12	103	66	27	125	333
31 December 2009	3,937	5,357	1,144	719	2,426	13,583
ACCUMULATED AMORTIZATION						
1 January 2008	(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)
Charge for the year	(909)	(447)	(286)	(238)	-	(1,880)
Translation adjustments	-	-	(29)	(27)	-	(56)
31 December 2009	(2,325)	(931)	(789)	(719)	-	(4,764)
Net book value						
31 December 2009	1,612	4,426	355	-	2,426	8,819
31 December 2008	2,384	4,356	604	238	2,301	9,883

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 €2,177,000 (2008: €2,052,000) and €249,000 to the EMEA segment (2008: €249,000). The amount of customer relationships and acquired technology attributable to the Asia Pacific segment is €355,000 (2008: €604,000) and €nil to the EMEA segment (2008: €238,000)

Capitalized development costs relates to the UMTS/WCDMA and CDMA product lines and will be amortized over a three to five years period beginning in 2009. Of the capitalized development costs amount, €0.5 million relates to the UMTS/WCDMA product line with the balance relating to the CDMA product line.

14. INTANGIBLE FIXED ASSETS (continued)

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 goodwill 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 15% (2008: 27%) per year.

The discount pre tax rate applied of 17% (2008: 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.

The recoverable amount of Telit RF 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 5 years, based on an average estimated growth rate of 51%.

The discount pre tax rate applied of 15% is based on the risk free rate for 30 year bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of Telit RF.

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 16% per year to 14% per year over the four year period beyond the most recent financial budget.
Management has forecast changes in the average sales price based on past experience and external forecasts of changes in the selling price in the M2M industry for the APAC region.

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

EBITDA margins
EBITDA margins are expected to be in the range of 16-21% over the four 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.

14. INTANGIBLE FIXED ASSETS (continued)

	Trademark
COMPANY	**€000**
COST	
31 December 2008	-
Additions	6,533
31 December 2009	6,533
ACCUMULATED AMORTIZATION	
31 December 2008	-
Charge for the year	(204)
31 December 2009	(204)
Net book value	
31 December 2009	6,329
31 December 2008	-

On 30 September, 2009 the Company purchased from its subsidiary the entire subsidiary's right, title and interest in the IP Rights for a purchase price of €6,533,000 which is equal to the fair market value of the IP Rights.

15. PROPERTY, PLANT AND EQUIPMENT

GROUP	Computers €000	Office equipment €000	Vehicles €000	Leasehold Improvements €000	Total €000
COST					
1 January 2008	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)
31 December 2008	1,379	6,301	60	577	8,317
Additions for the year	125	765	33	17	940
Disposals	(1)	(50)			(51)
Translation adjustments	(7)	27	(2)	(12)	6
31 December 2009	1,496	7,043	91	582	9,212
DEPRECIATION					
1 January 2008	(239)	(2,709)	-	(12)	(2,960)
Charge for the year	(278)	(804)	(12)	(60)	(1,154)
Disposals	10	-	20	-	30
Reclassified as 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)
Charge for the year	(251)	(1,060)	(10)	(58)	(1,379)
Disposals	1	-	-	-	1
Translation adjustments	6	(15)	1	6	(2)
31 December 2009	(979)	(4,610)	(50)	(279)	(5,918)
Net book value					
31 December 2009	517	2,433	41	303	3,294
31 December 2008	644	2,766	19	350	3,779

16. INVESTMENT IN ASSOCIATED UNDERTAKING

	Group 2009 €000	Group 2008 €000	Company 2009 €000	Company 2008 €000
Investment in associated undertaking, Cell-Time Ltd.				
Cost	1,135	1,135	-	579
Translation adjustments	(60)	(36)	-	-
Losses accumulated since acquisition	(470)	(470)	-	-
	605	629	-	579

In January 2009 the Company entered into and executed agreement with its subsidiary - Dai Telecom Holdings (2000) Ltd subject to which the subsidiary purchased from the Company its holding rights in its associated company - Cell-Time Ltd for a consideration of €632,000, which reflected book value at that time. To finance the purchase the Company provided its subsidiary with a vendor loan for the entire amount.

The accounts of Cell-Time Ltd. are drawn up to 31 December 2009 for inclusion in the consolidated financial statements. The summarized financial information of Cell-Time Ltd is as follows:

	2009 €000	2008 €000
Balance sheet		
Assets		
Current assets	1,525	1,905
Non-current assets	32	42
Total assets	1,557	1,947
Liabilities		
Current liabilities	1,435	1,849
Long-term liabilities	-	13
Total liabilities	1,435	1,862

	2009 €000	2008 €000
Income statement		
Revenue	12,385	14,389
Cost of sales	(11,828)	(13,773)
Gross profit	557	616
Operating expenses	(507)	(539)
Financial expenses, net	(11)	(15)
Profit for the year	39	62

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	2009	2008
	€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 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 2009	8,150	19,242	27,392
Additions(a)	3,264	9,460	12,724
Repayments(b)	(9,350)	-	(9,350)
Provision for Impairment (c)	-	(3,000)	(3,000)
31 December 2009	2,064	25,702	27,766

During 2009, the Group reorganized its legal entity structure to provide a more simplified operational structure. This has led to an increase in the value of subsidiary investments held in respect of Telit Communications Spain SL, Telit Wireless Solutions Co. Limited and Telit Wireless Solutions Inc. These investments transferred from Telit Wireless Solutions Srl to Telit Communications PLC at an assessed fair value based on discounted future cash flows.

(a) Additions to investment in subsidiaries in 2009 consist of the transferred value of the investments in Telit Communications Spain SL; Telit Wireless Solutions Co. Limited and Telit Wireless Solutions Inc from Telit Wireless Solutions Srl to the Company for total amount of €9,110,000. In addition the Company converted a €350,000 loan made to Telit RF Technology S.A.S. into capital

During 2009 the company made additional loans to its subsidiaries as follows: €1,250,000 loan made to Telit Communications Spain SL. From this amount €1,000,000 is a loan transferred from Telit Wireless Solutions Srl; €629,000 loan made to DAI Telecom Holdings (2000) Ltd to fund the acquisition of Cell time Ltd; €385,000 loan made to Telit RF Technology S.A.S.and €1,000,000 loan made to Telit Wireless Solutions Srl.

18. INVESTMENTS IN SUBSIDIARIES (continued)

(b) The repayments in 2009 related to the repayment of the €9,000,000 loan balance by Telit Wireless Solutions Srl to the Company and a repayment of €350,000 loan balance by Telit RF Technology S.A.S. to the Company made through conversion into capital.

(c) At December 31, 2009 the Company's Investments in subsidiaries were assessed for indicators of impairment using the discounted future cash flow method. As a result the Company has recorded provision for impairment on its investment in Dai Telecom Holdings (2000) Ltd in the amount of €3,000,000.

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 Company held 100%, partially directly and partially 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. [1] ("Telit Americas")	United States of America	Ordinary	100%	Selling and marketing data products
Telit Communications Spain SL[3]	Spain	Ordinary	100%	Selling and marketing data products
Telit Wireless Solutions Tecnologia E Servicos Ltda[2]	Brazil	Ordinary	100%	Selling and marketing data products
Telit Wireless Solutions Co Ltd[1] ("Telit APAC")	Republic of Korea	Ordinary	90%	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

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Country of incorporation and operation	Type of shares	Effective ownership interest and voting rights	Principal activity
Dai Telecom Ltd. ("Dai Telecom")[3]	Israel	Ordinary	100%	Selling and marketing data products
Telit Labs Ltd	Israel	Ordinary	100%	Providing after sale support services
Telit Wireless Solutions (Pty) Ltd. [2] ("Telit RSA")	Republic of South Africa	Ordinary	100%	Selling and marketing data products

19. INVENTORIES

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Finished goods	4,365	8,789	29	-
Raw materials	1,656	1,961	-	-
	6,021	10,750	29	-

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 €712,000 (2008: €734,000).

20. RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Within current assets:				
Trade receivables	21,676	14,575	453	247
Other receivables	5,554	4,799	20	25
Due from Group undertakings	-	-	659	820
	27,230	19,374	1,132	1,092
Within non-current assets:				
Long term receivables	393	3,437	4	-
	393	3,437	4	-

The average credit period on trade receivables that are neither past due nor impaired is 81 days (2008: 77 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 €4,517,000 (2008: €3,494,000) 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 104 days (2008: 105 days).

20. RECEIVABLES (continued)

	2009	2008
	€000	€000
Ageing of past due but not impaired trade debtors		
0-30 days	2,280	1,842
30-60 days	944	325
60-90 days	514	835
90-120 days	779	492
	4,517	3,494

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

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

	2009	2008
	€000	€000
At 1 January	811	294
Arising from acquisition	-	227
Increase in allowance recognized in profit or loss	300	290
At 31 December	1,111	811

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk in the Group's continuing activities is limited due to the customer base being large and unrelated, but the 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	
	2009	2008	2009	2008
	€000	€000	€000	€000
Loans and receivables:				
Due from group undertakings	-	-	659	820
Other long term assets	393	3,437	-	-
Other debtors	4,740	4,235	-	-
	5,133	7,672	659	820
Available-for-sale investments carried at deemed cost:				
Non-current				
Shares in unlisted entities (note 17)	1,570	1,570	-	-
Assets outside the scope of IFRS 7:				
Current assets				
Other debtors	814	564	20	25

21. OTHER FINANCIAL ASSETS (continued)

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Non-current assets				
Investments in subsidiaries (note 18)	-	-	27,766	27,392
Investments in associates (note 16)	605	629	-	579
Total	605	629	27,766	27,971

Included within other debtors are amounts receivable in respect of the Group's grant claims amounting to €3,715,000 (2008: €2,908,000). These debtors do not have a specified date by which payment is due to the Group 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	
	2009	2008	2009	2008
	€000	€000	€000	€000
Deposits – restricted cash	3,456	391	5,000	6,000
Cash and cash equivalents	7,898	4,619	3,166	633
Total	11,354	5,010	8,166	6,633

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

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Sterling	2,627	332	2,627	332
Dollar	1,399	1,390	-	-
Euro	5,117	2,716	5,539	6,301
KRW	1,565	550	-	-
Other	646	22	-	-
Total	11,354	5,010	8,166	6,633

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 0.02% to 0.05% 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	2009	2008
	€000	€000
Allotted, issued and fully paid:		
72,514,281 ordinary shares of 1 pence each (2008: 44,514,281 ordinary shares of 1 pence each).	956	644

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

1,500,000 and 26,500,000 ordinary shares were issued In August and December 2009, respectively, for a gross consideration of £5.7 million.

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 2009 and at the date of this report was 6,286,667, equal to 8.7% of the outstanding share capital of the Company (8% 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.

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

24. POST-EMPLOYMENT BENEFITS (continued)

	2009	2008
	€000	€000
Movement in post employment benefit obligations		
1 January	1,807	1,555
Discontinued operation	-	63
Expense recognised in the statement of comprehensive income	441	470
Contributions	(218)	(281)
31 December	2,030	1,807

The liability in respect of accrued severance pay is €632,000 (2008: €498,000) and the charge to the statement of comprehensive income in the year is €261,000. 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 statement of comprehensive income in respect of the defined benefit scheme are as follows:

	2009	2008
	€000	€000
Interest cost	69	68
Expense recognized in the statement of comprehensive income	144	(26)
Disposal	(32)	-
Total expense included in statement of comprehensive income	181	42

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:

	2009	2008
	€000	€000
Present value of defined benefit scheme obligation		
1 January 2009	1,309	1,329
Actuarial gain/(loss)	144	(26)
Interest cost	69	68
Benefits paid	(92)	(62)
Disposal	(32)	-
31 December 2009	1,398	1,309

F. Financial assumptions

	2009	2008
	%	%
Discount rate	4.60%	5.90%
Expected salary increase rate	3.00%	-
Inflation	2.00%	2.00%

G. The experience adjustments arising on the plan liabilities at the balance sheet date, totaled €142,899 (2008: €27,968).

H. The expected contributions to be paid in 2010 totaled €114,891.

25. CURRENT LIABILITIES

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Short-term bank loans and other borrowings	13,480	11,508	-	-
Advances on receivables factoring	1,564	1,031	-	-
Current maturities of long term loans	381	878	-	500
Total short-term borrowing from banks and other lenders	15,425	13,417	-	500
Trade creditors (i)	18,026	11,140	409	74
Due to Group undertakings	-	-	6,934	738
Provisions	151	142	-	-
Deferred income	-	7,667	-	-
Other current liabilities	3,655	4,122	625	160
Total current liabilities	37,257	36,488	7,968	1,472

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 94 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

26. ACQUISITIONS

On 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.

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

	Book value	Fair value adjustments	Fair value
	(€000)	(€000)	(€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

26. ACQUISITIONS (continued)

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 statement of comprehensive income.

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.

C. In 2009 the Israeli customs and sales tax authority (the "Authority") began assessment proceedings regarding the value for the purpose of custom duties of products imported into Israel by the Company's Israeli subsidiary, Dai Telecom Ltd. (hereafter "Dai Telecom") while examining the need to add to the declared value of the products certain additions, for the period from 2005. Although at as the balance sheet date no formal assessment has been served on Dai Telecom, from the Authority's requests for information from Dai Telecom and form testimonies collected by the Authority from Dai Telecom's current and future employees, the assessment proceedings seem to be focusing on two main issues:

1. An addition to the declared value of the imported products equal to the royalties paid by Dai telecom to Telit Italy in connection with the use, by Dai Telecom, of the trademark and the tradename "Telit".
2. An addition to the declared value of the imported products equal to development fees paid to the Korean manufacturer of the products imported by Dai Telecom, while some of the development was carried out outside of Israel.

The rate of import taxes that will be levied in case the value of the products will be increased is 15% from the additional value.

On 21 April 2010 an assessment (the "Assessment") was served on Dai Telecom by the Authority demanding additional import taxes as follows:

Purchase tax: approximately €827,000
Interest, linkage differentials to the CPI and penalties: approximately €1,329,000

The assessment also includes a VAT element in the amount of approximately €1,035,000 which, if levied, could be deducted from ongoing VAT payments made by Dai Telecom.

Dai Telecom has the right and is appealing the Assessment.

Telit Communications PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

27. COMMITMENTS AND CONTINGENCIES (continued)

The Assessment does not detail the calculation of additional taxes levied, and Company's management estimates that the royalties issue forms the major part in the assessment of the purchase tax, and subsequently of all other sums detailed in the Assessment.

In the opinion of Company's management, based, inter alia, on the opinion of its professional advisors, Dai Telecom has valid and strong arguments regarding its claim that the royalties and development fees should not have been added to the value of the products, and there is a strong likelihood that Dai Telecom's arguments will prevail. As such no provision was recorded.

Operating lease commitments

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

	Land and buildings		Other	
	2009	2008	2009	2008
	€000	€000	€000	€000
Operating leases which expire:				
Within one year	1,162	895	398	316
In the second to fifth years inclusive	1,156	144	780	202
	2,318	1,039	1,178	518
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	1,626	720	607	383

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

Guarantees and liens

E. The Company provides guarantees to certain banks in Italy, Israel and Korea, to sustain credit lines granted by those banks to the Group's subsidiaries. The guarantees shall not exceed the amount of €9.75 million.

At the balance sheet date the Company had deposited €5 million in Italian bank accounts, to act as security in relation to the credit facility granted by those banks (see note 31).

F. 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 Telit Wireless Solutions Srl capital, it being understood that the rights to votes, dividends and/or other distributions will remain with the Company in respect of such quotas.

Sardinia Grant

G. Telit EMEA was previously declared eligible to receive a €5.3 million grant, and a €7.8 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.

27. COMMITMENTS AND CONTINGENCIES (continued)

As of 31 December 2009 Telit Italy has invested approximately €13.5 million (2008:€10.5 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 installment 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 15 October 2010, secured against the expected cash inflow from the second installment of the grant. The €5.2 million facility has been fully drawn as at 31 December 2009 (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

	2009	2008
	€000	€000
1 January	890	144
Utilized in the year	(49)	(203)
Provided in the year	142	600
Reclassified from held for sale	-	349
31 December	983	890
Classified as:		
Current liabilities	151	142
Non-current liabilities	832	748
31 December	983	890

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 2009 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. The fair value of the derivative has been determined to be €220,647 (2008: €119,179). The fixed interest rate payable by the Group is Euribor + 1%.

30. SHARE-BASED PAYMENTS

On 2 April 2007 executives of the Company were granted 1,300,000 options to purchase approximately 3 % of the Company's issued and outstanding shares at an exercise price of £0.43 per share. The options vest in two equal installments 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% of the Company's issued and outstanding shares at an exercise price of £0.60 per share. 100,000 options vest in two equal installments on 9 July 2008 and 2009 and 1,363,000 vest in three equal installments 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% 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 installments on 10 July 2008 and 2009 and 195,000 options vest in three equal installments 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 installments.

On 29 January 2009 the majority of the options were cancelled by their holders, for no consideration. On the same date, executives, employees and consultants of the Company and its subsidiaries were granted 6,407,000 options to purchase approximately 14.4% of the Company's issued shares at the time, at an exercise price of £0.20 per share. The options vest in two or three equal annual installments starting from 29 January 2009 and expire five years from the date of grant.

The number of outstanding options as at 31 December 2009 was 6,286,667, equal to approximately 8.7% of the issued share capital of the Company.

The number and weighted average exercise prices of share options are as follows:

	Number		Weighted average exercise price (pence)	
	2009	2008	2009	2008
Outstanding at beginning of year	3,524,834	4,062,000	0.54	0.55
Granted during the year	6,407,000	35,000	0.20	0.70
Lapsed during the year	(3,645,167)	(572,166)	(0.53)	(0.60)
Outstanding at year end	6,286,667	3,524,834	0.20	0.54
Exercisable at year end	2,647,333	1,689,667	0.20	0.53

The Group recognized a total expense of €402,000 in respect of equity settled share based payment transactions for the year ended 31 December 2009 (2008: €436,000).

Due to the cancellation of the previous share options, an accelerated charge of €160,000 was recognised and is included in this total. The remaining charge relates to the share options granted during the year. The fair value of these options has been calculated using the parameters set out below:
The weighted average fair value of options granted during the period determined using the Black – Scholes valuation model was £ 0.0725(2008: £0.15 and £0.24).

30. SHARE-BASED PAYMENTS (continued)

The significant inputs into the model were share price of £ 0.185 (2008: £0.385 and £0.575) at the grant date, exercise price shown above, volatility of 60% (2008:60%), an expected vesting period of between two to three years, and an five years risk-free interest rate of 2.043% (2008: 4.0%). Expected volatility is estimated by considering historic average share price volatility.

31. BORROWINGS

	Group		Company	
	2009	**2008**	**2009**	**2008**
	€'000	**€000**	**€000**	**€000**
Unsecured – at amortized cost				
Short-term bank loans and other borrowings	42	55	-	-
Current maturities of long term loans	381	878	-	500
Total short-term borrowing from banks and other lenders	423	933	-	500
Other long-term loans	3,150	3,531	-	-
Total	3,573	4,464	-	500
Secured – at amortized cost				
Factoring companies	1,564	1,031	-	-
Short-term bank loans and other borrowings	13,438	11,453	-	-
Total	15,002	12,484	-	-
Disclosed in the financial statements as:				
Current borrowings	15,425	13,417	-	500
Non-current borrowings	3,150	3,531	-	-
Total	18,575	16,948	-	500

The other long-term loan of €3.15 million represents the long-term element of a preferential rate loan from the Ministry of Trade and Commerce in Italy of €3.9 million provided in connection with the Group's business development program in Sardinia (see note 27). The loan attracts interest at a rate of 0.75% and is repayable in ten annual installments commence on 20 March 2009 and ending on 20 March 2018. The fair value of the loan at the balance sheet date was €3.12 million.

Included within Current borrowings are:

- The short-term element of the preferential rate loan from the Ministry of Trade and Commerce in Italy, amounting to €381 thousands.

- A drawn amount of €5.2 million on a loan with a maturity date at 15 October 2010. The interest rate on this short-term bank loan is Euribor plus 2.325% 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 favor 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.

31. BORROWINGS (continued)

- Drawn letters of credit and borrowings arising from invoice advances totaling €8.2 million. In Telit EMEA, These borrowings and letters of guarantee issued by the Company of €3 million, under which the Company has guaranteed the prompt payment to the lending bank of all sums which may become due. As part of this guarantee, the Company has guaranteed not to dispose of any interest in subsidiaries without the prior consent of the lending bank. The total available lines of credit and invoice advance facilities at 31 December 2009 was €11.4 million, with the remainder cancellable on demand, but without a fixed maturity date.

- Factoring facilities against qualifying receivables totaling €1.6 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 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 32.

32. FINANCIAL RISK MANAGEMENT

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

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

In the course of its business the Group is exposed mainly to financial market risks and credit risks. Financial market risks are essentially caused by exposure to foreign currencies and interest rates and movements in the value of equity in unlisted securities held by the Group.

Foreign currency risk

The Group uses short-term borrowings from banks in the same foreign currency of those transactions to reduce the Group's exposure to foreign currency risk.

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

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

	Assets		Liabilities	
	2009	**2008**	**2009**	**2008**
	€000	**€000**	**€000**	**€000**
Sterling	2,627	624	-	-
US Dollar	2,379	1,652	3,737	1,514

The following table details the Group's sensitivity to a 10% change in euro against the respective foreign currencies. 10% represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis 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.

32. FINANCIAL RISK MANAGEMENT (continued)

	Group	
	2009	2008
	€000	€000
Impact on profit or loss of a 10% change	127	57
Impact on profit or loss of a 20% change	254	114

The impact on equity would be equal and opposite to the impact on the profit or loss.

Interest rate risk

Interest rate risk comprises the interest cash flow risk resulting from short-term borrowings at variable rates. As disclosed in note 31, the Group's working capital is funded through short-term borrowings at variable rates of interest. Cash at bank earns interest at floating rates based on daily bank deposit rates. As a result, material fluctuations in the market interest rate can have an impact on the Group's financial results.

The sensitivity analysis 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% change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 1% higher/lower and all other variables were held constant, the Group's net loss would increase/decrease by €186,000 (2008: decrease/increase by €202,000); 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 2009, 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. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful from collection.

32. FINANCIAL RISK MANAGEMENT (continued)

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

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	
	2009	2008	2009	2008
	€000	€000	€000	€000
Group				
Cash and cash equivalents	7,898	4,619	3,166	633
Deposits – restricted cash	3,456	391	5,000	6,000
Trade receivables	21,676	14,575	453	247
Due from Group undertakings	-	-	659	820
Other long term asset	393	3,437	4	-
Loan (or investment in) to subsidiaries	-	-	2,064	8,150
Guarantee provided to banks on subsidiary's borrowings	-	-	9,750	12,450

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 2009 where such guaranteed borrowings were not fully drawn at that date;

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.

32. FINANCIAL RISK MANAGEMENT (continued)

Group

	2009			2008		
	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 preferential loan	0.75%	381	3,150	0.75%	378	3,531
Variable rate debt	2.77%	15,044	-	4.58%	12,539	-
Non- interest bearing debt	-	-	-	-	500	-

Company

	2009			2008		
	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	-
Guarantees	-	9,750	-	-	12,450	-

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.

Fair value hierarchy

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted)in active markets for identical assets or liabilities
Level 2 – Inputs other than Quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009:

	Level 1	Level 2	Level 3
	€000	€000	€000
Non-current financial liabilities			
Derivative financial liabilities	-	221	-

32. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Current financial assets:				
Cash and restricted cash	11,354	5,010	8,166	6,633
Trade receivables	21,676	14,575	453	247
Loans and receivables – other debtors	4,740	4,235	-	-
Loans and receivables – due from group undertakings	-	-	659	820
Assets not meeting the definition of a financial asset				
Inventories	6,021	10,750	29	-
Other debtors	814	564	20	25
Total current assets	44,605	35,134	9,327	7,725

	Group		Company	
	2009	2008	2009	2008
	€000	€000	€000	€000
Non-current financial assets:				
Available-for-sale investments	1,570	1,570	-	-
Loans and receivables	393	3,437	4	-
Assets not meeting the definition of a financial asset / outside the scope of IFRS 7				
Intangible assets	8,819	9,883	6,329	-
Property, plant and equipment	3,294	3,779	3	4
Investments in associated undertakings	605	629	-	579
Investments in subsidiaries	-	-	27,766	27,392
Deferred tax asset	316	548	-	-
Total Non-current assets	14,997	19,846	34,102	27,975

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 *IFRS 7 Financial instruments: Disclosure*.

32. FINANCIAL RISK MANAGEMENT (continued)

	Group		Company	
	2009	**2008**	**2009**	**2008**
	€000	**€000**	**€000**	**€000**
Financial liabilities at amortized cost				
Short-term borrowings from banks and other lenders	15,425	13,417	-	500
Trade payables	18,026	11,140	409	74
Due to group undertakings	-	-	6,934	738
Other current liabilities	3,262	1,256	500	-
Liabilities not meeting the definition of a financial liability:				
Provisions	151	142	-	-
Other current liabilities	393	10,533	125	160
Total current liabilities	37,257	36,488	7,968	1,472
Non-current financial liabilities at amortized cost:				
Other loans	3,150	3,531	-	-
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	221	119	-	-
Liabilities not meeting the definition of a financial liabilities / outside the scope of IFRS 7				
Post-employment benefits	2,030	1,807	-	-
Deferred tax liabilities	69	245	-	-
Provisions	832	748	-	-
Total Non-current liabilities	6,302	6,450	-	-

32. FINANCIAL RISK MANAGEMENT (continued)

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 34.

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	
	2009	**2008**
	€000	**€000**
Debt	18,575	16,948
Cash and cash equivalents, including restricted cash	(11,354)	(5,010)
Net debt	7,221	11,938
Shareholders' equity	14,928	11,965
Net debt to equity ratio	48.4%	99.7%

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

33. 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 29 January 2009, after having waived their existing options, Messers Cats, Testa and Galai were granted 2,000,000, 1,000,000 and 200,000 options, respectively, at an exercise price of £0.20 per options. The options vest over a 2 years period, as follows: 925,000 (Mr. Cats), 700,000 (Mr. Testa) and 100,000 (Mr. Galai) of the options, respectively, were vested on the date of the grant with the remaining options vesting in 2 equal annual installments on January 29 2010 and 2011.

33. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Vested	Unvested	Expired	Total
Chairman of the Board	700,000	300,000	-	1,000,000
CEO	925,000	1,075,000	-	2,000,000
Finance Director	100,000	100,000	-	200,000
Total	1,725,000	1,475,000	-	3,200,000

The compensation attributable to the key personnel, calculated as the incremental fair value of the options to be expensed over the period of vesting, is €148,000 (2008: €71,000).

B. Remuneration of the directors :

	Group	
	2009	**2008**
	€000	**€000**
Share based payments	178	71
Short-term employee benefits	1,092	1,564
Post employment benefits	76	124
Total	1,346	1,759

C. Mr. Cats directly holds 3,110,357 Ordinary Shares, representing 4.3% 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 15,600,000 Ordinary Shares, representing 21.5% 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 1.7% 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 0.4% 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 20,283,357 Ordinary Shares, representing 27.9% 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

	2009	**2008**
	€000	**€000**
Cost of sale - purchases from subsidiary	819	438

33. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

(d) Loans receivable – See note 18.

(e) Financing transactions

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.

The Company provides guarantees to certain banks in Italy, Israel and Korea, amounting to €9.75 million (2008: €12.5 million).

At the balance sheet date the Company had deposited €5 million (2008: €6.0 million) in Italian bank accounts, to act as security in relation to the credit facilities granted by those banks to Telit EMEA.

34. INFORMATION ON THE COMPANY

As permitted by the Companies Act 2006, the profit and loss account of the Company is not presented in this Annual Report. The loss for the year amounted to €5,153,000 (2008: loss of €1,010,000).

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

7th Floor, 90 High Holborn, London WC1V 6XX

Nominated Adviser and Broker

Astaire Securities

Solicitors

Olswang

7th Floor, 90 High Holborn London WC1V 6XX

Independent Auditors

KPMG Audit Plc
Chartered Accountants
20 Farringdon Street
London
EC4A 4PP

Registrar

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

Telit Offices World Wide

CORPORATE HEADQUARTERS
Via San Nicola da Tolentino n.1/5, Roma
Phone: +39 06 42046011
Fax: +39 06 42010930

EMEA
Via Stazione di Prosecco 5/B
34010 Sgonico, Trieste - Italy
Phone: +39 040 4192 491
Fax: +39 040 4192 383

ITALY
Via Lecco,61
20059 Vimercate, Milano - Italy
Phone: + 39 040 41 92 200

UNITED KINGDOM
Lakeside House
1Furzeground Way
Stockley Park
Heathrow
UB11 1BD
United Kingdom
Phone: +44 784197 9110

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

TURKEY
Turkiye Irtibat Ofisi
Armada Alisveris ve Is Merkezi
Eskisehir Yolu No:6 Kat:12
06520, Sogutozu, Ankara, Turkey
Phone: +90 312 295 6319
Fax: +90 312 295 6200

GERMANY
Hanns-Schwindt-Str.11
81829 München, Germany
Phone: +49 (0)89 4373 7902
Fax: +49 (0)89 4373 7902

NORDICS
Walgerholm 3, 3500 Vaerloese, Denmark
Mobile: +45 2345 7112

SPAIN
Paseo della Castellana 141
Planta 20
28046 Madrid, Spain
Phone: +34 91 789 3491
Fax: +34 91 570 7199

NORTH AMERICA
3131 RDU Center Drive
Suite 135
Morrisville, NC 27560
USA
Phone: +1 888 846 9773 or +1 919 439 7977
Fax: +1 888 846 9774 or +1 919 840 0337

LATIN AMERICA
Rua Cunha Gago, 700 - cj 81
Pinheiros
São Paulo - SP, 05421001
Brazil
Phone: +55 11 2679 4654
Fax: +55 11 2679 4654

APAC
for Asia Pacific, Australia, New Zealand, India
12th Floor Shinyoung Security Building
34-12 yoido-dong Youngdungpo-gu , Seoul
Korea
Phone:+82-23684605
Fax:+82-23684606

TAIWAN
Room 621, 6F, No.6, Sec.4, Kinyi Road
Taipei, Taiwan
Phone: +886 2 2703 6336

SOUTHERN CHINA
Rm.1315, East Bld. Of Coastal City
No.3, Hai De Avenue
Nanshan-Shenzhen, 518059 China
Phone: +86 755 8627 1622
Fax: +86 755 8627 0217

CENTRAL AND NORTHERN CHINA
Room 1407, 14F, Cimic Tower, 1090, Shiji Avenue
Shanghai, 200120 China
Phone: +86 21 5835 6895
Fax: +86 21 5835 2998

REPUBLIC OF SOUTH AFRICA
West Wing, Birchwood Court
Montrose Street, Vorna Valley
Midrand 1685
RSA, Republic of South Africa
Switchboard: +27 11 655 7190
Phone direct: +27 11 655 7251
Fax: +27 11 655 7011

Telit Communications PLC

Telit Communications PLC
7th Floor, 90 High Holborn,
LONDON, WC1V 6XX,
United Kingdom

Telit is in it.