Telit
Communications PLC

Annual Report 2012

MODULES & SERVICES THAT ENABLE THE INTERNET OF THINGS

m2m modules

m2m services

OBJECT MANAGEMENT

DATA MANAGEMENT

CHARGING & BILLING

REMOTE MODULE MANAGEMENT

Supply Chain & Logistics
Surveillance & Security
Energy Vending & Payment
Wellness & Health
Transportation
Consumer & Wearable Other Innovators

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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/WCDMA, UMTS/HSPA, EVDO, LTE, 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.

Through its m2mAIR service portfolio, Telit provides its customers with managed services, including remote SIM and module management, security, location based services, software update over the air and connectivity.

Telit is listed on AIM (Ticker: TCM).

The m2m market

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 international market for machine to machine 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 into their business as their operations expand and modernise.

The IMS Research (now part of IHS) report on the m2m sector “The World Market for Modules in m2m Communications - 2012 Edition”, predicts that the market will enjoy high growth over the coming years. IMS Research believes that the number of units to be shipped will reach 118.5 million by 2016 representing a 2010-16 CAGR of 24.1%. Beecham Research in its “m2m Cellular Modules Forecast” report issued in July 2012 projects an average selling price decline of 8.9% p.a. resulting in a CAGR of 13.3 % growth in monetary value of the sector from 2010 through 2016 with a total value of m2m module market of $1.96 billion in 2016.

Financial highlights[1]

- Revenue for the year increased by 16.9% to $207.4 million (2011: $177.4 million) largely attributed to sales in the US and EMEA markets.
- Gross profit for the year increased by 13.4% to $76.9 million (2011: $67.8 million) with gross margin of 37.1% (2011: 38.2%).
- Research & Development expenses decreased by $1.0 million to $20.1 million (9.7% of revenues) compared to $21.1 million in 2011 (11.9% of revenues). Sales & marketing expenses increased by $5.2 million to $30.5 million (14.7% of revenues) compared to $25.3 million in 2011 (14.2% of revenues). The increase is mainly due to the Navman acquisition, the set-up of the m2mAIR business unit and the opening of new sales offices. General & administrative expenses increased to $19.7 million (9.5% of revenues) compared to $17.5 million in 2011 (9.9% of revenues).
- Adjusted EBIT increased from $6.9 million in 2011 to $10.6 million.
- Adjusted EBIT for the year increased by 53.1% to $10.6 million (2011: $6.9 million).
- Adjusted Profit before tax for the year increased by 68.7% to $9.6 million (2011: $5.7 million).
- Adjusted Profit for the year increased by 100.8% to $8.9 million (2011: $4.4 million).
- Adjusted basic earnings per share for the year were 8.6 cents compared to 4.5 cents in 2011.
- Net equity increased by 9.2% to $66.4 million (2011: $60.8 million).
- Adjusted EBITDA increased to $17.3 million reflecting an EBITDA margin of 8.4% (2011: $13.1 million; 7.4%).
- Basic earnings per share for the year were 3.8 cents compared to 1.6 cents in 2011.

Operational highlights

- The Group made a number of significant investments in 2012 including the set-up of the m2mAIR business unit, the integration of Navman Wireless OEM Solutions LP and the opening of new sales offices in Australia, Hong Kong, Canada, Russia and the Czech Republic. As a result of these new sales offices, sales and marketing expenditure increased to $30.5 million (2011: $25.3 million). All of these activities are expected to contribute towards Telit's growth in 2013.
- Launch of m2mAIR in 2012, a business unit dedicated to aggregating value to the module business with value added services, including connectivity. This strategic move will enable the Company to add an increasing layer of recurring revenues to its business model during 2013.
- In 2012, the Company entered into an underlying agreement with Telefónica, a top tier telecommunications company, for the purpose of facilitating m2mAIR. m2mAIR offers its customers:
    - Global coverage through the footprint of Telefónica and its roaming partners.
    - Blue-chip customer pricing for mid-size/small customers.
    - High quality m2m service management platform.
    - m2m value added services and connectivity including over the air Remote Module Management.

  According to 2011 Berg Insight market research, 2013 revenues for the market in which m2mAIR operates are expected to be $7.3 billion, growing to $15.5 billion in 2016. These revenues are currently captured by operators and service providers around the world.
- Successful integration of Navman Wireless OEM Solutions LP ("Navman"), a leading designer and manufacturer of location technologies, including the Global Positioning System (GPS) and Global Navigation Satellite System (GNSS). Navman Wireless augmented our location product portfolio and enhances our ability to service the needs of our customers.
- Development of 4G LTE designed for use in the most demanding automotive applications.

[1] For reconciliation from IFRS financial results to adjusted financial results please refer to the table on page 9.

Acquisitions

- 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 has enhanced Telit's location product portfolio.
- Acquisition of CrossBridge Solutions Inc. ("CrossBridge"), a premier US based m2m data and value added services provider located in Lincolnshire, Illinois, USA in December 2012. The acquisition of CrossBridge and its US based engineering and sale staff will allow us to expand Telit m2mAIR business unit offerings in m2m value added services and connectivity to the USA.

Regional Information

The split of revenue on a geographical basis for the years ended 31 December 2012 and 2011 is as follows:

	2012 ($'000)	**% of Total Revenue**	**2011 ($'000)**	**% of Total Revenue**
EMEA	107,076	51.6%	88,861	50.1%
Americas	74,966	36.2%	57,317	32.3%
APAC	25,350	12.2%	31,187	17.6%
Total Revenue	**207,392**	**100%**	**177,365**	**100%**

EMEA

The EMEA results for 2012 epitomize one of the key words defining the m2m market: Diversification.

Telit's strategy is, and has been, not just to focus on a few large projects, but to follow many diverse projects in the m2m market, either directly or through our distribution network. As a result, over the years we have managed to build a very broad customer base, with diverse applications. This is one of the pillars of our success and is designed to lead to stability and long term growth.

The acquisition of Navman at the beginning of 2012 gave us access to the Global Navigation Satellite Systems ("GNSS") market. We successfully integrated Navman's sales network into Telit and the new products have been well received amongst our customers. Navman's growth in revenues has been over 100% in 2012 and we are aiming for the same success in 2013. Our target is to be a leader in GNSS space in the telematics vertical just as we are today for cellular modules.

Another significant milestone for Telit EMEA during last year was the launch of m2mAIR. The take-up of our value added services and connectivity has exceeded our expectations. This is confirmation that our value added proposition corresponds with our customers' needs. It brings them an easy and straightforward way to deploy their projects, allowing them to focus on their core business and relying on Telit for the remote management and connection of their devices in the field. We see 2013 as a phenomenal growth opportunity for m2mAIR, based on number of pilots in place and customers already showing interest in our proposals.

We still see uncertainties in the broader eurozone economy which may not stabilize until 2014 or later. Nevertheless and regardless of the slowdown of the economy in 2012, our strategy during 2012 was to keep investing resources in key markets, including Germany, France and Central Eastern Europe. This strategy has allowed us to strengthen our leadership position in EMEA and is expected to contribute to our growth in the general market during the coming years.

Americas

In 2012, the transition from 2G to 3G/4G technology continued at a rapid pace. The trend away from GPRS to 3G and CDMA was dramatic in North America. For Telit, the 910-form factor was very popular with customers who have multi region and multi carrier requirements. Telit received certification for many variants of the 910-product family on the major US carriers, including HSPA, HSPA+, EV-DO and low-cost 1xRTT products.

Telit became an associate member of Intel's Intelligence Systems Alliance and met new customers in the embedded computing space that provide industrial grade computers for a variety of computing intensive applications, such as gaming machines, medical devices, kiosks and digital signage. With the introduction of the Mini PCI Express card application developers are now able to integrate m2m capabilities into their solutions that need high-performance and cellular connectivity. Moreover, Telit, with Intel as the platinum sponsor, hosted its second Developers Conference in San Diego, Telit DevCon 2012, which connected industry experts with embedded application developers.

During 2012, Telit was involved in several major projects including the following:

- For an industry leading m2m communications solutions provider, which develops end devices, such as cellular routers and modems, Telit provided HE910-D penta-band HSPA+ modules and DE910-DUAL EV-DO CDMA modules to offer faster communication speeds with the newest network technologies.
- A customer which is an innovative global player in Internet of Things, m2m and connected devices and solutions, now uses the low power consumption of Telit's C24, G24L and H24 modules, for fleet and asset tracking applications.
- A leading global provider of innovative and sustainable solutions for the management of waste and recycling now enables connectivity for solar compactors and waste receptacles with Telit's GE864-QUAD V2 module.
- Another customer provides a hand-held device that helps field technicians optimize 3G m2m device installations using Telit's CC864-DUAL, UC864-G and DE910-DUAL modules.
- A leading wireless medical technology company that focuses on the diagnosis and monitoring of cardiac arrhythmias, uses the CC864-DUAL to capture and transmit cardiac data while a patient is ambulatory.
- A developer of ready, off-the-shelf telematics products, selected Telit's HE910 to enable connectivity in their solution for monitoring people, pets, personal belongings and commercial assets. They also selected the HE863 for their next-generation Interface, which monitors vehicle usage and driver behaviour with instant access to fuel levels, idling times, maintenance status and more.
- A customer with innovative out-of-the box remote wireless monitoring solutions, selected Telit's G24 and H24 modules for its product lines, to enable real-time monitoring of a wide range of mobile and fixed industrial assets, such as gas lines, irrigation systems, chemical tanks and automotive fleets.

Telit's acquisition in December 2012 of CrossBridge, a premier US based m2m data and value added services provider located in Lincolnshire, Illinois, allows Telit to expand its m2mAIR business unit offerings to North America. Value added services from m2mAIR combine solutions for module and subscription management with m2m connectivity, delivering business value through enhanced network performance, cost control, security and troubleshooting.

2012 was a standout year for Telit Latin America in terms of sales growth, manufacturing improvements and introduction of new products. The Company gained new important accounts in the Telematics and Metering segments, reinforcing its leadership position in the Latin American market. The sales and backlog grew in units 25% compared to 2011.

Telit concluded the manufacturing migration of its production plant in Brazil to a top quality ISO TS Contracted Manufacturer. This migration ensures a significant manufacturing cost reduction, as well as a production capacity increase. In 2012 the Company successfully introduced its GNSS business with great acceptance from the market. The Company also started innovating in 3G local manufacturing, which is expected to generate important opportunities in new 3G applications.

APAC

In 2012 our business in APAC came under strong price pressure and it was also a year of investments and restructuring. We recruited a new president for the region as well as additional sales force. We also decreased our costs of production, all in order to build the necessary infrastructure for future growth.

In Korea, operators are migrating to LTE technology. Telit, with years of market leadership and experience working with local operators, began the transition of our product offerings. In addition, the Navman acquisition added a brand new portfolio of GPS/GNSS modules to complement our cellular modules to Telematics customers, providing faster time to market and lower cost of development. Both changes offer potential growth to an otherwise mature and stable m2m market.

In China, the largest m2m market in APAC, Telit has once again grown in market segment share. Telit attained leadership in market segment share of m2m cellular modules shipped against all other major foreign brand module suppliers. In addition, Telit was the only foreign branded module supplier that participated in the standard setting committee advising the State Grid Corporation of China on the next generation wireless module standard which will have significant impact on smart meters in China that are going to be deployed in the next few years. Telit's brand and expertise is well recognized among the Chinese industry leaders.

With respect to the rest of APAC, Telit continues to invest in new markets like Australia, New Zealand, and Japan that are ripe for substantial growth. In Australia, Telit opened an office in Melbourne. In Japan, Telit signed distributor agreements and forged business partnership with prominent Japanese customers. Telit will continue to leverage its presence in APAC to provide the highest quality service and product to our regional customers.

Technology & products

Technological innovation is Telit's core capability. Thanks to its six R&D centres the Company was again able, in 2012, to provide outstanding module quality ranging from cellular, to short-range RF and location technologies. The modules are currently integrated in a wide range of applications, including asset tracking, remote industrial monitoring, automated utility meter reading, insurance telematics, consumer electronics, mobile health devices and many more.

In 2012 we expanded our offering based on the (X) E910 form factor. We introduced the CE910 (CDMA-1x) and DE910 (EVDO) products to extend our offering for the CDMA markets. We also introduced new UE910 (UMTS, HSPA) variants to complete our WCDMA offering with additional bands and throughput. To complete the offering we launched the GE910 (GPRS) product and announced the extension of this family to LTE in 2013. This module family, the Telit (X) E910 features a series of wireless modules based on the Land-Grid-Array (LGA) form factor to ensure software and hardware, forward and backward compatibility across technologies, while maintaining the application design and guaranteeing the same form factor and the same software interface through all cellular technologies throughout the product's industrial lifetime.

Another 2012 highlight are the new automotive products based on the new form factor (X)E920. The new HE920 (HSPA) and LE920 (LTE) will be commercialized during 2013 and will expand our offering to the automotive market. We also extended our automotive portfolio with the new GE910 (GPRS) automotive grade variant.

Furthermore, during 2012 we launched a series of new GNSS modules. Our offering now includes the JF2 and JN3 (GPS) products added with the Navman acquisition and the newly launched SL869 (GPS/Glonass) and SE880 (GPS) products.

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 direct and indirect customers and systems integrators in more than 80 countries around the world. Our customers are served both directly or through a global network of more than 50 distributors.

At the end of 2012, Telit employed 519 employees worldwide, an increase of 14.1% (2011: 455).

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/WCDMA, UMTS/HSPA, EVDO, LTE, short range RF and GPS 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. Telit is 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.

CHAIRMAN'S STATEMENT

Enrico Testa, Chairman of the Board

I am pleased to deliver the 2012 results. Our strong competitive position has helped us to achieve significant growth.

Outlook

The outlook for 2013 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 and 2012 together with our new m2mAIR business unit will strengthen our already 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 2013 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.

Board changes

- On July 5, 2012, Mr Steven Sherman and Mr Sergio Luciano Buonanno were appointed to the board as Non-Executive Directors. Mr Buonanno is an Independent Director. Mr Sherman is a member of the remuneration committee of the Board.
- Mr Alexander Sator, Non-Executive Director, resigned from the board as of December 31, 2012.

People

At the end of 2012, Telit employed 519 employees worldwide, an increase of 14.1% (2011: 455). During 2012 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 CrossBridge.

Dividend

The Company is not proposing to pay a dividend in respect of the period (2011: $ nil).

Enrico Testa

Chairman of the Board
15 March 2013

CHIEF EXECUTIVE'S STATEMENT
Oozi Cats, Chief Executive

2012 was the third year in a row of double digit growth for Telit and improvements in absolute profitability. In 2012 we implemented two major steps from our strategic roadmap - the acquisition of Navman that augmented our location product portfolio and enhances our ability to service the needs of our customers, and the launch of m2mAIR, a business unit dedicated to aggregating value to the module business with value added services including connectivity.

Financial Results

	2012 $'000	**2011 $'000**
Revenue	**207,392**	**177,365**
Gross profit	**76,884**	**67,807**
Gross margin	37.1%	38.2%
Other income	1,086	778
Research and development	(20,085)	(21,114)
Selling and marketing	(30,472)	(25,257)
General and administrative	(19,707)	(17,486)
Other expenses[1]	(1,769)	(1,258)
Operating profit	**5,937**	**3,470**
Adjusted EBIT	**10,573**	**6,904**
Adjusted EBITDA	**17,335**	**13,116**
Profit before tax	**4,915**	**2,226**
Adjusted profit before tax	**9,551**	**5,660**
Profit for the year	**3,880**	**1,448**
Adjusted profit for the year[2]	**8,888**	**4,427**

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

	2012 $'000	**2011 $'000**
Operating profit	**5,937**	**3,470**
Share-based payments	1,008	1,356
Non-recurring income	-	(83)
Non-recurring expenses	1,769	1,126
Amortization - intangibles acquired	1,859	1,035
Adjusted EBIT	**10,573**	**6,904**
Depreciation & amortization[3]	6,762	6,212
Adjusted EBITDA	**17,335**	**13,116**
Profit before tax	**4,915**	**2,226**
Share-based payments	1,008	1,356
Non-recurring income	-	(83)
Non-recurring expenses	1,769	1,126
Amortization - intangibles acquired	1,859	1,035
Adjusted profit before tax	**9,551**	**5,660**

[1] See note 5 to the attached Financial Statements.
[2] See note 11 to the attached Financial Statements for reconciliation of profit for the year to adjusted profit for the year.
[3] Excluding intangibles acquired.

Basic and diluted earnings per share for 2012 were 3.8 cents and 3.5 cents respectively for the period compared to 1.6 and 1.4 cents per share in 2011.

Inventory levels as at 31 December 2012 were $21.7 million, compared to $13.7 million as at 31 December 2011. The increase is mainly due to inventory purchase specific to certain products. The 2012 inventory level represents 50 days (2011: 51 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 table below presents the net (debt) / cash position at the year-end:

	2012	**2011**
	$'000	**$'000**
Cash and cash equivalents	21,044	19,781
Restricted cash deposits	365	185
Working capital borrowing (1)	(23,189)	(8,539)
Governmental loan (2)	(6,924)	(6,781)
Mortgage loan (3)	(4,019)	(4,097)
Net (Debt) /Cash	**(12,723)**	**549**

(1) Drawn letters of credit and borrowings arising from invoice advances used for working capital financing. Increase in working capital borrowing is mainly due to the growth of the company and the increase in receivables and inventory.

(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. In December 2012, an additional loan of $975,000, carrying the same terms, was received.

(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 Trieste, Italy. The mortgage is denominated in Euro, attracts interest at a rate of Euribour 6 months less 20% and is repayable in 15 semi-annual instalments that commenced in June 2012.

Employees

The number of employees of the Group on a geographical basis at the end of 2012 and 2011 is as follows:

	2012	2011
EMEA	356	332
Americas	(*)52	30
APAC	111	93
Total Employees	**519**	**455**

(*)Not including 15 employees from the acquisition of CrossBridge who joined Telit at year-end.

Effects of Foreign Exchange

26.8% of Telit's revenue in the period was generated in Euro (2011: 26.3%) Part of the Euro exposure is covered by Telit's operating expenses in Euro. A substantial part of the Group's materials purchase cost was denominated in US dollar during the period.

Integration of Navman Wireless OEM Solutions LP

The acquisition of Navman, which completed on 3 January 2012, strengthened Telit's 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 has made Telit a major contender in the GNSS (Global Navigation Satellite System) market. Our enhanced product portfolio resulting from the acquisition, as well as 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 provided 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.

Acquisition of CrossBridge Solutions Inc.

In December 2012 the Company acquired CrossBridge, a premier US based m2mAIR data and value added services provider located in Lincolnshire, Illinois, USA. The acquisition of CrossBridge and its US based engineering and sales staff will allow us to expand the Telit m2mAIR offerings in m2m value added services and connectivity to the USA, which is expected to contribute to the recurring revenues starting 2013.

Strategy

Having successfully integrated the most recent businesses acquired by Telit (Motorola m2m, GlobalConect, Navman and CrossBridge) into the Company's global organization, and with our significant market share, Telit is confident in its position as a leading global company in the m2m industry. Telit looks forward to continuing toimplement its strategy which is to grow the Company through a three-pronged approach:

- Organically alongside general growth in the m2m industry;
- Via recurring income through our valued added services unit which will leverage the long-standing relationships with our customers; and
- Via appropriate acquisition opportunities to the extent that these become available.

Outlook

The outlook for the rest of 2013 and the future looks positive for the m2m industry and promising for Telit. Our strong position in the m2m market together with our m2mAIR business unit is expected to lead Telit to further growth and further improvement in our financial results.

The hard work and dedication of Telit's staff across the globe is and will continue to be crucial to Telit's success. I would like to thank the Company's management team and 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 Crossbridge into the Telit family.

Telit intends to continue to take advantage of the considerable opportunities arising in this growing global market. 2013 has started well, and I look forward to providing further news of the Group’s progress over the coming months.

Oozi Cats
Chief Executive
15 March 2013

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 and service 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 and service 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. Additionally, Telit may face regulatory hurdles with respect to its products and services which could affect Telit’s ability to supply such products and services or which could expose Telit to liability which could have a material adverse effect on Telit’s business, financial condition or results of operations.

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 and services on a timely basis. Telit cannot give assurances that it will successfully develop new products or enhance and improve its existing products and services, that new products and services and enhanced and improved existing products and services will achieve market acceptance or that the introduction of new products and services or enhancing existing products and services by others will not render Telit's products obsolete. Telit's inability to develop products and services 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. As well, 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 or services 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. Telit is currently involved in certain intellectual property litigation (see note 21 of the Financial Statements attached hereto). In many cases, third party claimants 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.

Board of Directors

Enrico Testa, Executive Chairman of the Board, aged 61
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. Between 2004 and 2009 Mr. Testa was Executive President at Roma Metropolitane S.p.A, Chairman of the Organizing Committee of the 20th World Energy Congress and Senior Partner at Franco Bernabè Group, which owns several companies in the IT sector. In addition between 2004 and August 2012 Mr. Testa was Managing Director of Rothschild S.p.A.

Oozi Cats, Chief Executive, aged 52
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, Deputy CEO, Finance Director and member of the Audit Committee of the Board, aged 52
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.

Davidi Gilo, Independent Non-Executive Director and Chairman of the Remuneration Committee of the Board and Member of the Audit Committee of the Board, aged 56
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 and Zen Research, among others. He is currently the Managing partner of GiloVentures II LP and the CEO of INVeSHARE Inc.

Nicola Miglietta, Independent Non-Executive Director, Chairman of the Audit Committee of the Board and Member of the Remuneration Committee of the Board, aged 45
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 statutory auditors at Impregilo S.p.A. (Italy's leading General Contractor and one of the world's top-ranking construction groups) and First Capital S.p.A., both listed on the Italian Stock Exchange.

Ram Zeevi, Independent Non-Executive Director and Member of the Remuneration Committee and Audit Committee of the Board, aged 50
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. 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 and during this period Mr. Zeevi held a number of chairmanships, largely in high growth technology businesses. From 1992 to 1998, Mr. Zeevi was CEO of Oil Investment Consolidated, Inc. and prior to this he was CEO of Property Investment Inc., a real estate company. Mr. Zeevi is also a Non-Executive Director of R Inc. Green and DoNanza.

Steven Sherman, Non-Executive Director and Member of the Remuneration Committee of the Board, aged 67
Mr Sherman has been, since 1988, the managing member of Sherman Capital Group, a merchant banking organisation with a portfolio of private and public investments. Mr. Sherman is currently Chairman of Purple Wave Inc. Mr. Sherman's former directorships include the following: Co-founder, Chairman and CEO of Novatel Wireless, Inc.; Chairman of Airlink Communications, Inc.; founder of Vodavi Communications Systems Inc. where he served as Chairman and CEO; Chairman of Executone Information Systems; and a director of Inter-Tel (Delaware) Incorporated. Mr. Sherman was also founder, Chairman and CEO of Main Street and Main Inc., the world's largest franchisee of T.G.I. Friday's Restaurants.

Sergio Luciano Buonanno, Independent Non-Executive Director, aged 42
Mr. Sergio Luciano Buonanno, is Managing Director at Idea Capital Funds SGR S.p.A. Previously, Mr. Buonanno worked for the Enel Group for ten years where he held various positions, including Head of Organisational Development. Mr. Buonanno obtained a PhD degree in Electrical Engineering from Politecnico di Milano. He is also a director of Domotecnica S.p.A. and Elemaster S.p.A. He is a member of the VC Committee at AIFI, the Italian private equity and venture capital association.

Corporate Governance

Directors

The Board of Directors comprises three executive directors, four 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 independent non-executive directors and Yosi Fait, the Finance Director, and meets periodically. 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, Ram Zeevi and Steven Sherman, 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 meetings of the Board.

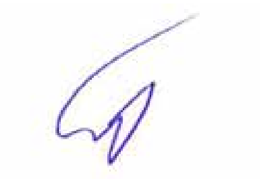
Directors share dealings

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 or 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 per cent 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
15 March 2013

Report on Directors' Remuneration

This Report has been approved by the Board together with the financial statements for the year ended 31 December, 2012.
The remuneration committee is chaired by Davidi Gilo and also comprises Nicola Miglietta, Ram Zeevi and Steven Sherman.

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 who is entitled to post-employment benefits including pension fund benefits according to his 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 (and in certain cases other) 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. Mr. Cats is entitled to an annual bonus equal to 5% of the Company’s Adjusted EBITDA.

Yosi Fait was appointed as the Finance Director on 21 June 2011 and as the Deputy CEO as of 1 July 2012, subject to such terms as provided in an agreement between him and the Company. Pursuant to such agreement, Mr. Fait was also appointed as a director of a number of the Company’s subsidiaries, and Mr. Fait agreed to provide up to 160 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, 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 2012 for the directors who held office during the year were as follows:

	Salary and fees	**Benefit in kind**	**Bonus**	**Post-employment benefits**	**Total 2012**	**Total 2011**
	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors						
Enrico Testa[3]	258	-	257	-	515	572
Oozi Cats	1,140	184	1,524	131	2,979	3,357
Yosi Fait[4]	363	-	-	-	363	162
Yariv Dafna[2]	-	-	-	-	-	281
Non-executive directors						
Andrea Mandel-Mantello[2]	-	-	-	-	-	22
Amir Scharf [2]	-	-	-	-	-	22
Alexander P. Sator[5]	52	-	-	-	52	56
Nicola Miglietta	51	-	-	-	51	34
Davidi Gilo	51	-	-	-	51	34
Ram Zeevi[6]	51	-	-	-	51	39
Sergio Buonanno[1,7]	25	-	-	-	25	-
Steven Sherman[1]	26	-	-	-	26	-
Total - 2012	**2,017**	**184**	**1,781**	**131**	**4,113**	-
Total - 2011	**1,870**	**193**	**2,309**	**207**	**-**	**4,579**

[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. Sator are paid directly to Sapfi Kapital Management GmbH, a company under his control.

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

[7] Amounts in respect of the services of Mr. Buonanno are paid directly to IDEA Capital Funds S.G.R. S.P.A.

Directors' Interests in Shares

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

	At 31 December 2012		At 31 December 2011	
Directors	**Number of ordinary shares**	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Oozi Cats[1]	20,330,357	19.68	20,280,357	19.75
Enrico Testa[2]	20,330,357	19.68	20,280,357	19.75
Yosi Fait	165,000	0.16	165,000	0.16
Alexander P. Sator[3]	4,965,742	4.81	4,704,742	4.58
Nicola Miglietta	20,000	0.02	20,000	0.02
Davidi Gilo	nil	-	nil	-
Ram Zeevi	nil	-	nil	-
Steven Sherman[4 5]	4,128,578	4.00	-	-
Sergio Buonanno[4]	nil	-	-	-

[1] Mr. Cats directly holds 3,480,357 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. (known as GT Srl from February 2013) 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 4,965,742 shares and is therefore considered as having an interest in these shares.

[4] Appointed as a director on July 5, 2012.

[5] Mr. Sherman is Managing Director of Sherman Capital Group which holds 4,128,578 shares and is 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	333,334	166,666
	1 April 2011	520,000	0.81	173,333	346,667
Total		**2,020,000**		**1,506,667**	**513,333**
Oozi Cats	29 January 2009	2,000,000	0.20	2,000,000	-
	30 June 2010	1,100,000	0.32	733,334	366,666
	1 April 2011	1,952,000	0.81	650,667	1,301,333
Total		**5,052,000**		**3,384,001**	**1,667,999**
Yosi Fait	29 January 2009[1]	50,000	0.20	50,000	-
	25 May 2010[1]	50,000	0.25	33,334	16,666
	19 September 2011[2]	150,000	0.80	50,000	100,000
	26 March 2012[2]	150,000	0.80	50,000	100,000
Total		**400,000**		**183,334**	**216,666**

[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 had 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, vesting from the same date, 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. Mr. Fait received such additional 150,000 options on March 26, 2012. 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.

Options typically vest in 3 equal instalments beginning one year following the date of grant and expiring 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 2012 is $564,000 (2011: $717,000).

The highest and lowest closing prices of the Company's shares on AIM during 2012 were 65p (14 September 2012) and 43.75p (10 February 2012).The Company's share price as of 31 December 2012 was 54p.

Arrangements relating to shares held by Boostt B.V.

Boostt is interested in 20,330,357 Ordinary shares in the Company, representing approximately 19.68 per cent of the Company's issued share capital as of 31 December 2012. With respect to certain liens held over ordinary shares ("Shares") of the Company owned by Boostt the Company has been informed as follows:

- 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. As of February 25, 2013 all 6 million of such charges have been eliminated from the shares.
- 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. The Third Party Lender had a charge on 9.6 million Shares held by Boost which has subsequently been released in relation to 3 million Shares.
- 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 20,330,357 Shares in which Boostt is interested, 6.6 million Shares are charged in favour of the Third Party Lender (the "Pledged Shares"). Under the terms of the charge, title to the Pledged Shares can be transferred to the Third Party Lender following the occurrence of certain events including but not limited to a default event on the financing provided by the Third Party Lender.

The Pledged Shares represent approximately 6.38 per cent of the Company's issued share capital as at the report date.

By order of the Remuneration Committee

Davidi Gilo
Chairman of the Remuneration Committee
15 March 2013

Directors' Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2012.

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 one of the three largest companies in the m2m module business worldwide in terms of market share. Through its m2mAIR service portfolio, Telit provides its customers with managed services, including remote SIM and module management, security, location based services, software update over the air and connectivity.

Telit's core strengths are innovative products, complete control over its core 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, and liquidity and future developments is given within the Chief Executive's statement on pages 9 to 12, together with a review of the Group's principal risks and uncertainties on pages 13 to 15.

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 $20.1 million were expensed in the year, compared to $21.1 million in 2011. Internally-generated intangible assets arising from development costs capitalized amounted to $7.7 million compared to $3.7 million in 2011.

Use of Financial Instruments

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

Donations

The Group made $39,000 charitable donations during the year ended 31 December 2012 (2011: $100,000).

Dividends

The Company is not proposing to pay a dividend in respect of the period (2011: $ nil).

Significant shareholders

	At 31 December 2012		**At 31 December 2011**	
	Number of ordinary shares	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Boostt[1]	15,600,000	15.10	15,600,000	15.19
Techvisory SA[2]	1,250,000	1.21	1,250,000	1.22
Oozi Cats[3]	3,480,357	3.37	3,430,357	3.34
Idea Capital	9,375,000	9.08	9,375,000	9.13
Algebris Investments (UK)	9,337,500	9.04	20,662,500	20.12
Morgan Stanley	8,725,000	8.45	-	-
Herald Investment Management	5,381,250	5.21	5,381,250	5.24
Sapfi Kapital Management GmbH[4]	4,965,742	4.81	4,704,742	4.58
Kairos Partners	4,785,000	4.63	1,750,000	1.70
Greylock Partners	4,375,000	4.24	4,375,000	4.26
Sherman Capital Group[5]	4,128,578	4.00	4,153,578	4.05
360 Capital One	3,607,500	3.49	3,607,500	3.51

[1] Mr. Cats and Mr. Testa and Techvisory (as defined below) 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.(together "Techvisory") Mr. Cats and Mr. Testa are deemed to be interested in all holdings of Techvisory SA (known as GT Srl from February 2013) 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.

[5] Mr. Sherman is deemed to be interested in all holdings of this company.

Directors

The directors who held office during the year were as follows:

Enrico Testa
Oozi Cats
Yosi Fait
Alexander P. Sator (resigned on 31 December 2012)
Ram Zeevi
Davidi Gilo
Nicola Miglietta
Steven Sherman (appointed on 5 July 2012)
Sergio Luciano Buonanno (appointed on 5 July 2012)

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 which were replaced with an updated version in 2012 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 2012, calculated in accordance with the requirements of the Companies Act 2006, were 75 days (2011: 66 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

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each 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
Financial Director
15 March 2013

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 2012 set out on pages 31 to 87. 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 28, 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 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 Financial Reporting Council’s website at www.frc.org.uk/auditscopeukprivate

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 2012 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, Chartered Accountants and Statutory Auditor
8 Salisbury Square, London EC4Y 8BB
15 March 2013

Telit Communications PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	2,3	207,392	177,365
Cost of sales		(130,508)	(109,558)
Gross profit		76,884	67,807
Other operating income	4	1,086	778
Research and development expenses		(20,085)	(21,114)
Selling and marketing expenses		(30,472)	(25,257)
General and administrative expenses		(19,707)	(17,486)
Other operating expenses	5	(1,769)	(1,258)
Operating profit	10	5,937	3,470
Investment income	6	250	507
Finance costs	7	(1,272)	(1,751)
Profit before income taxes		4,915	2,226
Tax expense	8	(1,035)	(778)
Profit for the year		3,880	1,448
Other comprehensive income/ (loss)			
Foreign currency translation differences		479	(1,802)
Total comprehensive income/ (loss) for the year		4,359	(354)
Profit/(loss) attributable to:			
Owners of the Company		3,914	1,564
Non-controlling interest		(34)	(116)
Profit for the year		3,880	1,448
Total comprehensive income/ (loss) attributable to:			
Owners of the Company		4,424	(244)
Non-controlling interest		(65)	(110)
Total comprehensive income/ (loss) for the year		4,359	(354)
Basic profit per share (in USD cents)	11	3.8	1.6
Diluted profit per share (in USD cents)	11	3.5	1.4
Basic weighted average number of equity shares	11	102,968,936	98,294,356
Diluted weighted average number of equity shares	11	112,265,553	108,356,180

Telit Communications PLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
ASSETS					
Non-current assets					
Intangible assets	12	35,659	22,588	6,891	6,760
Property, plant and equipment	13	13,588	12,557	13	21
Investments in subsidiaries	14	-	-	83,976	63,052
Other long term assets	16	568	732	18	11
Deferred tax asset	8	3,840	4,190	-	-
		53,655	40,067	90,898	69,844
Current assets					
Inventories	15	21,659	13,688	29	-
Trade receivables	16	56,502	39,834	1,109	652
Other current assets	16	8,845	7,488	9,616	6,655
Deposits – restricted cash	17	365	185	296	83
Cash and cash equivalents	17	21,044	19,781	4,418	5,646
		108,415	80,976	15,468	13,036
Total assets		162,070	121,043	106,366	82,880
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	18	1,781	1,772	1,781	1,772
Share premium account		78,429	78,198	78,429	78,198
Other reserve		(2,993)	(2,993)	8,606	8,388
Merger reserve	18	1,235	1,235	1,235	1,235
Translation reserve		(4,967)	(5,477)	2,107	1,830
Retained earnings		(7,494)	(12,416)	(20,744)	(15,332)
Equity attributable to owners of the Company		65,991	60,319	71,414	76,091
Non- controlling interest		422	487	-	-
Total equity		66,413	60,806	71,414	76,091
Non-current liabilities					
Other loans	26	9,839	10,311	-	518
Post-employment benefits	19	3,671	2,828	-	-
Deferred tax liabilities	8	33	45	-	-
Provisions	23	1,728	2,134	-	-
Other long-term liabilities	24	3,372	478	2,864	200
		18,643	15,796	2,864	718
Current liabilities					
Short-term borrowings from banks and other lenders	26	24,293	9,106	-	129
Trade payables	20	38,883	25,496	569	173
Provisions	23	2,254	1,329	-	-
Other current liabilities	20	11,584	8,510	31,519	5,769
		77,014	44,441	32,088	6,071
Total equity and liabilities		162,070	121,043	106,366	82,880

The financial statements on pages 31 to 87 were approved by the board and authorized for issuance on 15 March 2013 and are signed on its behalf by: Oozi Cats, Director

Company number: 05300693

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
CASH FLOWS - OPERATING ACTIVITIES				
Profit/(loss) for the year	3,880	1,448	(6,202)	(4,378)
Adjustments for:				
Depreciation of property, plant and equipment	2,315	2,211	9	6
Amortization of intangible assets	6,306	5,036	1,375	1,177
Gain on disposal of associated undertaking	-	(83)	-	-
Change in fair value of earn-out	(85)	-	-	-
Loss /(gain) on sale of property, plant and equipment	312	(10)	-	-
Impairment losses on intangible assets	-	132	-	-
Impairment of investments in subsidiaries	-	-	1,500	1,821
Change in deferred taxes, net	432	(673)	-	-
Increase / (decrease) in provision for post-employment benefits	722	(17)	-	-
Finance costs, net (1)	1,022	1,244	(823)	1,777
Tax expenses (1)	1,035	778	-	-
Fair value of preferential mortgage rate loan	-	(528)	-	-
Share-based payment charge	1,008	1,356	789	1,020
Operating cash flows before movements in working capital:	16,947	10,894	(3,352)	1,423
(Increase)/decrease in trade and other receivables	(14,361)	(998)	(429)	86
Increase in other current assets	(1,368)	(1,995)	(2,885)	(3,646)
(Increase) /decrease in inventories	(7,222)	5,997	(29)	-
Increase/(decrease) in trade payables	12,061	4,066	388	(83)
Increase/(decrease) in other current liabilities (1)	1,192	(1,134)	5,420	(3,326)
increase /(decrease) in provisions and other long term liabilities	(751)	55	(94)	-
Cash from/(used in) operations	6,498	16,885	(981)	(5,546)
Income tax paid (1)	(374)	(1,035)	-	-
Interest received	72	469	6	56
Interest paid	(801)	(954)	(12)	-
Net cash from/(used in) operating activities	5,395	15,365	(987)	(5,490)
CASH FLOWS - INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(3,411)	(10,067)	-	(19)
Acquisition of intangible assets	(3,064)	(1,604)	(1,212)	(119)
Proceeds from disposal of property, plant and equipment	68	101	-	-
Capitalized development expenditure	(7,664)	(3,669)	-	-
Acquisition of subsidiaries, net of cash acquired	(5,303)	(23,423)	(2,600)	(712)
Additional investment in subsidiary	-	-	(16)	(1,103)
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	-	-	(856)	(28,035)
Repayment of loans from subsidiaries	-	-	5,000	10,685
(Increase)/ decrease in restricted cash deposits	(218)	856	-	(83)
Net cash (used in)/from investing activities	(19,592)	(37,298)	316	(18,789)

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
CASH FLOWS - FINANCING ACTIVITIES				
Proceeds from the issuance of share capital	-	29,292	-	29,292
Proceeds from exercise of options	240	317	240	317
Short-term borrowings from banks and others	15,696	(4,329)	-	-
Proceeds from other loans	1,258	5,354	-	680
Repayment of other loans	(1,753)	(1,504)	(619)	-
Net cash from/(used in) financing activities	15,441	29,130	(379)	30,289
Increase/(decrease) in cash and cash equivalents	1,244	7,197	(1,050)	6,010
Cash and cash equivalents - balance at beginning of year	19,781	13,521	5,646	499
Effect of exchange rate differences	19	(937)	(178)	(863)
Cash and cash equivalents - balance at end of year	21,044	19,781	4,418	5,646

(1) The Company has re-presented the tax expenses and the net finance expenses costs in the 2011 cash flow statement so it provides better information on the cash flow involved in income tax as presented in the income statement and net finance cost. In the revised presentation, movement in deferred taxes, tax paid in cash and net finance cost paid, 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 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.
b. During 2012 a loan to subsidiary in the amount of $250,000 was converted to equity.
c. In January, 2012 the Company purchased all of the shares in Telit SPA from the Company's subsidiary Telit SRL for the book value amount of $20.5 million which remains on the books of the Company.

Telit Communications PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Year ended 31 December 2012

	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 2012	1,772	78,198	1,235	(2,993)	(5,477)	(12,416)	60,319	487	60,806
Total comprehensive income/(loss) for the year									
Profit /(loss) for the year	-	-	-	-	-	3,914	3,914	(34)	3,880
Foreign currency translation differences	-	-	-	-	510	-	510	(31)	479
Total comprehensive income/(loss)	-	-	-	-	510	3,914	4,424	(65)	4,359
Transactions with owners:									
Exercise of options	9	231	-	-	-	-	240	-	240
Share-based payment charge	-	-	-	-	-	1,008	1,008	-	1,008
Total transactions with owners	9	231	-	-	-	1,008	1,248	-	1,248
Balance at 31 December 2012	1,781	78,429	1,235	(2,993)	(4,967)	(7,494)	65,991	422	66,413

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 (Loss) / income	-	-	-	-	(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 2012

	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 2012	1,772	78,198	1,235	8,388	1,830	(15,332)	76,091
Total comprehensive income /(loss) for the year							
Loss for the year	-	-	-	-	-	(6,202)	(6,202)
Foreign currency translation differences	-	-	-	-	277	-	277
Total comprehensive income/ (loss)	-	-	-	-	277	(6,202)	(5,925)
Transactions with owners							
Exercise of options	9	231	-	-	-	-	240
Share-based payment charge	-	-	-	-	-	790	790
Capital contribution	-	-	-	218	-	-	218
Total transactions with owners	9	231	-	218	-	790	1,248
Balance at 31 December 2012	1,781	78,429	1,235	8,606	2,107	(20,744)	71,414

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 income/ (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

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 9 to 12. In addition notes 16, 24, 26 and 27 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 long-term preferential rate loans supported by the Ministry of Trade and Commerce in Italy. Further information is provided within note 26. 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 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 :	
2012	1.3194
2011	1.2939
Average for the year ended 31 December:	
2012	1.2848
2011	1.3920

(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 a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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, directs 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 cost less impairment.
A gain or losses 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 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 24 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 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.

2. REVENUE

	Group 2012 $'000	Group 2011 $'000
Sales of goods	205,827	176,179
Services income	1,565	1,186
	207,392	177,365

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 2012 and 31 December 2011 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:

2012

	EMEA $'000	APAC $'000	Americas $'000	Total $'000	Eliminations $'000	Consolidated $'000
Revenue						
External sales	107,076	25,350	74,966	207,392	-	207,392
Inter-segment sales [(1)]	62,977	7,848	1,085	71,910	(71,910)	-
Total revenue	170,053	33,198	76,051	279,302	(71,910)	207,392
Result						
Segment result	4,739	4,093	2,138	10,970	-	10,970
Unallocated corporate expenses [(2)]						(5,033)
Operating profit						5,937
Investment income						250
Finance costs						(1,272)
Profit before income taxes						4,915
Income taxes						(1,035)
Profit for the year						3,880

3. SEGMENTAL ANALYSIS (continued)

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						507
Finance costs						(1,751)
Profit before income taxes						2,226
Income taxes						(778)
Profit for the year						1,448

(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.

	2012	2011
	$'000	$'000
Total assets:		
EMEA	100,370	71,824
APAC	12,596	11,714
Americas	26,986	17,372
Unallocated assets	22,118	20,133
Total assets	162,070	121,043
Total liabilities:		
EMEA	51,028	32,653
APAC	6,258	5,056
Americas	3,392	2,519
Unallocated liabilities	34,979	20,009
Total liabilities	95,657	60,237

Unallocated assets comprise:

	2012	2011
	$'000	$'000
Other debtors in respect of general entity and head office purposes	709	167
Deposits - restricted cash	365	185
Cash and cash equivalents	21,044	19,781
Unallocated assets	22,118	20,133

3. SEGMENTAL ANALYSIS (continued)

Unallocated liabilities comprise:

	2012	2011
	$'000	$'000
Other loans	9,839	10,311
Short-term borrowings from banks and other lenders	24,293	9,106
Other current liabilities in respect of general entity and head office purposes	847	592
Unallocated liabilities	34,979	20,009

2012

	EMEA	APAC	Americas	Consolidated
	$'000	$'000	$'000	$'000
Other segment items:				
Capitalized tangible and intangible asset additions	10,177	2,420	9,021	21,618
Non-cash items:				
Depreciation and amortization	6,967	888	766	8,621
Bad debt expense	197	49	32	278
Share-based payments	935	27	46	1,008

2011

	EMEA	APAC	Americas	Consolidated
	$'000	$'000	$'000	$'000
Other segment items:				
Capitalized tangible and intangible asset additions	26,054	572	575	27,201
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

4. OTHER OPERATING INCOME

	2012	2011
	$'000	$'000
Change in fair value of earn out (a)	85	-
Gain from increase of investment value (b)	-	83
Governmental grants (c)	960	628
Other	41	67
	1,086	778

(a) Represents the change in the fair value of the contingent consideration related to the acquisition of GlobalConect LTD in 2011 (see note 24).

(b) 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.

(c) The Group's eligibility for the annual programs for 2012 and 2011 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 2012 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

5. OTHER OPERATING EXPENSES

	2012	2011
	$'000	$'000
Provision in the year	726	-
Loss on sale of assets	312	134
Integration and transaction costs	486	1,096
Others	245	28
	1,769	1,258

6. INVESTMENT INCOME

	2012	2011
	$'000	$'000
Exchange rate differences, net	178	-
Interest income from bank deposits	72	507
	250	507

7. FINANCE COSTS

	2012	2011
	$'000	$'000
Interest expense on factoring arrangements	-	89
Interest expense on bank loans and overdrafts	842	699
Exchange rate differences, net	-	428
Other bank expenses	430	535
	1,272	1,751

8. INCOME TAXES

A. Tax recognised in statement of comprehensive income

	2012	2011
	$'000	$'000
Current year taxes	781	851
Prior year taxes	(182)	600
Deferred taxes	436	(673)
Tax expense	1,035	778

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 24.5% for 2012 and 26.5% for 2011, and the Group's total tax expense for the year:

	2012	2011
	$'000	$'000
Profit before income tax from continuing operations	4,915	2,226
Tax charge computed at 24.5% (2011: 26.5%)	(1,204)	(590)
Tax adjustments arising from:		
Non-deductible expenses	(535)	(199)
Deferred tax assets recognized and other timing differences, net	(1,196)	(1,224)
Utilization of deferred tax asset previously recognised	-	(392)
Recognition of previously unrecognised tax losses	-	547
Effect of tax rates in foreign jurisdictions	(347)	(273)
Utilization of carry forward losses for which no deferred tax was recorded	2,065	1,953
Tax for previous years	182	(600)
Tax expense	(1,035)	(778)

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

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

8. INCOME TAXES (continued)

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 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 1 January 2012	3,785	360	4,145
Translation adjustments	60	34	94
Credit to the statement of comprehensive income	(524)	92	(432)
At 31 December 2012	3,321	486	3,807

In the year ended 31 December 2012, the Group has recognised deferred tax assets of $3,266,000, $500,000, $23,000 and $18,000 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:

	2012	2011
	$'000	$'000
Losses for which a deferred tax asset is recognised	11,680	11,763
Losses for which no deferred tax asset is recognised	44,992	39,495
	56,672	51,258

The losses for which no deferred tax asset has been recognized primarily relates to our Italian and UK entities.

The Group has recognised deferred tax assets to the extent that it is probable that these will be utilised in future periods.

8. INCOME TAXES (continued)

The Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.
It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

9. EMPLOYEES

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

	2012	2011
Research and development	251	212
Sales, marketing and operation	142	137
General and administration	81	63
	474	412

Their aggregate remuneration comprised:

	2012	2011
	$'000	$'000
Wages and salaries	32,978	28,084
Social security costs	4,664	5,062
Other pension costs	2,346	1,899
	39,988	35,045

10. PROFIT FOR THE YEAR AND GROUP AUDIT FEE

Operating profit for the year is stated after charging / (crediting)

	2012	2011
	$'000	$'000
Net foreign exchange (gain) / loss	(178)	428
Depreciation of owned fixed assets (note 13)	2,315	2,211
Amortization of intangible assets (note 12):		
Amortization of purchased customer list – included in selling and marketing expenses	627	478
Amortization of acquired technology – included in R&D expenses	899	284
Amortization of software – included mainly in R&D expenses	1,892	1,557
Amortization of Internally generated development costs – included mainly in R&D expenses	2,888	2,717
Impairment loss / (recovery) on investment classified as held for sale	-	(83)
Research and development expenditure	20,085	21,114
Costs of inventories recognised as an expense	127,577	107,536
Write-downs of inventories recognised as an expense (income)	270	73

10. PROFIT FOR THE YEAR AND GROUP AUDIT FEE (continued)

Audit fee

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	200	190	200	190
Fees payable to the Company's auditor and their associates for other services to the Group:	33	80	5	66
The audit of the Company's subsidiaries pursuant to legislation:	173	310	-	-
Total audit fees	406	580	205	256
Other services relating to taxation	19	67	-	13
Total fees	425	647	205	269

11. PROFIT PER SHARE

Basic profit per share

	2012	**2011**
	$'000	**$'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	3,914	1,564
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares(1)	102,968,936	98,294,356
Diluted weighted average number of equity shares (2)	112,265,553	108,356,180
Basic profit per share (in US dollar cents)	3.8	1.6
Diluted profit per share (in US dollar cents)	3.5	1.4
Adjusted basic profit per share (in USD cents)	8.6	4.5
Adjusted diluted profit per share (in USD cents)	7.9	4.1

(1) Basic weighted average number of equity shares:

11. PROFIT PER SHARE (continued)

	2012	2011
	No. of Shares	No. of Shares
Issued ordinary shares at 1 January	102,678,769	77,169,734
Effect of share options exercised	290,167	602,242
Effect of shares issued related to a business acquired	-	379,178
Effect of shares issued in February 2011	-	20,143,202
Basic weighted average number of equity shares at 31 December	102,968,936	98,294,356

(2) Diluted weighted average number of equity shares:

	2012	2011
	No. of Shares	No. of Shares
Basic weighted average number of equity shares	102,968,936	98,294,356
Effect of share options on issue	9,296,617	10,061,824
Diluted weighted average number of equity shares at 31 December	112,265,553	108,356,180

At 31 December 2012 4,684,000 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.

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:

	2012	2011
	$'000	$'000
Profit for the year	3,880	1,448
Loss attributable to non-controlling interest	34	116
Profit for the year attributable to the owners of the Company	3,914	1,564
Share-based payments	1,008	1,356
Amortization of intangibles acquired	1,859	1,035
Other non-recurring expenses	1,769	1,126
Other non-recurring income	-	(83)
Change in deferred taxes, net	338	(571)
Adjusted profit for the year attributable to the equity shareholders	8,888	4,427

12. INTANGIBLE FIXED ASSETS

	Intangible assets with finite life					
GROUP	**Software and licenses**	**Internally generated development costs**	**Customer relationships**	**Acquired technology**	**Goodwill**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
COST						
1 January 2011	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
Additions	3,064	7,664	-	-	-	10,728
Acquisitions through business combinations	-	-	1,178	627	-	1,805
Arising from acquisitions	750	-	2,347	1,037	3,333	7,467
Translation adjustments	226	526	-	57	250	1,059
31 December 2012	12,494	21,564	8,012	4,220	12,247	58,537
AMORTIZATION						
1 January 2011	(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)
Charge for the year	(1,559)	(2,888)	-	-	-	(4,447)
Acquisitions through business combinations	-	-	(670)	(537)	-	(1,207)
Arising from acquisitions	(333)	-	(627)	(899)	-	(1,859)
Translation adjustments	(173)	(258)	5	(49)	-	(475)
31 December 2012	(7,807)	(8,934)	(3,363)	(2,774)	-	(22,878)
Net book value						
31 December 2012	4,687	12,630	4,649	1,446	12,247	35,659
31 December 2011	2,712	7,586	2,416	1,210	8,664	22,588

A. The impairment charge of internally generated development costs, net in 2011, in the amount of $132,000 is included in R&D expenses.

B. 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 acquisition of Navman and CrossBrige in 2012 (included within the Americas geographical segment).

The amount of goodwill attributable to the APAC segment is $3,404,000 (2011: $3,161,000), to the EMEA segment is $5,510,000 (2011: $5,503,000) and to the Americas segment is $3,333,000 (2011: nil). The amount of customer relationships and acquired technology attributable to the EMEA segment is $2,719,000 (2011: $3,626,000) and to the Americas segment is $3,376,000 (2011: nil).

12. INTANGIBLE FIXED ASSETS (continued)

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

D. 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 Navman and CrossBridge.

Other than the goodwill arising on acquisitions made during the year, management considers the product line developed by Telit APAC and Telit RF, the customer base that was purchased from “Motorola” and the m2mAIR business unit (collectively, “business units”) to be the cash generating units (CGU) 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 the business units 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 10% per year.

The main assumption for each CGU is sales growth which is based on recent history and expectations of future changes in the market. The discount rate applied to the cash flow forecasts for each CGU is based on the long term bond yields adjusted for a country and risk premium. The discount pre tax rate applied was 14% for Telit APAC, 20% for Crossbridge and 15% for all other CGUs.

In developing its projections, management has taken into account its past experience as well as 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 conservative growth rate of 10% 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
The management has performed sensitivity analyses which assumes lower growth rate applied to the revenue forecasts of the CGUs and different discount rates. Based on such 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)

E. On 3 January 2012 the Company consummated, by subsidiary in the US, 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 approximately $3.038 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.

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

	Fair value
	$'000
Cash	3
Accounts Receivables	1,141
Inventory, net	485
Prepaid Expenses	13
Tangible assets, net	72
Technology	1,127
Customer relationships	474
Accounts Payables	(671)
Other Payables	(283)
Total identifiable assets	(2,361)
Consideration paid	3,038
Contingent consideration	418
Excess of cost - goodwill	1,095

The contingent consideration represents the fair value of an earn-out of $418,000 at the acquisition date.

The goodwill is attributable mainly to the skills and experience in the connectivity market of Navman's founders, and the synergies expected to be achieved from developing the value added services business.
The goodwill recognised is deductible for income tax purposes

In the year from the acquisition date to 31 December 2012 the activity that was purchased from Navman was integrated into the Telit Group and therefore the Company cannot estimate the impact of Navman, by itself, on the consolidated results.

12. INTANGIBLE FIXED ASSETS (continued)

COMPANY	Trademark $'000	Software $'000	Total $'000
COST			
1 January 2011	9,167	-	9,167
Additions	-	119	119
Translation adjustments	(20)	(4)	(24)
31 December 2011	9,147	115	9,262
Additions	-	1,212	1,212
Translation adjustments	400	30	430
31 December 2012	9,547	1,357	10,904
AMORTIZATION			
1 January 2011	(1,368)	-	(1,368)
Charge for the year	(1,177)	-	(1,177)
Translation adjustments	43	-	43
31 December 2011	(2,502)	-	(2,502)
Charge for the year	(1,170)	(205)	(1,375)
Translation adjustments	(132)	(4)	(136)
31 December 2012	(3,804)	(209)	(4,013)
Net book value			
31 December 2012	5,743	1,148	6,891
31 December 2011	6,645	115	6,760

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 2011	-	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
Additions	-	748	1,945	315	403	3,411
Acquisitions through business combinations	-	35	235	-	-	270
Disposals	-	(18)	(431)	-	(613)	(1,062)
Translation adjustments	136	6	272	-	13	427
31 December 2012	7,014	4,147	14,265	485	681	26,592
DEPRECIATION						
1 January 2011	-	(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)
Charge for the year	(175)	(659)	(1,362)	(47)	(72)	(2,315)
Acquisitions through business combinations	-	(15)	(83)	-	-	(98)
Disposals	-	16	252	-	414	682
Translation adjustments	(5)	(31)	(240)	-	(8)	(284)
31 December 2012	(210)	(2,416)	(10,177)	(71)	(130)	(13,004)
Net book value						
31 December 2012	6,804	1,731	4,088	414	551	13,588
31 December 2011	6,848	1,649	3,500	146	414	12,557

(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 and 2012 is 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 26.

At 31 December 2012 properties and equipment with a carrying amount of $3,156,000 (2011: $2,214,000) are subject to a floating charge to secure credit lines provided to subsidiaries.

14. INVESTMENTS IN SUBSIDIARIES

COMPANY	Loans to subsidiaries	Investments in subsidiaries	Total
	$'000	$'000	$'000
Investment in subsidiaries			
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 (5)	-	(1,821)	(1,821)
1 January 2012	23,976	39,076	63,052
Additions (1,2)	856	26,271	27,127
Additions - subsidiaries share-based payment charge (1)	-	218	218
Repayments (3)	(5,000)	-	(5,000)
Loan converted to equity	(250)	250	-
Translation adjustments	79	-	79
Provision for impairment (5)	-	(1,500)	(1,500)
31 December 2012	19,661	64,315	83,976

(1) In January, 2012 the Company purchased all the shares in Telit SPA from the Company's subsidiary Telit SRL for the book value amount of $20.5 million which amount remains on the books of the Company. At the end of 2012 the company acquired 100% of the shares of CrossBridge Solutions Inc., a premier US based m2m data and value added services provider located in Lincolnshire, Illinois, U.S.A, for $3million in cash. The amount is subject to an additional earn-out amount of up to $6 million subject to certain conditions (fair value – $2.7 million). See also note 14(A).
In addition, in 2012 the Company established two additional subsidiaries as follows: Telit Wireless Solutions Hong Kong Limited for $3,000 and DJSP INVESTMENTS LIMITED for $13,000.

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.

For further information in respect of share-based payment see note 25.

(2) During 2012 $856,000 loan was made available to Telit Hong Kong.

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

14. INVESTMENTS IN SUBSIDIARIES (continued)

(3) The repayment in 2012 is all due to loan balance repayments made by Telit Wireless Solutions Ltd.

The repayments in 2011 include a partial repayment of the loan balance payable by Telit Wireless Solutions Ltd. 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) During 2012 the Company converted the loan to Telit RF to equity.

(5) At 31 December 2012 and 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 this assessment in 2011, the carrying amount of the investment was determined to be higher than its recoverable amount and an impairment loss of $1,821,000 was recognised in the Company's accounts for 2011. In 2012 the Company reassessed its estimates and recorded an additional impairment loss of $1,500,000.

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 in 2012 was determined using a pre-tax discount rate of 12% (2011:11.7%)

14. INVESTMENTS IN SUBSIDIARIES (continued)

ACQUISITIONS

A. In December, 2012, the Company completed the acquisition of 100% of the shares of CrossBridge Solutions Inc., a premier US based m2m data and value added services provider located in Lincolnshire, Illinois, U.S.A, for approximately $3 million in cash, with a possible earn-out of up to $6 million based on the amount of gross profit achieved by CrossBridge during the earn out period. The earn-out is payable in shares or in cash, at the Company's discretion, provided that no less than 25% is paid in cash. As of 31 December 2012 $400,000 was not yet paid.

The acquisition of CrossBridge and its U.S. based engineering and sale staff will allow Telit to expand m2mAIR business unit offerings in m2m value added services and connectivity to the USA.

The provisional assessment of the fair values of the assets and liabilities acquired is as follows:

	Fair value
	$'000
Cash	333
Accounts Receivables	469
Other current assets	57
Tangible assets, net	100
Technology	750
Customer relationships	2,381
Long term deposit	11
Accounts Payables	(91)
Other current liabilities	(410)
Other non-current liabilities	(90)
Total identifiable assets	3,510
Consideration paid	2,600
Consideration to be paid	400
Contingent consideration	2,749
Excess of cost - goodwill	2,239

The contingent consideration represents the fair value of the earn-out of $2,749,000 at the acquisition date.

The goodwill is attributable mainly to the skills and experience in the connectivity market of Crossbrige's founders, and the synergies expected to be achieved from developing the value added services business.

14. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiary undertakings of the Company at 31 December 2012 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%	Inactive Company
Telit Communications SpA[1] ("Telit EMEA")	Italy	Ordinary	100%	Development, manufacturing and selling data products and distributing cellular products
m2mapps GmbH[1]	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 ")[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[1]	Hong Kong	Ordinary	100%	Selling and marketing data products
DJSP INVESTMENTS LIMITED [1]	Cyprus	Ordinary	100%	Inactive Company
Telit Location Solutions LP[2]	United States Of America	Partnership Units	100%	Selling and marketing data products
CrossBridge Solutions. Inc[1]	United States of America	Ordinary	100%	Selling and marketing managed services.
Telit Wireless Solutions (Australia) Pty Limited[2]	Australia	Ordinary	100%	Selling and marketing data products
Telit GPS Solutions GP LLC[2]	United States Of America	Membership Interests	100%	Holding Company

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

15. INVENTORIES

	Group	
	2012	2011
	$’000	$’000
Finished goods	13,169	9,190
Raw materials and work in progress	8,490	4,498
	21,659	13,688

The directors consider that there is no significant difference between the net book value and replacement cost of stocks held. Inventories are stated net of provisions for slow moving and obsolete items of $1,027,000 (2011: $757,000).

16. RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	$’000	$’000	$’000	$’000
Within current assets:				
Trade receivables	56,502	39,834	1,109	652
Other receivables	8,845	7,488	709	167
Due from Group undertakings	-	-	8,907	6,488
	65,347	47,322	10,725	7,307
Within non-current assets:				
Long term receivables	568	732	18	11

The average credit period on trade receivables is 85 days (2011: 79 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 $8,253,000 (2011: $5,763,000) which are past due at the reporting date against which the Group has not made a loss provision as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 104 days (2011: 117 days).

	2012	2011
	$’000	$’000
Ageing of past due but not impaired trade debtors		
1-30 days	4,856	2,139
30-60 days	914	1,033
60-90 days	543	1,273
Above 90 days	1,940	1,318
	8,253	5,763

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

16. RECEIVABLES (continued)

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

	2012	2011
	$'000	$'000
At 1 January	421	872
Increase in allowance for the year	278	1,364
Amounts written off	(43)	(1,870)
Translation adjustments	7	55
At 31 December	663	421

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 $231,000 (2011: $2,746,000). 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.

17. CASH

The Group's cash resources are as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Deposits – restricted cash	365	185	296	83
Cash and cash equivalents	21,044	19,781	4,418	5,646
Total	21,409	19,966	4,714	5,729

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.

17. CASH (continued)

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

	Group		Company	
	2012	2011	2012	2011
	$’000	$’000	$’000	$’000
Sterling	613	1,965	604	1,959
US dollar	14,386	11,698	3,584	2,948
Euro	4,304	3,376	526	822
KRW	723	1,753	-	-
Brazilian Real	426	840	-	-
ILS	579	-	-	-
Other	378	334	-	-
Total	21,409	19,966	4,714	5,729

18. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2012	2011
	$’000	$’000
Allotted, issued and fully paid:		
103,304,206 ordinary shares of 1 penny each (2011: 102,678,769 ordinary shares of 1 penny each).	1,781	1,772

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 2012 625,438 options were exercised by employees into ordinary shares. (2011: 915,285)

Share options

The number of outstanding options as at 31 December 2012 and at the date of this report was 13,513,238 and 13,375,404 equal to 13.08% and 12.93% respectively, of the outstanding share capital of the Company(11.56% and 11.45%, 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.

18. 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.

19. 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, and the related current service cost were measured using the 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 mostly 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.

The liability in respect of accrued severance pay for the Israeli resident employees is $16,000 (2011: $43,000) and the charge to the statement of comprehensive income in the year is $27,000 (2011: $7,000).

C. The Group's liability for severance pay for APAC resident employees is calculated pursuant to the local severance pay law, based on the most recent salaries and term of employment. The actuarial present value of the related current service cost and curtailment loss was measured using the traditional unit credit method.

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

	2012	2011
Expense recognised in the statement of comprehensive income	**$’000**	**$’000**
Interest cost	131	133
Current service costs	358	276
	489	409

19. 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:

	2012	2011
	$'000	$'000
Present value of defined benefit scheme obligation		
1 January	2,785	2,869
Current service costs and interest	489	409
Contributions paid by the Company	(288)	(406)
Actuarial gains	521	16
Translation adjustments	149	(103)
31 December	3,656	2,785

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

	2012	2011
Discount rate	2.70% /3.93%	4.75% /4.80%
Expected salary increase rate	3.00% /5.00%	3.00% /5.00%
Inflation	0.00% /2.00%	0.00% /2.00%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled $377,419 (2011: $162,799) and the expected contributions to be paid in 2013 total $68,491.

	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Historical information					
Present value of the defined benefit scheme obligation	3,656	2,785	2,869	2,014	1,822
Experience adjustments arising on the plan liabilities	377	163	241	206	29

20. CURRENT LIABILITIES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Short-term bank loans and other borrowings	22,904	7,850	-	-
Current maturities of long term loans	1,389	1,256	-	129
Total short-term borrowing from banks and other lenders	24,293	9,106	-	129
Trade creditors (i)	38,883	25,496	569	173
Due to Group undertakings	-	-	30,672	5,177
Provisions	2,254	1,329	-	-
Other current liabilities	11,584	8,510	847	592
Total current liabilities	77,014	44,441	32,088	6,071

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 2012 was 75 days (2011: 66 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.

21. 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 customs 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 total, the assessment was for approximately $3.2 million excluding $1.5 million deductible VAT, with the Royalties Issue being the major part of the assessments. On July 24, 2012 Dai Telecom signed a settlement agreement with the customs authority pursuant to which Dai paid $90,000 and the customs authority dropped all claims under the Development Fees Issue. Thereafter, the customs authority issued a new assessment with respect to the Royalties Issue only in the total amount of $3.9 million excluding $1.4 million deductible VAT. On March 14, 2013 Dai filed its appeal of the assessment in the Tel Aviv District Court. 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.

21. CONTINGENT LIABILITIES (continued)

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" and together with the Company "Telit"), 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 products of 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 damages as well as to issue an injunction prohibiting the Company and Wireless from selling any allegedly infringing products in the future. M2M Solutions has not disclosed the amount of damages that they seek.

Both Telit and Motorola answered M2M Solutions complaint denying the allegations of patent infringement and also asserted affirmative defences including non-infringement, patent invalidity, improper inventor and lack of patent ownership.

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.

On 14 February 2012, the Company, 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.

In the opinion of the Company's management based, *inter alia*, on the opinion of its professional advisers, as well as on the preliminary stage of the claim. No provision is consider necessary.

C. On December 11, 2012 the Company and its subsidiary, Telit Communications S.p.A (collectively, "Telit") filed a complaint in the United States District Court for the Eastern District of New York against Mentor Graphics Corporation, an Oregon corporation, asserting that Mentor Graphics had sought unjustified license fees from Telit in breach of a License Agreement entered into between Telit Communications S.p.A and Mentor Graphics Ireland Ltd. on or about May 3, 2003. Telit seeks declaratory judgment and preliminary and permanent injunctions against Mentor Graphics. On or about February 11, 2013, Mentor Graphics Corporation interposed defenses and counterclaims against Telit, including for copyright Infringement, breach of contract, and equitable claims for relief in connection with the License Agreement and based upon Mentor Graphics software related to Telit's purchase of certain assets of Motorola Israel Ltd. The counterclaims seek unspecified compensatory, actual, and statutory damages, as well as injunctive and declaratory relief. Telit intends to contest the case vigorously and is planning to file a motion to dismiss certain of Mentor Graphics' counterclaims.

D. The Group is currently the subject of on-going 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.

21. CONTINGENT LIABILITIES (continued)

E. 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. In March 2013 the labor court found against the former employee on most grounds of his complaint and ordered him to pay attorneys' costs of Dai Telecom. On that part of the ruling found against Dai Telecom, Dai Telecom was required to pay the former employee the approximate amount of $7,000.

F. The Company's subsidiary, Telit Communications SpA has settled two outstanding employment litigations in Italy previously reported by the Company. In addition, with respect to another claim previously reported by the Company the Italian court ruled in favour of a dismissed employee. The Company is considering whether or not to appeal result of such decision. In addition to the above, the Company is, from time to time, engaged in employment disputes with respect to former employees whose employment with the Company has been terminated.

22. 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	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Operating leases which expire:				
Within one year	1,791	1,703	687	772
In the second to fifth years inclusive	3,085	3,844	883	1,002
Above five years	89	119	-	-
	4,965	5,666	1,570	1,774
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	924	1,313	869	1,045

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

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 $32.1 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.

23. 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)	Other (C)	Total
	$'000	$'000	$'000	$'000
Balance at 1 January 2012	975	448	2,040	3,463
Utilized in the year	-	(205)	(1,316)	(1,521)
Provided in the year	264	-	1,713	1,977
Exchange differences	21	6	36	63
Balance at 31 December 2012	1,260	249	2,473	3,982
Classified as:				
Current liabilities	1,260	249	745	2,254
Non-current liabilities	-	-	1,728	1,728
	1,260	249	2,473	3,982

A. The Group is currently subject to on-going tax audits. 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 ,on 1 May 2011, by the payment of $1.3 million (€0.9 million).
In addition, in 2011, Telit Communications S.p.A. received assessments and/or penalty notices for the years 2004, 2005 and 2006 in the approximate aggregate amount of $2.0 million. The Company is in various stages of attempting to settle or otherwise appeal such assessments and penalty notices.
In 2012 Telit received assessments, and/or penalty notices and/or R&D recovery deeds for the years 2005, 2007 and 2009 in the approximate aggregate amount of $1.7 million. The Company is in various stages of attempting to settle or otherwise appeal such assessments and penalty notices.
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).
The company has included satisfactory provisions with regard to all of the above.

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.

24. OTHER LONG-TERM LIABILITIES

A. As at 31 December 2012 the Group had outstanding a €3.0 million (2011: €3.0 million) interest rate swaps 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 $46,904 (2011: $177,835). The fixed interest rate payable by the Group is Euribor + 1%.
B. During 2012 the company reassess the fair value of the contingent consideration related to GlobalConect Ltd acquisition in 2011 and therefore decreased the liability in the amount of $85,000, to $115,000.
   For contingent consideration included in other long-term liabilities related to Navman acquisition see note 12(E). For contingent consideration included in other long-term liabilities related to Crossbridge acquisition see note 14(A).

25. SHARE-BASED PAYMENTS

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

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 per cent 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 per cent 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 per cent 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 4 January, 2012, executives and employees of the Company and its subsidiaries were granted 150,000 options to purchase approximately 0.15 per cent 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 4 January 2013 and expire five years from the date of grant.

In addition, on March 26, 2012 a director of the Company was granted 150,000 options (the "Additional Options"). Such options were related to an earlier grant by the Company to such Director on 19 September 2011 of 150,000 options to purchase approximately 0.15 per cent of the Company's issued and outstanding shares at the time, at an exercise price of £0.80 per share, such options vesting in three equal annual instalments starting from 19 September 2012 and expiring five years from the date of grant. (the "Original Options"). Since at the time of the grant of the Original Options the Company had 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 would from time to time be formally granted the 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 Original Options with the result that the Additional Options at the time of grant representing approximately 0.15 per cent of the Company's issued and outstanding shares, are exercisable at £0.80 per share, such options vesting in three equal annual instalments starting from 19 September 2012 and expiring five years from 19 September 2011.

The number of outstanding options as at 31 December 2012 was 13,513,238, equal to approximately 13.08% of the issued share capital of the Company.

25. SHARE-BASED PAYMENTS (continued)

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

	Number		Weighted average exercise price (pence)	
	2012	**2011**	**2012**	**2011**
Outstanding at beginning of year	13,913,508	10,764,458	0.42	0.24
Granted during the year	300,000	4,384,000	0.80	0.81
Exercised during the year	(625,438)	(915,285)	0.23	0.21
Lapsed during the year	(74,832)	(319,665)	0.32	0.50
Outstanding at year end	13,513,238	13,913,508	0.43	0.42
Exercisable at year end	8,968,567	6,393,556	0.33	0.23

The weighted average share price at the date of exercise for share options exercised in 2012 was £0.56 (2011: £ 0.88).

The options outstanding at 31 December 2012 have an exercise price in the range of £0.20 to £0.905 (2011: £0.20 to £0.905) and a weighted average contractual life of 2.3 years (2011: 3.2 years).

The Group recognised a total expense of $1,008,000 in respect of equity settled share based payment transactions for the year ended 31 December 2012 (2011: $1,356,000).

The Company charge for the year was $790,000 (2011: $1,020,000).

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
4 January 2012	0.465	0.80	60	5	0.85	0	20%	0.11
26 March 2012	0.526	0.80	60	5	0.85	0	20%	0.24

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

26. BORROWINGS

	Group		Company	
	2012	2011	2012	2011
	$ '000	$'000	$'000	$'000
Unsecured – at amortized cost				
Current maturities of long term loans	1,389	1,256	-	129
Other long-term loans	9,839	10,311	-	518
Total	11,228	11,567	-	647
Secured – at amortized cost				
Short-term bank loans and other borrowings	22,904	7,850	-	-
Total	22,904	7,850	-	-
Disclosed in the financial statements as:				
Current borrowings	24,293	9,106	-	129
Non-current borrowings	9,839	10,311	-	518
Total	34,132	19,417	-	647

	Group		Company	
	2012	2011	2012	2011
	$ '000	$'000	$'000	$'000
Borrowings breakdown				
Working capital borrowing (1)	23,189	8,539	-	647
Governmental loan (2)	6,924	6,781	-	-
Mortgage loan (3)	4,019	4,097	-	-
Total	34,132	19,417	-	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 22.
Increase in working capital borrowing mainly due to the growth of the company and increase in receivables and inventory.

(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. In December 2012 an additional loan of $975,000, carrying the same terms, was received.

(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 commenced 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 27.

27. FINANCIAL RISK MANAGEMENT

Financial risk management is an integral part of the way the Group is managed. The Board establishes the Group's financial policies and the Chief Executive 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 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 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 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	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
US Dollar	23,031	10,941	27,828	13,961
Euro	1,920	1,951	341	717
ILS	2,910	3,787	369	92
Other	172	34	-	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	
	2012	2011
	$'000	$'000
Impact on profit or loss of a 10% change	50	193

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

27. FINANCIAL RISK MANAGEMENT (continued)

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.

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 $119,000 (2011: $138,000); there is no material impact upon equity. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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.

27. FINANCIAL RISK MANAGEMENT (continued)

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

Maximum credit risk:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Cash and cash equivalents	21,044	19,781	4,418	5,646
Deposits – restricted cash	365	185	296	83
Trade receivables	56,502	39,834	1,109	652
Due from Group undertakings	-	-	8,907	6,488
Other long term asset	568	732	18	11
Loan (or investment in) to subsidiaries	-	-	19,661	23,976
Guarantee provided to banks on subsidiary's borrowings	-	-	32,148	21,727

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.

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 2012 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.

27. FINANCIAL RISK MANAGEMENT (continued)

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

	2012			2011		
	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	2.93%	5,696	5,791	1.56%	2,112	5,833
Variable rate	2.13%	18,597	4,048	3.38%	6,994	4,478

Company

	2012			2011		
	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	-	32,148	-	-	21,727	-

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.

27. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Current financial assets				
Cash and restricted cash	21,409	19,966	4,714	5,729
Trade receivables	56,502	39,834	1,109	652
Loans and receivables – other debtors	-	-	-	17
Loans and receivables – due from group undertakings	-	-	8,907	6,488
Current assets not meeting the definition of a financial asset				
Inventories	21,659	13,688	29	-
Other debtors	8,845	7,488	709	150
Total current assets	108,415	80,976	15,468	13,036

	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Non-current financial assets				
Loans and receivables	568	732	18	11
Non-current assets not meeting the definition of a financial asset				
Intangible assets	35,659	22,588	6,891	6,760
Property, plant and equipment	13,588	12,557	13	21
Investments in subsidiaries	-	-	83,976	63,052
Deferred tax asset	3,840	4,190	-	-
Total Non-current assets	53,655	40,067	90,898	69,844

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.

27. FINANCIAL RISK MANAGEMENT (continued)

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Current financial liabilities at amortized cost				
Short-term borrowings from banks and other lenders	24,293	9,106	-	129
Trade payables	38,883	25,496	569	173
Due to group undertakings	-	-	30,672	5,177
Other current liabilities	10,520	6,709	-	-
Current liabilities not meeting the definition of a financial liability				
Provisions	2,254	1,329	-	-
Other current liabilities	1,064	1,801	847	592
Total current liabilities	77,014	44,441	32,088	6,071
Non-current financial liabilities at amortized cost				
Other loans	9,839	10,311	-	518
Non-current financial liabilities at fair value through profit or loss				
Derivative financial instruments	47	177	-	-
Non-current liabilities not meeting the definition of a financial liabilities				
Post-employment benefits	3,671	2,828	-	-
Deferred tax liabilities	33	45	-	-
Provisions	1,728	2,134	-	-
Other long term liabilities	3,325	301	2,864	200
Total Non-current liabilities	18,643	15,796	2,864	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 2012 a loss of $130,513 (2011: $108,352) was recognised in the statement of comprehensive income in relation to these financial instruments.

27. 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 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity on page 35.

Gearing Ratio

The Group defines debt as both long and short term borrowings as detailed in note 26. 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	
	2012	**2011**
	$'000	**$'000**
Cash and cash equivalent	21,044	19,781
Restricted cash deposits	365	185
Total cash	21,409	19,966
Current borrowings	(24,293)	(9,106)
Non-current borrowing	(9,839)	(10,311)
Total borrowings	(34,132)	(19,417)
Net (debt) / cash	(12,723)	549
Shareholders' equity	65,991	60,319
Net (debt) / cash to equity ratio	19.28%	0.91%

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

28. 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 16.

(b) Accounts payable - See note 20.

(c) Trading transactions:

	2012	**2011**
	$'000	**$'000**
Royalties *	3,923	3,302
Cost of sale	1,081	754
Interest income	806	891

* 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 trade name 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 19 to 23. 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.

29. 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 $6,202,000 (2011: loss of $4,378,000).

Company Information

Directors, Secretary and Advisers

Company Registration No. 05300693

Directors	Enrico Testa, Chairman Oozi Cats, Chief Executive Yosi Fait, Finance director Davidi Gilo, Independent Non-executive director Ram Zeevi, Independent Non-executive director Nicola Miglietta, Independent Non-executive director Steven Sherman, Non-Executive Director Sergio Luciano Buonanno, 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 Auditor	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
www.telit.com