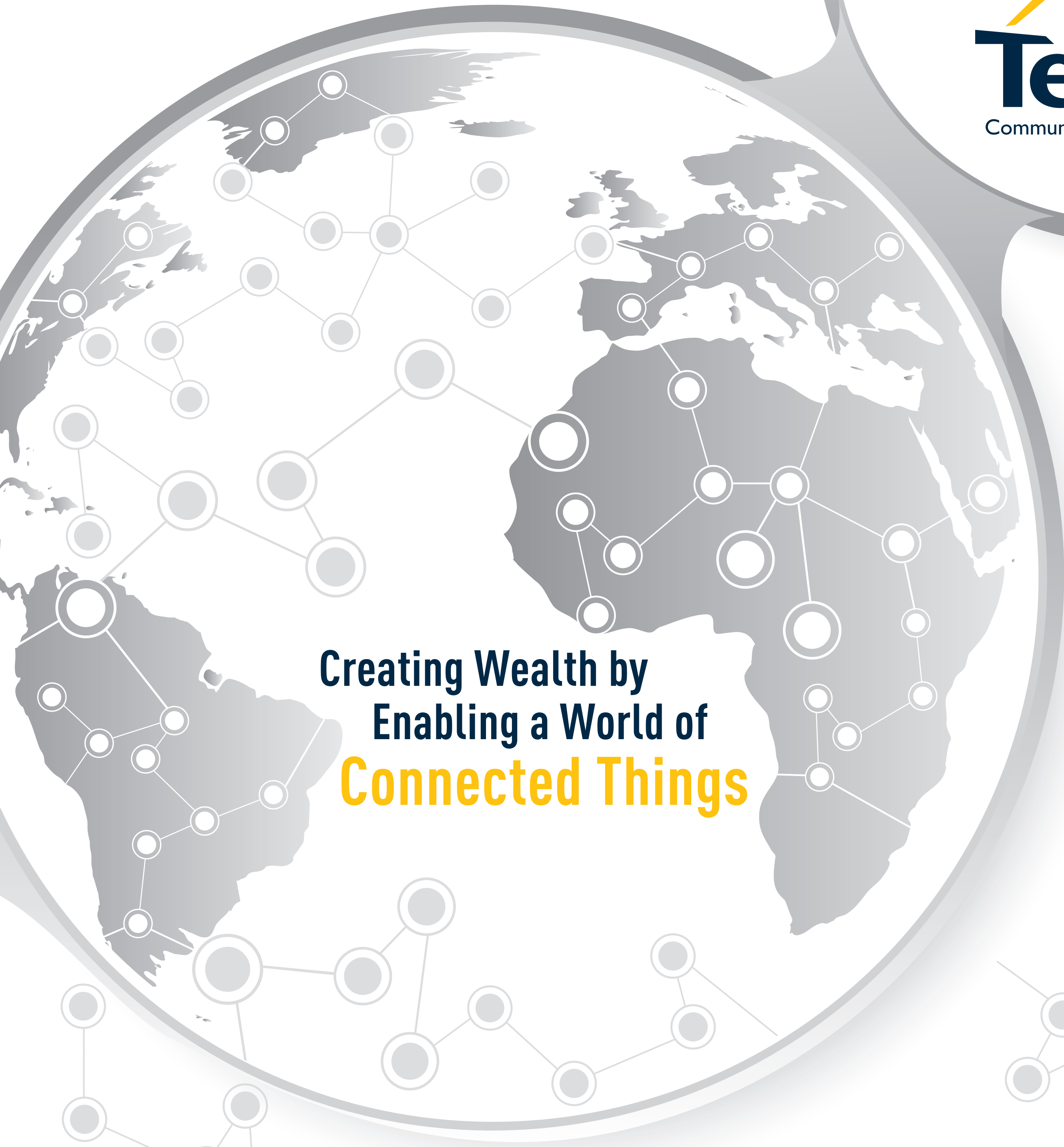
Telit Communications PLC



Creating Wealth by Enabling a World of Connected Things

The INTERNET of THINGS made Plug&Play

Annual Report 2013

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Introduction

Telit Communications PLC

Telit Communications PLC (hereinafter "the Company" or "Telit") is a global enabler of machine-to-machine (M2M) communications providing cellular, short range and positioning modules via its brand Telit Wireless Solutions. Through its business unit m2mAIR, Telit provides platform as a service (PaaS) including M2M managed and value added services, application enablement and connectivity including mobile network side and cloud backend services. Telit is M2M's top ONE STOP. ONE SHOP offering synergistic hardware and value added services bundles along with low-entry cost PaaS for rapid application development. With over 12 years exclusively in M2M, the company constantly advances technology through seven R&D centers around the globe; marketing products and services in over 80 countries.
By supplying scalable products interchangeable across families, technologies and generations, rapid prototyping tools for application development, and m2m tailored connectivity, Telit is able to curb development costs, protect design investments and reduce technical risk. The company provides customer support and design-in assistance through 32 sales and support offices, a global distributor network of experts with over 30 competence centers, and the Telit Technical Support Forum.

Telit’s products and services connect organizations to the Internet of Things (IoT) allowing them to wirelessly collect, process and respond to real-world data from connected devices, creating new efficiencies, revenue streams, societal and personal benefits.

Telit is listed on AIM (Ticker: TCM).

The machine to machine (m2m) and internet of things 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 (m2m) wireless communications is rapidly growing as wireless communications are now a must have rather than a luxury technology. Companies that were not interested in m2m wireless solutions in the past are now looking to incorporate this technology into their businesses 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 this 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.

Highlights[1]

- Revenues for the full year ended 31 December 2013 increased by 17.3% to $243.2 million (2012: $207.4 million).
- Revenues for the 3 months ended 31 December 2013 increased by 25.3% to $72.3 million (3 months ended December 2012: $57.7 million).
- Revenues include for the first time significant revenues of $9.8 million from m2mAIR, Telit's Platform as a Service (PaaS), the Company's value added, connectivity, cloud platform and other services (2012: $1.6 million).
- Adjusted EBITDA for the year increased by 55.5% to $26.9 million (2012: $17.3 million).
- Gross margin increased from 37.1% in 2012 to 38.02% in 2013.
- Operating profit increased by 139% to $14.1 million (2012: $5.9 million).
- Profit before tax for the year increased by 145% to $12 million (2012: $4.9 million).
- Net profit for the year increased by 179% to $10.9 million (2012: $3.9 million).
- Adjusted net profit for the year increased by 73% to $15.4 million (2012: $8.9 million)
- Cash flow from operating activities increased by 370% to $25.4 million (2012: $5.4 million).
- Basic earnings per share increase by 176.3% to 10.5 cents in 2013 compared to 3.8 cents in 2012.
- Adjusted basic earnings per share increase by 73.2% to 14.9 cents in 2013 compared to 8.6 cents in 2012.
- Net debt[2] at 31.12.2013 decreased to $11.7 million in comparison to net debt of $12.7 million at 31.12.2012, although during 2013 the Company invested approximately $11 million of its cash in acquisitions. Without this, net debt would have stood at $0.7 million.

Operational highlights

- Revenues increased by 17.3% to $243.2 million (2012: $207.4 million). For the fourth year in a row the Company achieved double digit growth with an average CAGR growth of about 30%.
- Gross margin increased from 37.1% in 2012 to 38.02% in 2013, due to the Company’s positioning in the M2M industry and the shift in the business model to services with recurring revenues.
- Gross profit for the year increased by 20.3% to $92.5 million (2012: $76.9 million).
- Research and development expenses increased by $4.0 million to $24.0 million (9.9% of revenues) compared to $20.1 million in 2012 (9.7% of revenues). R&D expenses arose mainly from the development of 4G LTE modules designed for use in the most demanding automotive and industrial m2m applications.
- Sales and marketing expenses increased by $8.1 million to $38.6 million (15.9% of revenues) compared to $30.5 million in 2012 (14.7% of revenues). The increase is mainly due to investment in m2mAIR, Telit’s Platform as a Service (PaaS), the Company’s value added, connectivity and cloud platform services business unit. This business unit was bolstered during 2013 by the acquisitions of Crossbridge Solutions Inc. and of ILS Technology LLC.
- General and administrative expenses increased by $2.6 million to $22.3 million (9.2% of revenues) compared to $19.7 million in 2012 (9.5% of revenues).
- Other net income increased by $7.3 million mostly due to: (i) grants and benefits supported by the Italian Ministry of Economic Development, which granted a decree to Telit in the sum of $44 million to develop an innovative platform for the application of M2M technologies; (ii) and the release of the remaining provision for contingent consideration after the earn out on an acquisition was settled in the year.
- Net equity at 31.12.2013 increased to $79.4 million (2012: $66.4 million).

[1] For reconciliation from IFRS financial results to adjusted financial results please refer to the table on page 10.
[2] For net debt please refer to the table on page 11.

Acquisitions

On September 3, 2013 Telit Wireless Solutions Inc., a fully owned subsidiary of Telit Communications PLC, entered into an agreement to purchase US-based ILS Technology LLC ("**ILST**"), a leading provider of a ready-to-use, off-the-shelf, cloud platform to connect enterprise IT systems to m2m-connected devices and machines for business-critical use. ILST's solutions are easy to deploy, reaching any m2m device and connected asset without the need for complex programming or development. Critical to business services, ILST delivers secure remote access, monitoring and enterprise application integration which provides customers a faster time to deployment and business value realization through a low cost PaaS services model. Employing best-in-class security practices and standards, customers can easily maintain critical data management and ownership as well as regulatory compliance.
Telit paid $8.5 million in cash for the acquisition of ILST from the Company's existing financial resources. ILST expands Telit's successful ONE STOP. ONE SHOP market approach while continuing to leverage ILST's broader offering in value added services.

Acquisitions in process

On December 2013, Telit Wireless Solutions Srl, a fully owned subsidiary of Telit Communications Plc, entered into an agreement with NXP B.V., a fully owned subsidiary of NXP Semiconductors N.V. (Nasdaq: NXPI) to purchase NXP's ATOP business subject to fulfilment of certain closing conditions, which on the date of this report have not yet been fulfilled.
ATOP is an automotive grade solution for vehicle manufacturers enabling them, amongst other features, to implement telematics services such as eCall, the European initiative to bring rapid assistance to motorists involved in a collision anywhere in the EU, on a single compact and cost efficient package, whilst reducing complexity and minimizing costs in vehicle designs.
The acquisition of ATOP includes sales, engineering and support staff, to be integrated into Telit's automotive organization and will extend the Company's market reach with solutions leveraging the expanded engineering and sales expertise to better address automotive and telematics customers. Telit has agreed, subject to completion of appropriate due diligence and fulfilment of certain closing conditions, to appoint an individual from NXP's automotive business unit as a non-executive director of Telit on closing.

Regional Information

The split of revenue on a geographical basis for the years ended 31 December 2013 and 2012 is as follows:

	2013 ($'000)	**% of Total Revenue**	**2012 ($'000)**	**% of Total Revenue**
EMEA	110,099	45.3%	107,076	51.6%
Americas	105,216	43.3%	74,966	36.2%
APAC	27,909	11.4%	25,350	12.2%
Total Revenue	**243,224**	**100%**	**207,392**	**100%**

EMEA

Although economic conditions in the Eurozone have begun to stabilise, with signs of confidence in investment improving, 2013 was still a difficult year across almost all of our verticals. However, our results demonstrate that we nonetheless achieved moderate growth, meaning that we have again gained market share in EMEA and we have strengthened our leadership position.

We achieved this result thanks to our strong position in the telematics market together with ramping up of some new markets that we were already following closely - during 2012.
In our telematics business, acceptance of M2M applications increased among different sub-segments, especially by insurance companies, which have continued to create a big push in the market. For new markets, it is worth noting the impact of the "new but old" idea of different governments having a real time view and reporting of all sales done through different kinds of shops, restaurants, etc. to get tighter control of all taxes generated by those sales. Last year this type of project came back- in some significant markets and we have already seen the first such deployments and where we expect very important quantities during 2014, 2015 and 2016.

Beyond cellular, we would like to emphasize our progress in GNSS. We finished 2013 a clear second in EMEA and we are headed in the right direction to achieve leadership in this market in a few years' time. The introduction of several new products based on different chipset vendors will enable us to offer state of the art modules to the different segments using GNSS products and it will allow us to more than double the number of units from 2013 to 2015, putting us in a perfect position to take market leadership in 2016.

Americas

In 2013, we saw significant momentum in the Internet of Things (IoT) trend within the Americas region. Google's recent acquisition of Nest ($3.2B), GE's Industrial Internet initiative and announcements by Cisco and Intel to re-align their organizational structure to take advantage of the IoT opportunity, indicate the growing demand for IoT solutions.

Continued improvements in price/performance of computing, advances in wireless networks and the pervasiveness of the Cloud are all driving this trend in IoT. Verizon has already covered 95% of the US population and 500 cities in the United States with 4G LTE network connectivity that has a theoretical download speed of 100MB/second and routinely delivers 20MB/second on today's networks. Developments in RESTful APIs and other Service Oriented Architectures (SOAs) have helped to enable the development of service delivery platforms (SDPs) and application enablement platforms (AEPs) that can help reduce the complexity of developing m2m solutions.

To support this trend toward IoT among enterprise customers, Telit recently acquired two companies in North America to support customers that are deploying IoT and m2m solutions- Crossbridge Solutions and ILS Technologies (ILS). Crossbridge provides mobile data connectivity services to developers across a number of network providers, including AT&T, Verizon, Sprint and Rogers. Combined with ILST's AEP, Telit is now in a position to provide bundled solutions to our customers who are looking for embedded modules (cellular/GNSS/short range), data connectivity and an intelligent backend host system that provides rapid integration into existing enterprise systems.

In April 2013, we re-united Telit North America and Latin America to create a single organization that is looking after our customers in the region. The two organizations will allow our North American customers benefit from the strong relationships we have in Brazil and other countries to facilitate their own expansion into the region. In addition, our Latin America customers will benefit from the experience and capabilities of a strong North America operation.

In North America, the transition from 2G to 3G technology continued at a very rapid pace. The trend away from GPRS has been dramatic within North America, with Telit sales of GPRS products going from 50% to <20% of sales in one year's time. Although we don't advise customers to start new designs on GPRS due to the re-farming of spectrum from 2G to 3G that is going on at AT&T and others, CDMA 1xRTT does remain a viable and affordable solution for most new designs as both Verizon and Sprint have committed to maintaining their CDMA networks until at least 2019. The Company gained new important accounts in the security, metering, telematics and mobile computing verticals supporting significant sales growth in the region.

In Latin America, we successfully introduced our new GNSS and short range portfolio and today we leverage the benefits of a state of the art manufacturing facility in Brazil for 3GPP modules with installed capacity of a couple of million units per year for 2G and 3G products resulting in a gross margin increase of 57%. We continue to see solid growth and will continue to monitor the CONTRAN 245 telematics law to see if it will be implemented according to the current schedule. The Company gained new accounts with short-range and GNSS designs wins and expects these areas will contribute to sustained growth in the next few years. Unwelcome security issues, stable economies, large populations and continental distances are a combination of ingredients backing our optimistic view of the growth in Latin America in the future.

As we enter 2014, we expect another strong year of growth in the Americas region as we continue to see strong growth in many of the traditional m2m vertical markets as well as opportunity for growth in broader horizontal market applications.

APAC

In 2013 our business in APAC continued with realignment to higher growth, higher value segments and began to see some of the 2012 investment coming to fruition. The price pressure was especially fierce in the low end application of 2G modules which was compensated by the growth in 3G module demands.

In the low end application of 2G modules, the demand for quality and differentiation was low especially in the emerging countries of the APAC region. This low end segment was saturated by alternative low price local solutions. Our focus in 2G modules was concentrated on industrial segments where customer service and quality were valued. We continued to grow in market segment share of the above mentioned industrial segment.

In addition to 2G modules, most of the APAC countries are starting to adopt 3G technologies for M2M applications, while a small subset of countries like Japan, Korea, and Australia are moving towards LTE as well. We were able to capture many of these opportunities to significantly grow our 3G module shipments in 2013 versus 2012. We expect this trend to continue in the next few years bringing new growth to the APAC M2M business.

Our 2012 investment in Japan and Australia is starting to pay off. In 2013, we secured major local accounts in automotive, remote health and remote monitoring applications. Project development was completed in 2013 and is expected to bring additional sales growth starting in 2014. We will leverage on the early success to continue growing our presence in these new markets.

Technology & products

Technological innovation is Telit’s core capability. Thanks to its seven R&D centres, the Company was again able in 2013 to provide outstanding module quality ranging from cellular to short-range RF and location technologies. Our 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.

With the acquisition of ILST, ILST management, engineering and support staff will be integrated into the m2mAir services unit, expanding Telit’s successful “ONE STOP. ONE SHOP.” market approach with solutions to boast a broader offering in value added services. With ILST, Telit expands the reach of m2mAIR much deeper into Internet-side services where M2M adopters have been seeking better, more integrated solutions, particularly for on-boarding M2M assets to Cloud enabled IT infrastructures in low entry-cost, PaaS service models.

In 2013 we expanded our offering based on the XE910 form factor by introducing CL865 to extend our offering to the CDMA markets. We also introduced the HE910 V2, UE910 V2, UE910 AUTO and UL865 (UMTS, HSPA) variants to complete our xE910 and xL865 families with additional variants. To complete the offering we launched the ultra-compact GE866 (GPRS) product. We’ve also launched the LE910 implementing the LTE technology and completing the xE910 family offering.

Looking at the automotive sector we announced and launched the UE910 AUTO, representing the 3G entry-level solution for this sector.

Furthermore, during 2013 we launched a series of new GNSS modules. Our offering now includes the SE868-V2 and SL869-V2 (GPS), both of them supporting GPS and GLONASS constellations. As for the Short Range portfolio, we launched the LE70-868 and LT70-868 terminal implementing the Start Network, and the LE51-868S, which features the SigFox protocol.

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 and through a global distributor network of experts from over 30 competence centres.

At the end of 2013, Telit employed 641 employees worldwide, an increase of 23.5% (2012: 519).

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 GSM/GPRS 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 factor and full software compatibility, but offer different functionality to meet the requirements of different vertical application segments. 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 GC (connectorized) 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 BGA/LGA (solderable) 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 2013 results. Our strong competitive position has helped us to achieve significant growth.

Outlook

The outlook for 2014 looks positive for the m2m industry as a whole and for Telit in particular. Notwithstanding the fact that 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 2012 and 2013 enhance our platform as a service (PaaS) including M2M managed and value added services, application enablement and connectivity including mobile network side and cloud backend services. Telit is M2M's top ONE STOP. ONE SHOP offering synergistic hardware and value added services bundles along with low-entry cost PaaS for rapid application development. With our new m2mAIR business unit, this 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 2014 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[3]

- On August 16, 2013, Mr Steven Sherman resigned from the board.
- On June 28, 2013, Mr Yuval Cohen was appointed to the board as a director. Mr Cohen resigned from the board on October 2, 2013.

People

At the end of 2013, Telit employed 641 employees worldwide, an increase of 23.5% (2012: 519). During 2013 we 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 personally to 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 the most recent acquisitions.

Dividend

The Company is not proposing to pay a dividend in respect of the period (2012: $ nil).

Enrico Testa

Chairman of the Board
14 March 2014

[3] Mr Sergio Buonanno resigned from the board on March 11 2014

CHIEF EXECUTIVE'S STATEMENT

Oozi Cats, Chief Executive

2013 was the fourth consecutive year of double digit growth for Telit and improvements in absolute profitability. In 2013 we implemented one more major step within our strategic roadmap - the acquisition of ILS Technology LLC that augmented our location product portfolio and enhances our ability to service the needs of our customers by providing a platform as a service (PaaS) offering including M2M managed and value added services, application enablement and connectivity including mobile network side and cloud backend services.

Financial Results

	2013 $'000	**2012 $'000**
Revenue	**243,224**	**207,392**
Gross profit	**92,482**	**76,884**
Gross margin	38.02%	37.1%
Research and development	(24,049)	(20,085)
Selling and marketing	(38,617)	(30,472)
General and administrative	(22,348)	(19,707)
Other operating income / (expenses)[1], net	6,668	(683)
Operating profit	**14,136**	**5,937**
Adjusted EBIT	**18,795**	**10,573**
Adjusted EBITDA	**26,901**	**17,335**
Profit before tax	**11,951**	**4,915**
Adjusted profit before tax	**16,610**	**9,551**
Profit for the year	**10,886**	**3,880**
Adjusted profit for the year[2]	**15,466**	**8,888**

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

	2013 $'000	**2012 $'000**
Operating profit	**14,136**	**5,937**
Share-based payments	742	1,008
Non-recurring expenses	1,229	1,769
Amortization - intangibles acquired	2,688	1,859
Adjusted EBIT	**18,795**	**10,573**
Depreciation & amortization[3]	8,106	6,762
Adjusted EBITDA	**26,901**	**17,335**
Profit before tax	**11,951**	**4,915**
Share-based payments	742	1,008
Non-recurring expenses	1,229	1,769
Amortization - intangibles acquired	2,688	1,859
Adjusted profit before tax	**16,610**	**9,551**

[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 2013 were 10.5 cents and 9.8 cents respectively for the period compared to 3.8 and 3.6 cents per share in 2012.

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 debt position

The table below presents the net debt position at the year-end:

	2013	**2012**
	$'000	**$'000**
Cash and cash equivalents	23,886	21,044
Restricted cash deposits	291	365
Working capital borrowing (1)	(10,962)	(23,189)
Long term loans (2)	(7,482)	-
Governmental loans (3)	(13,780)	(6,924)
Mortgage loan (4)	(3,700)	(4,019)
Net Debt	**(11,747)**	**(12,723)**

(1) Short term borrowing, for less than one year, arising from invoice advances used for working capital financing.

(2) Representing two long term loans from banks in Italy- (i) $6.2 million with interest at a rate of Euribor 3 months plus 3.25%, repayable in 20 quarterly instalments that commenced in September 2013, and (ii) $1.3 million with an interest rate of Euribor 6 months plus + 5.5%, repayable in 6 semi-annual instalments that will commence in December 2020.

(3) Representing preferential two long term loans (i) $7.7 million with fixed-rate of 0.5%, repayable in 14 semi-annual instalments that will commence in December 2016, supported by the Italian MISE (Ministry of Economic Development) to develop an innovative platform for the application of M2M technologies and, (ii) $6.1 million with a fixed-rate of 0.75%, repayable in 10 annual instalments that commenced in March 2009, supported by the Ministry of Trade and Commerce in Italy, provided in connection with the Group's business development program in Sardinia.

(4) 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 loan is denominated in Euro, attracts interest at a rate of Euribor 6 months less 20% and is repayable in 15 semi-annual instalments that commenced in June 2012.

Employees

The number of employees of the Group on a geographical basis at the end of 2013 and 2012 is as follows:

	2013	**2012**
EMEA	373	356
Americas	122	52
APAC	146	111
Total Employees	**641**	**519**

Effects of Foreign Exchange

15.4% of Telit's revenue in the period was generated in Euro (2012: 26.8%). 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.

Acquisition of ILS Technology LLC

On September 3, 2013 Telit Wireless Solutions Inc., a fully owned subsidiary of Telit Communications PLC, entered into an agreement to purchase US-based ILS Technology LLC ("ILST"), a leading provider of a ready-to-use, off-the-shelf, cloud platform to connect enterprise IT systems to m2m-connected devices and machines for business-critical use. ILST's solutions are easy to deploy, reaching any m2m device and connected asset without the need for complex programming or development. Critical to business services, ILST delivers secure remote access, monitoring and enterprise application integration which provides customers a faster time to deployment and business value realization through a low cost PaaS services model. Employing best-in-class security practices and standards, customers can easily maintain critical data management and ownership as well as regulatory compliance.

Telit paid $8.5 million in cash for the acquisition of ILST from the Company's existing financial resources. ILST expands Telit's successful ONE STOP. ONE SHOP market approach while continuing to leverage ILST's broader offering in value added services.

Strategy

Having successfully integrated the most recent businesses acquired by Telit 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 strong IoT and m2m industry. Telit looks forward to continuing to implement its strategy which is to grow through a four-pronged approach:

- Organically alongside general growth in the m2m industry;
- Recurring income through our valued added services unit which will leverage the long-standing relationships with our customers and cloud platform services business unit, a leading provider of a ready-to-use, off-the-shelf, cloud platform to connect enterprise IT systems to m2m-connected devices and machines for business-critical use;
- The acquisition of NXP's Automotive Telematics On-board unit Platform ("ATOP") which will be the cornerstone of Telit's automotive division; and
- Appropriate acquisition opportunities to the extent that these become available.

Outlook

The outlook for the rest of 2014 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.

Telit intends to continue to take advantage of the considerable opportunities arising in this growing global market. 2014 has started well, and I look forward to providing further news of the Group's progress over the coming months.

Oozi Cats
Chief Executive
14 March 2014

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. In addition, 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 the future success of the Company depends, among other things, 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 standards or government regulations and practices on a cost-effective and timely basis.

Developing Telit's technology, 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.

Dependency on suppliers

Our products include components some of which are purchased from single source suppliers. From time to time, certain components used in our products have been, and may continue to be, in short supply and shortages in allocation of components may result in a delay in filling orders from our customers, which may adversely affect our business and our reputation.

We depend on a limited number of manufacturer partners that purchase components and manufacture our products. If these manufacturers do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfil orders received from our customers and our revenues may decrease accordingly.

We may encounter the following risks due to our reliance on such manufacturer partners - the absence of guaranteed or adequate manufacturing capacity; potential violations of laws and regulations by our manufacturers that may subject us to additional costs for duties, monetary penalties, and damage to our reputation; potential business interruption due to unexpected events such as natural disasters, labour unrest or geopolitical events; reduced control over delivery schedules, production levels, manufacturing yields, costs and product quality; the inability of our contract manufacturers to secure adequate volumes of components in a timely manner at a reasonable cost; and unexpected increases in manufacturing costs.

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 62
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, Founder, Member of the Board and Chief Executive Officer, aged 53
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.

In 2011 Mr. Cats led Telit to a quantum leap with the acquisition of Motorola's m2m division, making Telit the largest industrial m2m provider in the world. In 2012, Mr. Cats laid the foundation for its Platform as a Service (PaaS) division by acquiring Global Connect, and Chicago based CrossBridge Communications Inc. In 2013, the last piece in the PaaS puzzle was put in place by acquiring Florida based ILS Technology, a unique Cloud based back-end service, making Telit a true global leader in m2m ONE STOP. ONE SHOP.

Yosi Fait, Deputy CEO, Finance Director and Member of the Audit Committee of the Board, aged 53
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 57
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 and DSP Communication (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 46
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 51
For the past five 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. 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 Director of Rinc. Green, Crowdit Ltd., Profility Inc., WizeDSP and Gnrgy Ltd.

Corporate Governance

Directors

The Board of Directors comprises three executive directors and three independent non-executive directors. 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 light of these reports and the results of the review reported to the Board.

Remuneration Committee

The Remuneration Committee consists[4] of Davidi Gilo (Chairman), Nicola Miglietta and Ram Zeevi, the independent non-executive directors, 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 facilitates communication with its 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 Group, as compared against budget, are reported to the Board on a quarterly basis and discussed at meetings of the Board.

[4] Mr Sergio Buonanno, who resigned from the board on March 11 2014, was a member of the remuneration committee during part of 2013.

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.

Applicability of the City Code on Takeovers and Mergers ("the Code")

Starting 30 September, 2013, the Company became subject to the Code, due to certain revisions that were made in the Code. The Code had not previously applied to the Company as its place of central management and control was outside of the UK.

By order of the Board,

Yosi Fait
Finance Director
14 March 2014

Report on Directors' Remuneration

Chairman's Statement

The aim of the Company's Remuneration Committee (the "**Committee**") is to reward and encourage excellent performance as well as to promote the interests and business of the Company. As the Company grows, both in its performance levels and in its global reach, the Committee's aim is to ensure that the Company's remuneration packages are appropriate in attracting, incentivising and retaining high calibre individuals, yet remain in line with the industry.

During the financial year ending December 31 2013, the Committee enacted two important revisions to the Company's remuneration framework.
First, the Committee implemented a new long-term option-based incentive plan, following consultation with certain of its major institutional shareholders, designed to reward senior management and key employees (other than the Executive Directors, who are not eligible to participate), reflecting the Company's growth nature.
Further, in response to discussions with shareholders, the Committee undertook a review, in conjunction with an independent consultancy firm, of the remuneration package for its CEO, Mr. Oozi Cats, and, as a result of this evaluation, has implemented certain changes to Mr. Cats' remuneration package. Further details of the results of both of these activities are set out below.

Both of these actions reflect the Committee's intent to monitor closely and guide the levels and structure of remuneration for the Executive Directors and senior management as well as the Company's wider employee base.

I am pleased to present the Directors' Remuneration Report for the year ended December 31 2013.

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Davidi Gilo
Chairman of the Remuneration Committee
14 March 2014

The Remuneration Committee Responsibilities

The Committee's main responsibilities are to determine the Company's overall remuneration policy, to determine the remuneration of Executive Directors and other senior executives, to monitor and review the levels and structure of remuneration for senior management, and the on-going effectiveness of the overall remuneration policy, to review the targets for any performance-related bonus or pay schemes operated for senior executives and to review any material termination payment.

Remuneration Committee Members

The Remuneration Committee comprises three independent Non-Executive Directors: Davidi Gilo (Chairman), Nicola Miglietta and Ram Zeevi[5].

Committee Member		Attendance Record
Davidi Gilo (Chairman)	Independent Non-Executive Director	10 out of 10 meetings
Nicola Miglietta	Independent Non-Executive Director	9 out of 10 meetings
Ram Zeevi	Independent Non-Executive Director	9 out of 10 meetings
Sergio Buonanno[6]	Non-Executive Director	10 out of 10 meetings

The Remuneration Committee may invite members of management to attend meetings as appropriate, unless they have a conflict of interest, in order to assist the committee to discharge its duties.

This Report has been approved by the Board together with the financial statements for the year ended December 31 2013.

Remuneration Policy

The Committee aims to set levels of remuneration for Executive Directors and senior management that are sufficient to attract, retain and motivate workforce of the calibre required to deliver the Company's business strategy.

Individual remuneration packages are structured to align rewards with the performance of the Company and to be appropriate for the size and complexity of the Group.

The main principles are: to ensure that salaries are set at a market competitive level relative to external comparators; support a high performance culture with commensurate rewards appropriately linked to performance; maintain an appropriate balance of fixed and performance-related pay; and ensure that the overall package reflects market practice, reward individuals, over both the short and the long term, for their contributions to the success of the Group in a fair, consistent and reasonable manner, and reward high performance with high rewards.

The main components of these remuneration packages are:

- **Basic salary:** Executive Directors and senior managers' salaries are reviewed and determined by the committee, taking into account their additional incentives, in order to align their interests within the Telit Group.
- **Service contracts:** No service contracts have notice periods of more than six months[7].
- **Bonus arrangements:** The Company operates a discretionary bonus scheme which provides a link between remuneration and both personal and Company achievement. The Remuneration Committee determines bonuses for Executive Directors.
- **Pension arrangements:** None of the directors receive any pension benefits, except for Mr. 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.

[5] Mr Steven Sherman, who resigned from the board on August 16 2013, was a member of the remuneration committee during part of 2013.
[6] Mr Sergio Buonanno, who resigned from the board on March 11 2014, was a member of the remuneration committee during part of 2013.
[7] Apart from the CEO's service agreement which includes a 12 month notice period.

The services of the Executive Directors are provided to the Group as follows:

Enrico Testa was appointed as a director and Chairman of the Board on 4 May 2007. Mr. Testa was also appointed as CEO of Telit Italy on 21 April 2013.

Oozi Cats has been employed by Telit Italy in an executive position since 1 October 2007. For further details about Mr. Cats' new remuneration package see below. Mr. Cats has been appointed as a director of a number of the Company's subsidiaries.

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 Remuneration Committee: main activities in 2013

New Employee and Non-Employee Share Option Plans

In order to incentivize the Company's key employees and consultants, and in light of the lack of headroom for further option grants under the existing share options plans, the Committee initiated in 2013 a new share option plan that would include shares made available due to the exercise of options by Executive Directors under the 2009 and 2010 grants of the existing plans. The Committee recommended to the Board that the executive directors be specifically excluded from grants under the new plan. The new plan was adopted by the Board following consultation with the Company's main institutional shareholders. The terms of the new plan are substantially the same as existing plans, and individual vesting criteria (e.g., exercise price, period, quantity) are to be determined by the Committee upon grant.

Evaluation of CEO's Remuneration Package

The Remuneration Committee, acting upon the Board's instructions and following discussions with shareholders, engaged in a process to evaluate Mr. Cats' remuneration package. The Committee's guidelines for the process were to agree on a remuneration package that would reflect Mr. Cats' continuing contribution to the Company and incentivise Mr. Cats to continue his efforts. In order to establish an impartial and fair assessment of the CEO's remuneration as compared to market practice, the Committee contacted four reputable, independent[8], international executive search firms, asking each to provide a proposal for a report that would set out the compensation package appropriate for the Company's CEO, such report being based on an analysis of the compensation packages of CEOs from similar companies to the Company. The Committee ultimately engaged Spencer Stuart, a leading consulting group, as an independent firm, to provide the report.

After consultation with the Committee, Spencer Stuart produced a draft report which included a review of 17 companies comparable to the Company[9]. While Spencer Stuart reviewed Mr Cats' overall remuneration package, a major part of the report dealt with the bonus portion of Mr. Cats' proposed remuneration package. Spencer Stuart took the following into account in deciding the appropriate bonus calculation: (i) the Company's progress to date, (ii) the Company's performance, and (iii) Mr. Cats' existing options.

[8] One of the firms disclosed to the Remuneration Committee that it had personal knowledge of one of the Board members and the committee decided not to receive a proposal from that firm.

[9] Among other identifiers, listed companies on LSE and NASDAQ having a presence in Italy and the UK and with revenues of between $250 million to $400 million.

The Committee then considered the remuneration package to be offered to Mr. Cats and in doing so it took into account Spencer Stuart's report, Mr. Cats' contribution to the Company and the absence of long-term compensation for Mr. Cats, due to the fact that the Company's option pool for Executive Directors had been exhausted and no further grants of options were currently available for Mr. Cats. The Committee deliberated on the proposed remuneration package for Mr. Cats at nine Committee meetings between July 2013 and December 2013 and held frequent consultations with Spencer Stuart. The Committee also resolved to continue to consult as it would deem appropriate with Spencer Stuart with regards to the CEO's remuneration package.

Mr. Cats' new remuneration package comprises the following –

Salary

Mr. Cats will receive a gross salary of US$1,437,480 per year for 2014-16. The Company covers certain of Mr. Cats' expenses, including his accommodation in Italy and the use of a company car.

Bonus Scheme

Mr. Cats' variable compensation plan provides a link between Mr. Cats' remuneration and the Company's performance. This link is achieved by making his variable annual award conditional upon the achievement of targets and aggressive stretch performance thresholds which are set by reference to agreed Company financial performance measures, calculated according to the Company's audited annual financial statements, which include - adjusted EBITDA margin growth, cash flow from operations, revenue growth, gross margin, and a discretionary element decided by the Board.
The variable compensation is capped at a maximum of 150% of Mr. Cats' gross annual pay.
The terms of the scheme will be reviewed at the end of 2016. The business results of any new acquisitions made by the Telit Group will not be taken into account for the bonus scheme for the calendar year of the acquisition. In the year following an acquisition, the base year for the bonus calculation (meaning the acquisition year), will not include the acquisition results.
Mr. Cats shall be paid an advance payment on account of the yearly variable compensation ("Advance Payment"), based on the half-year results. Mr. Cats shall return to the Company any amount received as Advance Payment that exceeds the annual bonus based on the audited annual financial statements.

The audited emoluments in respect of the year ended 31 December 2013 for the directors who held office during the year were as follows:

	Salary and fees	Benefit in kind	Bonus	Post-employment benefits	Total 2013	Total 2012
	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors						
Enrico Testa[2]	268	-	265	-	533	515
Oozi Cats	1,357	195	1,960	87	3,599	2,979
Yosi Fait[3]	500	-	127	-	627	363
Non-executive directors						
Alexander P. Sator[1]	-	-	-	-	-	52
Nicola Miglietta	66	-	-	-	66	51
Davidi Gilo	53	-	-	-	53	51
Ram Zeevi[4]	53	-	-	-	53	51
Sergio Buonanno[5]	53	-	-	-	53	25
Steven Sherman[1]	33	-	-	-	33	26
Total - 2013	**2,383**	**195**	**2,352**	**87**	**5,017**	
Total - 2012	**2,017**	**184**	**1,781**	**131**	**-**	**4,113**

1 Up to the date of resignation.
2 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.
3 Amounts in respect of the services of Mr. Fait are paid directly to Jeopal Ltd., a company under his control.
4 Amounts in respect of the services of Mr. Zeevi are paid directly to Zuri Inc, a company under his control.
5 Amounts in respect of the services of Mr. Buonanno are paid directly to IDEA Capital Funds S.G.R. S.P.A. Mr. Buonanno resigned from the board as of March 11, 2014.

Directors' Interests in Shares

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

	At 31 December 2013		At 31 December 2012	
Directors	**Number of ordinary shares**	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Oozi Cats[10]	19,580,357	18.72	20,330,357	19.68
Enrico Testa[11]	20,330,357	19.44	20,330,357	19.68
Yosi Fait	165,000	0.16	165,000	0.16
Nicola Miglietta	20,000	0.02	20,000	0.02
Davidi Gilo	-	-	-	-
Ram Zeevi	-	-	-	-
Steven Sherman[12]	5,128,578	4.9	4,128,578	4.00
Sergio Buonanno[13]	9,375,000	8.96	-	-
Yuval Cohen[14]	14,612,500	13.97	-	-

10 Mr Cats directly holds 3,480,357 shares. In addition, Mr Cats - through VAG Holding Limited ("**VAG**") - beneficially owns 50% of Boostt B.V. ("**Boostt**") which, in turn, holds 15,600,000 shares. Moreover, Wireless Solutions Management S.r.l. ("**WSM**"), which holds 50% of Boostt, owns additional 500,000 shares. VAG and WSM 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 WSM's holdings.

11 Mr Enrico Testa is an interested party in WSM and Boostt by virtue of his holding office therein. Moreover, Mr Testa is the Chairman of GT S.r.l. ("**GT**"), which owns 750,000 shares. Therefore, Mr Testa is deemed to be interested in all of Boostt's, WSM's and GT's holdings, as well as in all of Mr Cats' holdings.

12 Resigned as director on August 16 2013.

13 Mr. Buonanno is considered as having an interest in these shares due to his being an interested party in Idea Capital. Mr. Buonanno resigned from the board as of March 11, 2014.

14 On June 28 2013, Mr Yuval Cohen was appointed to the board as a director. Mr Cohen resigned from the board as of October 2 2013. During Mr Yuval Cohen's time as director of the Company, he was deemed interested in all holdings of Fortissimo Capital Management, by virtue of his holding office therein. As of the date of the report Fortissimo Capital decreased its holding in shares, to 2,095,026 shares, representing only 1.9% of ordinary share capital.

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	500,000	-
	1 April 2011	520,000	0.81	346,666	173,334
Total		**2,020,000**		**1,846,666**	**173,334**
Oozi Cats	29 January 2009**	2,000,000	0.20	2,000,000	-
	30 June 2010**	1,100,000	0.32	1,100,000	-
	1 April 2011	1,952,000	0.81	1,301,334	650,666
Total		**5,052,000**		**4,401,334**	**650,666**
Yosi Fait	29 January 2009[15]***	50,000	0.20	50,000	-
	25 May 2010[16]***	50,000	0.25	50,000	-
	19 September 2011[17]	150,000	0.80	100,000	50,000
	26 March 2012[18]	150,000	0.80	100,000	50,000
	19 March 2013[19]	600,000	0.80	400,000	200,000
Total		**1,000,000**		**700,000**	**300,000**

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 2013 is $568,158 (2012: $564,000).

The highest and lowest closing prices of the Company's shares on AIM during 2013 were 186p (27 November 2013) and 55p (11 January 2013).The Company's share price as of 31 December 2013 was 179p.

15 Mr Fait was not a director on this date.

16 Mr Fait was not a director on this date.

17 On September 19 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 80p per share. The options vest in three equal annual instalments starting from September 19 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.

18 See Footnote 16 above.

19 On March 19 2013, Mr Fait was granted 600,000 options, at an exercise price equal to 80p with a three year vesting schedule starting on September 19 2011, such that vesting occurs in three equal instalments on each of September 19 2012, 2013 and 2014 and shall expire on September 19 2016. Such options were related to an earlier resolution by the Company, dated September 19 2011 (the "Original Resolution") that approved the future grant of 600,000 options, conditional upon the Company successfully completing a public fundraising on a major stock exchange, at an exercise price equal to 80p (the "Exercise Price"), with a vesting schedule of 3 years, starting on September 19 2011. The Company decided to amend the Original Resolution, so that the grant of options not be contingent upon the Company completing its listing on a major stock exchange. Since at the time of the grant of the options (March 19 2013) the Company had nearly reached the overall limit on the granting of options under the Company's share options plan, Mr Fait received 200,000 options, and the remuneration committee resolved that, as the overall limit under the plan increases, Mr Fait would be granted additional options (either in one tranche or in a series of separate grants) at the same exercise price and on the same terms as aforesaid. Mr Fait received the remaining 400,000 options on 13 January 2014.

* On January 13 2014 Mr Testa exercised options into Company shares as follows - 1,000,000 options at an exercise price of 20p and 500,000 options at an exercise price of 32p.

** On January 14 2014 Mr. Cats exercised options into Company shares as follows - 2,000,000 options at an exercise price of 20p and 1,100,000 options at an exercise price of 32p.

*** On December 27 2013 Mr Fait exercised options into Company shares as follows - 50,000 options at an exercise price of 20p and 50,000 options at an exercise price of 25p.

Arrangements relating to shares held by Boostt B.V.

Boostt is interested in 19,580,357 Ordinary shares in the Company, representing approximately 18.72% of the Company's issued share capital as of 31 December 2013. 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.
- On 31 December 2013, Boostt deposited with the Third Party Lender further 9,000,000 Shares, which were automatically charged by the Third Party Lender.

As at December 31, 2013 and as a consequence of the actions described above, of the 19,580,357 Shares in which Boostt is interested, 15,600,000 million Shares are charged in favour of the Third Party Lender (the "Charged Shares"). Under the terms of the charge, title to the Charged 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 Charged Shares represent approximately 14.91% of the Company's issued share capital as at December 31, 2013.

By order of the Remuneration Committee

Davidi Gilo
Chairman of the Remuneration Committee
14 March 2014

Strategic Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2013.

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.

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 10 to 12, the regional information on pages 5 to 7, 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 $24 million were expensed in the year, compared to $20.1 million in 2012. Internally-generated intangible assets arising from development costs capitalized amounted to 9.9$ million compared to $7.7 million in 2012.

Telit has been granted by decree a US$44 million facility supported by the Italian MISE (Ministry of Economic Development) to develop an innovative platform for the application of M2M technologies. Of the US$44 million, 10% is to be provided as a grant by the Italian government, 81% is to be made available as a loan by Cassa Depositi e Prestiti, a joint stock company under public control in Italy, with a preferred interest rate of 0.5% per annum, and 9% is a loan issued directly by a financial institution. The company received about $13 million from this facility in H2 2013.

By order of the Board

Yosi Fait
Financial Director
14 March 2014

Directors' Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2013.

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.

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 gave away $137,000 in charitable donations during the year ended 31 December 2013 (2012: $39,000).

Dividends

The Company is not proposing to pay a dividend in respect of the period (2012: $ nil).

Significant shareholders

	At 31 December 2013		At 31 December 2012	
	Number of ordinary shares	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Boostt[20]	15,600,000	14.92	15,600,000	15.10
Fortissimo Capital Management[21]	14,612,500	13.97	-	-
Idea Capital Funds	9,375,000	8.96	9,375,000	9.08
Morgan Stanley (Switzerland)	6,725,401	6.43	8,725,000	8.45
Sherman Capital Group[22]	5,128,578	4.90	4,128,578	4.00
Herald Investment Management	5,081,250	4.86	5,381,250	5.21
Greylock Partners	4,375,000	4.18	4,375,000	4.24
BlackRock Investment Mgt (UK)	4,308,855	4.12	-	-
Oozi Cats[23]	3,480,357	3.33	3,480,357	3.37

Directors

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

Enrico Testa
Oozi Cats
Yosi Fait
Ram Zeevi
Davidi Gilo
Nicola Miglietta
Steven Sherman (resigned on August 16, 2013)
Sergio Luciano Buonanno (resigned on March 11, 2014)
Yuval Cohen (appointed June 28, 2013 and resigned on October 2, 2013)

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[20] Mr Cats and Mr Testa are deemed to be interested in all holdings of Boostt.

[21] Mr Yuval Cohen was deemed interested in all holdings of Fortissimo Capital Management, while serving as director of the Company from his appointment on June 28, 2013 until her resigned on October 2, 2013. As of the date of the report Fortissimo Capital decreased its holding in shares, to 2,095,026 shares, representing only 1.9% of the Company's ordinary share capital.

[22] Until he resigned from the board in August 16 2013, Mr Sherman was interested in all holdings of this company.

[23] Mr Testa is deemed to be interested in all holdings of Mr Cats. See footnote 19 above to this chart for additional holdings in which Mr Cats is deemed to be interested.

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 2013, calculated in accordance with the requirements of the Companies Act 2006, were 92 days (2012: 75 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 appointment of Ernst & Young LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Yosi Fait
Financial Director
14 March 2014

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 2013 which comprise the Consolidated Statement of Comprehensive Income, the Statements of Financial Position,the Statement of Cash Flows, the Consolidated Statement of Changes in equity, the Company Statement of Changes in Equity and the related Notes 1 to 29 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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' Statement of Responsibilities set out on page 29 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2013 and of the Group's profit for the year then ended;
- the Consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Telit Communications PLC (continued)

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.

Ernst + Young

Philip Young (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

14 March 2014

Telit Communications PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Revenue	3,4	243,224	207,392
Cost of sales		(150,742)	(130,508)
Gross profit		92,482	76,884
Research and development expenses		(24,049)	(20,085)
Selling and marketing expenses		(38,617)	(30,472)
General and administrative expenses		(22,348)	(19,707)
Other operating income / (expenses)	5	6,668	(683)
Operating profit	10	14,136	5,937
Investment income	6	25	250
Finance costs	7	(2,210)	(1,272)
Profit before income taxes		11,951	4,915
Tax expense	8	(1,065)	(1,035)
Profit for the year		10,886	3,880
Other comprehensive income			
Items which will be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences		1,092	479
Total comprehensive income/ (loss) for the year		11,978	4,359
Profit/(loss) attributable to:			
Owners of the Company		10,933	3,914
Non-controlling interest		(47)	(34)
Profit for the year		10,886	3,880
Total comprehensive income/ (loss) attributable to:			
Owners of the Company		12,033	4,424
Non-controlling interest		(55)	(65)
Total comprehensive income/ (loss) for the year		11,978	4,359
Basic earnings per share (in USD cents)	11	10.5	3.8
Diluted earnings per share (in USD cents)	11	9.8	3.6
Basic weighted average number of equity shares	11	103,826,885	102,968,936
Diluted weighted average number of equity shares	11	111,067,069	108,272,974

Telit Communications PLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

		Group		Company	
		2013	2012	2013	2012
	Note	$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Intangible assets	12	49,459	35,659	6,599	6,891
Property, plant and equipment	13	16,182	13,588	64	13
Investments in subsidiaries	14	-	-	84,793	83,976
Other long term assets	16	807	568	232	18
Deferred tax asset	8	3,954	3,840	-	-
		70,402	53,655	91,688	90,898
Current assets					
Inventories	15	18,520	21,659	46	29
Trade receivables	16	63,118	56,502	696	1,109
Other current assets	16	14,338	8,845	13,972	9,616
Deposits – restricted cash	17	291	365	88	296
Cash and cash equivalents	17	23,886	21,044	3,068	4,418
		120,153	108,415	17,870	15,468
Total assets		190,555	162,070	109,558	106,366
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	18	1,791	1,781	1,791	1,781
Share premium account	18	78,678	78,429	78,678	78,429
Other reserve	18	(2,993)	(2,993)	8,692	8,606
Merger reserve	18	1,235	1,235	1,235	1,235
Translation reserve	18	(3,867)	(4,967)	2,048	2,107
Retained earnings		4,181	(7,494)	(24,360)	(20,744)
Equity attributable to owners of the Company		79,025	65,991	68,084	71,414
Non- controlling interest		367	422	-	-
Total equity		79,392	66,413	68,084	71,414
Non-current liabilities					
Other loans	26	22,134	9,839	-	-
Post-employment benefits	19	3,780	3,671	-	-
Deferred tax liabilities	8	21	33	-	-
Provisions	23	2,236	1,728	-	-
Other long-term liabilities	24	369	3,372	-	2,864
		28,540	18,643	-	2,864
Current liabilities					
Short-term borrowings from banks and other lenders	26	13,790	24,293	-	-
Trade payables	20	51,860	38,883	1,112	569
Provisions	23	1,217	2,254	-	-
Accruals and Other current liabilities	20	15,756	11,584	40,362	31,519
		82,623	77,014	41,474	32,088
Total equity and liabilities		190,555	162,070	109,558	106,366

The financial statements on pages 32 to 88 were approved by the board and authorized for issuance on 14 March 2014 and are signed on its behalf by: Oozi Cats, Director

Company number: 05300693

Telit Communications PLC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
CASH FLOWS - OPERATING ACTIVITIES				
Profit/(loss) for the year	10,886	3,880	(4,274)	(6,202)
Adjustments for:				
Depreciation of property, plant and equipment	2,800	2,315	17	9
Amortization of intangible assets	7,994	6,306	1,623	1,375
Change in fair value of earn-out	(1,667)	(85)	(1,714)	-
Loss /(gain) on sale of property, plant and equipment	(37)	312	-	-
Impairment of investments in subsidiaries	-	-	-	1,500
Increase / (decrease) in provision for post-employment benefits	(50)	722	-	-
Finance costs, net	2,185	1,022	(1,078)	(823)
Tax expenses	1,065	1,035	271	-
Fair value of preferential rate loan	(3,754)	-	-	-
Share-based payment charge	742	1,008	658	789
Operating cash flows before movements in working capital:	20,164	16,515	(4,497)	(3,352)
(Increase)/decrease in trade and other receivables	(3,807)	(14,361)	447	(429)
Increase in other current assets	(3,678)	(1,368)	(2,133)	(2,885)
(Increase) /decrease in inventories	3,776	(7,222)	(16)	(29)
Increase/(decrease) in trade payables	11,487	12,061	531	388
Increase/(decrease) in other current liabilities	(273)	1,624	8,920	5,420
increase /(decrease) in provisions and other long term liabilities	320	(751)	-	(94)
Cash from/(used in) operations	27,989	6,498	3,252	(981)
Income tax paid	(741)	(374)	-	-
Interest received	25	72	-	6
Interest paid	(1,901)	(801)	-	(12)
Net cash from/(used in) operating activities	25,372	5,395	3,252	(987)
CASH FLOWS - INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(4,847)	(3,411)	(66)	-
Acquisition of intangible assets	(4,588)	(3,064)	(1,231)	(1,212)
Proceeds from disposal of property, plant and equipment	51	68	-	-
Capitalized development expenditure	(9,909)	(7,664)	-	-
Acquisition of subsidiaries, net of cash acquired	(9,509)	(5,303)	-	(2,600)
Settlement of earn out	(1,149)	-	(1,149)	
Additional investment in subsidiary	-	-	-	(16)
Additional loans made to subsidiaries	-	-	(4,860)	(856)
Repayment of loans from subsidiaries	-	-	2,356	5,000
(Increase)/ decrease in restricted cash deposits	56	(218)	-	-
Net cash (used in)/from investing activities	(29,895)	(19,592)	(4,950)	316

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
CASH FLOWS - FINANCING ACTIVITIES				
Proceeds from exercise of options	259	240	259	240
Short-term borrowings from banks and others	(10,870)	15,696	-	-
Proceeds from other loans	19,301	1,258	-	-
Repayment of other loans	(2,361)	(1,753)	-	(619)
Net cash from/(used in) financing activities	6,329	15,441	259	(379)
Increase/(decrease) in cash and cash equivalents	1,806	1,244	(1,439)	(1,050)
Cash and cash equivalents - balance at beginning of year	21,044	19,781	4,418	5,646
Effect of exchange rate differences	1,036	19	89	(178)
Cash and cash equivalents - balance at end of year	23,886	21,044	3,068	4,418

Non – cash transactions:

a. During 2013 a loan to subsidiary in the amount of $210,000 was converted to equity (2012: $250,000). See note 14(4).

b. 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 2013

Year ended 31 December 2013

	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 2013	1,781	78,429	1,235	(2,993)	(4,967)	(7,494)	65,991	422	66,413
Total comprehensive income/(loss) for the year									
Profit /(loss) for the year	-	-	-	-	-	10,933	10,933	(47)	10,886
Foreign currency translation differences	-	-	-	-	1,100	-	1,100	(8)	1,092
Total comprehensive income/(loss)	-	-	-	-	1,100	10,933	12,033	(55)	11,978
Transactions with owners:									
Exercise of options	10	249	-	-	-	-	259	-	259
Share-based payment charge	-	-	-	-	-	742	742	-	742
Total transactions with owners	10	249	-	-	-	742	1,001	-	1,001
Balance at 31 December 2013	1,791	78,678	1,235	(2,993)	(3,867)	4,181	79,025	367	79,392

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 (Loss) / income	-	-	-	-	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

Telit Communications PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Year ended 31 December 2013

	Share capital	Share premium account	Merger reserve	Other reserve	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2013	1,781	78,429	1,235	8,606	2,107	(20,744)	71,414
Total comprehensive income /(loss) for the year							
Loss for the year	-	-	-	-	-	(4,274)	(4,274)
Foreign currency translation differences	-	-	-	-	(59)	-	(59)
Total comprehensive income/ (loss)	-	-	-	-	(59)	(4,274)	(4,333)
Transactions with owners							
Exercise of options	10	249	-	-	-	-	259
Share-based payment charge	-	-	-	-	-	658	658
Capital contribution	-	-	-	86	-	-	86
Total transactions with owners	10	249	-	86	-	658	1,003
Balance at 31 December 2013	1,791	78,678	1,235	8,692	2,048	(24,360)	68,084

Year ended 31 December 2012

	Share capital	Share premium account	Merger reserve	Other reserve	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2012	1,772	78,198	1,235	8,388	1,830	(15,332)	76,091
Total comprehensive 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

1. ACCOUNTING POLICIES

(a) General information

Telit Communications PLC (the "Company") is a company incorporated and domiciled in the UK.
The Company is a global enabler of machine-to-machine (M2M) communications providing cellular, short range and positioning modules via its brand Telit Wireless Solutions. Through its business unit m2mAIR, Telit provides platform as a service (PaaS) including M2M managed and value added services, application enablement and connectivity including mobile network side and cloud backend services. Telit is M2M's top ONE STOP. ONE SHOP offering synergistic hardware and value added services bundles along with low-entry cost PaaS for rapid application development. With over 12 years exclusively in M2M, the company constantly advances technology through seven R&D centers around the globe, marketing products and services in over 80 countries.
By supplying scalable products interchangeable across families, technologies and generations, rapid prototyping tools for application development, and m2m tailored connectivity, Telit is able to curb development costs, protect design investments and reduce technical risk. The company provides customer support and design-in assistance through 32 sales and support offices, a global distributor network of experts with over 30 competence centers, and the Telit Technical Support Forum.

The company 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.

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 group financial statements.

(b) Basis of presentation of the financial statements:

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"). The Company's financial statements have been prepared on a historical cost basis, except for: investment property; financial assets and liabilities (including derivatives) which are presented at fair value through profit or loss.

The Company has elected to present profit or loss items using the function of expense method.

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 10 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.

1. ACCOUNTING POLICIES (continued)

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.

(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.

(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.

1. ACCOUNTING POLICIES (continued)

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.

(e) Business combination

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.

For acquisitions 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

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 and the amount recognised for the non-controlling interest 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.

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

1. ACCOUNTING POLICIES (continued)

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

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

(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 which for the company are immaterial 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.

1. ACCOUNTING POLICIES (continued)

(q) Retirement benefit costs (continued)

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).

(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.

1. ACCOUNTING POLICIES (continued)

(u) Government grants (continued)

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

In accordance with IAS 20, government loans that have a below-market rate of interest are recognised and measured in accordance with IAS 39 at their fair value. The difference between the initial carrying value of the loan (its fair value) and the proceeds received is treated as a government grant

(v) 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 cost method in the Company’s financial statements less provision for impairment.

The Group classifies its other financial assets as 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.

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.

1. ACCOUNTING POLICIES (continued)

(v) Financial instruments (continued)

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.

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.

1. ACCOUNTING POLICIES (continued)

(v) Financial instruments (continued)

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 27 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.

(w) 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.

(x) Earnings per share

Basic and diluted earnings 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.

1. ACCOUNTING POLICIES (continued)

(y) 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.

(z) 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.

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.

Fair value of government grants and loans

The Group have received grants and loans and judgement is made on the criteria regarding how and over which period the grant should be recorded and the estimated fair value of the loan element.

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 involved in various legal or other proceedings incidental to the ordinary course of its business. The process of determining the appropriate provision for such uncertainties requires judgment. The final resolution of some of these items may give rise to material profit and loss and/or cash flow variances.

1. ACCOUNTING POLICIES (continued)

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

Recoverability of deferred tax assets

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

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.

1. ACCOUNTING POLICIES (continued)

(aa) New standards and interpretations adopted this year

Commencing January 1, 2013, the Company applied IFRS 13 and *IAS 19 (Revised).*
As a result of the application of IFRS 13, there is no impact on the financial statements other than same enhanced disclosure in the notes to the financial statements.

These measurement provisions are applied prospectively as from January 1, 2013.
Also, the Group included the required fair value disclosures for assets and liabilities.
The application of IAS 19R, didn't have material impact on the company's financial statement

(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.

(i) IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39, The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

(ii) IFRS 10, IFRS 11, IFRS 12 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities:
The IASB issued: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" ("the new Standards"), and amended two existing Standards, IAS 27R (Revised 2011), "Separate Financial Statements", and IAS 28R (Revised 2011), "Investments in Associates and Joint Ventures".

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2014 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

1. ACCOUNTING POLICIES (continued)

(ab) New standards and interpretations not yet applied (continued)

The main provisions of the Standards and their expected effects on the Company are as follows:

IFRS 10 - Consolidated Financial Statements:

IFRS 10 supersedes IAS 27 regarding the accounting treatment in respect of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "Consolidation - Special Purpose Entities"

According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return. According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive.

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models - the de facto control model and the legal control model.
IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2014, or thereafter.
The Company believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements.

IFRS 11 - Joint Arrangements:

IFRS 11 supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary contributions by venturers. IFRS 11 distinguishes between two types of joint arrangements: joint ventures, in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are only accounted for at equity, and joint operations, in which the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and are therefore accounted for in proportion to their relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

IFRS 11 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2014, or thereafter.
The Company believes that the adoption of IFRS 11 is not expected to have a material effect on the financial statements.

IFRS 12 - Disclosure of Interests in Other Entities:

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Company's financial statements upon initial adoption of IFRS 12.

1. ACCOUNTING POLICIES (continued)

(ab) New standards and interpretations not yet applied (continued)

(iii) Investment Entities (Amendment to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

(iv) IFRS 12 Disclosure of interests in other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities.

(v) IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

(vi) IFRIC interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached, IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 Will have material financial impact in future financial statement.

(vii) IAS 39 Noviation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The group has not novates its derivatives during the current period. However, these amendments would be considered for future novations.

(viii) IAS 36 'Recoverable Amounts Disclosures for Non-Current Assets'

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the amendment required entities to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment. In addition, the IASB added two disclosure requirements: Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal. Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique.

1. ACCOUNTING POLICIES (continued)

(ab) New standards and interpretations not yet applied (continued)

The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The effective date is 1 January 2014.

The Group will normally adopt new standards at the effective date.

The Group considered the effect of the above standards and revisions and it has been concluded that there will be no significant impact apart from the additional disclosures.

NOTE 2:- BUSINESS COMBINATIONS

A. At September 3, 2013 – Telit Wireless Solutions Inc. a fully owned subsidiary of Telit Communications PLC, has entered into and consummated an agreement to purchase 100% of the membership interest of US-based ILS Technology LLC ("ILST"), a leading provider of a ready-to-use, off-the-shelf, cloud platform to connect enterprise IT systems to m2m-connected devices and machines for business-critical use. The acquisition's consideration is $8.5 million in cash.

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

	Fair value
	$'000
Accounts Receivables	1,705
Prepaid Expenses	190
Tangible assets, net	371
Technology	1,808
Customer relationships	3,170
Accounts Payables	(202)
Other Payables	(394)
Total identifiable assets	6,648
Consideration paid	8,500
Excess of cost - goodwill	1,852

There are no material adjustments from book value to fair value.

The goodwill is attributable mainly to the synergies expected to be achieved from expending the m2mair business to include also cloud based services, and to the skills and experience of the workforce.

The goodwill recognised is deductible for income tax purposes

From the acquisition date to 31 December 2013 the activity that was purchased, ILST attributed to the consolidated revenues turnover of $3,062,000 and net loss of $170,000.

If the business combination had taken place at the beginning of the year, the consolidated net loss would have been $1,489,000 and the consolidated revenue turnover would have been $8,261,000, without pro forma assumptions.

NOTE 2:- BUSINESS COMBINATIONS (continued)

B. In August 2013, Telit wireless solutions Co. ,Ltd., a subsidiary of Telit communication PLC, acquired substantially all of the assets and business of a small technology company that provided GPS products in the Korean market
Total consideration was approximately $1 million settled in cash.
Goodwill arising from this acquisition is in the amount of $292,000.

C. 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

There are no material adjustments from book value to fair value.

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

In July 2013 the Company signed an agreement with the shareholders of CrossBridge according to which it paid the shareholders an earn out in the amount of $1.15 million. The profit from the settlement of the earn out includes in the statement of comprehensive income, under other operating income. See also note 5.

The goodwill is attributable mainly to the skills and experience in the connectivity market of CrossBridge's workforce, and to the synergies expected to be achieved from expending the value added services business, in North America.

NOTE 2:- BUSINESS COMBINATIONS (continued)

D. 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 interests 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

There are no material adjustments from book value to fair value.

The contingent consideration represents the fair value of an earn-out of $418,000 at the acquisition date. Adjustment to the earn-out are included in the statement of comprehensive income. During 2012 and 2013, the adjustments were immaterial amounts.

The goodwill is attributable mainly to the skills and experience in the GNSS market of Navman's workforce, 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 Group and therefore the Company cannot estimate the impact of Navman, by itself, on the consolidated results.

NOTE 3:- REVENUE

	Group 2013 $'000	Group 2012 $'000
Sales of goods	233,455	205,827
Services income	9,769	1,565
	243,224	207,392

NOTE 4:- SEGMENTAL ANALYSIS

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.
Segment performance is evaluated based on operating profit or loss.

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 2013 and 31 December 2012 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:

2013	**EMEA $'000**	**APAC $'000**	**Americas $'000**	**Total $'000**	**Eliminations $'000**	**Consolidated $'000**
Revenue						
External sales	110,099	27,909	105,216	243,224	-	243,224
Inter-segment sales (1)	81,547	14,758	40	96,345	(96,345)	-
Total revenue	191,646	42,667	105,256	339,569	(96,345)	243,224
Result						
Segment result	16,203	890	2,346	19,439	-	19,439
Unallocated corporate expenses (2)						(5,303)
Operating profit						14,136
Investment income						25
Finance costs						(2,210)
Profit before income taxes						11,951
Income taxes						(1,065)
Profit for the year						10,886

During the year, the Group recognised grant income which was recorded in EMEA. See note 5 for further detail.

NOTE 4:- SEGMENTAL ANALYSIS (continued)

2012	EMEA	APAC	Americas	Total	Eliminations	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'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

(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.

	2013	2012
	$'000	$'000
Total assets:		
EMEA	95,070	100,370
APAC	15,228	12,596
Americas	55,284	26,986
Unallocated assets	24,973	22,118
Total assets	190,555	162,070
Total liabilities:		
EMEA	58,519	51,028
APAC	9,366	6,258
Americas	6,111	3,392
Unallocated liabilities	37,167	34,979
Total liabilities	111,163	95,567

Unallocated assets comprise:

	2013	2012
	$'000	$'000
Other debtors in respect of general entity and head office purposes	796	709
Deposits - restricted cash	291	365
Cash and cash equivalents	23,886	21,044
Unallocated assets	24,973	22,118

NOTE 4:- SEGMENTAL ANALYSIS (continued)

Unallocated liabilities comprise:

	2013	2012
	$'000	**$'000**
Other loans	22,134	9,839
Short-term borrowings from banks and other lenders	13,790	24,293
Other current liabilities in respect of general entity and head office purposes	1,243	847
Unallocated liabilities	37,167	34,979

2013

	EMEA	APAC	Americas	Consolidated
	$'000	**$'000**	**$'000**	**$'000**
Non-cash items:				
Depreciation and amortization	8,209	1,322	1,263	10,794
Bad debt expense	160	26	48	234
Share-based payments	709	11	22	742

2012

	EMEA	APAC	Americas	Consolidated
	$'000	**$'000**	**$'000**	**$'000**
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

NOTE 5:- OTHER OPERATING INCOME/ (EXPENSES)

	2013	2012
	$'000	**$'000**
Change in fair value of earn out (a)	1,667	85
Governmental grants and benefits (b)	6,120	960
Provision in the year	-	(726)
Gain (loss) on sale of assets	37	(312)
Integration and transaction costs	(814)	(486)
Other	(342)	(204)
	6,668	(683)

(a) In 2013, represents the change in the fair value of the contingent consideration related to the acquisition of Cross Bridge and Navman in 2012 and GlobalConect LTD in 2011 (see note 24).

In 2012, represents the change in the fair value of the contingent consideration related to the acquisition of GlobalConect LTD in 2011 (see note 24).

NOTE 5:- OTHER OPERATING INCOME/ (EXPENSES)

(b) The Group's eligibility for the annual programs for 2013, 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 2013 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

NOTE 6:- INVESTMENT INCOME

	2013	2012
	$'000	$'000
Exchange rate differences, net	-	178
Interest income from bank deposits	25	72
	25	250

NOTE 7:- FINANCE COSTS

	2013	2012
	$'000	$'000
Interest expense on bank loans and overdrafts	1,170	842
Exchange rate differences, net	298	-
Other bank expenses	742	430
	2,210	1,272

NOTE 8:- INCOME TAXES

A. Tax recognised in statement of comprehensive income

	2013	2012
	$'000	$'000
Current year taxes	1,020	781
Prior year taxes	121	(182)
Deferred taxes	(76)	436
Tax expense	1,065	1,035

NOTE 8:- INCOME TAXES (continued)

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 23.25% for 2013 and 24.5% for 2012, and the Group's total tax expense for the year:

	2013	2012
	$'000	$'000
Profit before income tax from continuing operations	11,951	4,915
Tax charge computed at 23.25% (2012: 24.5%)	(2,779)	(1,204)
Tax adjustments arising from:		
Non-deductible expenses	(237)	(535)
Deferred tax assets recognized and other timing differences, net	(896)	(1,196)
Recognition of previously unrecognised tax losses	3,416	-
Effect of tax rates in foreign jurisdictions	(1,345)	(347)
Utilization of carry forward losses for which no deferred tax was recorded	898	2,065
Tax for previous years	(121)	182
Tax expense	(1,065)	(1,035)

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.

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 2012	3,785	360	4,145
Translation adjustments	60	34	94
Credit to the statement of comprehensive income	(524)	92	(432)
At 1 January 2013	3,321	486	3,807
Translation adjustments	31	19	50
Credit to the statement of comprehensive income	(268)	344	76
At 31 December 2013	3,084	849	3,933

In the year ended 31 December 2013, the Group has recognised deferred tax assets of $171,000, $654,000, $529,000 and $2,578,000 in respect of Telit EMEA, Telit APAC, Telit Inc. and Telit Israel, respectively.

NOTE 8:- INCOME TAXES (continued)

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, 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:

	2013	2012
	$'000	$'000
Losses for which a deferred tax asset is recognised	11,195	11,680
Losses for which no deferred tax asset is recognised	34,748	40,457
	45,943	52,137

The losses for which no deferred tax asset has been recognized primarily relates to our UK entity.
The Group has recognised deferred tax assets to the extent that it is probable that these will be utilised in future periods.
The Finance Act 2013 enacted on 17 July 2013, 21% effective from 1 April 2014 and 20% effective from 1 April 2015
This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% enacted at the balance sheet date.

NOTE 9:- EMPLOYEES AND DIRECTORS' EMOLUMENTS

Employees emoluments:

The average number of persons (not including executive directors) during the year was:

	2013	2012
Research and development	297	251
Sales, marketing and operation	190	142
General and administration	86	81
	573	474

Their aggregate remuneration comprised:

	2013	2012
	$'000	$'000
Wages and salaries	35,111	32,978
Social security costs	5,378	4,664
Other pension costs	2,562	2,346
	43,051	39,988

NOTE 9:- EMPLOYEES AND DIRECTORS' EMOLUMENTS (continued)

Director's emoluments

The directors, deemed to be key management personnel, received the following remuneration in respect of services rendered to the Group:

	Year ended 31 December 2013	Year ended 31 December 2012
	$'000	$'000
Remuneration	4,930	3,982
Post-employment benefits	87	131
Total emoluments	5,017	4,113

The emoluments in relation to the highest paid director are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
	$'000	$'000
Total emoluments	3,512	2,848
Post-employment benefits	87	131
	3,599	2,979

NOTE 10:- PROFIT FOR THE YEAR, ADJUSTED MEASURES AND GROUP AUDIT FEE

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

	2013	2012
	$'000	$'000
Net foreign exchange (gain) / loss	298	(178)
Depreciation of owned fixed assets (note 13)	2,800	2,315
Amortization of intangible assets (note 12):		
Amortization of purchased customer list – included in selling and marketing expenses	1,078	627
Amortization of acquired technology – included in R&D expenses	899	899
Amortization of software – included mainly in R&D expenses	3,129	1,892
Amortization of Internally generated development costs – included mainly in R&D expenses	2,888	2,888
Research and development expenditure	24,049	20,085
Costs of inventories recognised as an expense	144,337	127,577
Write-downs of inventories recognised as an expense	808	270

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

(ii) EBIT, Adjusted EBITDA and Adjusted Profit for the Year

	2013 $'000	2012 $'000
Operating profit	**14,136**	**5,937**
Share-based payments	742	1,008
Non-recurring expenses	1,229	1,769
Amortization - intangibles acquired	2,688	1,859
Adjusted EBIT	**18,795**	**10,573**
Depreciation & amortization[3]	8,106	6,762
Adjusted EBITDA	**26,901**	**17,335**
Profit before tax	**11,951**	**4,915**
Share-based payments	742	1,008
Non-recurring expenses	1,229	1,769
Amortization - intangibles acquired	2,688	1,859
Adjusted profit before tax	**16,610**	**9,551**

EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. Adjusted EBIT, adjusted EBITDA and adjusted profit before tax are provided as additional information only and should not be considered as a substitute for operating profit or net cash provided by operating activities.

The Group's management believes that Adjusted EBIT (Earnings before Interest, Tax, share based payments expenses, amortisation of acquired intangibles and non recurring expenses), Adjusted EBITDA (Adjusted EBIT plus depreciation and other amortisation) and Adjusted Profit before tax (Profit before tax plus share based payments expenses, amortisation of acquired intangibles and non recurring expenses) are meaningful for investors because they provide an analysis of operating results and profitability using the same measures used by management. As a consequence, Adjusted EBIT, Adjusted EBITDA and Adjusted profit before tax are presented in addition to operating profit.

(iii) Audit fee

	Group		**Company**	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	179	200	179	200
Fees payable to the Company's auditor and their associates for other services to the Group:	16	33	10	5
The audit of the Company's subsidiaries pursuant to legislation:	264	173	-	-
Total audit fees	459	406	189	205
Other services relating to taxation	95	19	36	-
Total fees (1)	554	425	225	205

(1) The 2013 fees relating to Ernst & Young are $391K. The rest of the 2013 fees and all 2012 fees were paid to KPMG Audit plc.

[3] Excluding intangibles acquired.

NOTE 11:- EARNINGS PER SHARE

Basic earnings per share

	2013	2012
	$'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	10,933	3,914
	No. of Shares	No. of Shares
Basic weighted average number of equity shares(1)	103,826,885	102,968,936
Diluted weighted average number of equity shares (2)	111,067,069	108,272,974
Basic earnings per share (in US dollar cents)	10.5	3.8
Diluted earnings per share (in US dollar cents)	9.8	3.6
Adjusted basic earnings per share (in USD cents)	14.9	8.6
Adjusted diluted earnings per share (in USD cents)	13.9	8.2

(1) Basic weighted average number of equity shares:

	2013	2012
	No. of Shares	No. of Shares
Issued ordinary shares at 1 January	103,304,206	102,678,769
Effect of share options exercised	522,679	290,167
Basic weighted average number of equity shares at 31 December	103,826,885	102,968,936

(2) Diluted weighted average number of equity shares:

	2013	2012
	No. of Shares	No. of Shares
Basic weighted average number of equity shares	103,826,885	102,968,936
Effect of share options on issue	7,240,184	5,304,038
Diluted weighted average number of equity shares at 31 December	111,067,069	108,272,974

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.

NOTE 11:- EARNINGS PER SHARE (continued)

Adjusted earnings 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. The Group's management believes that Adjusted profit for the year and other adjusted measures such as Adjusted EBITDA are meaningful for investors because they provide an analysis of operating results and profitability using the same measures used by management.

	2013	2012
	$'000	$'000
Profit for the year	10,886	3,880
Loss attributable to non-controlling interest	47	34
Profit for the year attributable to the owners of the Company	10,933	3,914
Share-based payments	742	1,008
Amortization of intangibles acquired	2,688	1,859
Other non-recurring expenses	1,229	1,769
Change in deferred taxes, net	(126)	338
Adjusted profit for the year attributable to the equity shareholders	15,466	8,888

NOTE 12:- INTANGIBLE FIXED ASSETS

	Intangible assets with finite life					
	Software and licenses	**Internally generated development costs**	**Customer relationships**	**Acquired technology**	**Goodwill**	**Total**
GROUP	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
COST						
1 January 2012	8,454	13,374	4,487	2,499	8,644	37,478
Additions	3,064	7,644	-	-	-	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
Additions	3,333	9,909	-	-	-	13,242
Arising from acquisitions	1,808	-	3,830	-	2,144	7,782
Translation adjustments	465	1,005	25	(3)	4	1,496
31 December 2013	18,100	32,478	11,867	4,217	14,395	81,057
AMORTIZATION						
1 January 2012	(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)
Charge for the year	(2,418)	(2,888)	-	-	-	(5,306)
Arising from acquisitions	(711)	-	(1,078)	(899)	-	(2,688)
Translation adjustments	(364)	(363)	(2)	3	-	(726)
31 December 2013	(11,300)	(12,185)	(4,443)	(3,670)	-	(31,598)
Net book value						
31 December 2013	6,800	20,293	7,424	547	14,395	49,459
31 December 2012	4,687	12,630	4,649	1,446	12,247	35,659

A. Goodwill, customer relationships and acquired technology relate to the acquisition of Telit APAC in 2006, the acquisition of MAT in 2013 (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 CrossBridge in 2012; the acquisition of ILST in 2013 (included within the Americas geographical segment)

B. 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.

C. As of 31 December 2013 there are no borrowing costs capitalized.

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.

NOTE 12:- INTANGIBLE FIXED ASSETS (continued)

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 carrying value of goodwill by CGU at 31 December is as follows:

	2013	2012
	$'000	
APAC	3,696	3,404
Telit RF	332	328
Motorola m2m	3,255	3,255
GlobalConnect	1,926	1,926
Navman	1,095	1,095
CrossBridge	2,239	2,239
ILST	1,852	-
Total	14,395	12,247

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.

NOTE 12:- INTANGIBLE FIXED ASSETS (continued)

COMPANY	Trademark $'000	Software $'000	Total $'000
COST			
1 January 2012	9,147	115	9,262
Additions	-	1,212	1,212
Translation adjustments	400	30	430
31 December 2012	9,547	1,357	10,904
Additions	-	1,231	1,231
Translation adjustments	221	79	300
31 December 2013	9,768	2,667	12,435
AMORTIZATION			
1 January 2012	(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)
Charge for the year	(1,143)	(480)	(1,623)
Translation adjustments	(166)	(34)	(200)
31 December 2013	(5,113)	(723)	(5,836)
Net book value			
31 December 2013	4,655	1,944	6,599
31 December 2012	5,743	1,148	6,891

NOTE 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 2012	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
Additions	-	1,085	3,281	32	139	4,537
Acquisitions through business combinations	-	2,021	182	-	-	2,203
Disposals	-	(223)	(141)	-	-	(364)
Translation adjustments	317	4	576	2	3	902
31 December 2013	7,331	7,034	18,163	519	823	33,870
DEPRECIATION						
1 January 2012	(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)
Charge for the year	(182)	(899)	(1,546)	(81)	(92)	(2,800)
Acquisitions through	-					
business combinations	-	(1,744)	-	-	-	(1,744)
Disposals	-	150	200	-	-	350
Translation adjustments	(17)	(55)	(410)	1	(9)	(490)
31 December 2013	(409)	(4,963)	(11,934)	(152)	(231)	(17,688)
Net book value						
31 December 2013	6,922	2,071	6,229	367	592	16,182
31 December 2012	6,804	1,731	4,088	414	551	13,588

(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 2012 and 2013 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 2013 properties and equipment with a carrying amount of $2,579,000 (2012: $3,156,000) are subject to a floating charge to secure credit lines provided to subsidiaries.

NOTE 14:- INVESTMENTS IN SUBSIDIARIES

COMPANY	Loans to subsidiaries	Investments in subsidiaries	Total
	$'000	$'000	$'000
Investment in subsidiaries			
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 (4)	(250)	250	-
Translation adjustments	79	-	79
Provision for impairment (5)	-	(1,500)	(1,500)
1 January 2013	19,661	64,315	83,976
Additions (1,2)	4,860	-	4,860
Additions - subsidiaries share-based payment charge (1)	-	86	86
Repayments (3)	(2,356)	-	(2,356)
Loan converted to equity (4)	(210)	210	-
Translation adjustments	227	-	227
Move to current liability	(2,000)	-	(2,000)
31 December 2013	20,182	64,611	84,793

(1) In January, 2012 the Company purchased all the shares in Telit Communications S.p.A from the Company's subsidiary Telit Wireless Solutions S.r.L. 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 2(C).
In addition, in 2012 the Company established two additional subsidiaries as follows: Telit Wireless Solutions Hong Kong Limited for $3,000 and Telit Communications Cyprus Ltd. for $13,000.

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

(2) During 2013, a $4,250,000 loan was made available to Telit Wireless Solutions Inc., a $400,000 loan was made available to Telit Wireless Solutions Hong Kong Limited and a $210,000 loan was made available to Telit RF Technologies Sarl.

During 2012, a $856,000 loan was made available to Telit Wireless Solutions Hong Kong Limited.

(3) The repayment in 2013 is due to loan balance repayments made by Telit Wireless Solutions Ltd, Telit Hong Kong and Global connect.

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

(4) During 2013 and 2012 the Company converted the loan to Telit RF Technologies Sarl to equity.

NOTE 14:- INVESTMENTS IN SUBSIDIARIES (continued)

(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%.
The discount rate reflects management's assumptions regarding each unit's specific risk. This discount rate forms a standard basis used by management to estimate its operations and assess prospective investments.

Details of the subsidiary undertakings of the Company at 31 December 2013 are as follows:

Name of company	Country of incorporation and operation	Type of shares	Effective ownership interest and voting rights	Principal activity
Telit RF Technologies SARL (previously named Telit RF 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%	Non-trading Company
Telit Communications SpA[1] ("Telit EMEA")	Italy	Ordinary	100%	Development, manufacturing and selling data products and distributing cellular products
Telit Wireless Solutions GmbH (previously named 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
Telit Wireless Services Ltd. (previously named Dai Telecom Ltd.)[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
Telit Communications Cyprus Ltd. [1]	Cyprus	Ordinary	100%	Non-trading 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
ILS Technology LLC[2]	United States of America	Ordinary	100%	Selling and marketing managed services.

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

NOTE 15:- INVENTORIES

	Group	
	2013	2012
	$'000	$'000
Finished goods	10,233	13,169
Raw materials and work in progress	8,287	8,490
	18,520	21,659

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 $445,000 (2012: $1,027,000).

NOTE 16:- TRADE RECEIVABLES AND OTHER ASSETS

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Within current assets:				
Trade receivables	63,118	56,502	696	1,109
Other current assets	14,338	8,845	468	709
Due from Group undertakings	-	-	13,504	8,907
	77,456	65,347	14,668	10,725
Within non-current assets:				
Long term receivables	807	568	232	18

The average credit period on trade receivables is 76 days (2012: 85 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 $14,596,000 (2012: $8,253,000) 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 111 days (2012: 104 days).

	2013	2012
	$'000	$'000
Ageing of past due but not impaired trade debtors		
1-30 days	5,736	4,856
30-60 days	4,844	914
60-90 days	810	543
Above 90 days	3,206	1,940
	14,596	8,253

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

NOTE 16:- TRADE RECEIVABLES AND OTHER CURRENT ASSETS (continued)

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

	2013	2012
	$'000	$'000
At 1 January	663	421
Increase in allowance for the year	234	278
Amounts written off	(262)	(43)
Translation adjustments	26	7
At 31 December	661	663

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.

NOTE 17:- CASH

The Group's cash resources are as follows:

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Deposits – restricted cash	291	365	88	296
Cash and cash equivalents	23,886	21,044	3,068	4,418
Total	24,177	21,409	3,156	4,714

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.

NOTE 17:- CASH (continued)

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

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Sterling	39	613	38	604
US dollar	10,069	14,386	2,481	3,584
Euro	10,616	4,304	637	526
KRW	634	723	-	-
Brazilian Real	297	426	-	-
HKD	1,760	102	-	-
ILS	517	579	-	-
Other	245	276	-	-
Total	24,177	21,409	3,156	4,714

NOTE 18:- ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2013	2012
	$'000	$'000
Allotted, issued and fully paid: 104,592,690 ordinary shares of 1 penny each (2012: 103,304,206 ordinary shares of 1 penny each).	1,791	1,781

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

During 2013, 1,288,486 options were exercised by employees into ordinary shares. (2012: 625,438)

Share options

The number of outstanding options as at 31 December 2013 and at the date of this report was 12,710,387 and 7,305,452 equal to 11.77% and 6.6% respectively, of the outstanding share capital of the Company (11.44% and 6.2%, respectively of the outstanding share capital of the Company, on a fully diluted basis).

Share premium account
The share premium account is used to record the premium on shares issued.

Merger and other reserve
The reserves arose from the acquisition of one of the group trading entities, Telit Wireless Solutions Srl and a subsequent stake in another entity, SEM.
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. As a result, the difference in 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.

Translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of overseas subsidiaries.

NOTE 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, 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 $39,000 (2012: $16,000) and the charge to the statement of comprehensive income in the year is $26,000 (2012: $27,000).

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.

	2013	2012
Expense recognised in the statement of comprehensive income	**$'000**	**$'000**
Interest cost	116	131
Current service costs	429	358
	545	489

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:

	2013	2012
	$'000	**$'000**
Present value of defined benefit scheme obligation		
1 January	3,656	2,785
Current service costs and interest	545	489
Contributions paid by the Company	(144)	(288)
Actuarial gains	(466)	521
Translation adjustments	113	149
31 December	3,704	3,656

19. POST-EMPLOYMENT BENEFITS (continued)

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

	2013	2012
Discount rate	3.17% /4.50%	2.70% /3.93%
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 $19,318 (2012: $377,419) and the expected contributions to be paid in 2014 total $132,204.

	2013	2012	2011	2010	2009
	$'000	$'000	$'000	$'000	$'000
Historical information					
Present value of the defined benefit scheme obligation	3,704	3,656	2,785	2,869	2,014
Experience adjustments arising on the plan liabilities	19	377	163	241	206

NOTE 20:- CURRENT LIABILITIES

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Short-term bank loans and other borrowings	10,802	22,904	-	-
Current maturities of long term loans	2,988	1,389	-	-
Total short-term borrowing from banks and other lenders	13,790	24,293	-	-
Trade creditors (i)	51,860	38,883	1,112	569
Due to Group undertakings	-	-	39,163	30,672
Provisions	1,217	2,254	-	-
Accruals and other current liabilities	15,756	11,584	1,199	847
Total current liabilities	82,623	77,014	41,474	32,088

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 2013 was 92 days (2012: 75 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.

NOTE 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 trade name "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 an appeal to the assessment in the Tel Aviv District Court. On July 19 2013, following an agreement between the Company and the Israeli Customs Authority, the court dismissed all proceedings in this matter, without any payment required to be made by the Company.

B. On 13 January 2012, M2M Solutions LLC, a company allegedly incorporated under the laws of the State of Delaware, USA ("M2M"), 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 patent and the Telit defendants allegedly infringed two patents allegedly owned by M2M (the "Complaint").

M2M 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.

Both Telit and Motorola answered M2M's 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 an 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, among other things, that while the lawsuit was pending, none of the parties would make claims against each other arising from the causes of action asserted by M2M or seek any cost recovery or indemnity.

During 2013, the parties were engaged in pre-trial motions. On September 12 2013, the Markman hearing was held and the parties' positions were presented to the Court, following which, on November 12 2013, the Court entered its claim construction order, which invalidated one of the asserted patents as indefinite. On January 24 2014, the Court upheld its earlier construction of one claim term, and immaterially amended the second claim term.

NOTE 21:- CONTINGENT LIABILITIES (continued)

In the opinion of the Company's management based, among other things, on the opinion of its professional advisers, and as M2M's expert has not disclosed the amount of damages it seeks, no provision is considered 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 ("Mentor Graphics"), 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 on 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. During 2013, the parties were engaged in pre-trial motions. Telit intends to continue to contest the counterclaims vigorously and to seek the remedies included in its complaint.

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.

NOTE 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**	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Operating leases which expire:				
Within one year	2,045	1,791	607	687
In the second to fifth years inclusive	5,557	3,085	433	883
Above five years	-	89	-	-
	7,602	4,965	1,040	1,570
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	1,794	924	1,059	869

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

NOTE 22:- COMMITMENTS AND GUARANTEES (continued)

Guarantees and liens

A. The Company provided guarantees of up to $29.9 million to 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 a total amount of $99.2 million but shall not exceed the amount of 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.

NOTE 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 2013	1,260	249	2,473	3,982
Utilized in the year	(308)	-	(745)	(1,053)
Provided in the year	-	-	468	468
Exchange differences	4	12	40	56
Balance at 31 December 2013	956	261	2,236	3,453
Classified as:				
Current liabilities	956	261	-	1,217
Non-current liabilities	-	-	2,236	2,236
	956	261	2,236	3,453

A. The Group has been subject to tax audits and is currently involved in tax litigation in Italy.
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 appealing such assessments and penalty notices.
In 2012 Telit received assessments, and/or penalty notices and/or R&D recovery deeds for the years 2007 and 2009 in the approximate aggregate amount of $1.7 million. The Company is in various stages of appealing such assessments and penalty notices.
In 2013 Telit received a Vat assessment for the year 2004, and two assessments for the years 2008 and 2009 in the approximate aggregate amount of $1.8 million. The Company is in various stages of attempting to settle or otherwise to appeal such assessments.
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).
In 2013 Telit Wireless Solutions S.r.l received tax assessments for the years 2008 and 2009 in the approximate aggregate of $1.5 million. The Company is in various stages of attempting to settle or otherwise to appeal such assessment.

NOTE 23:- PROVISIONS (continued)

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.

NOTE 24:- OTHER LONG-TERM LIABILITIES

	Group	
	2013	**2012**
	$'000	**$'000**
Earn out from acquisitions (a) (b)	303	3,282
Other (C)	66	90
	369	3,372

a. During 2012, the Company reassessed the fair value of the contingent consideration related to the acquisition of GlobalConect Ltd in 2011 and therefore decreased the liability in the amount of $85,000 to $115,000. During 2013, the Company reassessed the fair value of the contingent consideration related to the acquisition of GlobalConect Ltd in 2011 and therefore decreased the liability in the amount of $115,000 to zero.

b. For contingent consideration included in other long-term liabilities related to the Navman acquisition, see note 2(D). For contingent consideration included in other long-term liabilities related to the acquisition of CrossBridge Solutions Inc., see note 2(C). In July 2013, the Company signed an agreement with the shareholders of CrossBridge Solutions Inc. according to which it paid the shareholders an earn out in the amount of $1.15 million, instead of the earn out amount of $2.75 million which was due to be paid according to the share purchase agreement signed on December 2012.

c. As at 31 December 2012 the Group had outstanding a €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. The fixed interest rate payable by the Group is Euribor + 1%. As of 31 December 2013 the balance is zero.

NOTE 25:- SHARE-BASED PAYMENTS

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

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.

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.

On March 19 2013, a director of the Company was granted 600,000 options, at an exercise price equal to 80p with a three year vesting schedule starting on 19 September 2011, such that vesting occurs in three equal instalments on each of 19 September 2012, 2013 and 2014 and shall expire on 19 September 2016. Such options were related to an earlier resolution by the Company, dated September 19 2011 (the "Original Resolution"), that approved the future grant of 600,000 options, conditional upon the Company successfully completing a public fundraising on a major stock exchange, at an exercise price equal to 80p (the "Exercise Price"), with a vesting schedule of 3 years, starting on 19 September 2011. The Company decided to amend the Original Resolution, so that the grant of options not be contingent upon the Company completing its listing on a major stock exchange. Since at the time of the grant of the options (March 19 2013) the Company had nearly reached the overall limit on the granting of options under the Company's share options plan, the remuneration committee resolved that, as the overall limit under the plan increases, the director would from time to time be formally granted additional options (either in one tranche or in a series of separate grants) at the same exercise price and on the same terms as aforesaid.

The number of outstanding options as at 31 December 2013 was 12,710,387, equal to approximately 12.15% of the issued share capital of the Company.

NOTE 25:- SHARE-BASED PAYMENTS (continued)

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

	Number		Weighted average exercise price (pence)	
	2013	**2012**	**2013**	**2012**
Outstanding at beginning of year	13,529,905	13,913,508	0.43	0.42
Granted during the year	600,000	300,000	0.80	0.80
Exercised during the year	(1,288,486)	(625,438)	0.27	0.23
Lapsed during the year	(131,032)	(58,166)	0.63	0.32
Outstanding at year end	12,710,387	13,529,905	0.45	0.43
Exercisable at year end	11,011,547	8,968,567	0.40	0.33

The weighted average share price at the date of exercise for share options exercised in 2013 was £1.17 (2012: £ 0.56).

The options outstanding at 31 December 2013 have an exercise price in the range of £0.20 to £0.905 (2012: £0.20 to £0.905) and a weighted average contractual life of 1.3 years (2012: 2.3 years).

The Group recognised a total expense of $742,000 in respect of equity settled share based payment transactions for the year ended 31 December 2013 (2012: $1,008,000).

The Company charge for the year was $658,000 (2012: $790,000).

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	0%	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	0%	0.24
19 March 2013	0.835	0.80	60	5	0.85	0	0%	0.37

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

NOTE 26:- BORROWINGS

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$ '000	**$'000**	**$'000**	**$'000**
Unsecured – at amortized cost				
Current maturities of long term loans	2,988	1,389	-	-
Other long-term loans	22,134	9,839	-	-
Total	25,122	11,228	-	-
Secured – at amortized cost				
Short-term bank loans and other borrowings	10,802	22,904	-	-
Total	10,802	22,904	-	-
Disclosed in the financial statements as:				
Current borrowings	13,790	24,293	-	-
Non-current borrowings	22,134	9,839	-	-
Total	35,924	34,132	-	-

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$ '000	**$'000**	**$'000**	**$'000**
Borrowings breakdown				
Working capital borrowing (1)	10,962	23,189	-	-
Long term loan (2)	7,482	-		
Governmental loan (3)	13,780	6,924	-	-
Mortgage loan (4)	3,700	4,019	-	-
Total	35,924	34,132	-	-

(1) Short term borrowings, for less than one year, arising from invoice advances used for working capital financing.

(2) Representing two long term loans from banks in Italy- (i) $6.2 million with interest at a rate of Euribor 3 months plus 3.25%, repayable in 20 quarterly instalments that commenced in September 2013, and (ii) $1.3 million with an interest rate of Euribor 6 months plus + 5.5%, repayable in 6 semi-annual instalments that will commence in December 2020.

(3) Representing preferential two long term loans (i) $7.7 million with fixed-rate of 0.5%, repayable in 14 semi-annual instalments that will commence in December 2016, supported by the Italian MISE (Ministry of Economic Development) to develop an innovative platform for the application of M2M technologies and, (ii) $6.1 million with a fixed-rate of 0.75%, repayable in 10 annual instalments that commenced in March 2009, supported by the Ministry of Trade and Commerce in Italy, provided in connection with the Group’s business development program in Sardinia.

(4) 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 loan is denominated in Euro, attracts interest at a rate of Euribor 6 months less 20% and is repayable in 15 semi-annual instalments that commenced in June 2012.

The directors believe, based on the past performance of the relevant subsidiaries and the history of the relationships with the lending banks, that the credit facilities will remain available to the Group in the foreseeable future and that therefore the Group will be able to continue to fund its operations from these credit facilities.

NOTE 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	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
US Dollar	27,305	23,031	36,615	27,828
Euro	3,248	1,920	687	341
ILS	4,531	2,910	801	369
Other	39	172	405	-

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	
	2013	**2012**
	$'000	**$'000**
Impact on profit or loss of a 10% change	338	50

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

Interest rate risk

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

NOTE 27:- FINANCIAL RISK MANAGEMENT (continued)

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

At the reporting date, if interest rates had been 1% higher/lower and all other variables were held constant, the Group's net loss would increase/decrease by $240,000 (2012: $119,000); 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 a counterparty will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's trade receivables.

The Group's trade receivables are principally derived from sales to customers in Israel, Italy, the USA and Korea. The Group performs ongoing credit evaluations of its customers and until 2010 did not experience any material losses. Following recognition of material bad debt during 2011, the Group began insuring part of its trade receivables balance. Allowance for doubtful accounts is determined with respect to those amounts that the Group has determined to be doubtful from collection.

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

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

Maximum credit risk:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Cash and cash equivalents	23,886	21,044	3,068	4,418
Deposits – restricted cash	291	365	88	296
Trade receivables	63,118	56,502	696	1,109
Due from Group undertakings	-	-	13,504	8,907
Other long term asset	807	568	232	18
Loan (or investment in) to subsidiaries	-	-	20,182	19,661
Guarantee provided to banks on subsidiary's borrowings	-	-	99,241	32,148

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.

NOTE 27:- FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

Group

	2013			2012		
	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	0.61%	1,193	16,345	2.93%	5,696	5,791
Variable rate	3.14%	12,597	5,789	2.13%	18,597	4,048

Company

	2013			2012		
	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	-	99,241	-	-	32,148	-

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.

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 37.

NOTE 27:- FINANCIAL RISK MANAGEMENT (continued)

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	
	2013	**2012**
	$'000	**$'000**
Cash and cash equivalent	23,886	21,044
Restricted cash deposits	291	365
Total cash	24,177	21,409
Current borrowings	(13,790)	(24,293)
Non-current borrowing	(22,134)	(9,839)
Total borrowings	(35,924)	(34,132)
Net debt	(11,747)	(12,723)
Shareholders' equity	79,025	65,991
Net debt to equity ratio	14.86%	19.28%

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

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

As of December 31, 2013 the Company does not have any financial instruments at the Level 1 and Level 2 categories.
Level 3 instruments included liabilities related to contingent consideration in business combination. During the year ended December 31 2013 the change in the fair value of such liabilities was immaterial (see also note 24)

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate borrowings are evaluated by the company based on current interest rates. As at 31 December 2013, the carrying amounts of loans were not materially different from their calculated fair values.

NOTE 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:

	2013	2012
	$'000	$'000
Royalties *	4,809	3,923
Cost of sale	1,651	1,081
Interest income	1,882	806

* 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 25. 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.

NOTE 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 $4,274,000 (2012: loss of $6,202,000).

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
Company Secretary	Ron Belkine
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Independent Auditor	Ernst & Young LLP 1 More London Place, London SE1 2AF
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