2011 Annual Report

Telit Communications PLC

Table of Content

Introduction

Telit Communications PLC

Telit Communications PLC is a leading global wireless technology company (hereinafter "the Company" or "Telit"). It develops, manufactures and markets GSM/GPRS, CDMA, UMTS/HSPA, short range RF (including ZigBee) and GPS communication modules for machine-to-machine (m2m) applications. The Company's technology and products enable other electronic devices and equipment manufacturers to utilise cellular infrastructure to relay and accept information without human intervention. m2m applications therefore enable machines, devices and vehicles to communicate via wireless 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 intellectual property and boasts strong in-house technology and research and development expertise.

Telit is listed on AIM (Ticker: TCM).

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.

The m2m market

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

Financial highlights[1]

- Revenue increased by 34.7% to $177.4 million (2010: $131.7 million).
- Gross profit increased by 28.2% to $67.8 million (2010: $52.9 million)
- Operating profit for the year of $3.5 million (2010: $6.6 million)
- Adjusted EBIT of $6.9 million (2010: $7.2 million)
- Adjusted EBITDA for the year of $13.1 million (2010: $12.5 million)
- Profit before tax of $2.2 million (2010: $6.4 million)
- Adjusted PBT of $5.7 million (2010: $7.1 million)
- Profit for the year of $1.4 million (2010: $8.4 million)
- Adjusted profit for the year of $4.4 million (2010: $5.6 million)
- Strong net cash flow from operations of $15.4 million (2010: $9.3 million)
- Shareholders' equity of $60.8 million, 50.2% equity ratio (2010: $29.0 million, 32.7% equity ratio)

Operational highlights

- During 2011 Telit accomplished the first phase of its strategy of becoming a global leader of m2m communications and set in motion the second phase of its strategy which includes becoming a leading global value added service provider in the m2m arena.
- 2011 results have been affected by significant investment in the cost of integrating the businesses purchased in 2011, recruitment of staff and putting in place an operational infrastructure which will provide a base to support the growth expectations of the Company in the coming years. This investment has led to a major increase in operational costs over 2010 but it will give the Company a broad base for additional growth in the coming years.
- Continued successful expansion of the product portfolio, including the development of new 3G product series.
- Launch of 4G LTE program, for the development of future Telit products complying with next-generation technologies.

Acquisitions

- Successful Integration of the Motorola m2m business (acquired in March 2011), strengthening Telit's position in the global m2m market.
- Acquisition of GlobalConect Ltd (acquired in July 2011), a company which provides value added services in the m2m industry including cellular connectivity. This acquisition forms the cornerstone for Telit's value added services global business.
- Acquisition of Navman Wireless OEM Solutions LP, a leading designer and manufacturer of world-class GPS modules and solutions, completed in January 2012. This acquisition will enhance our location product portfolio.

[1] For reconciliation from IFRS financial results to adjusted financial results please refer to the table on page 7.

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 value added resellers to more than 5,000 communications solution providers and systems integrators in more than 60 countries around the world. Our customers are served both directly or through a global network of more than 50 distributors.

Telit's headquarters are in Rome, Italy, with regional headquarters in Raleigh NC, USA and Seoul, Korea. Its R&D centres are in Trieste and Cagliari, Italy, Seoul, Korea, Sofia Antipolis, France, Tel-Aviv and Jordan Valley, Israel and Foothill Range, California, with regional sales offices in Brazil, China, Denmark, France, Germany, Great Britain, India, Israel, Italy, Korea, Poland, Russia, Spain, the Republic of South Africa, Taiwan, Turkey and the USA. At the end of 2011, Telit employed approximately 436 (2010: 366) employees worldwide.

Telit provides global support to its international customers covering substantially all of the m2m market verticals. Its vast experience doing business across the globe has helped Telit establish strong channels and excellent access to key suppliers, customers and distributors 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.

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 Group to offer customers solutions ranging from complete devices to embedded products, including fitting its platform into its customers' products. Underpinning its rapid growth rate since it entered the m2m business in 2003, Telit has four major advantages:

1. **Flexibility:** Telit 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 substantial: all modules in a product 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 its competition, which often changes the size and shape of its modules with new models. Customers, however, need modules that can be used for many 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, Telit 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 was 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/HSPA 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.
4. **Focus**: Telit’s clear focus is on the m2m market. Upon closing its handset business in 2007, Telit became a pure-play m2m business, allowing it to focus on the needs of its m2m customers and the m2m products which provide such customers with the solutions necessary for them to effectively run and grow their businesses.

Telit's Strategy

Our strategy for 2012 is to continue to leverage our position as a leading vendor 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. Through the acquisition of Motorola m2m we acquired relationships with strong global customers, mainly in the US, and the addition of Motorola m2m's line of products will enable us to service these customers and to offer our existing and acquired customers an even broader range of products. The acquisition of GlobalConect will allow Telit to offer its customers important valued added services, including wireless connectivity. Telit’s management believe that this will become a significant building block of its product offering and further improve Telit’s customer proposition as it offers connectivity and other value added services to its m2m solutions, addressing customers’ needs more comprehensively. The acquisition of Navman Wireless Solutions OEM in January 2012 will enable Telit to become a major contender in the GPS market while providing both an enhanced product portfolio for its m2m customers as well as access to new GPS customers and products beyond the traditional m2m industry, thereby strengthening Telit’s global market position.

CHAIRMAN'S STATEMENT

Enrico Testa, Chairman of the Board

I am pleased to deliver the 2011 results. Growth in the m2m market slowed down in 2011 after a strong recovery in 2010 from the economic downturn, but still provided numerous commercial opportunities for Telit. Our strong competitive position has allowed us to capitalise on these opportunities and we have again made good progress in increasing our market share.

Financial highlights

- Revenue for the year increased by 34.7% to $177.4 million (2010: $131.7 million). In the second half of the year revenues increased by 18.7% to $96.3 million compared to revenues of $81.1 million in the first half and up 33.6% compared to $72.1 million in the second half of 2010. Increases in revenue were seen across all geographic segments, but most notably in the US. The Motorola product line, acquired on 1 March 2011, has contributed approximately 26% of total revenue in 2011(including sales to Telit's customers).

- Gross profit for the year increased by 28.2% to $67.8 million (2010: $52.9 million) while gross margin decreased to 38.2% (2010: 40.2%). The gross margin achieved by sales of the Motorola m2m products, was lower compared to Telit's own products. The Board expects gross margin to return to around 40.0% in the coming years.

- Telit has continued to invest in its product portfolio, increasing R&D investment by $3.5 million to $21.1 million (11.9% of revenues) compared to $17.6 million in 2010 (13.4% of revenues). The increase is largely due to the Motorola business being acquired.

- Sales & marketing expenses increased by $8.0 million to $25.3 million (14.3% of revenues) compared to $17.3 million in 2010 (13.1% of revenues). The increase is mainly due to investment in headcount and marketing following the business acquisitions made during the year. In addition, $1.0 million is attributable to a bad debt expense recorded in 2011.

- General & administrative expenses increased to $17.5 million (9.9% of revenues) compared to $12.5 million in 2010 (9.5% of revenues). The increase is due to higher directors remuneration, increase in expenses relating to acquisitions and increase in IT expenses.

- Adjusted EBIT decreased from $7.2 million in 2010 to $6.9 million this year. Adjusted EBITDA increased to $13.1 million which reflects an EBITDA margin of 7.4% (2010: $12.5 million; 9.5%). The decrease in adjusted EBITDA margin is mainly due to the costs related to the purchase of the businesses acquired in 2011 and their integration into Telit as necessary to support future growth. Telit's investment in sales and marketing and other costs, while affecting EBITDA for 2011, positions the Company for future growth in the m2m market in the coming years without any further significant increase in its cost basis.

- Basic earnings per share for the year were 1.6 cents compared to 11.3 cents per share in 2010.

- Adjusted basic earnings per share for the year were 4.5 cents compared to 7.4 cents in 2010

Acquisitions:

- In March 2011 we completed the acquisition of Motorola m2m, funded by an issue of equity to new and existing shareholders. The integration of the business was completed successfully during 2011 and the former Motorola m2m business has become an integral part of the Telit's organisation.
- The acquisition of GlobalConect Ltd, completed in July 2011, will allow Telit to offer its customers value added services including wireless connectivity. We believe that this will become a significant building block of the Company's services business and further improve Telit's customer proposition as it includes services with its m2m solutions. This will address customers' needs more comprehensively in a "one stop shop" solution.
- The acquisition of Navman Wireless OEM Solutions LP, completed in January 2012, will allow Telit to offer its customers world-class Global Positioning System (GPS) modules and solutions, and to further diversify its product offering.

Board changes

- On 21 April 2011 Ram Zeevi was appointed to the Board of Telit.
- On 23 May 2011, the terms of office of Amir Scharf and Andrea Mandel-Mantello, independent non-executive directors, serving on the Board since September 2007 and May 2005, respectively, ended. They were replaced on the same date by Nicola Miglietta and Davidi Gilo.
- On 21 June 2011, Mr. Yosi Fait was appointed to the Board as Finance Director replacing Mr. Yariv Dafna, who stepped down from the Board but remains the CFO of the Group.

Dividend

The Company is not proposing to pay a dividend in respect of the period (2010: $ nil).

People

During 2011 we have made significant progress and this is a reflection of the excellent team we are proud to have at Telit. The Board believes that our skilled staff is, and will continue to be, the cornerstone of Telit's success. I would like to personally thank all of the Company's employees for their hard work and to welcome all the new employees that have joined the Telit family, including those joining us from Motorola m2m, GlobalConect Ltd and Navman Wireless OEM Solutions LP.

Outlook

The outlook for 2012 and beyond looks positive for the industry as a whole and for Telit in particular. Notwithstanding the fact we are operating in a competitive environment, we believe we are well positioned to take advantage of the opportunities ahead and believe that the acquisitions we have made will help to further improve our strong position within our industry. We look forward to continued organic business expansion and are constantly seeking further expansion opportunities through new technologies or by gaining access to new territories and new market segments.

We look to 2012 and beyond with excitement, as we continue to gain market share and strive to constantly improve our profitability while continuing to provide the market with first rate products as well as value added services.

Enrico Testa

Chairman of the Board
23 March 2012

CHIEF EXECUTIVE'S STATEMENT

Oozi Cats, Chief Executive

Introduction

2011 was a year of moderate growth after 2010, in which we enjoyed strong growth reflecting the recovery of the global economy generally and the m2m market in particular. In this moderately growing market, we continued to focus on expanding our market share and managed to increase it to 22% over the prior year according to a Beecham Research report published in June 2011. At the same time, we are looking to diversify our offering by adding GPS products to our offering through the acquisition of Navman Wireless OEM Solutions LP in January 2012.

Financial Results

	2011 ***$'000***	**2010** ***$'000***
Revenue	**177,365**	**131,678**
Gross profit	**67,807**	**52,924**
Gross margin	38.2%	40.2%
Other income	778	1,942
Research & Development	(21,114)	(17,606)
Selling & Marketing	(25,257)	(17,300)
General & Administrative	(17,486)	(12,500)
Other Expenses	(1,258)	(904)
Operating profit	**3,470**	**6,556**
Adjusted EBIT	**6,904**	**7,158**
Adjusted EBITDA	**13,116**	**12,471**
Profit before tax	**2,226**	**6,448**
Adjusted PBT	**5,660**	**7,050**
Profit for the year	**1,448**	**8,449**
Adjusted profit for the year*	**4,427**	**5,577**

Reconciliation of operating profit and profit before tax to the adjusted figures:

	2011 $'000	**2010 $'000**
Operating profit	**3,470**	**6,556**
Share-based payments	1,356	377
Non-recurring income	(83)	(1,161)
Non-recurring expenses	1,126	694
Amortization - intangibles acquired	1,035	692
Adjusted EBIT	**6,904**	**7,158**
Depreciation & amortization**	6,212	5,313
Adjusted EBITDA	**13,116**	**12,471**
Profit before tax	**2,226**	**6,448**
Share-based payments	1,356	377
Non-recurring income	(83)	(1,161)
Non-recurring expenses	1,126	694
Amortization - intangibles acquired	1,035	692
Adjusted PBT	**5,660**	**7,050**

* See note 11 for reconciliation of profit for the year to adjusted profit for the year.

**Excluding intangibles acquired.

Basic and diluted earnings per share for 2011 were 1.6 cents and 1.4 cents respectively for the period compared to 11.3 and 10.1 cents per share in 2010.

Inventory levels as at 31 December 2011 were $13.7 million, compared to $17.1 million as at 31 December 2010. The decrease is mainly due to the efficiency increase in our inventory management and another step in achieving a 45 day target. The 2011 inventory level represents 51 days (2010: 75 days).

The consolidated financial statements are prepared in accordance with IFRS on a basis consistent for all periods presented. In addition we use adjusted financial measures as supplemental indicators of our operating performance. We disclose adjusted amounts as we believe that these measures provide better information on actual operating results and assist in comparisons from one period to another.

Net cash position

The Group continues to use cash in its operating activities, investing heavily in research and development as well as sales and marketing. The table below presents the net cash position at the year end.

	2011	**2010**
	$'000	**$'000**
Cash and cash equivalents	19,781	13,521
Restricted cash deposits	185	1,546
Working capital borrowing (1)	(8,539)	(14,311)
Governmental loan (2)	(6,781)	(7,971)
Mortgage loan (3)	(4,097)	-
Net Cash/(Debt)	**549**	**(7,215)**

(1) Drawn letters of credit and borrowings arising from invoice advances used for working capital financing
(2) Representing the preferential rate loan supported by the Ministry of Trade and Commerce in Italy provided in connection with the Group's business development program in Sardinia. The loan is denominated in Euro, attracts interest at a rate of 0.75% and is repayable in ten annual instalments that commenced on 20 March 2009.
(3) Representing a preferential rate loan from a regional fund in Italy provided in connection with the Group's acquisition of the campus used for the Company's main R&D facility in Italy. The mortgage loan is denominated in Euro, attracts interest at a rate of Euribor 6 months less 20% and is repayable in 15 semi-annual instalments that will commence in June 2012.

Regional Information

The split of revenue on a geographical basis for the years ended 31 December 2011 and 2010 is as follows:

	2011 ($'000)	**% of Total Revenue**	**2010 ($'000)**	**% of Total Revenue**
EMEA	88,861	50.1%	76,529	58.1%
APAC	31,187	17.6%	21,167	16.1%
Americas	57,317	32.3%	33,982	25.8%
Total Revenue	**177,365**	**100%**	**131,678**	**100%**

We expect that the APAC region will increase its weighting of total revenue in 2012 and beyond.

Employees

The number of employees of the Group on a geographical basis in 2011 and 2010 is as follows:

	2011	**2010**
EMEA	313	268
APAC	93	76
Americas	30	22
Total Employees	**436**	**366**

Effects of Foreign Exchange

26.3% of Telit's revenue in the period ended 31 December 2011 was generated in Euro (2010: 38%), with the remaining generated in, or linked to other currencies but mainly to the US dollar. However, a substantial part of the Group's purchased materials cost was denominated in US dollar during the period.

Update on the Integration of Motorola m2m

On 1 March 2011 Telit completed the acquisition of Motorola m2m from Motorola Israel Ltd., a subsidiary of Motorola Solutions Inc. A detailed description of the transaction was provided to our shareholders in the circular that was posted on 28 January 2011, ahead of the shareholders meeting that took place on 16 February 2011 and in our annual report for 2010 published later in the year.

The integration of Motorola m2m into the existing Telit business, mainly in Israel but also in the US, England and APAC, was fully and successfully completed during 2011 and the management is very happy with the results of the integration.

Update on the acquisition of GlobalConect Ltd. and the strategic relationship with Telefonica

The acquisition of GlobalConect on 11 July 2011 is one of the steps the Company has taken to establish its services business, with the goal of having recurring revenues form a substantial portion of our business. Telit aims to leverage its long-standing customer relationships to provide its customers with end-to-end solutions which will allow customers to bundle connectivity and other value added services provided by Telit with m2m modules, providing the customers with a more seamless m2m system, including technical support, enhanced monitoring capabilities, real time budget management, competitive tariffs for fixed and mobile applications and streamlined logistics, operations and deployments. As announced on February 22, 2012, Telit entered into an agreement with Telefonica Espana S.A.U. The strategic relationship with Telefonica constitutes a major step in facilitating Telit's provision of value added services to its customers.

Further Detail on the Acquisition of Navman Wireless OEM Solutions LP

The acquisition of Navman Wireless OEM Solutions LP on 3 January 2012 strengthens our position as the premier product and consultative partner in the m2m industry, by leveraging the synergies of both companies to better serve our global customers. The acquisition of Navman's technology and the engagement of its US based executive engineering and sales staff will make Telit a major contender in the GNSS (Global Navigation Satellite System) market while providing an enhanced product portfolio for its m2m customers and providing Telit access to new GPS customers and products beyond the traditional m2m industry. Navman's reputation for delivering state-of-the-art GPS technology and the global reach of Telit's sales and marketing organization put us in a strong position of growth in the GPS sector. In particular, the Navman acquisition provides us with access to new GPS customers beyond the traditional m2m industry and rights to the "Jupiter" product line which dates back over 20 years to the development of GPS systems at Rockwell International and which has become almost synonymous with GPS.

Strategy

Our strategy for 2012 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 offering value added services and through the integration of GNSS and short range technologies into a complete m2m offering.

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

- The performance trajectory offered by many of the m2m module manufacturers overshoots the needs of the average customer, resulting in feature-rich, expensive products that deliver inferior returns on investment.
- The inability of many module manufacturers to meet the demands of early adopters due to the fact that they do not control the Protocol Stack required for customized product modifications.
- 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 us from our competitors:

- 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 2012 and the future looks positive for the m2m industry as a whole and for Telit in particular. Notwithstanding the fact we are operating in a competitive environment, we believe we are well positioned to take advantage of the opportunities ahead and believe that our acquisitions in 2011 will strengthen our already strong position within our industry. We look forward to continued business expansion and we are constantly seeking further expansion opportunities through new technologies or by gaining access to new territories and new market segments.

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 all employees for their continued commitment to the Company and its success. Their dedication is an invaluable asset, indeed the core asset of the Company. I would also like to welcome the employees of Navman Wireless OEM Solutions LP into the Telit family.

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 Group’s progress over the coming months.

Oozi Cats
Chief Executive
23 March 2012

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.

Market growth

Telit's future success is dependent in a large part on the continued growth in the overall size of the m2m market which is, in turn, a product of the number of m2m modules sold and the average selling price of an m2m module. A decline in either the average selling price or the number of units sold which is not matched by a proportionate increase in the other, or a decline in both the average selling price and the number of units sold, would decrease Telit's addressable market and its growth opportunities.

Competition

Telit has experienced, and expects to continue to experience, strong competition from a number of companies. Telit's competitors may announce or develop new products, services or enhancements that better meet the needs of customers or changing industry standards. Further new competitors or alliances among competitors could emerge. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on Telit's business, financial condition and results of operations. Some of Telit's competitors and potential competitors have significantly greater financial resources than Telit. Telit's competitors may be able to respond more quickly than Telit to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of its products.

Key management

Telit depends on the services of its key technical, sales, marketing and management personnel. The loss of the services of any of these persons could have a material adverse effect on Telit's business, results of operations and financial condition. Telit's success is also highly dependent on its continuing ability to identify, hire, train, motivate and retain highly qualified technical, sales, marketing and management personnel in its various geographical locations. Competition for such personnel can be intense, and Telit cannot give assurances that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. In order to retain its key staff and to attract new personnel, Telit works to ensure that its staff is sufficiently incentivised and offers key potential personnel sufficiently attractive terms of employment.

Financing

Telit relies on credit lines mainly in the form of trade receivable financing to finance its working capital needs. There is a risk that this financing will cease to be available to the Group in the future, potentially at short notice. Should such finance cease to be available there is a risk that the Group may not be able to secure alternative financing. The lack of availability of such financing, without having alternative financing source, could have a material adverse effect on Telit's business, financial condition or results of operations.

The management maintains close relationship with several banks and has obtained secured credit lines beyond the current needs of the business to address this risk.

Product lifespan, changes in standards and technology and product development

The Group is in a market that sees continuous technological development and therefore future success of the Company depends, inter alia, on Telit's ability to:

- Enhance its existing products and services.
- Address the increasingly sophisticated and varied needs of its customers.
- Respond to technological advances and emerging industry or government standards and practices on a cost-effective and timely basis.

Developing Telit's technology and product range entails significant technical and business risks. The Group may use or procure new technologies ineffectively or fail to adapt its systems to customer requirements or emerging industry standards. If Telit faces material delays in introducing new products, services or enhancements, it may be at a significant competitive disadvantage.

The markets for Telit's products and services are characterised by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. Changing customer requirements and the introduction of products embodying new technology and the emergence of new industry standards can render Telit's existing products obsolete and unmarketable and can exert downward pressure on the pricing of existing products. Telit's success depends on its ability to anticipate changes in technology and in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis. Telit cannot give assurances that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhancing existing products by others will not render Telit's products obsolete. Telit's inability to develop products that are competitive in technology and price and meet customer needs could have a material adverse effect on Telit's business, financial condition or results of operations.

In order to address the concerns above, Telit is constantly monitoring the market, its customers' current and potential needs and technological advances and changes in standards in the m2m field. Telit continuously invests in R&D in order to remain an m2m market leader.

Dependence upon key intellectual property and risk of infringement

Telit's success depends in part on its ability to protect its rights in its intellectual property. Telit relies upon various intellectual property protections, including patents, copyright, trade-marks, trade secrets and contractual provisions to preserve its intellectual property rights. Despite these precautions, it may be possible for third parties to obtain and use Telit's intellectual property without its authorisation.

The industry in which Telit operates has many participants that own, or claim to own, proprietary intellectual property. In the past Telit has received, and in the future may receive assertions or claims from third parties alleging that Telit's products violate or infringe their intellectual property rights. Telit may be subject to these claims directly or through indemnities against these claims which Telit has provided to certain customers. Rights to intellectual property can be difficult to verify and litigation may be necessary to establish whether or not we have infringed the intellectual property rights of others. In many cases, these third parties may be companies with substantially greater resources than Telit, and they may be able to, and may choose to, pursue complex litigation to a greater degree than Telit could.

In the event of an unfavourable outcome in such a claim and Telit's inability to either obtain a license from the third party or develop a non-infringing alternative, then Telit's business, operating results and financial condition may be materially adversely affected and Telit may have to restructure its business.

Strategic partnerships

Part of Telit’s strategy is to leverage its relationships with strategic and manufacturing partners. There can be no guarantee that Telit will be able to enter into further strategic alliances or partnership arrangements, or that existing and potential partners will not enter into relationships with competitors. Telit’s failure to establish further strategic alliances or the loss of relationships with existing or future material partners could have a material adverse effect on its business and financial condition. In order to mitigate this risk, in certain cases Telit maintains relationships with secondary manufacturing partners to provide backup manufacturing in the event of inability to manufacture via Telit’s primary partner.

System failures and breaches of security

The successful operation of Telit's business depends upon maintaining the integrity of Telit's computer, communication and information technology systems. However, these systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond Telit's control. Any such damage or interruption could cause significant disruption to the operations of Telit. This could be harmful to Telit's business, financial condition and reputation and could deter current or potential customers from using its services. There can be no guarantee that Telit's security measures in relation to its computer, communication and information systems will protect it from all potential breaches of security, and any such breach of security could have an adverse effect on Telit's business, results of operations or financial condition. In order to mitigate this risk Telit continuously invests in the improvement and strengthening of the relevant systems in order to minimize the risk of system failures.

Telit's Board of Directors

Enrico Testa, Executive Chairman of the Board, aged 60

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 building the new Underground lines in Rome), Chairman of the Organizing Committee of the 20^{th} World Energy Congress and Senior Partner at Franco Bernabè Group, which owns several companies in the IT sector.

Oozi Cats, Chief Executive, aged 51

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.

Yosi Fait, Finance Director, aged 51

Mr. Fait is a Certified Public Accountant and has held a number of executive positions with private and public companies. Mr. Fait's previous roles with listed companies have included CEO of both Alony Group and H&O. Mr. Fait also served as CFO of Pelephone Communications Ltd, the first cellular operator in Israel. Mr. Fait began his professional career as an accountant with Ernst & Young Israel.

Alexander P. Sator, Non-Executive Director, aged 41

Mr. Sator was a co-founder of one of the first software companies in Germany in 1983, while still in his teens. After a short career in the scientific industry he founded Sator Laser in 1996, which focused on the development of lasers and laser systems for industrial applications, soon becoming market leader for its specific field. In 2001 Domino Printing Services took a stake in this business and in 2005 Mr. Sator sold his remaining shares. Over the last two years Mr. Sator has been Strategy Advisor to Deutsche Telekom AG for the mobile business.

Davidi Gilo, Independent Non-Executive Director and Chairman of the Remuneration Committee of the Board, aged 55

Davidi Gilo has more than 25 years of technology and business expertise and a proven track record of innovation and execution in identifying and fostering the growth of emerging trends and technologies including DSP chips, cell phones, medical information technology and broadband networks. Mr. Gilo was the founder of DSP Group (which was sold to Intel for $1.6 billion), Ceva, Nogatech, Audiocodes and Zen Research, among others. He is currently the Managing partner of GiloVentures II LP.

Nicola Miglietta, Independent Non-Executive Director and Chairman of the Audit Committee of Telit, aged 44

Mr. Miglietta is a Professor of Capital Markets and Corporate Finance (Advanced Degree) at the University of Torino. Between 1992 and 1994 he was Auditor in PriceWaterhouseCoopers. Mr. Miglietta sits on the board of several companies and currently is a member of the Board of Directors at Milano Assicurazioni S.p.A. and a member of the Board of statutory auditors at Impregilo S.p.A. (Italy's leading General Contractor and one of the world's top-ranking construction groups), both listed on the Italian Stock Exchange.

Ram Zeevi, Independent Non-Executive Director, aged 49
For the past four years, Mr. Zeevi has been a private investor successfully investing in a number of high growth companies, largely in the technology sector. From 2001 to 2008, Mr. Zeevi was managing director of Caribbean Petroleum Corporation ("CPC"). CPC had several interests including ownership of the only private dock in Puerto Rico, a pipeline system servicing CPC, the country's electric power company and the airport along with a chain of over 200 petrol stations and a refinery. During Mr. Zeevi's tenure, CPC expanded its interests in Puerto Rico and attained sales of $400 million annually. Mr. Zeevi remains a Non-Executive Director of CPC. From 1998 to 2001, Mr. Zeevi was CEO of Zeevi Computers and Technology Ltd., a technology investment company which was listed on the Tel Aviv stock exchange, with investments in over 30 companies and during this period Zeevi held a number of chairmanships, largely in high growth technology businesses. From 1992 to 1998, Zeevi was CEO of Oil Investment Consolidated, Inc. which he sold and prior to this he was CEO of Property Investment Inc., a real estate company, which was also sold. Mr. Zeevi is also a Non-Executive Director of R Inc Green and DoNanza.

Corporate Governance

Directors

The Board of Directors comprises three executive directors, three independent non-executive directors, and one non-executive director. The Company's Articles of Association require that at each Annual General Meeting (“AGM”): (i) any directors who have been appointed by the board since the last AGM shall offer themselves for re-election; and (ii) any director who was elected or last re-elected as a director at or before the AGM held in the third calendar year before that AGM shall retire by rotation and, if required, such further directors shall retire by rotation as would bring the number retiring by rotation up to one-third of the number of directors in office at the date of the notice of AGM. Any directors retiring by rotation at an AGM may offer themselves for re-election.

The Board generally meets a minimum of once every quarter and receives a Board pack comprising a report from senior management together with any other material deemed necessary for the Board to discharge its duties. It is the Board’s responsibility to formulate, review and approve the Telit group’s strategy, budgets, major items of expenditure and acquisitions.

Audit Committee

The Audit Committee consists of Nicola Miglietta, (Chairman), Davidi Gilo and Ram Zeevi, who are the independent non-executive directors and Yosi Fait, the Finance Director, and meets at least four times a year. The, CFO and General Counsel attend each meeting by invitation. The Audit Committee is primarily responsible for considering reports from the CFO 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 Davidi Gilo, (Chairman), Nicola Miglietta and Alexander Sator, 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 website (www.telit.com).

Financial performance

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

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.

Non-applicability of the City Code

The Company is not subject to the City Code as the place of central management and control of the Company is currently located outside of the UK, the Channel Islands and the Isle of Man. The Panel on Takeovers and Mergers does not regard the Company as resident in the UK, the Channel Islands of the Isle of Man and therefore, Rule 9 of the City Code (which requires a shareholder acquiring shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30 percent or more of the voting rights of a company to make a mandatory offer for all remaining equity capital of the company) does not apply. Accordingly, a takeover of the Company would not be regulated by The Panel on Takeovers and Mergers.

By order of the Board,

Yosi Fait
Finance Director
23 March 2012

Report on Directors' Remuneration

This Report has been approved by the Board together with the financial statements for 2011.
The remuneration committee is chaired by Davidi Gilo and also comprises Nicola Miglietta and Alexander Sator.

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:** directors and senior managers' salaries are reviewed and determined by the committee, taking into account their additional incentives and to align their interests within the Telit 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 Oozi Cats and Yariv Dafna, who are entitled to post-employment benefits including pension fund benefits according to their employment agreements, as is customary in Italy.
- **Share options:** The executive directors have been granted share options as described 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-based vesting 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 shorter notice can be given by the Company. In addition, since 1 October 2007 Mr. Cats has been employed by Telit Italy in an executive position. Mr. Cats' remuneration from Telit Italy includes his remuneration under the service agreement with the Company. In addition to his salary, Mr. Cats is entitled to an annual bonus equal to 3% of the Group's consolidated annual profit before tax.

Yosi Fait was appointed as the Finance Director on 21 June 2011, subject to such terms as provided in an agreement between him and the Company dated July 7, 2011. Pursuant to such agreement, Mr. Fait was also appointed as a director of Telit Wireless Solutions Ltd., an Israeli subsidiary of the Company and Mr. Fait agreed to provide up to 100 hours per month to the business of the Company and its subsidiaries. Mr. Fait's engagement is terminable by either Mr. Fait or Telit on three months' notice (to be provided no less than three months prior to the expiry of an initial 12 month term), except in certain special circumstances where shorter notice can be given by the Company.

The audited emoluments in respect of the year ended 31 December 2011 for the directors who held office during the year were as follows:

	Salary and fees	**Benefit in kind**	**Annual bonus**	**Post-employment benefits**	**Total 2011**	**Total 2010**
	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors						
Enrico Testa[3]	237	57	278	-	572	149
Oozi Cats	1,146	119	1,961	131	3,357	1,684
Yosi Fait [1,4]	162	-	-	-	162	-
Michael Galai [2]	-	-	-	-	-	149
Yariv Dafna [1,2]	118	17	70	76	281	158
Non-executive directors						
Andrea Mandel-Mantello [2,5]	22	-	-	-	22	49
Amir Scharf [2]	22	-	-	-	22	49
Massimo Testa [2]	-	-	-	-	-	41
Alexander P. Sator [6]	56	-	-	-	56	8
Nicola Miglietta [1]	34	-	-	-	34	-
Davidi Gilo [1]	34	-	-	-	34	-
Ram Zeevi[1,7]	39	-	-	-	39	-
Total - 2011	**1,870**	**193**	**2,309**	**207**	**4,579**	**-**
Total - 2010	**1,370**	**100**	**655**	**162**	**-**	**2,287**

[1] From date of appointment

[2] Up to the date of resignation.

[3] Amounts in respect of the services of Mr. Testa are paid directly to Testa Sallusto & Partners, a partnership of which he is the general partner.

[4] Amounts in respect of the services of Mr. Fait are paid directly to Jeopal Ltd., a company under his control.

[5] Amounts in respect of the services of Mr. Mandel-Mantello were paid directly to Advicorp plc, a company under his joint control.

[6] Amounts in respect of the services of Mr. Sator are paid directly to Sapfi Kapital Management GmbH, a company under his control.

[7] Amounts in respect of the services of Mr. Zeevi are paid directly to Zuri Inc, a company under his control.

Directors' Interests in Shares

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

	At 31 December 2011		At 31 December 2010	
Directors	**Number of ordinary shares**	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Oozi Cats[1]	20,280,357	19.75	19,960,357	25.87
Enrico Testa[2]	20,280,357	19.75	19,960,357	25.87
Yosi Fait	165,000	0.16	-	-
Alexander P. Sator[3]	4,704,742	4.58	5,555,742	7.20
Nicola Miglietta	20,000	0.02	-	-
Davidi Gilo	nil	-	nil	-
Ram Zeevi	nil	-	nil	-

[1] Mr. Cats directly holds 3,430,357 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. Enrico Testa is an interested party in Techvisory and Boostt, by virtue of his holding office therein. Therefore, Mr. Testa is deemed to be interested in all of Boostt's and Techvisory's holdings, as well as all of Mr. Cats' holdings.

[3] Mr. Sator is the controlling shareholder of Sapfi Kapital Management GmbH, which holds 4,704,742 shares and is therefore considered as having an interest in these shares.

Details of directors' share options are provided below:

	Grant date	Number	Exercise price (pence)	Vested	Unvested
Executive directors					
Enrico Testa	29 January 2009	1,000,000	0.20	1,000,000	-
	30 June 2010	500,000	0.32	166,667	333,333
	1 April 2011	520,000	0.81	-	520,000
Total		**2,020,000**		**1,166,667**	**853,333**
Oozi Cats	29 January 2009	2,000,000	0.20	2,000,000	-
	30 June 2010	1,100,000	0.32	366,667	733,333
	1 April 2011	1,952,000	0.81	-	1,952,000
Total		**5,052,000**		**2,366,667**	**2,685,333**
Yosi Fait	29 January 2009[1]	50,000	0.20	33,333	16,667
	25 May 2010[1]	50,000	0.25	16,667	33,333
	19 September 2011[2]	150,000	0.80	-	150,000
Total		**250,000**		**50,000**	**200,000**

[1] Mr Fait was not a director on this date.

[2] On 19 September 2011 Mr. Fait was granted 150,000 options to purchase approximately 0.15 percent of the Company's issued and outstanding shares at the time, at an exercise price of £0.80 per share. The options vest in three equal annual instalments starting from 19 September 2012 and expire five years from the date of grant. In addition, since the Company has nearly reached the overall limit on the granting of options over newly issued shares contained in the rules of its unapproved option scheme, the remuneration committee resolved that, as the overall limit under the scheme increases, Mr. Fait will from time to time be formally granted additional options (either in one tranche or in a series of separate grants) at the same exercise price and on the same terms as the options set out above, in the total amount of 150,000 further options being granted within this framework. Further, the remuneration committee resolved that, should the Company successfully complete a public fundraising on a major stock exchange, then Mr. Fait will immediately thereafter be granted further options over a total of 600,000 shares at an exercise price of £0.80 per share, with all other terms being equal to the options mentioned above.

All options typically vest in 3 equal instalments beginning one year following the date of grant and expired 5 years from the date of grant. No options have been exercised or expired in respect of all grants.

The compensation attributable to the directors in 2011 is $717,000 (2010: $251,000) and is calculated as the incremental fair value of the options to be expensed over the period of vesting.

The highest and lowest closing prices of the Company's shares on AIM during 2011 were 103.5p (27 April 2011) and 44.5p (21 October 2011).The Company's share price as at 31 December 2011 was 46.5p.

Arrangements relating to shares held by Boostt B.V.

Boostt is currently interested in 20,280,357 ordinary shares in the Company, representing approximately 19.75 per cent of the Company's issued share capital. The Company has been informed that the following changes have occurred in the liens held over ordinary shares (“Shares”) of the Company owned by Boostt:

- On 15 February 2011, Boostt completed the payment to Polar of the remaining consideration under the 16 April 2007 agreement pursuant to which it purchased 12 million ordinary shares in the Company from Polar (the “Share Purchase Agreement”). The payments were made as a result of funds lent to Boostt (the “Loan”) by Mr. Enrico Testa (Chairman of Telit’s Board of Directors and a Director of Boostt). As a result of such payment, the charges in favour of Polar on Shares purchased under the Share Purchase Agreement were released and such Shares were released from escrow and provided to Boostt.
- On 9 March 2011, those 6 million Shares held by Boostt against which the shareholders of Boostt had registered a charge were released from the charge by Boostt’s shareholders, for no consideration.
- On 10 March 2011, following receipt of the Loan, Boostt charged 6 million Shares in favour of Mr. Enrico Testa.
- On 27 April 2011 1,500,000 Shares that had been placed in escrow as a result of a loan granted to Boostt by related parties (the “Related Party Loan”) for the repayment by Boostt of a loan by a third party lender (the “Third Party Lender”), were released from such escrow, following partial repayment of the Related Party Loan.
- On 3 June 2011, the remaining 1,500,000 Shares that had been placed in escrow as a result of the Related Party Loan were released from escrow following the additional repayment of the Related Party Loan.

As at the report date and as a consequence of the actions described above, of the 20,280,357 Shares in which Boostt is interested, the following charges are in place:

- 6.6 million Shares are charged in favour of the Third Party Lender; and
- 6.0 million Shares are charged in favour of Mr. Enrico Testa (collectively, the “Pledged Shares”).

Under the terms of the charges, title to the Pledged Shares can be transferred to the third party lender and to Mr. Testa (each, according to the number of shares pledged) following the occurrence of certain events including, but not limited to, a default event on the financing provided by such parties.

The Pledged Shares represent approximately 12.3 per cent of the Company's issued share capital.

By order of the Remuneration Committee

Davidi Gilo
Chairman of the Remuneration Committee
23 March 2012

Directors' Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2011.

Principal Activities

Telit is a leading global company in the field of m2m communications.

Telit develops, manufactures and markets communication modules which enable machines, devices and vehicles to communicate via cellular wireless networks. It is a market leader and the third largest company in the m2m module business worldwide in terms of market share.

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.

Going concern

After making enquiries at the time of approving the accounts, the directors are confident that the Company and the Telit Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the financial statements are prepared on a going concern basis. Further information in respect of the directors' consideration of going concern is included in note 1(b) to the financial statements.

Review of Business and Future Developments

A review of business, financial position, liquidity and future developments is given within the Chief Executive's statement on pages 7 to 10, together with a review of the Group's principal risks and uncertainties on pages 11 to 13.

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 $21.1 million were expensed in the year, compared to $17.6 million in 2010. Internally-generated intangible assets arising from development costs capitalized amounted to $3.7 million compared with $3.0 million in 2010. For additional details please see the Chief Executive's statement and note 1(aa) 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 28 to the financial statements.

Donations

The Group made $0.1 million charitable donations during the year ended 31 December 2011 (2010: $nil).

Dividends

The Company is unable to pay a dividend in respect of the period (2010: $nil).

Significant shareholders

	At 31 December 2011		At 31 December 2010	
	Number of ordinary shares	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Algebris Investments (UK)	20,662,500	20.12	14,812,500	19.19
Boostt[1]	15,600,000	15.19	15,600,000	20.22
Techvisory SA[2]	1,250,000	1.22	1,250,000	1.62
Oozi Cats[3]	3,430,357	3.34	3,110,357	4.03
Idea Capital	9,375,000	9.13	-	-
Herald Investment Management	5,381,250	5.24	3,750,000	4.86
Sapfi Kapital Management GmbH[4]	4,704,742	4.58	5,555,742	7.20
Greylock Partners	4,375,000	4.26	-	-
Sherman Capital Group	4,153,578	4.05	4,153,578	5.38
Rathbones	3,000,000	2.92	3,900,000	5.05
BAMES	-	-	2,700,000	3.5
360 Capital One	3,607,500	3.51	-	-
BND Paribas Asset Management	-	-	2,834,847	3.67

[1] Mr. Cats and Mr. Testa are deemed to be interested in all holdings of Boostt.
[2] Techvisory's shares listed in this chart include shares held by Wireless Solutions Management SL. Mr. Cats and Mr. Testa are deemed to be interested in all holdings of Techvisory SA and Wireless Solutions Management SL.
[3] Mr. Testa is deemed to be interested in all holdings of Mr. Cats. See notes 1 and 2 to this chart for additional holdings in which Mr. Cats is deemed to be interested.
[4] Mr. Sator is deemed to be interested in all holdings of this company.

Directors

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

Enrico Testa	
Oozi Cats	
Yosi Fait	(appointed on 21 June 2011)
Yariv Dafna	(resigned on 21 June 2011)
Alexander P. Sator	
Amir Scharf	(resigned on 23 May 2011)
Andrea Mandel-Mantello	(resigned on 23 May 2011)
Ram Zeevi	(appointed on 21 April 2011)
Davidi Gilo	(appointed on 23 May 2011)
Nicola Miglietta	(appointed on 23 May 2011)

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.

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 2011, calculated in accordance with the requirements of the Companies Act 2006, were 66 days (2010: 76 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 auditor

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 auditor is 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 auditor is 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 auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board,

Yosi Fait
Finance Director
23 March 2012

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 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 judgements 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 2011 set out on pages 27 to 82. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 25, 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, and express an opinion on, 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 website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 and of the group's profit 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
8 Salisbury Square,
London EC4Y 8BB
23 March 2012

Telit Communications PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Revenue	2,3	177,365	131,678
Cost of sales		(109,558)	(78,754)
Gross profit		67,807	52,924
Other operating income	4	778	1,942
Research and development expenses		(21,114)	(17,606)
Selling and marketing expenses		(25,257)	(17,300)
Administrative expenses		(17,486)	(12,500)
Other operating expenses	5	(1,258)	(904)
Operating profit	10	3,470	6,556
Investment income	6	507	47
Finance costs	7	(1,751)	(155)
Profit before income taxes		2,226	6,448
Tax (expense)/ income	8	(778)	2,001
Profit for the year		1,448	8,449
Other comprehensive loss			
Foreign currency translation differences		(1,802)	(893)
Total comprehensive (loss)/income for the year		(354)	7,556
Profit/(loss) attributable to:			
Owners of the Company		1,564	8,173
Non-controlling interest		(116)	276
Profit for the year		1,448	8,449
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(244)	7,447
Non-controlling interest		(110)	109
Total comprehensive (loss)/income for the year		(354)	7,556
Basic profit per share (in USD cents)	11	1.6	11.3
Diluted profit per share (in USD cents)	11	1.4	10.1
Basic weighted average number of equity shares	11	98,294,356	74,855,355
Diluted weighted average number of equity shares	11	108,356,180	83,704,528

Telit Communications PLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

		Group		Company	
		2011	**2010**	**2011**	**2010**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
ASSETS					
Non-current assets					
Intangible assets	12	22,588	12,294	6,760	7,799
Property, plant and equipment	13	12,557	4,210	21	8
Investments in subsidiaries	15	-	-	63,052	44,213
Other long term assets	17	732	610	11	14
Deferred tax asset	8	4,190	3,574	-	-
		40,067	20,688	69,844	52,034
Current assets					
Inventories	16	13,688	17,127	-	-
Trade receivables	17	39,834	29,560	652	776
Other current assets	17	7,488	5,728	6,655	3,604
Deposits – restricted cash	18	185	1,546	83	-
Cash and cash equivalents	18	19,781	13,521	5,646	499
Assets classified as held for sale	14	-	479	-	-
		80,976	67,961	13,036	4,879
Total assets		121,043	88,649	82,880	56,913
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	19	1,772	1,361	1,772	1,361
Share premium account		78,198	47,800	78,198	47,800
Other reserve		(2,993)	(2,993)	8,052	8,052
Merger reserve	19	1,235	1,235	1,235	1,235
Capital contribution		-	-	336	-
Translation reserve		(5,477)	(3,669)	1,830	2,805
Retained earnings		(12,416)	(15,336)	(15,332)	(11,974)
Equity attributable to owners of the Company		60,319	28,398	76,091	49,279
Non- controlling interest		487	617	-	-
Total equity		60,806	29,015	76,091	49,279
Non-current liabilities					
Other loans	27	10,311	7,365	518	-
Post-employment benefits	20	2,828	2,906	-	-
Deferred tax liabilities	8	45	-	-	-
Provisions	24	2,134	2,138	-	-
Other long-term liabilities	25	478	295	200	-
		15,796	12,704	718	-
Current liabilities					
Short-term borrowings from banks and other lenders	27	9,106	14,917	129	-
Trade payables	21	25,496	22,199	173	257
Provisions	24	1,329	2,317	-	-
Other current liabilities	21	8,510	7,497	5,769	7,377
		44,441	46,930	6,071	7,634
Total equity and liabilities		121,043	88,649	82,880	56,913

The financial statements on pages 27 to 82 were approved by the board and authorized for issuance on 23 March 2012 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 2011

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
CASH FLOWS - OPERATING ACTIVITIES				
Profit/(loss) for the year	1,448	8,449	(4,378)	(1,113)
Adjustments for:				
Depreciation of property, plant and equipment	2,211	1,900	6	3
Amortization of intangible assets	5,036	4,105	1,177	1,082
Gain on disposal of associated undertaking	(83)	-	-	(245)
Gain on sale of property, plant and equipment	(10)	-	-	-
Impairment losses on intangible assets	132	-	-	-
Impairment of investments in subsidiaries	-	-	1,821	1,596
Impairment loss on asset classified as held for sale	-	437	-	-
Change in deferred taxes, net (1)	(673)	(3,255)	-	-
(Decrease)/increase in provision for post-employment benefits	(17)	106	-	-
Interest on loan provided to subsidiary	-	-	-	(77)
Fair value of preferential mortgage rate loan	(528)	-	-	-
Share-based payment charge	1,356	377	1,020	226
Operating cash flows before movements in working capital:	8,872	12,119	(354)	1,472
(Increase)/decrease in trade and other receivables	(998)	793	86	(158)
(Increase)/decrease in other current assets (1)	(1,995)	1,170	(3,646)	(3,260)
Decrease/(Increase) in inventories	5,997	(8,482)	-	40
Increase/(decrease) in trade payables	4,066	(2,706)	(83)	(313)
Increase/(decrease) in other current liabilities	888	7,297	(1,549)	(2,310)
(Increase in provisions and other long term liabilities	55	1,025	-	-
Cash from/(used in) operations	16,885	11,216	(5,546)	(4,529)
Income tax paid (1)	(1,035)	(1,798)	-	-
Interest received	469	47	56	-
Interest paid	(954)	(155)	-	-
Net cash from/(used in) operating activities	15,365	9,310	(5,490)	(4,529)
CASH FLOWS - INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(10,067)	(1,679)	(19)	(8)
Acquisition of intangible assets	(1,604)	(703)	(119)	-
Proceeds from disposal of property, plant and equipment	101	65	-	-
Capitalized development expenditure	(3,669)	(2,951)	-	-
Acquisition of other investments from subsidiary	-	-	-	(1,936)
Acquisition of business	(23,423)	-	(712)	(33)
Additional investment in subsidiary	-	-	(1,103)	(6)
Settlement of financial assets			597	-
Gain from reduction of non-controlling interest	(20)	-	-	-
Proceeds from sale of associated undertaking	528	-	-	-
Additional loans made to subsidiaries			(28,035)	(4,059)
Repayment of loans from subsidiaries	-	-	10,685	254
Decrease/(increase) in restricted cash deposits	856	3,072	(83)	6,893
Net cash (used in)/from investing activities	(37,298)	(2,196)	(18,789)	1,105

	Group		Company	
	2011	2010	2011	2010
	$’000	$’000	$’000	$’000
CASH FLOWS - FINANCING ACTIVITIES				
Proceeds from the issuance of share capital	29,292	-	29,292	-
Proceeds from exercise of options	317	64	317	64
Short-term borrowings from banks and others	(4,329)	(6,821)	-	-
Proceeds from preferential rate loan	-	4,341	-	-
Proceeds from other loans	5,354	-	680	
Repayment of other loans	(1,504)	(524)	-	-
Net cash from/(used in) financing activities	29,130	(2,940)	30,289	64
Increase/(decrease) in cash and cash equivalents	7,197	4,174	6,010	(3,360)
Cash and cash equivalents - balance at beginning of year	13,521	11,378	499	4,571
Effect of exchange rate differences	(937)	(2,031)	(863)	(712)
Cash and cash equivalents - balance at end of year	19,781	13,521	5,646	499

(1) The Company has re-presented the tax expenses costs in the 2010 cash flow statement so it provides better information on the cash flow involved in income tax as presented in the income statement. In the revised presentation, movement in deferred taxes and tax paid in cash has been presented in separate lines, while the other non-cash tax expenses have been reflected within the movement in other current liabilities balance.

Non – cash transactions:

a. On 1 January 2010 the Company sold its direct holding in Dai Telecom Ltd to its subsidiary Dai Telecom Holdings (2000) Ltd for a consideration of $927,000. The Company provided Dai Telecom Holdings (2000) Ltd with a loan to fund this acquisition. See also note 15.

b. On 20 May 2010 the Company settled a loan in the amount of $720,000 by assigning the loan to a third party in consideration for the allotment of 1,703,578 ordinary shares of 1 pence each.

c. On 1 July 2010 the Company acquired its non-controlling interests in the Company's subsidiary, Telit Wireless Solutions Srl. In consideration, the non-controlling interests acquired from Telit Wireless Solutions Srl its holdings in the subsidiary of the non-controlling interest and received 2,700,000 ordinary shares of the Company. See also note 19.

d. On 31 December 2010 the Company purchased from Dai Telecom Holdings (2000) Ltd 100% of its holding in Telit Wireless Solutions Ltd. for a consideration of $700,000 and that was paid by offset from the shareholders loan. On December 31, 2010 the Company converted $173,000 of the loan balance owed by Dai Telecom Holdings (2000) Ltd into 188 ordinary shares of Dai Telecom Holdings (2000) Ltd.

e. On 11 July 2011 The Company completed the acquisition of 100% of the shares of GlobalConect Ltd for a consideration of $0.7 million in cash and 800,000 newly issued ordinary shares with a value of $1.2 million at the closing date.

Telit Communications PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

Year ended 31 December 2011

	Share capital	Share premium Account	Merger reserve	Other reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2011	1,361	47,800	1,235	(2,993)	(3,669)	(15,336)	28,398	617	29,015
Total comprehensive income/(loss) for the year									
Profit /(loss) for the year	-	-	-	-	-	1,564	1,564	(116)	1,448
Foreign currency translation differences	-	-	-	-	(1,808)	-	(1,808)	6	(1,802)
Total comprehensive income/(loss)	-	-	-	-	(1,808)	1,564	(244)	(110)	(354)
Transactions with owners:									
Issuance of shares	396	30,096	-	-	-	-	30,492	-	30,492
Exercise of options	15	302	-	-	-	-	317	-	317
Share-based payment charge	-	-	-	-	-	1,356	1,356	-	1,356
Arising on acquisition of non-controlling interests in Telit APAC	-	-	-	-	-	-	-	(20)	(20)
Total transactions with owners	411	30,398	-	-	-	1,356	32,165	(20)	32,145
Balance at 31 December 2011	1,772	78,198	1,235	(2,993)	(5,477)	(12,416)	60,319	487	60,806

Year ended 31 December 2010

	Share capital	Share premium Account	Merger reserve	Other reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2010	1,293	47,145	-	(354)	(2,943)	(23,886)	21,255	1,654	22,909
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	8,173	8,173	276	8,449
Foreign currency translation differences	-	-	-	-	(726)	-	(726)	(167)	(893)
Total comprehensive income/(loss)	-	-	-	-	(726)	8,173	7,447	109	7,556
Transactions with owners:									
Issuance of shares	25	594	-	-	-	-	619	-	619
Exercise of options	3	61	-	-	-	-	64	-	64
Share-based payment charge	-	-	-	-	-	377	377	-	377
Arising on acquisition of non-controlling interests in Telit Wireless Solutions Srl	40	-	1,235	(2,639)	-	-	(1,364)	(1,146)	(2,510)
Total transactions with owners	68	655	1,235	(2,639)	-	377	(304)	(1,146)	(1,450)
Balance at 31 December 2010	1,361	47,800	1,235	(2,993)	(3,669)	(15,336)	28,398	617	29,015

Year ended 31 December 2011

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2011	1,361	47,800	1,235	8,052	2,805	(11,974)	49,279
Total comprehensive loss for the year							
Loss for the year	-	-	-	-	-	(4,378)	(4,378)
Foreign currency translation differences	-	-	-	-	(975)	-	(975)
Total comprehensive loss	-	-	-	-	(975)	(4,378)	(5,353)
Transactions with owners							
Issuance of shares	396	30,096	-	-	-	-	30,492
Exercise of options	15	302	-	-	-	-	317
Share-based payment charge	-	-	-	-	-	1,020	1,020
Capital contribution	-	-	-	336	-	-	336
Total transactions with owners	411	30,398	-	336	-	1,020	32,165
Balance at 31 December 2011	1,772	78,198	1,235	8,388	1,830	(15,332)	76,091

Year ended 31 December 2010

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2010	1,293	47,145	-	8,052	3,824	(11,087)	49,227
Total comprehensive loss for the year							
Loss for the year	-	-	-	-	-	(1,113)	(1,113)
Foreign currency translation differences	-	-	-	-	(1,019)	-	(1,019)
Total comprehensive loss	-	-	-	-	(1,019)	(1,113)	(2,132)
Transactions with owners							
Issuance of shares	25	594	-	-	-	-	619
Exercise of options	3	61	-	-	-	-	64
Share-based payment charge	-	-	-	-	-	226	226
Arising on acquisition of non-controlling interests in Telit Wireless Solutions Srl	40	-	1,235	-	-	-	1,275
Total transactions with owners	68	655	1,235	-	-	226	2,184
Balance at 31 December 2010	1,361	47,800	1,235	8,052	2,805	(11,974)	49,279

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 as well as the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Chief Executive's Statement on pages 7 to 10. In addition notes 17, 25, 27 and 28 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. Some of 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 supported by the Ministry of Trade and Commerce in Italy. Further information is provided within note 27. The management considers the uncertainty 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 US 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 forecasts in current market environments.

The Group's forecasts and projections taking into account 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 maintains constant negotiations with the banks for renewing and increasing the credit facilities to meet the required working capital for the Group's future growth.

After making enquiries, the directors are confident 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.

1. ACCOUNTING POLICIES (continued)

(c) Functional and presentational currency

The consolidated financial statements are presented in US dollars, which differs from the functional currency of the Company and those subsidiaries that are not located in the dollar zone. The Company functional currency is the GBP.

The Group and Company report in US dollars to fully reflect the Group’s global operations, while increasing management’s ability to react to the effects of foreign exchange fluctuations as a result of the following: 1) the production of its products in China resulting in manufacturing costs denominated in US dollars; and 2) revenues in US dollars, or linked to the US dollar, comprise the biggest share of the Group's overall revenues.

The assets and liabilities of the Company’s subsidiaries that have a functional currency other than the US dollar 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 in other comprehensive income as a separate component called "translation differences". 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.

Foreign exchange rates of the US dollar:

	Exchange rate (Euro/US dollar)
At 31 December :	
2011	1.2939
2010	1.3362
2009	1.4406
Average for the year ended 31 December:	
2011	1.3920
2010	1.3268

(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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling’s share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary’s equity are allocated against the interests of the Group.

1. ACCOUNTING POLICIES (continued)

(e) Business combination

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008). The change in accounting policy was applied prospectively and has had no material impact on earnings per share. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control transferred to the Group.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

(f) Acquisition of non - controlling interests

From 1 January 2010 the Group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interest. The change in accounting policy has been applied prospectively and has no impact on earnings per share.
Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interest are based on the proportionate amount of the net assets of the subsidiary.

Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

(g) Trade receivables

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

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

1. ACCOUNTING POLICIES (continued)

(h) Inventories

Produced finished goods are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net 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 subsidiaries are stated at the lower of cost or fair value.
A gain or loss on partial disposal of investments in subsidiary that do not result in a loss of control are recognised in the statement of comprehensive income.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.
Depreciation is charged so as to write off the cost over the estimated useful life of the assets, using the straight - line method. Land is not depreciated.

Depreciation rates are as follows:

	%
Buildings	3
Office furniture and equipment	6-15
Computers and software	33
Vehicles	15-25
Leasehold improvements	10-14
Machines and equipment	10-25

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

(k) 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 licenses	15-33
Customer relationships	20-22
Acquired technology	20-40
Trademark	12.5

1. ACCOUNTING POLICIES (continued)

(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.

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 process);
- 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 3-5 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) 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 (excluding goodwill) 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.

1. ACCOUNTING POLICIES (continued)

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

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

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

(o) Income taxes

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates enacted or substantially enacted by the reporting date. 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.

(p) Trade payables

Trade payables are non-interest bearing and are stated at their fair value.

1. ACCOUNTING POLICIES (continued)

(q) Retirement benefit costs

For defined benefit retirement 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 Projected Unit Credit Method is applied. Actuarial gains and losses are recognised 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 recognised in the statement of comprehensive income when the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

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

(r) Revenue recognition

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

Revenue from the sales of goods is recognised when the significant risks and rewards of ownership have been passed to the buyer, which is usually on delivery of the goods.

Revenues from services are recognised by reference to stage of completion of the transaction when the amount of revenue can be measured reliably, it is probable that economic benefits will be received and the costs incurred and costs to complete the transaction can be measured reliably.

Services or royalty income is recognised in accordance with the terms of the relevant agreement unless there has been an assignment of rights for a fixed or non-refundable fee and the Company has no remaining obligations to perform; in such circumstances, revenue is recognised when collection of the income is reasonably assured.

(s) Leases

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

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

(t) Borrowing costs

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

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 according to IAS 23 Borrowing Costs (2007).

1. ACCOUNTING POLICIES (continued)

(u) Government grants

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

Government grants 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 recognised in other income over the periods necessary to match them with the related cost.

(v) Non-current assets held for sale

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

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

(w) Financial instruments

Financial assets and financial liabilities are recognised 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. Subsequent to initial recognition, investments in subsidiaries are accounted for under the equity method in the consolidated financial statements and the cost method in the Company's financial statements less provision for impairment.

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.

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

1. ACCOUNTING POLICIES (continued)

(w) Financial instruments (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 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 recognised 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 recognised, the previously recognised 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 recognised.

De-recognition of financial assets

The Group derecognises 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 recognises 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 recognise the financial asset and also recognises collateralized borrowings for the proceeds received.

1. ACCOUNTING POLICIES (continued)

(w) Financial instruments (continued)

Financial liabilities and equity

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

All the Group's financial liabilities are classified as other financial liabilities. It holds no financial liabilities 'at fair value through profit or loss', except for derivative financial instruments, which are set out below.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognised 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-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

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 25 to the financial statements.

Derivatives are initially recognised 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 recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised 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.

1. ACCOUNTING POLICIES (continued)

(x) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payment.

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 behavioural considerations.

Where the Group has settled a grant of equity instruments during the vesting period, the Group accounts for the settlement as an acceleration of vesting, and recognises immediately in the statement of comprehensive income the amount that otherwise would have been recognised 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 recognised as an expense in the statement of comprehensive income.

(y) Profit per share

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

(z) Provisions

A provision for warranty costs is recognised at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Group's liability. Other provisions recognise in accordance with IAS 37 at the best estimate of the expenditure required to settle the Group's liability.

(aa) 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 recognised in the financial statements.

Grant receivable

Income relating to government grants is recognised 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.

1. ACCOUNTING POLICIES (continued)

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

Allocating fair values in a business combination

Acquisitions of shares in subsidiaries are accounted for using the acquisition 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.

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.

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.

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.

Recoverability of deferred tax assets

Under IFRS, a deferred tax asset arising on trading losses or deductible temporary differences is only recognised 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.

1. ACCOUNTING POLICIES (continued)

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

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.

Impairment of goodwill

Determining whether goodwill is impaired, requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires estimating 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.

(ab) 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, 2011:

IAS 24 'Related Party Disclosures' (revised 2009)

The changes introduced by IAS 24 (2009) relate mainly to the definition of a related party and modifies certain disclosure requirements for government-related entities.

IFRS 7 Financial Instruments

Disclosures – Amendments to Disclosures has been amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

The Amendments to Disclosures - Transfers of Financial Assets require additional disclosures about transfers of financial assets, e.g., securitisations and should enable users to understand the possible effects of any risks that may remain with the transferor. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

These changes have been applied in the current year and they do not have a material impact on the financial statements of the Group.

1. ACCOUNTING POLICIES (continued)

(ac) 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 but are not expected to have a material impact on the Group. Other than the standards mentioned above there are no other endorsed standards relevant to the Group.

2. REVENUE

	Group	
	2011	**2010**
	$'000	**$'000**
Sales of goods	175,275	131,678
Services income	2,090	-
	177,365	131,678

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.

The Group is organized on a worldwide basis into three geographical segments: EMEA, APAC and Americas. There are no other segments. All segments offer similar product lines. In the year ended 31 December 2011 and 31 December 2010 no single customer accounted for more than 10% of the Group's revenue.

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

2011

	EMEA	**APAC**	**Americas**	**Total**	**Eliminations**	**Consolidated**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue						
External sales	88,861	31,187	57,317	177,365	-	177,365
Inter-segment sales [1]	47,178	2,527	-	49,705	(49,705)	-
Total revenue	136,039	33,714	57,317	227,070	(49,705)	177,365
Result						
Segment result	269	5,169	3,069	8,507	-	8,507
Unallocated corporate expenses [2]						(5,037)
Operating profit						3,470
Investment income	443	2	62	507	-	507
Finance costs	(1,725)	(13)	(13)	-	-	(1,751)
Profit before income taxes						2,226
Income taxes	(345)	(399)	(34)	(778)	-	(778)
Profit for the year						1,448

3. SEGMENTAL ANALYSIS (continued)

2010

	EMEA	APAC	Americas	Total	Eliminations	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue						
External sales	76,529	21,167	33,982	131,678	-	131,678
Inter-segment sales (1)	34,929	3,151	-	38,080	(38,080)	-
Total revenue	111,458	24,318	33,982	169,758	(38,080)	131,678
Result						
Segment result	2,307	2,358	4,179	8,844	-	8,844
Unallocated corporate expenses (2)						(2,288)
Operating profit						6,556
Investment income	28	9	10	47	-	47
Finance costs	(46)	(56)	(53)	-	-	(155)
Profit before income taxes						6,448
Income taxes	1,489	523	(11)	2,001	-	2,001
Profit for the year						8,449

(1) Transactions between geographic segments are charged at market prices.
(2) Unallocated corporate expenses principally comprise expenses arising from corporate activity on the Company level, including directors compensation (other than such compensation specifically allocated to one of the traded companies) salaries of certain senior executives, professional fees (e.g. audit fees) and other expenses which cannot be directly allocated to one of the segments.

	2011	2010
	$'000	$'000
Total assets:		
EMEA	71,824	52,554
APAC	11,714	11,105
Americas	17,372	9,218
Unallocated assets	20,133	15,772
Total assets	121,043	88,649
Total liabilities:		
EMEA	32,653	30,561
APAC	5,056	4,008
Americas	2,519	2,213
Unallocated liabilities	20,009	22,852
Total liabilities	60,237	59,634

Unallocated assets comprise:

	2011	2010
	$'000	$'000
Other debtors in respect of general entity and head office purposes	167	705
Deposits - restricted cash	185	1,546
Cash and cash equivalents	19,781	13,521
Unallocated assets	20,133	15,772

3. SEGMENTAL ANALYSIS (continued)

Unallocated liabilities comprise:

	2011	2010
	$'000	**$'000**
Other loans	10,311	7,365
Short-term borrowings from banks and other lenders	9,106	14,917
Other current liabilities in respect of general entity and head office purposes	592	570
Unallocated liabilities	20,009	22,852

2011

	EMEA	APAC	Americas	Consolidated
	$'000	**$'000**	**$'000**	**$'000**
Other segment items:				
Capitalized tangible and intangible asset additions	25,854	572	575	27,001
Non-cash items:				
Depreciation and amortization	6,016	1,125	106	7,247
Bad debt expense	1,348	6	10	1,364
Share-based payments	1,241	45	70	1,356

2010

	EMEA	APAC	Americas	Consolidated
	$'000	**$'000**	**$'000**	**$'000**
Other segment items:				
Capitalized tangible and intangible asset additions	4,828	475	30	5,333
Non-cash items:				
Depreciation and amortization	4,035	1,873	97	6,005
Bad debt expense	570	35	4	609
Share-based payments	329	22	26	377

4. OTHER OPERATING INCOME

	2011	2010
	$'000	$'000
Change in fair value of contingent consideration (a)	-	1,161
Gain from increase of investment value	83	-
Governmental grants (b)	628	726
Other	67	55
	778	1,942

(a) Represent the change in the fair value of the contingent consideration related with the unwinding of the cross holdings between the Company and BAMES that took place in July 2010.

(b) The Group's eligibility for the annual programs for 2011 and 2010 was approved by the relevant grant making body during the year. The Group only recognises 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 recognised amounts expected to be received in respect of the regional grant within other income in the year ended 31 December 2011 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

5. OTHER OPERATING EXPENSES

	2011	2010
	$'000	$'000
Impairment loss	-	437
Transactions costs	393	257
Integration costs	703	-
Others	162	210
	1,258	904

6. INVESTMENT INCOME

	2011	2010
	$'000	$'000
Interest income from bank deposits	507	47

7. FINANCE COSTS

	2011	2010
	$'000	$'000
Interest expense on factoring arrangements	89	107
Interest expense on bank loans and overdrafts	699	1,043
Exchange rate differences	428	(1,341)
Other bank expenses	535	346
	1,751	155

8. INCOME TAXES

A. Tax recognised in statement of comprehensive income

	2011	2010
	$'000	$'000
Current year taxes	851	196
Prior year taxes	600	1,058
Deferred taxes	(673)	(3,255)
Tax expense (Income)	778	(2,001)

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 charge, at the UK statutory rate of 26.5% for 2011 and 28% for 2010, and the Group's total tax expense for the year:

	2011	2010
	$'000	$'000
Profit before income tax from continuing operations	2,226	6,448
Tax charge computed at 26.5% (2010: 28%)	(590)	(1,805)
Tax adjustments arising from:		
Non-deductible expenses (tax exempt income)	(199)	(222)
Deferred tax assets not provided for losses and other timing differences, net (Tax losses not utilised)	(1,224)	(726)
Utilization of deferred tax asset previously recognised	(392)	91
Recognition of previously unrecognised tax losses	547	3,293
Effect of tax rates in foreign jurisdictions	(273)	(342)
Utilization of carry forward losses for which no deferred tax was recorded	1,953	2,770
Tax for previous years	(600)	(1,058)
Tax (expense)/income	(778)	2,001

The UK statutory tax rate used is not materially differ from the average tax rates applicable in the Group's main foreign jurisdictions in which it operates.

C. Deferred tax

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

	Net operating loss	Other timing differences	Total
	$'000	$'000	$'000
At 1 January 2010	432	(76)	356
Translation adjustments	(37)	-	(37)
Credit to the statement of comprehensive income	2,941	314	3,255
At 1 January 2011	3,336	238	3,574
Translation adjustments	(127)	50	(77)
Reclassified from other current assets	26	-	26
Arising on acquisition	-	(51)	(51)
Credit to the statement of comprehensive income	550	123	673
At 31 December 2011	3,785	360	4,145

8. INCOME TAXES (continued)

In the year ended 31 December 2011, the Group has recognised deferred tax assets of $3,235,000, $386,000, $35,000 and $534,000 in respect of Telit EMEA, Telit APAC, Telit Spain and Telit Israel, respectively.

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(aa), corporate acquisitions and disposals, changes in tax legislation and rates, the availability and use of brought forward tax losses, and the realization or otherwise of recognised deferred tax assets.

The gross amounts of losses available for carry forward are as follows:

	2011	2010
	$'000	$'000
Losses for which a deferred tax asset is recognised	11,763	10,259
Losses for which no deferred tax asset is recognised	39,495	50,794
	51,258	61,053

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. A further reduction to 25% was substantively enacted on 5 July 2011 and received Royal Assent on 19 July 2011. The effect of the rate reduction creates a reduction in the deferred tax asset, which has been included in the figures above.

The Chancellor proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above.

9. EMPLOYEES

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

	2011	2010
Research and development	212	193
Sales, marketing and operation	150	116
General and administration	50	57
	412	366

Their aggregate remuneration comprised:

	2011	2010
	$'000	$'000
Wages and salaries	28,084	20,377
Social security costs	5,062	3,308
Other pension costs	1,899	1,586
	35,045	25,271

10. PROFIT FOR THE YEAR AND GROUP AUDIT FEE

Profit for the year is stated after charging / (crediting)

	2011	2010
	$'000	$'000
Net foreign exchange gain	428	(1,341)
Depreciation of owned fixed assets (note 13)	2,211	1,900
Amortization of intangible assets (note 12):		
Amortization of purchased customer list – included in selling and marketing expenses	478	692
Amortization of acquired technology – included in R&D expenses	284	-
Amortization of software – included mainly in R&D expenses	1,557	1,242
Amortization of Internally generated development costs – included mainly in R&D expenses	2,717	2,171
Impairment loss (recovery) on investment classified as held for sale	(83)	437
Research and development expenditure	21,114	17,606
Costs of inventories recognised as an expense	107,536	76,440
Write-downs of inventories recognised as an expense	73	(196)

Audit fee

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	190	153	190	153
Fees payable to the Company's auditors and their associates for other services to the Group:				
Current auditors	80	129	66	46
Preceding auditors	10	-		
The audit of the Company's subsidiaries pursuant to legislation:				
Current auditors	310	209	-	-
Preceding auditors	-	42	-	-
Total audit fees	590	533	256	199
Other services relating to taxation	67	103	13	13
Total fees	657	636	269	212

11. PROFIT PER SHARE

Basic profit per share

	2011	2010
	$'000	$'000
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:		
Profit for the year attributable to the owners of the Company	1,564	8,173
	No. of Shares	No. of Shares
Basic weighted average number of equity shares(1)	98,294,356	74,855,355
Diluted weighted average number of equity shares (2)	108,356,180	83,704,528
Basic profit per share (in US dollar cents)	1.6	11.3
Diluted profit per share (in US dollar cents)	1.4	10.1
Adjusted basic profit per share (in USD cents)	4.5	7.4
Adjusted diluted profit per share (in USD cents)	4.1	6.6

(1) Basic weighted average number of equity shares:

	2011	2010
	No. of Shares	No. of Shares
Issued ordinary shares at 1 January	77,169,734	72,514,281
Effect of share options exercised	602,242	38,849
Effect of shares issued related to a business acquired	379,178	-
Effect of private placement of shares	-	2,302,225
Effect of shares issued in February 2011	20,143,202	-
Basic weighted average number of equity shares at 31 December	98,294,356	74,855,355

(2) Diluted weighted average number of equity shares:

	2011	2010
	No. of Shares	No. of Shares
Basic weighted average number of equity shares	98,294,356	74,855,355
Effect of share options on issue	10,061,824	8,849,173
Diluted weighted average number of equity shares at 31 December	108,356,180	83,704,528

At 31 December 2011 4,247,334 options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of shares was based on quoted market prices for the period during which the options were outstanding.

11. PROFIT PER SHARE (continued)

Adjusted profit per share

A reconciliation of the profit attributable to the equity shareholders for the year to the adjusted profit for the year attributable to the equity shareholders is presented below:

	2011	2010
	$'000	$'000
Profit for the year	1,448	8,449
Loss /(profit) attributable to non-controlling interest	116	(276)
Profit for the year attributable to the owners of the Company	1,564	8,173
Share-based payments	1,356	377
Amortization of intangibles acquired	1,035	692
Other non-recurring expenses	1,126	694
Other non-recurring income	(83)	(1,161)
Change in deferred taxes, net	(571)	(3,218)
Adjusted profit for the year attributable to the equity shareholders	4,427	5,557

12. INTANGIBLE FIXED ASSETS

	Intangible assets with finite life					
	Software and licenses	**Internally generated development costs**	**Customer relationships**	**Acquired technology**	**Goodwill**	**Total**
GROUP	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
COST						
1 January 2010	5,672	7,717	1,648	1,036	3,495	19,568
Additions	703	2,951	-	-	-	3,654
Transfer of assets	88	-	-	-	-	88
Translation adjustments	(347)	(29)	(35)	(11)	39	(383)
31 December 2010	6,116	10,639	1,613	1,025	3,534	22,927
Additions	1,604	3,669	-	-	-	5,273
Impairment	-	(369)	-	-	-	(369)
Arising from acquisitions	1,000	-	2,894	1,494	5,181	10,569
Translation adjustments	(266)	(565)	(20)	(20)	(51)	(922)
31 December 2011	8,454	13,374	4,487	2,499	8,664	37,478
AMORTIZATION						
1 January 2010	(3,350)	(1,341)	(1,136)	(1,036)	-	(6,863)
Charge for the year	(1,242)	(2,171)	(692)	-	-	(4,105)
Translation adjustments	198	(89)	215	11	-	335
31 December 2010	(4,394)	(3,601)	(1,613)	(1,025)	-	(10,633)
Charge for the year	(1,284)	(2,717)	-	-		(4,001)
Impairment	-	237	-	-	-	237
Arising from acquisitions	(273)	-	(478)	(284)	-	(1,035)
Translation adjustments	209	293	20	20	-	542
31 December 2011	(5,742)	(5,788)	(2,071)	(1,289)	-	(14,890)
Net book value						
31 December 2011	2,712	7,586	2,416	1,210	8,664	22,588
31 December 2010	1,722	7,038	-	-	3,534	12,294

The impairment charge of internally generated development costs in the amount of $132,000 is included in R&D expenses.

Goodwill, customer relationships and acquired technology relate to the acquisition of Telit APAC in 2006 (included within the APAC geographical segment); the acquisition of One RF Technologies (subsequently renamed Telit RF) in 2008; the acquisition of Motorola m2m and of GlobalConect Ltd. in 2011 (included within the EMEA geographical segment).

The amount of goodwill attributable to the APAC segment is $3,161,000 (2010: $3,202,000) and to the EMEA segment is $5,503,000 (2010: $332,000). The amount of customer relationships and acquired technology attributable to the EMEA segment is $3,626,000 (2010: $nil)

Capitalized development costs related mainly to the HSPA, CDMA and EVDO product lines and are being amortized over a three to five year period.

The Group tests goodwill for impairment annually or more frequently if there are indications that they might be impaired. Management has not identified any indications for impairment of goodwill recognised in the current year in respect of the acquisition of Motorola m2m and GlobalConect.

12. INTANGIBLE FIXED ASSETS (continued)

Other than the goodwill arising on acquisitions made during the year, management considers Telit APAC and Telit RF to be the cash generating units for goodwill allocated to them. The cash generating units have been identified based on the lowest levels 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 discounted 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 11.7% (2010: 17.5%) per year.

The discount pre tax rate applied of 14.2% (2010: 15%) is based on the long term bond yield, issued by the government in Korea, adjusted for a country and industry 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 discounted cash flow projections based on financial budgets for a period of five years. The cash generating unit'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 43.5% (2010: 43%).

The discount pre tax rate applied of 15% (2010: 15%) is based on the long term bond yield, adjusted for a country and industry 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 considering external forecasts of growth in the m2m industry. An average growth rate of 12.5% per year over the next four years has been assumed for the entire m2m market. Management has also forecast changes in the average sales price based on past experience and external forecasts of changes in the selling price in the m2m industry.

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 4%-19% over the five year period covered by the forecasts.

Sensitivity analysis on the carrying value of goodwill
If the estimated growth rate applied to the revenue forecasts of Telit APAC had been limited to only 75%, i.e. 8.775% and not 11.7%, the Group would still not recognise any impairment charge.

If the estimated growth rate applied to the revenue forecasts of Telit RF had been limited to only 75%, i.e. 32.6% and not 43.5%, the Group would still not recognise any impairment charge.

The directors consider it unlikely that there will be any changes in key assumptions that would lead to an impairment loss.

12. INTANGIBLE FIXED ASSETS (continued)

COMPANY	**Trademark** **$'000**	**Software** **$'000**	**Total** **$'000**
COST			
1 January 2010	9,579	-	9,579
Translation adjustments	(412)	-	(412)
31 December 2010	9,167	-	9,167
Additions	-	119	119
Translation adjustments	(20)	(4)	(24)
31 December 2011	9,147	115	9,262
AMORTIZATION			
1 January 2010	(295)	-	(295)
Charge for the year	(1,082)	-	(1,082)
Translation adjustments	9	-	9
31 December 2010	(1,368)	-	(1,368)
Charge for the year	(1,177)	-	(1,177)
Translation adjustments	43	-	43
31 December 2011	(2,502)	-	(2,502)
Net book value			
31 December 2011	6,645	115	6,760
31 December 2010	7,799	-	7,799

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and Buildings[1] $'000	Computers $'000	Office equipment $'000	Vehicles $'000	Leasehold Improvements $'000	Total $'000
COST						
1 January 2010	-	2,155	10,146	132	838	13,271
Additions	-	429	1,060	77	113	1,679
Reclassifications	-	(79)	(28)	-	20	(87)
Disposals	-	(102)	(245)	(90)	(68)	(505)
Translation adjustments	-	(56)	(341)	2	39	(356)
31 December 2010	-	2,347	10,592	121	942	14,002
Additions	7,400	1,328	1,204	94	41	10,067
Arising from acquisition	-	304	988	-	-	1,292
Disposals	-	(451)	(115)	(46)	(52)	(664)
Translation adjustments	(522)	(152)	(425)	1	(53)	(1,151)
31 December 2011	6,878	3,376	12,244	170	878	23,546
DEPRECIATION						
1 January 2010	-	(1,411)	(6,641)	(72)	(402)	(8,526)
Charge for the year	-	(367)	(1,420)	(18)	(95)	(1,900)
Disposals	-	99	202	71	68	440
Translation adjustments	-	(5)	224	(4)	(21)	194
31 December 2010	-	(1,684)	(7,635)	(23)	(450)	(9,792)
Charge for the year	(32)	(563)	(1,497)	(26)	(93)	(2,211)
Disposals	-	447	52	25	49	573
Translation adjustments	2	73	336	-	30	441
31 December 2011	(30)	(1,727)	(8,744)	(24)	(464)	(10,989)
Net book value						
31 December 2011	6,848	1,649	3,500	146	414	12,557
31 December 2010	-	663	2,957	98	492	4,210

(1) In October 2011 Telit Communications S.p.A., the Company's Italian subsidiary completed the acquisition of the premises where its business is located, for a total purchase price of $7.9 million. The building acquisition presented at 31 December 2011 net of the fair value measurement impact of the preferential loan obtained to fund the acquisition. The Company has pledged the buildings as collateral for the mortgage loan received to fund the acquisition. See also note 27.

At 31 December 2011 properties and equipment with a carrying amount of $2,214,000 (2010: $976,000) are subject to a floating charge to secure credit lines provided to subsidiaries.

14. ASSETS CLASSIFIED AS HELD FOR SALE

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

	Group 2011 $'000	Group 2010 $'000
Balance at 1 January	479	669
Impairment loss	-	(437)
Gain on subsequent increase in fair value less cost of sale	83	-
Translation adjustments	(34)	247
Consideration from sale of investment	(528)	-
Balance at 31 December	-	479

In December 2010, the Company's Israeli subsidiary which previously held 29.33% of the shares in Cell-time Ltd., entered into a letter of intent, for the sale of 100% of the holdings in Cell-time's shares to a third party, at an aggregate consideration of $1.63 million. The Company's part in the expected consideration was $479,000. In accordance with that, an impairment of $437,000 was recognised in 2010 and the investment was included in assets classified as held for sale.

On 17 August 2011, the Company's Israeli subsidiary, signed together with the other shareholders in Cell-time Ltd. an agreement to sell 100% of the shares held in Cell-time for an aggregate consideration of $1.65 million. The transaction was completed in September 2011. The Company’s part in the consideration was $528,000. In accordance with this a gain of $83,000 was recognised for subsequent increase in fair value less costs to sell this investment.

15. INVESTMENTS IN SUBSIDIARIES

COMPANY	Loans to subsidiaries	Investments in subsidiaries	Total
	$'000	$'000	$'000
Investment in subsidiaries			
1 January 2010	3,042	34,927	37,969
Additions	4,986	4,524	9,510
Repayments/Disposals	(954)	(682)	(1,636)
Interest added to loan principal	77	-	77
Translation adjustments	(111)	-	(111)
Conversion of loan to equity	(173)	173	-
Provision for impairment (4)	-	(1,596)	(1,596)
1 January 2011	6,867	37,346	44,213
Additions (1,2)	28,035	3,215	31,250
Additions - subsidiaries share-based payment charge (1)	-	336	336
Repayments (3)	(10,685)	-	(10,685)
Translation adjustments	(241)	-	(241)
Provision for Impairment(4)	-	(1,821)	(1,821)
31 December 2011	23,976	39,076	63,052

(1) On 30 November 2011 the Company increased its interest in Telit Wireless Solutions Co Ltd (Telit APAC) from 90% to 92% of the issued ordinary share capital by way of a further share subscription for cash amounting to $1,103,000. The Company accounted for this deemed acquisition on the book values of the net assets of Telit APAC at the date of the injection. As a result of this transaction, non-controlling interests have been reduced by $20,000. The amount of $20,000 arising was recorded as a credit to the statement of comprehensive income in the year ended 31 December 2011. In addition, on 11 July 2011 the Company acquired 100% of the shares of GlobalConect for total consideration of $1,912,000 which it paid in cash and shares and contingent consideration of $200,000. See also note 15(A). For further information in respect of share-based payment see note 26.

(2) During 2011 the Company made additional loans to its subsidiaries as follows: a $24,085,000 loan was made available to Telit Wireless Solutions Israel to fund the acquisition of Motorola m2m.; a $2,500,000 loan was made available to Telit Communications Spain SL; a $720,000 loan was made available to m2mapps GmbH; a $500,000 loan was made available to Telit Wireless Solutions Co Ltd; a $130,000 loan was made available to Telit RF Technology S.A.S. and a $100,000 loan was made available to GlobalConect Ltd.

(3) The repayments in 2011 include a partial repayment of the loan balance payable by Telit Wireless Solutions Israel in the amount of $7,085,000; $2,500,000 repayment of the loan made in 2010 to Telit Wireless Solutions Inc; $1,000,000 repayment of the loan made to Telit APAC, and repayment of $100,000 out of the loan balance made to Telit Communications Spain SL.

(4) At 31 December 2011 the Company's investments in subsidiaries were assessed for indicators of impairment using the discounted future cash flow method. Due to the continued decline in the performance of Dai Telecom Holdings (2000) Ltd the recoverable amount of this subsidiary was estimated based on its value in use. Based on assessment in 2010, the carrying amount of the investment was determined to be higher than its recoverable amount and an impairment loss of $1,596,000 was recognised in the Company's accounts for 2010. In 2011, the Company reassessed its estimates and recorded additional impairment loss of $1,821,000 in 2011 accounts. The impairment loss is included in other operating expenses in the Company's accounts and had no impact on the consolidated accounts.

The estimate of value in use was determined using a pre-tax discount rate of 11.7% (2010:10%).

15. INVESTMENTS IN SUBSIDIARIES (continued)

ACQUISITIONS

A. On 1 March 2011 the Company's subsidiary Telit Wireless Solutions Ltd ("Telit Israel") completed the acquisition of Motorola Solutions' m2m modules business ("Motorola m2m") from Motorola Israel Ltd., a subsidiary of Motorola Solutions Inc for a sum of $22.7 million paid in cash. The Group incurred related transaction costs of $393,000 and these costs have been recognised in other operating expenses in the Group's consolidated statement of comprehensive income. Motorola m2m specialised in the design, development, integration, evaluation and deployment of m2m applications worldwide and offered a variety of m2m modules for wireless technologies. The Company's directors believe that the acquisition of Motorola m2m will strengthen Telit's already strong position within the industry. Under the terms of the Asset Purchase Agreement, the assets and liabilities in the transaction include:

- all rights relating to the existing product portfolio and customer database of the business;
- other assets related to the business including equipment, inventory and trade account receivables;
- warranty liability in relation to products already sold by the business (such warranties typically having a duration of 15 months);
- a perpetual license of a certain Motorola software (known as P2K) used across some of the product portfolio (entered into with Motorola Mobility, Inc.); and
- 33 employees. A majority of the employees are located in Israel, with the remaining employees located in the US, UK, Germany, Brazil and Singapore.

The assessment of the fair values of the assets and liabilities acquired has been completed:

	Fair value
	$'000
Accounts receivable	10,331
Inventory	3,144
Property, plant and equipment	1,292
License	1,000
Customer relationship	2,661
Technology	1,494
Liability for employees retention	(300)
Provision for warranty	(166)
Total identifiable assets	19,456
Cash consideration paid	22,711
Excess of cost - goodwill	3,255

The goodwill of $3,255,000 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Motorola m2m with that of the Company.

The goodwill is expected to be deductible for income tax purposes over a period of 10 years.

At 31 December 2011 the receivables were substantially collected and the inventory was substantially used or sold. Based on this the Company's management does not expect any material amount of the acquired receivables to be uncollectable.

As the tax base of the intangibles acquired is the same as the fair value there is no timing difference for which a deferred tax liability needs to be recognised.

The Company consolidated Motorola m2m for 10 months from March 1, 2011. If the acquisition had occurred on 1 January 2011, management estimates that consolidated statement of comprehensive income would have included revenue of $185,865 million and profit of $1,898 million.

15. INVESTMENTS IN SUBSIDIARIES (continued)

B. On 11 July 2011 the Company completed the acquisition of 100% of the shares of GlobalConect Ltd, a company which provides cellular connectivity services to customers of m2m applications and solutions. As consideration for the acquired shares, the Company paid $0.7 million in cash and 800,000 newly issued ordinary shares with a value of $1.2 million at the closing date. The Group did not incur material transaction costs in this acquisition. The share purchase agreement was based on an assumed value of £1.7 per share and includes an adjustment mechanism according to which, in the event that within 3 years from the completion of the acquisition conditions related to the performance of GlobalConect are met, and the Company's share price does not reach at least £1.7, the Company will issue to the sellers additional shares up to a maximum of 360,000 shares. The Company's directors believe this acquisition forms the cornerstone for Telit's value added services global business.

The assessment of the fair values of the assets and liabilities acquired has been completed:

	Fair value
	$'000
Cash	2
Other receivables	4
Other payables	(2)
Customer relationship	233
Deferred taxes	(51)
Total identifiable assets	(186)
Consideration paid	1,912
Contingent consideration	200
Excess of cost - goodwill	1,926

The contingent consideration of $200,000 represents the fair value at the acquisition date.
The goodwill is attributable mainly to the skills and experience in the connectivity market of GlobalConect's founders, and the synergies expected to be achieved from developing the value added services business.
The goodwill recognised is not deductible for income tax purposes

In the six months from the acquisition date to 31 December 2011, the impact of GlobalConect on the consolidated results was immaterial.

15. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiary undertakings of the Company at 31 December 2011 are as follows:

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	100%	Intermediate holding company
Telit Communications SpA[2] ("Telit EMEA")	Italy	Ordinary	100%	Development, manufacturing and selling data products and distributing cellular products
m2mapps GmbH[1] (Previously Telit Wireless Solutions GmbH)	Germany	Ordinary	100%	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[1]	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	92%	Development, manufacturing and selling data products
Dai Telecom Holdings (2000) Ltd.[1]	Israel	Ordinary	100%	Intermediate holding company
Telit Wireless Solutions Ltd. ("Telit Israel IL")[1]	Israel	Ordinary	100%	Selling and marketing data products
Dai Telecom Ltd. ("Dai Telecom")[2]	Israel	Ordinary	100%	Selling and marketing data products
GlobalConect Ltd[1]	Israel	Ordinary	100%	Provides cellular connectivity services
Telit Wireless Solutions (Pty) Ltd. [2] ("Telit RSA")	Republic of South Africa	Ordinary	100%	Selling and marketing data products
Telit Wireless Solutions Hong Kong Limited[2]	Hong Kong	Ordinary	100%	Dormant

[1] indicates that the entity is held directly by the Company.
[2] indicates that the subsidiary is indirectly held;

16. INVENTORIES

	Group	
	2011	2010
	$'000	$'000
Finished goods	9,190	12,697
Raw materials and work in progress	4,498	4,430
	13,688	17,127

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 $757,000 (2010: $830,000).

17. RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Within current assets:				
Trade receivables	39,834	29,560	652	776
Other receivables	7,488	5,728	167	705
Due from Group undertakings	-	-	6,488	2,899
	47,322	35,288	7,307	4,380
Within non-current assets:				
Long term receivables	732	610	11	14

The average credit period on trade receivables is 79 days (2010: 78 days). No interest is charged on trade receivables unless previously agreed with the customer. 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 $5,763,000 (2010: $9,199,000) 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 117 days (2010: 110 days).

	2011	2010
	$'000	$'000
Ageing of past due but not impaired trade debtors		
1-30 days	2,139	4,626
30-60 days	1,033	1,078
60-90 days	1,273	687
Above 90 days	1,318	2,808
	5,763	9,199

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

17. RECEIVABLES (continued)

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

	2011	2010
	$’000	$’000
At 1 January	872	1,601
Increase/(decrease) in allowance for the year	1,364	(334)
Amounts written off	(1,870)	(275)
Translation adjustments	55	(120)
At 31 December	421	872

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.

Included within other receivables are amounts receivable in respect of the Group's grant claims amounting to $2,746,000 (2010: $2,651,000). 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 body, no provision for losses is required.

18. CASH

The Group’s cash resources are as follows:

	Group		Company	
	2011	2010	2011	2010
	$’000	$’000	$’000	$’000
Deposits – restricted cash	185	1,546	83	-
Cash and cash equivalents	19,781	13,521	5,646	499
Total	19,966	15,067	5,729	499

Restricted cash deposits are provided as security for borrowings and bank guarantees provided by banks in EMEA.

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.

18. CASH (continued)

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

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Sterling	1,965	87	1,959	87
US dollar	11,698	9,413	2,948	181
Euro	3,376	3,411	822	231
KRW	1,753	1,772	-	-
Brazilian Real	840	219	-	-
Other	334	165	-	-
Total	19,966	15,067	5,729	499

19. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2011	2010
	$'000	$'000
Allotted, issued and fully paid: 102,678,769 ordinary shares of 1 pence each (2010: 77,169,734 ordinary shares of 1 pence each).	1,772	1,361

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

On 16 February 2011 the general meeting of the Company's shareholders approved a placement of 23,793,750 new ordinary shares at 80 pence each, to raise approximately $30.6 million (£19.0 million) before issuance expenses of approximately $1.3 million (£0.8 million). The placing proceeds were used to fund the acquisition of Motorola Solutions Inc's m2m module business.

On 11 July 2011 the Company issued 800,000 new ordinary shares as part of the consideration paid in the acquisition of GlobalConect.

During 2011 915,285 options were exercised by employees into ordinary shares.

Share options

The number of outstanding options as at 31 December 2011 and at the date of this report was 13,913,508 and 14,055,840 equal to 13.55% and 13.69% respectively, of the outstanding share capital of the Company (11.93% and 12.04% ,respectively of the outstanding share capital of the Company, on a fully diluted basis).

Reserves

In July 2010 the Company and BAMES concluded the unwinding of the cross holdings between the groups, whereby the Company acquired from BAMES its entire stake in Telit Wireless Solutions Srl giving the Company 100% ownership of Telit Wireless Solutions Srl, in consideration for Telit Wireless Solutions Srl 19.9% stake in SEM and the allotment to BAMES by the Company of 2.7 million new ordinary shares. As of 1 February 2011, the value of the 2.7 million shares was greater than €1.5 million, and BAMES paid the Company, according to the agreement, 50% of the amount between €1.5 million and the actual value.

This transaction resulted in changes in ownership interests while retaining control and is accounted for as a transaction with equity holders in their capacity as equity holders.

19. ALLOTTED SHARE CAPITAL (continued)

As a result, the difference in the amount of $2,639,000 between the consideration which made up of combination of the fair value of the shares issued and the contingent consideration plus the elimination of the fair value of the investment held in SEM was included in other reserve as a component of equity. The fair value of the shares issued determined based on the share price at the date of the transaction and was included in merger reserve.

20. POST-EMPLOYMENT BENEFITS

A. Until 1 January 2007, employees of Telit's Italian subsidiaries 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 as 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 as 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. The majority of the employees are still paid under the Italian government defined contribution plan and the Company only accrues for the future termination indemnity

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 the Group bears no material actuarial risk. The accrued severance pay liability included in the balance sheet in respect of the Israeli resident employees represents the balance of the liability not covered by the above-mentioned deposits and/or insurance policies for which a fund is maintained (in the Group's name) as a recognised pension fund.

C. The liability in respect of accrued severance pay for the Israeli resident employees is $43,000 (2010: $37,000) and the charge to the statement of comprehensive income in the year is $7,000 (2010: credit $64,000).

D. The IAS 19 disclosures in respect of the Group's unfunded defined benefit obligations in Italy and APAC are detailed further below.

	2011	2010
Expense recognised in the statement of comprehensive income	**$'000**	**$'000**
Interest cost	133	118
Current service costs	276	213
	409	331

20. POST-EMPLOYMENT BENEFITS (continued)

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

	2011	2010
	$'000	$'000
Present value of defined benefit scheme obligation		
1 January	2,869	2,559
Current service costs and interest	409	331
Contributions paid by the Company	(406)	(115)
Actuarial gains (losses)	16	222
Translation adjustments	(103)	(128)
31 December	2,785	2,869

The financial assumptions used to determine the present value of the defined benefit scheme were as follows:

	2011	2010
Discount rate	4.75% /4.80%	4.40% /5.69%
Expected salary increase rate	3.00% /5.00%	0.00% /5.00%
Inflation	0.00% /2.00%	2.00% /2.00%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled $162,799 (2010: $241,041) and the expected contributions to be paid in 2012 total $253,126

	2011	2010	2009	2008	2007
	$'000	$'000	$'000	$'000	$'000
Historical information					
Present value of the defined benefit scheme obligation	2,785	2,869	2,014	1,822	1,956
Experience adjustments arising on the plan liabilities	163	241	206	29	15

21. CURRENT LIABILITIES

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Short-term bank loans and other borrowings	7,850	12,413	-	-
Advances on receivables factoring	-	1,421	-	-
Current maturities of long term loans	1,256	1,083	129	-
Total short-term borrowing from banks and other lenders	9,106	14,917	129	-
Trade creditors (i)	25,496	22,199	173	257
Due to Group undertakings	-	-	5,177	6,807
Provisions	1,329	2,317	-	-
Other current liabilities	8,510	7,497	592	570
Total current liabilities	44,441	46,930	6,071	7,634

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 in 2011 was 66 days (2010: 76 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.

22. CONTINGENT LIABILITIES

Legal proceedings

A. In October 2009, the Israeli customs authority began assessment proceedings regarding the value of products imported into Israel by Dai Telecom for the purpose of custom duties for the period from 2005 to 2008. On April 21, 2010, an assessment was served on Dai Telecom demanding additional import taxes relating to (1) 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" (the "Royalties Issue") and (2) 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 "Development Fees Issue"). In the aggregate, the assessment is for approximately $3.2 million excluding $1.5 million deductible VAT, the Royalties Issue being the major part of the assessments. Based on the opinions of our professional advisors, among other things, we believe Dai Telecom has valid and strong arguments regarding its claim (1) that the royalties should not have been added to the value of the trademark and the tradename "Telit" and that there is a strong likelihood Dai Telecom's arguments will prevail and (2) that the development fees should not have been added to the value of the products and that it is more likely than not that Dai Telecom's arguments will prevail. It is likely that Dai Telecom will appeal the assessment with respect to the Royalties Issue and will try and settle the assessment with respect to the Development Fees Issue.

22. CONTINGENT LIABILITIES (continued)

B. 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.

C. In February 2010 a former employee of Dai Telecom filed a claim with the Labour court in Tel-Aviv against Dai Telecom, Telit Israel and Telit Labs, claiming, inter alia, for wrongful dismissal and requesting a payment of approximately $155,000, later reduced to $118,000. The hearings in this case have been concluded and the parties are awaiting the ruling of the Labour Court. In the opinion of Company's management, based, inter alia, on the opinion of its professional advisors, it is not possible to assess the chances of the claim.

D. There are three pending employment claims in Italy, each at different stages in the litigation process, being brought against Telit Communications S.p.A. Two of such claims have been valued by the Company based on the opinion of its legal advisors at approximately Euro 200,000 and Euro 250,000 respectively, not including interest and other supplementary amounts. With respect to the third claim, the Company, based on the opinion of its legal advisors is not able to assess a value. In the opinion of the Company's management, based, inter alia, on the opinion of its professional advisors, it is not possible to assess the chances of the aforesaid claims.

E. On January 13, 2012 M2M Solutions LLC filed a claim against; inter alia, Telit and Telit Wireless Solutions Inc. in the United States District Court for the District of Delaware. See note 31 for further details.

23. COMMITMENTS AND GUARANTEES

Operating lease commitments

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

	Land and buildings		Other	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Operating leases which expire:				
Within one year	1,703	1,598	772	571
In the second to fifth years inclusive	3,844	1,179	1,002	436
Above five years	119	-	-	-
	5,666	2,777	1,774	1,007
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	1,313	1,710	1,045	820

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

23. COMMITMENTS AND GUARANTEES (continued)

Guarantees and liens

a. The Company provided guarantees of up to $22.3 million to a certain suppliers of the Group, to sustain credit lines to be granted by the suppliers in respect of purchases made.

b. 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 are for total amount of $21.7 million but shall not exceed the amount current borrowing from these banks.

c. The Company has provided unlimited guarantees to suppliers of Telit Brazil and Dai Telecom covering all of their undertaking to said supplier according to the agreement between these parties.

24. PROVISIONS

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. The Company's management does not expect that certain legal matters for which provision was recognised will be settled within 12 months and therefore the provision for such legal matters was included in non-current liabilities.

	Tax (A)	Warranties (B)	Legal (C)	Total
	$’000	$’000	$’000	$’000
Balance at 1 January 2011	2,223	284	1,948	4,455
Utilized in the year	(1,154)	(177)	(235)	(1,566)
Provided/(reversed) in the year	(116)	186	397	467
Assumed in business acquisition	-	166	-	166
Exchange differences	22	(11)	(70)	(59)
Balance at 31 December 2011	975	448	2,040	3,463
Classified as:				
Current liabilities	881	448	-	1,329
Non-current liabilities	94	-	2,040	2,134
	975	448	2,040	3,463

A. The Group is currently subject to ongoing tax audits. On 1 May 2011 a tax assessment received in late 2010 by the Company's subsidiary, Telit Communications S.p.A, in respect of the 2005 tax year was settled in full by the payment of $1.3 million (€0.9 million).
In addition, Telit Communications S.p.A. has received assessments and/or penalty notices for the years 2004 and 2006 in the approximate aggregate amount of $2.2 million. The Company is in various stages of attempting to settle or otherwise appeal such assessments and penalty notices. In addition, see also note 31(C).

B. 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.

C. The Group is involved in various legal or other proceedings incidental to the ordinary course of its business. Management believes, based on the opinions of the legal advisers handling the different claims, that the provisions recorded in the financial statements in connection with said claims are sufficient under the circumstances, and that none of these proceedings, individually or in the aggregate, will have a material adverse effect on the Group's business, financial position or operating results.

25. OTHER LONG-TERM LIABILITIES

As at 31 December 2011 the Group had outstanding a €3.0 million (2010: €3.0 million) interest rate swap that started on 10 January 2008 and has an end date of 12 January 2013. The Group pays a fixed rate of interest and receives floating. The fair value of the derivative has been determined to be $177,835 (2010: $295,130). The fixed interest rate payable by the Group is Euribor + 1%. For contingent consideration included in other long-term liabilities related to GlobalConect acquisition see note 15(B).

26. SHARE-BASED PAYMENTS

The Group and Company operate share-based option plan for executive directors, senior managers and employees.

On 25 May 2010 executives, employees and consultants of the Company and its subsidiaries were granted 2,201,000 options to purchase approximately 3% of the Company's issued and outstanding shares at the time, at an exercise price of £0.25 per share. The options vest in three equal annual instalments starting from 25 May 2011 and expire five years from the date of grant.

On 30 June 2010 executives, employees and consultants of the Company and its subsidiaries were granted 2,704,000 options to purchase approximately 3.6% of the Company's issued and outstanding shares at the time, at an exercise price of £0.32 per share. The options vest in three equal annual instalments starting from 30 June 2011 and expire five years from the date of grant.

On 1 April 2011 executives, employees and consultants of the Company and its subsidiaries were granted 3,959,000 options to purchase approximately 3.9 percent of the Company's issued and outstanding shares at the time, at an exercise price of £0.81 per share (3,799,000) and £0.845 per share (160,000). The options vest in three equal annual instalments starting from 1 April 2012 and expire five years from the date of grant.

On 6 April 2011 executives, employees and consultants of the Company and its subsidiaries were granted 175,000 options to purchase approximately 0.2 percent of the Company's issued and outstanding shares at the time, at an exercise price of £0.81 per share (165,000 options) and £0.90 (10,000 options). The options vest in three equal annual instalments starting from 1 April 2012 and expire five years from the date of grant, except for 10,000 options which vest over a 4-year period and 50,000 options which were granted as fully vested.

On 27 July 2011 a consultant of the Company and its subsidiaries was granted 100,000 options to purchase approximately 0.10 percent of the Company's issued and outstanding shares at the time, at an exercise price of £0.905 per share. The options vest in three equal annual instalments starting from 27 July 2012 and expire five years from the date of grant.

On 19 September 2011 a director of the Company was granted 150,000 options to purchase approximately 0.15 percent of the Company's issued and outstanding shares at the time, at an exercise price of £0.80 per share. The options vest in three equal annual instalments starting from 19 September 2012 and expire five years from the date of grant. In addition, since the Company has nearly reached the overall limit on the granting of options over newly issued shares contained in the rules of its unapproved option scheme, the remuneration committee resolved that, as the overall limit under the scheme increases, the director will from time to time be formally granted additional options (either in one tranche or in a series of separate grants) at the same exercise price and on the same terms as the options set out above, in the total amount of 150,000 further options being granted within this framework.

26. SHARE-BASED PAYMENTS (continued)

Further, the remuneration committee resolved that, should the Company successfully complete a public fundraising on a major stock exchange, then the director will immediately thereafter be granted further options over a total of 600,000 shares at an exercise price of £0.80 per share, with all other terms being equal to the options mentioned above.

The number of outstanding options as at 31 December 2011 was 13,913,508, equal to approximately 13.55% 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)	
	2011	**2010**	**2011**	**2010**
Outstanding at beginning of year	10,764,458	6,286,667	0.24	0.2
Granted during the year	4,384,000	4,905,000	0.81	0.29
Exercised during the year	(915,285)	(251,875)	0.21	0.20
Lapsed during the year	(319,665)	(175,334)	0.50	0.21
Outstanding at year end	13,913,508	10,764,458	0.42	0.24
Exercisable at year end	6,393,556	4,019,312	0.23	0.20

The weighted average share price at the date of exercise for share options exercised in 2011 was £ 0.88.

The options outstanding at 31 December 2011 have an exercise price in the range of £0.20 to £0.905 (2010: £0.20 to £0.32) and a weighted average contractual life of 3.2 years (2010: 3.7 years).

The Group recognised a total expense of $1,356,000 in respect of equity settled share based payment transactions for the year ended 31 December 2011 (2010: $377,000).

The Company charge for the year was $1,020,000 (2010: $226,000).

The fair value of services received in return for share-based options is measured by reference to the fair value of the share-based option granted. The estimate of the fair value of the services received is measured using the Black-Scholes pricing model. The assumptions used in the measurement of the fair values at the grant date of the options are as follows:

Grant date	Share price (pence)	Exercise price (pence)	Expected volatility (%)	Option life (years)	Risk free rate (%)	Dividend yield (%)	Employee turnover before vesting/non -vesting condition (%)	Fair value per option (pence)
29 January 2009	0.185	0.20	60	5	2.04	0	25%	0.05
25 May 2010	0.29	0.25	60	5	2.01	0	20%	0.11
30 June 2010	0.33	0.32	60	5	1.79	0	20%	0.12
1 April 2011	0.845	0.81	60	5	2.24	0	20%	0.31
1 April 2011	0.845	0.845	60	5	2.24	0	20%	0.30
6 April 2011	0.90	0.81	60	5	2.24	0	20%	0.31
27 July 2011	0.905	0.905	60	5	1.56	0	20%	0.32
19 September 2011	0.735	0.80	60	5	0.85	0	20%	0.24

Expected volatility is estimated by considering historic average share price volatility.

27. BORROWINGS

	Group		Company	
	2011	2010	2011	2010
	$ '000	$'000	$'000	$'000
Unsecured – at amortized cost				
Current maturities of long term loans	1,256	1,083	129	-
Other long-term loans	10,311	7,365	518	-
Total	11,567	8,448	647	-
Secured – at amortized cost				
Factoring companies	-	1,421	-	-
Short-term bank loans and other borrowings	7,850	12,413	-	-
Total	7,850	13,834	-	-
Disclosed in the financial statements as:				
Current borrowings	9,106	14,917	129	-
Non-current borrowings	10,311	7,365	518	-
Total	19,417	22,282	647	-

	Group		Company	
	2011	2010	2011	2010
	$ '000	$'000	$'000	$'000
Borrowings breakdown				
Working capital borrowing (1)	8,539	14,311	647	-
Governmental loan (2)	6,781	7,971	-	-
Mortgage loan (3)	4,097	-	-	-
Total	19,417	22,282	647	-

(1) Drawn letters of credit and borrowings arising from invoice advances use for working capital financing. These borrowings secured partially by letters of guarantee issued by the Company, see note 23. Additional available line of credit and invoice advance facilities at 31 December 2011 were $20.7 million.

(2) Representing the preferential rate loan supported by the Ministry of Trade and Commerce in Italy provided in connection with the Group's business development program in Sardinia. The loan is denominated in Euro and attracts interest at a rate of 0.75% and is repayable in ten annual instalments that commenced on 20 March 2009.

(3) Representing a preferential rate loan supported by a regional fund in Italy provided in connection with the Group's acquisition of the campus used for the Company's main R&D facility in Italy. The mortgage loan is denominated in Euro and attracts interest at a rate of Euribour 6 months less 20% and is repayable in 15 semi-annual instalments that will commence in June 2012. The loan is presented at its discounted fair value.

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 28.

28. 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 establishes objectives in line with these policies.

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

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

Foreign currency risk

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.

The Group operates in a wide number of geographic areas. While change in currency might affect our revenue and gross profit, we estimate the impact on our operating profits not material. 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**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
US Dollar	10,941	12,982	13,961	13,433
Euro	1,951	231	717	-
ILS	3,787	-	92	-
Other	34	76	12	-

The following table details the Group's sensitivity to a 10% change in US dollar 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 US dollar strengthens against the respective currency.

	Group	
	2011	**2010**
	$'000	**$'000**
Impact on profit or loss of a 10% change	193	(14)

The impact on equity would be equal and opposite of 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. 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.

28. FINANCIAL RISK MANAGEMENT (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 1% 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 $138,000 (2010: $204,000); 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 decreased during the current period due to the decrease in loan balances.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's 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 until 2010 did not experience any material losses. Following recognition of material bad debt during 2011, the Group began insuring part of its trade receivables balance. Allowance for doubtful accounts is determined with respect to those amounts that the Group has determined to be doubtful from collection.

Credit risk associated with the Group's cash and cash equivalents and restricted cash deposits is managed by 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**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Cash and cash equivalents	19,781	13,521	5,646	499
Deposits – restricted cash	185	1,546	83	-
Trade receivables	39,834	29,560	652	776
Due from Group undertakings	-	-	6,488	2,899
Other long term asset	732	610	11	14
Loan (or investment in) to subsidiaries	-	-	23,976	6,867
Guarantee provided to banks on subsidiary's borrowings	-	-	21,727	17,353

Activities that give rise to credit risk and the associated maximum exposure include, but 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.

28. FINANCIAL RISK MANAGEMENT (continued)

In this case, the maximum exposure to credit risk is the maximum amount the entity would have to pay if the guarantee is called on, which may be greater than the amount recognised as a liability as at 31 December 2011 where such guaranteed borrowings were not fully drawn at that date;

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

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 excluding interest that will accrue to those liabilities.

Group

	2011			2010		
	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	1.56%	2,112	5,833	1.69%	3,665	7,003
Variable rate	3.38%	6,994	4,478	3.91%	11,252	362

Company

	2011			2010		
	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
Guarantees	-	21,727	-	-	17,353	-

Fair value of financial instruments

The financial instruments held by the Group are primarily comprised of non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, trade accounts receivable and other receivables; non-derivative liabilities include bank loans, trade accounts payable, other payables and other current liabilities). Due to the nature of these financial instruments, there is no material differences between the fair value of the financial instruments and their carrying amount included in the financial statements.

28. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Current financial assets				
Assets classified as held for sale	-	479	-	-
Cash and restricted cash	19,966	15,067	5,729	499
Trade receivables	39,834	29,560	652	776
Loans and receivables – other debtors	-	-	17	-
Loans and receivables – due from group undertakings	-	-	6,488	2,899
Current assets not meeting the definition of a financial asset				
Inventories	13,688	17,127	-	-
Other debtors	7,488	5,728	150	705
Total current assets	80,976	67,961	13,036	4,879

	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Non-current financial assets				
Loans and receivables	732	610	11	14
Non-current assets not meeting the definition of a financial asset				
Intangible assets	22,588	12,294	6,760	7,799
Property, plant and equipment	12,557	4,210	21	8
Investments in subsidiaries	-	-	63,052	44,213
Deferred tax asset	4,190	3,574	-	-
Total Non-current assets	40,067	20,688	69,844	52,034

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.

28. FINANCIAL RISK MANAGEMENT (continued)

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Current financial liabilities at amortized cost				
Short-term borrowings from banks and other lenders	9,106	14,917	129	-
Trade payables	25,496	22,199	173	257
Due to group undertakings	-	-	5,177	6,807
Other current liabilities	6,709	6,540	-	-
Current liabilities not meeting the definition of a financial liability				
Provisions	1,329	2,317	-	-
Other current liabilities	1,801	957	592	570
Total current liabilities	44,441	46,930	6,071	7,634
Non-current financial liabilities at amortized cost				
Other loans	10,311	7,365	518	-
Non-current financial liabilities at fair value through profit or loss				
Derivative financial instruments	177	295	-	-
Non-current liabilities not meeting the definition of a financial liabilities				
Post-employment benefits	2,828	2,906	-	-
Deferred tax liabilities	45	-	-	-
Provisions	2,134	2,138	-	-
Other long term liabilities	301	-	200	-
Total Non-current liabilities	15,796	12,704	718	-

Fair value hierarchy

Effective from 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 related only to the derivative financial instruments. 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 (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All derivative financial instruments for both accounting periods are measured applying level 2 of the fair value hierarchy. During 2011 a loss of $108,352 (2010: $22,734) was recognised in the statement of comprehensive income in relation to these financial instruments.

28. 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 27, 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 31.

Gearing Ratio

The Group defines debt as both long and short term borrowings as detailed in note 27. 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	
	2011	**2010**
	$'000	**$'000**
Cash and cash equivalent	19,781	13,521
Restricted cash deposits	185	1,546
Total cash	19,966	15,067
Current borrowings	(9,106)	(14,917)
Non-current borrowing	(10,311)	(7,365)
Total borrowings	(19,417)	(22,282)
Net cash / (debt)	549	(7,215)
Shareholders' equity	60,319	28,398
Net cash/(debt) to equity ratio	0.91%	(25.4%)

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

29. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions with subsidiaries

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

Outstanding balances at the year-end are unsecured and settlement occurs in cash.

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

(a) Accounts receivable - See note 17.

(b) Accounts payable - See note 21.

(c) Trading transactions:

	2011	2010
	$'000	$'000
Royalties *	3,302	2,381
Cost of sale	754	501
Interest income	891	289

* The Company signed a license agreement with some of its subsidiaries according to which the subsidiaries shall pay royalties of a certain percentage of their revenues in consideration of their use of the Company's tradename and trademarks.

In addition, the Company signed an agreement with certain of its subsidiaries for allocation of some shared costs.

Transactions with key management personnel

A. Key management personnel are determined as the directors of Telit Communications PLC. Details of transactions with the directors and their compensation are detailed in the Report on Directors' Remuneration on pages 17 to 21. There are no outstanding balances as at the year end.

B. On August 1, 2011, the Company waived any and all claims it then had or in the future may have against the Company's Chief Executive, Oozi Cats in relation to certain indemnification letters provided to the Company by Mr. Cats and to any other tax related claims in connection with Mr. Cats' service and employment agreements. Pursuant to the indemnification letters, Mr. Cats had personally undertaken to satisfy in full certain potential tax liabilities if applicable. The underlying potential liability stems from possible tax exposures relating to Mr. Cats' past and current employment and service arrangements. After due and careful consideration of the matters, our Board of Directors authorized the release of Mr. Cats from any liability under those indemnification letters.

30. 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 $4,378,000 (2010: loss of $1,113,000).

31. SUBSEQUENT EVENTS

A. On 3 January 2012 the Company consummated the binding agreement it entered into on 20 December 2011 to purchase 100% of the shares of Navman Wireless OEM Solutions LP, a designer and manufacturer of world-class GPS modules and solutions, for $3.0 million in cash. The amount is subject to an additional earn-out amount of up to $750,000 subject to certain conditions. The acquisition of Navman’s technology and its US based executive engineering and sales staff will make Telit a major contender in the GPS market while providing an enhanced product portfolio for its m2m customers. No assessment of the fair values of the assets and liabilities acquired has yet been completed due to the proximity of the transaction completed compared to the finalization of these financial statements. The book value of the assets purchased is as follows:

	Book value $’000
Working capital, Net (*)	688
Property, plant and equipment	72
Total identifiable assets	760

(*) the agreement provided for a working capital adjustment for the difference between the actual working capital transferred and $650,000.

B. On 13 January 2012, M2M Solutions LLC, a company allegedly incorporated under the laws of the State of Delaware, USA ("M2M Solutions"), filed a complaint in the United States District Court for the District of Delaware (the "Court") against Motorola Solutions Inc. ("Motorola"), the Company and Telit Wireless Solutions Inc. (“Wireless”), asserting that Motorola allegedly infringed one and the Telit defendants allegedly infringed two patents allegedly owned by M2M Solutions (the "Complaint").

M2M Solutions asserted that the Company and Wireless allegedly infringed, and continue to infringe, one or more of the claims covered by the asserted patents, and asked the Court to award: (i) damages for past infringement (i.e., on products sold by them since 2009, when the older of the two patents was issued), (ii) treble damages for alleged willful infringement, and (iii) M2M Solutions’ attorneys’ fees and costs. M2M Solutions also asked the Court to issue an injunction prohibiting the Company and Wireless from selling any allegedly infringing products in the future.

In connection with the complaint, on 2 February 2012, the Company received a letter from Motorola asserting that the Company is allegedly required to indemnify Motorola pursuant to provisions of the Asset Purchase Agreement pursuant to which Wireless purchased the assets of Motorola Israel Ltd.

The Company is still examining whether it is required to indemnify Motorola and/or to pay any damages, or counsel fees that Motorola may incur, and in the meantime, has, on 14 February 2012, together with Wireless, signed a Tolling Agreement with Motorola and Motorola Israel Ltd. agreeing, inter alia, that during the pendency of the lawsuit none of the parties will make claims against each other arising from the causes of action asserted by M2M Solutions or seek any cost recovery or indemnity.

C. Telit Wireless Solutions S.r.l received tax assessments from the Italian Tax Authority for the years 2006 and 2007 in the approximate aggregate amount of $0.85 million (€0.62 million). The Company paid a nominal amount in settlement of the 2006 tax assessment, and settled the 2007 tax assessment in February 2012 based on the opinion of its legal and tax advisors by payment of $0.3 million (€0.24 million).

Company Information

Directors, Secretary and Advisers

Company Registration No. 05300693

Directors	Enrico Testa, Chairman Oozi Cats, Chief Executive Yosi Fait, Finance director Alexander P. Sator, Non-executive director Davidi Gilo, Independent Non-executive director Ram Zeevi, Independent Non-executive director Nicola Miglietta, Independent Non-executive director
Company Secretary	Yossi Weinstock
Registered Office	7th Floor, 90 High Holborn, London WC1V 6XX
Nominated Adviser and Broker	Canaccord Genuity Plc 7th Floor, Cardinal Place 80 Victoria Street London SW1E 5JL
Solicitors	Olswang 7th Floor, 90 High Holborn London WC1V 6XX
Independent Auditors	KPMG Audit Plc Chartered Accountants 8 Salisbury Square, London EC4Y 8BB
Registrar	Capita Registrars Limited The Registry 34 Beckenham Road, Beckenham, Kent BR3 4TU

Telit Main Offices Worldwide

Telit Wireless Solutions EMEA

Telit Communications S.p.A.
Via Stazione di Prosecco 5/B
34010 Sgonico, Trieste - Italy
Phone: +39 040 4192 491
Fax: +39 040 4192 383

Via San Nicola da Tolentino n.1/5 , Rome
Phone: + 39 06 4204601
Fax: +39 06 42010930

Telit Wireless Solutions United Kingdom

Regus Building, Lakeside House
1 Furzeground Way
Stockley Park East
Uxbridge UB11 1BD
United Kingdom
Phone: +44 870351 7290
Fax: +44 870351 7291

Telit Wireless Solutions Israel

10 Habarzel Street
Tel Aviv 69710, Israel
Phone: +972 3 7914000
Fax: +972 3 791 4008

Telit Wireless Solutions 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

Telit Wireless Solutions Latin America

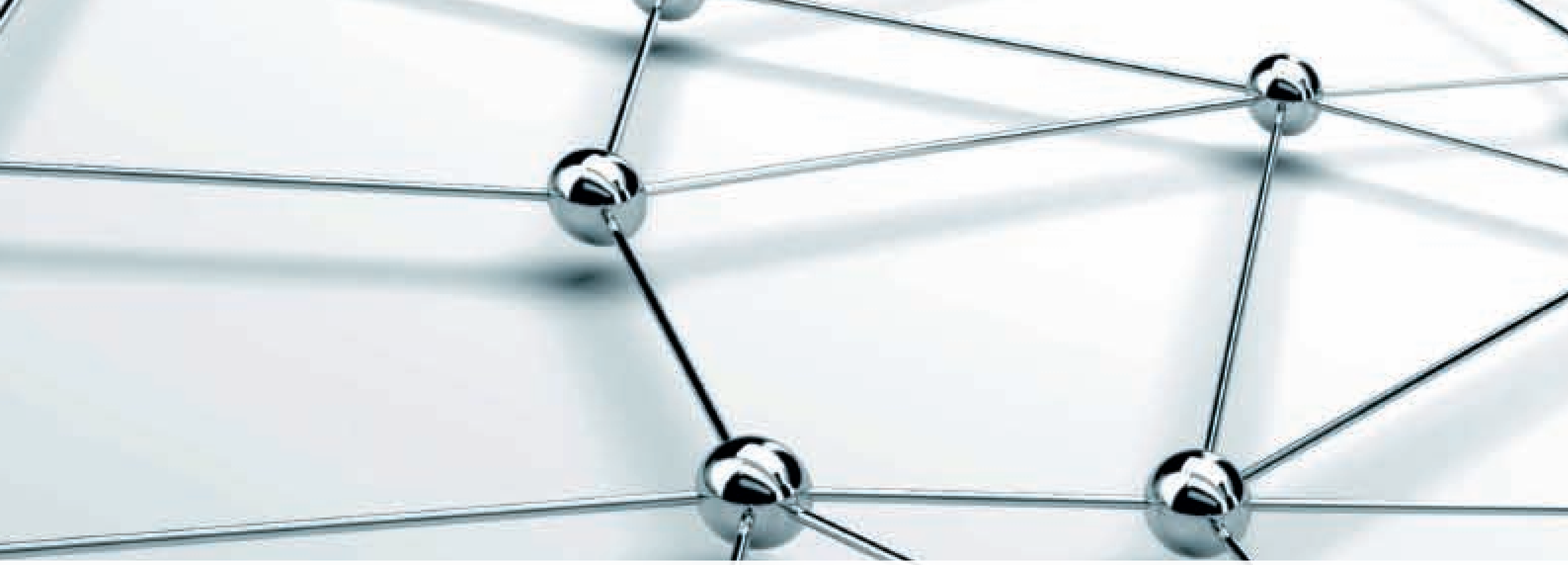
Rua Cunha Gago, 700 - cj 81 Pinheiros
São Paulo - SP, 05421001 Brazil
Phone: +55 11 2679 4654
Fax: +55 11 2679 4654

Telit Wireless Solutions APAC

Telit Wireless Solutions Co., Ltd.
12th Floor, Shinyoung Securities Bld., 34-12,
Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea
Phone: +82 2 368 4600
Fax: +82 2 368 4606

Telit Wireless Solutions for China

Rm. 2106, East Bld. Of Coastal City
No.3, Hai De Avenue
Nanshan, Shenzhen, 518059, China
Phone: +86 755 8627 1598
Fax: +86 755 8627 0217



Telit Communications PLC

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