Telit
Communications PLC

Annual Report 2014

Powering Mass Adoption in the Internet of Things

TELIT IoT ENGINE

Table of Contents

Introduction

Telit Communications PLC

Telit Communications PLC ("the Company" or "Telit") is a leading global enabler of the Internet of Things (IoT). The unique combination of products and services feed data directly into applications and business IT systems to deliver real-time intelligence to businesses across industries. ONE STOP. ONE SHOP is the company's go-to-market model offering cellular, short-range and GNSS modules plus all value added services to connect them over the air, into the cloud and business systems.

From Telit Automotive Solutions come 4G LTE and other products meeting strict automotive OEM standards. Through its business unit m2mAIR, the company provides an IoT focused Platform as a Service (PaaS), based on the industry acclaimed deviceWISE platform, managed and value added services, application enablement and connectivity covering the mobile network domain and device to cloud/backend services. With over 13 years exclusively in m2m, Telit constantly advances technology through eight R&D centres around the globe, marketing products and services in over 80 countries.

Telit supplies scalable product families which are fully interchangeable for different market applications, technologies and generations, with rapid prototyping tools for application design. The Company provides customer support and design-in assistance from 35 sales and support offices, a global distributor network of experts, and the Telit Technical Support Forum.

Telit is listed on the LSE:AIM (Ticker: TCM).

The machine to machine and internet of things market

Machine to machine (m2m or M2M) technology establishes wireless communication between machines and information systems at the enterprise. m2m is the key enabler of the IoT, which is turning into the next evolution of the Internet. It has the power to enable a quantum leap in the ability to gather, analyse and distribute data that can turn into information, knowledge and, ultimately, improve business processes and deliver productivity gains in all economic sectors. At the heart of each IoT implementation is a communication module which receives, processes and transmits information.

The international market for m2m wireless communications remains strong, as wireless communication is a feature consistently seen in more and more devices such as connected cars, smart meters and wearable consumer electronics.

The IHS Technology report on the m2m sector "Cellular Modules for M2M - 2014", predicts that this market will enjoy robust growth over the coming years. IHS believes the number of units to be shipped will reach 166.6 million by 2018, representing a 2012-18 CAGR of 22.8%. The report, which was published June 2014, projects an average selling price decline for the period 2012-18 of 10% CAGR for 2G modules, 12.5% CAGR for WCDMA/HSPA (3G) and 13.6% for LTE (4G). Considering the product mix forecast by IHS, the market will grow in monetary value at a CAGR of 20.2 % from 2012 through 2018 with a total value of m2m module market of $3 billion in 2018.

Financial Highlights[1]

- Revenues for the full year ended 31 December 2014 increased year on year by 20.9% to $294.0 million (2013: $243.2 million).
- Revenues include a contribution of $20 million from m2mAIR, Telit's Platform as a Service (PaaS), the Company's value added, connectivity, cloud platform and other services (2013: $9.8 million) an increase of 104.1%.
- Gross margin increased significantly from 38.02% in 2013 to 39.55% in 2014.
- Adjusted EBITDA for the year increased by 29% to $34.7 million (2013: $26.9 million).
- EBITDA for the year increased by 19.3% to $29.7 million (2013: $24.9 million)
- Operating Profit / EBIT increased by 7.8% to $15.2 million (2013: $14.1 million).
- Adjusted EBIT increased by 31.4% to $24.7 million (2013: $18.8 million).
- Profit before tax for the year increased by 16.8% to $13.9 million (2013: $11.9 million).
- Adjusted net profit for the year increased by 33.5% to $20.7 million (2013: $15.5 million)
- Adjusted basic earnings per share increased by 23.5% to 18.4 cents (2013: 14.9 cents).
- Basic Earnings per share from continuing operations was 11.1 cents (2013:10.5 cents)
- Cash flow from operating activities increased by 81.9% to $46.2 million (2013: $25.4 million).
- Total equity at 31 December, 2014 increased by $18.4 million to $97.8 million (31 December 2013: $79.4 million).
- Net debt at 31 December 2014 decreased by $7.8 million to $3.9 million (31 December 2013: net debt of $11.7 million).

Operational highlights

- Revenues increased by 20.9% to $294.0 million (2013: $243.2 million). For the fifth year in a row, the Company has achieved double-digit growth with an average CAGR of 27%.
- Gross margin increased from 38.02% in 2013 to 39.55% in 2014, due to improvements in the hardware gross margins and a greater mix of services revenues, which provide a higher gross margin.
- Gross profit for the year increased by 25.7% to $116.3 million (2013: $92.5 million).
- Research and development operating expenses (expenses before capitalization and amortization of internally generated development costs) increased by $17.4 million to $48.8 million (16.6% of revenues) compared to $31.4 million in 2013 (12.9% of revenues). R&D expenses increased mainly due to the acquisitions of ILST in late 2013 and the ATOP automotive division from NXP semiconductors in April 2014, as well as due to the development of LTE modules designed for use in the most demanding automotive and industrial M2M applications, continued development of many automotive customized products, continuing investment in m2mAIR, Telit's Platform as a Service (PaaS), the Company's value added, connectivity, cloud platform and a significant investment in the ONE STOP. ONE SHOP concept.
- Sales and marketing expenses increased by $11.8 million to $50.4 million (17.1% of revenues) compared to $38.6 million in 2013 (15.9% of revenues). The increase is mainly due to the acquisitions of ILST and ATOP.
- General and administrative expenses increased by $4.2 million to $26.5 million compared to $22.3 million in 2013 but decreased to a lower proportion of revenues at 9% compared to 9.2% in 2013.
- Each and every financial parameter including: EBIT, PBT, EBITDA, EPS and cash flow from operational activities, improved during 2014 compared to the prior year.
- The Company's total equity increased significantly to $97.8 million in the year ended 31 December 2014 (2013: $79.4 million). This increase is mainly due to the Company's continued profit making and the issuance of new shares as part of the acquisition of the ATOP business unit from NXP and in connection with the exercise of options, offset in part by the significant increase in the value of the US dollar, particularly against the euro, which had a negative impact on the value of some of the Group's assets which are denominated in euro.

[1] For reconciliation from IFRS financial results to adjusted financial results please refer to note 10 in the attached financial statements.

Acquisitions

On 31 March 2014 Telit completed the acquisition from NXP Semiconductors N.V. (Nasdaq: NXPI), of NXP's ATOP business. ATOP is an automotive grade solution for vehicle manufacturers enabling them, amongst other features, to implement telematics services like 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 final consideration was $2.1 million in cash and $8.9 million by way of allotment to NXP of 2,255,943 ordinary shares of the Company.
The acquisition of ATOP includes sales, engineering and support staff, which were fully integrated during the year into Telit's automotive organization, extends the Company's market reach with solutions leveraging the expanded engineering and sales expertise serving to better address automotive and telematics customers.

Regional Information

The split of revenue on a geographical basis for the years ended 31 December 2014 and 2013 is as follows:

	2014 ($'000)	**% of Total Revenue**	**2013 ($'000)**	**% of Total Revenue**
Americas	135,678	46.1%	105,216	43.3%
EMEA	117,494	40.0%	110,099	45.3%
APAC	40,832	13.9%	27,909	11.4%
Total Revenue	**294,004**	**100%**	**243,224**	**100%**

Americas

In 2014 we continued to see strong sales growth in the Americas, which became our largest geographic market. A strong economy and an increase in the average selling price (ASP) due to technology migration, contributed to the significant growth in the region.

In North America, we continued to benefit from the transition from 2G to 3G technology. There has been a strong trend over the past 18 months, particularly in fixed applications like home security, to upgrade existing alarm panels from 2G to 3G technology due to the planned shutdown of the AT&T GPRS network in December 2016, resulting in additional business above normal run rate business. The financial benefit we have enjoyed as a result of the AT&T 2G to 3G conversion is expected to be mostly completed by the end of 2015.

In 2014 we certified our first industrial LTE module (LE910), on both AT&T and Verizon. Although sales in 2014 were modest due to LTE price points and customer design cycles, we expect to see LTE sales become a more relevant percentage of our business in 2015, serving customer applications that require higher bandwidth and long term network availability, such as applications in the energy and router markets. However, the most significant growth in LTE is likely to come with the launch of modules that support LTE Category Zero (Cat-0). Expected to be included in Release 12 of the LTE specification in 2015, it will be further refined into a Machine Type Communications (MTC) specification in Release 13, which is expected to be finalized in March 2016. Unlikely to be supported by global mobile network operators (MNOs) until 2017, Cat 0 devices will have many of the advantages that made GPRS such a suitable technology for M2M, including low cost, better battery performance, low latency and improved in-building coverage.

2014 was a challenging year in Latin America due to the impact of the Brazilian presidential election, the World Cup and economic instability in Argentina. These macro-economic issues resulted in modest unit growth year-to-year and a slight decline in revenue. On the positive side, we continued to see very strong sales growth in our GNSS portfolio and secured a number of key design wins which should help to improve our performance in 2015.

2015 is expected to be another year of strong growth in the Americas as we continue to benefit from the increase in popularity of LTE, continued deployments of 3G technology and the early results from our One Stop. One Shop strategy of combining hardware with value-added services, network connectivity, and application development platform.

EMEA

The challenging conditions in the Eurozone economy continued in 2014. The slowdown in the European economy became evident in the second half of the year, with fears of re-entering a recession. This, combined with the ongoing political uncertainty created by the situation in Greece, the conflict in the Ukraine and the Ukraine-related sanctions against Russia, resulted in delays in the deployments of some projects in various verticals including Sales and Payment, Energy and Telematics, meaning that the growth rate was slightly lower than could otherwise have been achieved. Despite this adverse backdrop, Telit still managed to keep growing over market average, reaffirming our leadership in EMEA

We achieved important design wins in different verticals with new customers that are well-established players in various verticals like Energy, Telematics, Security, Vending Machines and Gateways & routers that will contribute to our growth during 2015 and beyond, but visibility on how the economy will evolve in EMEA during 2015 remain unclear, with many challenges facing Telit and the market as a whole.

The shift towards 3G and 4G cellular technologies that we see in other regions is not replicated in EMEA yet and 2G is still largely the dominant technology. This limits the growth possibilities in revenue despite the growth in the number of units sold. We expect to see a substantial increase in revenues when the shift to 3G and 4G technologies in EMEA begins in earnest, but it is difficult to predict when the shift will begin.

Looking forward to 2015 these uncertainties in the political situation in EMEA continue to prevail and may block the progress of certain projects and consequently slow down the market growth. Based on this we can expect a modest growth and many big projects shifting into 2016. Our OSOS strategy and diversification towards services will contribute into softening the effects of the political climate in this area and will allow us to reinforce our leadership.

APAC

Revenues in APAC enjoyed substantial growth of 45% over 2013 revenues, despite fierce price pressure in low end applications utilizing 2G modules in certain countries in the region. The growth was driven by our focus on high value added segment in 2G and expansion in 3G and 4G modules.

Certain consumer and low end industrial segments 2G applications continue to face fierce price pressure due to low requirement on quality and differentiable features. Although the low end 2G price floor seemed to have stabilized, this segment remains challenging from a margin perspective.

Many of the key APAC countries are accelerating the adoption of 3G and 4G technologies for M2M applications. We were able to capture many of these opportunities. In 2014, we saw multiple key accounts launching new systems in remote health, point of sales devices and remote monitoring resulting in significant module sales growth in these segments. We expect these key accounts to continue to drive the system sales in the coming years and our module sales will benefit from it.

Technology, Services & Products:

Technological innovation is Telit’s core capability. Thanks to its 8 R&D centres, the Company was again able in 2014 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. In addition, Telit’s m2m Air division expanded its offering of PaaS cloud services and premium managed connectivity plans. Highlights in 2014 include:

- Following the acquisition ATOP business unit from NXP, a new product line of automotive connectivity modules was added to the Telit portfolio, expanding its offering for this market segment. The new products offer embedded security features and processing power.

- During the second half of the year, we launched the m2mAir Cloud platform, powered by deviceWISE to provide customized network connectivity as well as a host of value added services. Our deviceWISE M2M/IoT Application Enablement Platform (AEP) provides seamless connectivity and integration across any remote device, any network and any enterprise application in the back office - without any programming. The developer-friendly platform reduces the risk, time-to-market, complexity and cost of deploying solutions for remote monitoring and control, industrial automation, asset tracking and field service operations across operations around the world.
- Continued investment and development of the m2mAIR Mobile managed services business, which provides Telit with a recurring revenue stream in addition to the revenues achieved by the Company from its established module business. The m2mAIR Mobile offering covers all customer connectivity needs, including subscription management, remote module management, security, reporting and monitoring, supply of SIM cards, rate plans and customer support. With Telit's wireless module technology, these services enable M2M solution providers to easily create and manage their M2M applications, reducing total cost of ownership (TCO) necessary to operate and support M2M user-applications while ensuring the highest network quality and reliability. The m2mAIR Mobile offering is currently available for European and North American customers with planned rollouts in other regions.
- The 2013 acquisition of ILS Technology and the integration into Telit of its management, engineering and support staff created the m2mAir Cloud 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 enabling m2mAIR Cloud, Telit expanded 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.
- The Company integrated the m2m Cloud connector in its cellular modules, launching “Cloud Ready” products that significantly shorten the development time and reduces the risks of developing solutions from scratch.
- The Company continued to invest in the development of its flagship xE910 family of wireless modules featuring a single, compact form factor that is interchangeable so that solution providers and integrators can easily deploy their applications under most of the top regional cellular networks, with ubiquitous, cost effective coverage for M2M connected assets and consumer electronics devices worldwide. Based on a Land-Grid-Array (LGA) form factor with a footprint of just 795mm^2 and a total size of 28.2 x 28.2 x 2.2mm, the Telit xE910 family's uniform design gives customers the ability to choose between global or regional cellular technologies depending upon the location and requirements of a specific application for optimum data rates and module costs. Supporting GSM/GPRS, UMTS/HSPA+ and CDMA/EV-DO and LTE cellular technologies, the xE910 family also allows applications to be easily upgraded, such as when migrating from 2G to 3.5G, while maintaining the core design of an application or device throughout its lifecycle.
- The Company completed the certification of LE910 variants for the US market, which include a single mode LTE variant for Verizon Wireless and a multi-mode LTE variant for the AT&T network. Also new regional variants of LTE products including the EU, Japan and Korea were introduced to the market.
- The Company continued the development of third generation multi-constellation GNSS modules which dramatically improve navigation performance by providing access to both the Russian GLONASS global navigation satellite system and Chinese Beidou, supplementing GPS. Third generation modules offer improved performance and power consumption. In 2014 the Jupiter family was further expanded with the addition of the new variants: SL869-V2S, SL871 and SL871-S.
- During 2014 we followed the deployment of LPWA (Low Power Wide Area) networks in different countries, specifically Spain and the UK. As part of our Short Range offering, we have extended our product portfolio to support Sigfox technology by adding a new member to our family concept that facilitate the adoption to our customers and allow them to address the new opportunities arising in the market.

We live the Internet of Things

The traditional m2m/IoT value chain is fragmented: different companies market different components, and although the industry has been very successful, this fragmentation is impacting on future growth. There is a clear and compelling need to defrag the value chain, to mask its complexity delivering a one-vendor connectivity offer that spans data collection through to data processing. Solving this challenge is a process that starts with cellular and other wireless modules at one end; mobile network connectivity and value added services in the middle; and an application enablement and data integration platform services at the other. That is the foundation of Telit's ONE STOP. ONE SHOP (OSOS) offering which we have built for more than a decade to service customers and markets in:

- 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. At the end of 2014, Telit employed 794 employees worldwide, an increase of 23.9% (2013: 641).

Telit provides world-class global logistics support to customers of all sizes, covering substantially all verticals in the m2m/IoT market. The 13 years of experience doing business around the globe have helped Telit establish strong channels and excellent access to key suppliers, customers and distributors in all major regional markets. Telit's diverse customer base includes Automotive OEMs and Tier One automotive suppliers, as well as a broad range of engineering/design firms, manufacturers and system integrators of cellular connected devices and applications.

Competitive Advantage

With extensive R&D experience, gained through hundreds of engineering staff-years, Telit has developed a number of differentiators including deviceWISE, the industry's first and most secure IoT Application Enablement Platform developed from the ground up for data integration of "Thing" into business systems and enterprise applications; and its own GSM/GPRS stack which the company uses as the technological basis of solutions in this technology.

1. **Flexibility:** Telit offers customers all products and services to take a stand-alone device and connect it to the IoT and to business Apps. Customers have the flexibility of sourcing any single or combination of these services and products. Telit modules are all designed in a 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 and regional markets. The advantage for users is substantial: all modules in a family are interchangeable. Above all, customers can easily replace the modules with successive products without changing the application. This reduces effort, time and costs associated with development.

2. **Scalability:** The Telit portfolio of services and modules includes offerings for an extensive set of application types and different deployment scales with products and services to cover quantities from a few, to millions of units. 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:** Being the owner of key intellectual property enables Telit to remain on the cutting edge of innovation for solutions to connect "things" to the IoT. Delivering GSM/GPRS, CDMA/EV-DO, UMTS/HSPA+, LTE, short range RF and GNSS technologies in product families, enables customers to choose among the various technologies, selecting the best solution considering the market their application is to be deployed in. Key advantages include no need for changes to the application for use of different modules in a family and embedded intellectual property to enhance module use with Telit services like m2mAIR Mobile data connectivity and the m2mAIR Cloud pay-as-you-grow application enablement platform.

4. **Focus:** Telit's clear focus is on the IoT market. Telit is a pure-play IoT business, allowing it to focus on customer needs to connect and maximize value from assets on the Internet of Things. Our R&D and M&A effort is focused on creating the best portfolio of products and services to provide customers with the solutions necessary to effectively run and grow their businesses deriving value from connection to the IoT.

CHAIRMAN'S STATEMENT

Enrico Testa, Chairman of the Board

I am pleased to deliver our 2014 results. Our strong competitive position has helped us to continue to achieve significant growth.

Outlook

The outlook for 2015 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 continue to take advantage of the opportunities in the market and believe that our acquisitions over the past few years enhance our platform as a service (PaaS) including M2M managed and value added services, application enablement and connectivity, including the mobile network side and cloud back-end 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 reinforce our already strong position within our industry. We look forward to continued organic business growth and are constantly seeking further expansion opportunities through investment in new technologies or by gaining access to new territories and new market segments.

We look to 2015 and beyond with excitement, as we continue to gain market share and strive constantly to improve our profitability while continuing to provide the market with first rate products as well as value added services.

Board changes

- On March 11, 2014, Mr. Sergio Buonanno resigned from the board.
- On April 1, 2014 Mr. Lars Reger was appointed to Board.
- On June, 19, 2014 the term of office of Mr. Nicola Miglietta expired, at the end of the annual general meeting of the shareholders of the Company. Mr. Miglietta retired by rotation from the Board, in accordance with the Company's articles of association and did not stand for re-election.

People

At the end of 2014, Telit employed 794 employees worldwide, an increase of 23.9% (2013: 641). During 2014 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 (2013: $ nil).

Enrico Testa
Chairman of the Board
20 March 2015

CHIEF EXECUTIVE'S STATEMENT

Oozi Cats, Chief Executive

2014 was the fifth consecutive year of double-digit revenue growth for Telit and improvements in absolute profitability. In 2014 we implemented another major step within our strategic roadmap - the acquisition of the ATOP business from NXP that augmented our position in the automotive sector.

During the year, we continued to invest in Telit's Platform as a Service (PaaS), generating revenues of $20 million, representing a year over year growth rate of 104%. Our strategic investments and acquisitions in recent years have added a layer of recurring revenues to Telit's traditional business and we expect them to increase their contribution over the coming years.

Our hard work and significant investments over the past few years have created a market-leading platform to capitalise on the 'Internet of Things' ("IoT") through which we will continue to pursue the many exciting opportunities in the market and continue increasing our market share. We are very excited about the ONE STOP. ONE SHOP concept we are already delivering to IoT customers and adopters and are confident that with the unparalleled simplification it provides, Telit is very strongly positioned to continue leading the space of M2M solutions providers worldwide.

Financial Results[2]

	2014 $'000	**2013 $'000**
Revenue	**294,004**	**243,224**
Gross profit	**116,270**	**92,482**
Gross margin	39.55%	38.02%
Research and development	(26,986)	(24,049)
Selling and marketing	(50,393)	(38,617)
General and administrative	(26,529)	(22,348)
Other operating income, net	2,855	6,668
EBIT	**15,217**	**14,136**
Adjusted EBIT	**24,687**	**18,795**
Adjusted EBITDA	**34,657**	**26,901**
Profit before tax	**13,908**	**11,951**
Adjusted profit before tax	**23,378**	**16,610**
Profit for the year from continuing operations	**12,487**	**10,886**
Adjusted net profit for the year	**20,709**	**15,466**
Adjusted basic profit per share (in USD cents)	**18.4**	**14.9**

Basic and diluted earnings per share for 2014 were 10.6 cents and 10.2 cents respectively for the period compared to 10.5 and 9.8 cents per share in 2013.

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.

[2] For reconciliation from IFRS financial results to adjusted financial results please refer to note 10 in the attached financial statements.

Net debt position

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

	2014	2013
	$'000	$'000
Cash and cash equivalents	25,399	23,886
Restricted cash deposits	845	291
Working capital borrowing (1)	(9,949)	(10,960)
Long term loans (2)	(5,372)	(7,482)
Governmental loans (3)	(11,183)	(13,060)
Mortgage loan (4)	(3,605)	(4,422)
Net Debt	**(3,865)**	**(11,747)**

(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 2014 and 2013 is as follows:

	2014	2013
EMEA	449	373
Americas	159	122
APAC	186	146
Total Employees	**794**	**641**

Effects of Foreign Exchange

12.8% of Telit's revenue in the period was generated in Euro (2013: 15.4%). 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 ATOP

On 31 March 2014 Telit completed the acquisition (announced in December 2013) from NXP Semiconductors N.V. (Nasdaq: NXPI), of NXP's ATOP business. ATOP is an automotive grade solution for vehicle manufacturers enabling them, amongst other features, to implement telematics services like 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 final consideration was $2.1 million in cash and $8.9 million by way of allotment to NXP of 2,255,943 ordinary shares of the Company.
The acquisition of ATOP includes sales, engineering and support staff, which were fully integrated during the year into Telit's automotive organization, extending the Company's market reach with solutions leveraging the expanded engineering and sales expertise serving to better address automotive and telematics customers.

Strategy

Having successfully integrated the ILST Platform as a Service in 2013 into the Company's global organization and our m2mAIR business unit, Telit is confident in its position as a leading global company in the IoT industry and intends to continue to focus on its strategy of becoming a single point of reference, with its unique ONE STOP. ONE SHOP concept, while increasing our recurring revenues.

Telit's portfolio of value added services includes connectivity, value added services and cloud platform as a service (PaaS). These services, delivered to our customers with full project support, are designed to provide the building blocks required to implement an IoT/m2m solution and easily run applications in the cloud, with a quick time to market.

Our ONE STOP. ONE SHOP concept enables customers to source from Telit the necessary products and services it needs to connect assets and devices to enterprise systems and business processes. The combination of Telit's hardware products coupled with m2mAir connectivity and PaaS and other value added services, delivers features and performance exceeding the sum of the standalone capabilities.

Our hardware strategy continues to focus on the industrial and automotive segments. Our position in the automotive segment was greatly enhanced by the acquisition of the ATOP business from NXP semiconductors, which included highly skilled engineering and support staff, fully integrated during the year into Telit's automotive organization, extending the Company's market reach and catering to the Connected Car trend, driven by such factors as safety, regulation, and smart infotainment.

While the driverless car may still be in research stage, vehicles equipped with location receivers and cellular connectivity have become the norm today. Telit is an established key supplier in this area and has 6 dedicated Automotive sales offices in Detroit, Munich, Hamburg, Shanghai, Seoul and Tokyo in order to address the car makers as well as their the relevant 1-st tier suppliers.. Telit's long-term strategy is to become the market leader in this segment not only with cellular and location products but also with V2X (vehicle to vehicle/infrastructure) solutions and to service those clients with our value added services offering.

In the industrial segment, we deal with many verticals including; asset tracking, health care, security, point of sale, wearables, telemetry, industry and energy and smart metering. These verticals are set to grow strongly during the next few years, with significant projects at advanced stages around the world (like SMIP in the UK) in energy and smart metering) and the Company is well positioned to be a major player in this field.

Telit looks forward to continuing the implementation of this strategy, both through its robust organic growth (which is buoyed by the strong growth in the m2m industry and other verticals of the IoT) and through the selective acquisition of businesses that will enhance our products and services offering with strong synergies with our current portfolio.

Outlook

2015 has started positively and in line with our expectations. The outlook for the rest of 2015 and the future looks positive for the m2m industry and promising for Telit. Our strong position in the m2m market and enhanced position in the automotive segment following the acquisition of the ATOP business unit, 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. 2015 has started well, and I look forward to providing further news of the Group’s progress over the coming months.

Oozi Cats
Chief Executive
20 March 2015

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 63
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 54
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.

Yosi Fait, President and Finance Director, aged 54
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 Audit and Remuneration Committees of the Board, aged 58
Mr. 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.

Ram Zeevi, Independent Non-Executive Director and Member of the Remuneration Committee and Audit Committee of the Board, aged 52
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.

Lars Reger, Non-Executive Director, aged 44
Lars Reger is Vice President of New Business and R&D for the Automotive business unit at NXP Semiconductors, the global market leader in automotive technologies including car infotainment; in-vehicle networking; and car access and immobilizers. Prior to joining NXP in 2008, Lars gained deep insight into the microelectronics industry - with a strong focus on the automotive sector - in various functions with Siemens, Infineon, Siemens VDO and Continental. Before joining NXP, Mr Reger was Director of Business Development and Product Management within the Connectivity business unit at Continental. His past roles at Infineon included Head of the Process and Product Engineering departments, Project Manager for Mobile System Chips, and Director of IP Management. He began his career with Siemens Semiconductors as Product Engineer in 1997. Lars holds a university degree in physics from Rheinische-Friedrich-Wilhelms University of Bonn and an executive MBA from London Business School.

Corporate Governance

Directors

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

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

Audit Committee

The Audit Committee consists of Davidi Gilo (Chairman) and Ram Zeevi, who are independent non-executive directors, and meets periodically. The Finance Director, CFO and Chief Legal Officer 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 external 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 of Davidi Gilo (Chairman) 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.

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.

By order of the Board,

Yosi Fait
President & Finance Director
20 March 2015

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 31 December 2014, the Committee undertook a review, in conjunction with Spencer Stuart, an independent consultancy firm, of the remuneration package for its President & Finance Director, Mr. Yosi Fait and of its Chairman of the Board, Mr. Enrico (Chicco) Testa, and, as a result of this evaluation, has implemented certain changes to Mr. Fait's and Mr. Testa's remuneration packages. The Committee also implemented certain changes to the remuneration package of its CEO, Mr. Oozi Cats, as a follow-up to the revision of Mr Cats' remuneration package in 2013. A material aspect of the revised remuneration packages of these executives is linking their long term incentive plan to the Company's share price. Further details of the results of both of these activities are set out below.

During the year the Committee also implemented new parameters for the grant of options to managers and employees, that in the opinion of its members are likely to promote the success of the Company.

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 31 December 2014.

Davidi Gilo
Chairman of the Remuneration Committee
20 March 2015

The Remuneration Committee's 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 two independent Non-Executive Directors: Davidi Gilo (Chairman) and Ram Zeevi[3].

Committee Member		Attendance Record
Davidi Gilo (Chairman)	Independent Non-Executive Director	11 out of 11 meetings
Ram Zeevi	Independent Non-Executive Director	11 out of 11 meetings
Nicola Miglietta [3]	Independent Non-Executive Director	7 out of 7 meetings
Sergio Buonanno [3]	Non-Executive Director	1 out of 1 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 31 December 2014.

Remuneration Policy
The Committee aims to set levels of remuneration for Executive Directors that are sufficient to attract, retain and motivate directors 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 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 twelve months.
- **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 the executive directors, Mr. Cats, Mr. Testa and Mr. Fait, who are entitled to post-employment benefits including pension fund benefits according to their employment agreements, as is customary in Italy and Israel.
- **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 (such as linkage to the Company's share price) to incentivise medium-term performance and assist in retention.

[3] Mr. Nicola Miglietta, whose term of office expired at the end of the 2014 AGM and Mr. Sergio Buonanno, who resigned from the board in March 2014, were members of the remuneration committee during part of 2014.

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. For further details about Mr. Testa's remuneration package see below.

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

Yosi Fait was appointed as the Finance Director on 21 June 2011, as the Deputy CEO as of 1 July 2012 and on 12 September 2014 was named President and Finance Director of the Company. Mr. Fait also serves as a director of a number of the Company's subsidiaries. For further details about Mr. Fait's remuneration package see below.

The Remuneration Committee: main activities in 2014

Evaluation of Remuneration Packages of the Chairman of the Board and of the President and Finance Director

In 2013, 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. As detailed in the Company's annual report for 2013, 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 report which included a review of 17 companies comparable to the Company[4]. 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.

In 2014, the Committee again engaged Spencer Stuart, in relation to the remuneration package of the Chairman of the Board and of the President and Finance Director. Spencer Stuart produced a report which included a review of the same 17 companies comparable to the Company which Spencer Stuart used for the report in relation to Mr. Cats' remuneration. The Committee deliberated on the proposed remuneration packages for Mr. Testa and Mr. Fait at four Committee meetings between March and September 2014 and held frequent consultations with Spencer Stuart.

The remuneration packages of the Executive Directors comprise of the following -

Salary

Mr. Cats will receive a gross salary of Euro 1,064,800 per year for 2014 - 2016 (approximately $1,293,000 at the EURO-USD exchange rate as at 31 December 2014). The Company covers certain of Mr. Cats' expenses, including his accommodation in Italy and the use of a company car.

Mr. Fait's annual remuneration, as from 1 April 2014 shall be ILS 1,980,000 (approximately $510,000 at the ILS-USD exchange rate as at 31 December 2014). 15% of this amount will be paid to Mr. Fait directly and 85% to a company under his control.

Mr. Testa's annual remuneration, as from 1 July 2014 shall be €150,000 as fees for his role as chairman of the Company's board of directors and €150,000 as salary for his role as CEO of Telit Italy (in the aggregate, approximately $365,000 at the EURO-USD exchange rate as at 31 December 2014).

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[4] 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.

Bonus Schemes

Mr. Cats' and Mr. Fait's variable compensation plans provide a link between their respective remuneration and the Company's performance. This link is achieved by making their 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 (comprising 20% of the variable compensation).

The variable compensation is capped at a maximum of 150% of the Executives' gross annual pay.

The terms of the scheme in relation to Mr. Cats 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 and Mr. Fait shall be paid an advance payment on account of the yearly variable compensation ("Advance Payment"), based on the half-year results. Mr. Cats and Mr. Fait 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 2014 for the directors who held office during the year were as follows:

	Salary and fees	**Benefit in kind**	**Bonus**	**Post-employment benefits**	**Total 2014**	**Total 2013**	**Bonus paid in 2014 on account of 2013** [3]
	$'000	$'000	$'000	$'000	$'000	$'000	
Executive directors							
Enrico Testa	363	13	199	7	582	533	
Oozi Cats	1,454	202	2,007	98	3,761	3,599	
Yosi Fait [2]	538		796	3	1,337	627	387
Non-executive directors							
Ram Zeevi [4]	53				53	53	
Nicola Miglietta [5]	55				55	66	
Davidi Gilo	125				125	53	
Lars Reger [6]	-				-	-	
Sergio Buonanno [5]	10				10	53	
Steven Sherman [5]	-				-	33	
Total - 2014	**2,598**	**215**	**3,002**	**108**	**5,923**		**387**
Total - 2013	**2,383**	**195**	**2,352**	**87**	**-**	**5,017**	

1 Reserved.

2 Amounts in respect of the services of Mr. Fait are paid: 85% to Jeopal Ltd., a company under his control and 15% to Mr. Fait directly (but the bonus is paid solely to Jeopal Ltd.).

3 This bonus was approved by the remuneration committee during 2014 on account of 2013 and therefore is included in the financial statements for 2014.

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

5 Up to the date of resignation.

6 Mr. Reger, who was appointed to the board by NXP B.V., within the context of the acquisition of NXP's ATOP business unit by Telit, receives no pay for his role as director.

Directors' Interests in Shares

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

Directors	At 31 December 2014 Number of ordinary shares	Percentage of ordinary share capital	At 31 December 2013 Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats[5]	22,861,977	20.08	19,580,357	18.72
Enrico Testa[6]	1,500,000	2.42	20,330,357	19.44
Yosi Fait[7]	315,000	0.28	165,000	0.16
Lars Reger[8]	2,255,943	1.98	-	-
Davidi Gilo	-	-	-	-
Ram Zeevi	-	-	-	-

[5] In May 2014 Mr. Cats acquired 50% of the outstanding shares of Boostt B.V. ("**Boostt**"), a holding company in which Mr. Cats previously held 50% through a company under his sole control. At the closing of the transaction Boostt, which previously held 15,600,000 Ordinary Shares, transferred 1,080,000 Ordinary Shares (the "**Equity Kicker**") to Viola Credit Funds ("**Viola**"), as detailed below. Mr. Cats financed the acquisition by an interest bearing secured loan from Viola of approximately $25.5 million (the "**Loan**"). The principal of the Loan will be repaid in one payment on the third anniversary of the closing of the acquisition (the "**Maturity Date**"), while the interest will be partially repaid in instalments and the balance together with the principal amount. Viola can extend the Maturity Date to the fourth anniversary of the closing and Mr. Cats has the right, under certain circumstances, to make an early repayment of all, or part of the Loan. The Equity Kicker may increase by an additional 120,000 shares from Boostt if the Company's share price is 194p or less on the Maturity Date. A pledge has been registered on the Boostt Shares in favour of Viola as a security interest for the Loan; such pledge shall decrease over the life of the Loan, in-line with any prepayments. Mr. Cats shall retain, during such time, the voting rights in connection with the Equity Kicker shares. Any dividends paid by Telit during the life of the Loan and received on account of Boostt's Shares or Mr. Cats' other holdings in the Company must be used to repay the Loan. Following this transaction, Mr. Cats' holdings are comprised of: (i) personally held (6,900,357), (ii) Boost (14,520,000), a company held by Mr. Cats through Mariselia Ltd. (50%) and VAG Holdings Ltd (50%), (iii) Mariselia Ltd. (361,620), a company in which Mr. Cats is the beneficial owner; and (iv) Viola Credit Funds (1,080,000), over which shares Mr. Cats has a power of attorney over the voting rights.

[6] Following the acquisition of 50% of the shares of Boostt by Mr. Cats, as detailed above, Mr Enrico Testa is no longer considered an interested party in Boostt's holdings in the Company's shares, nor in Mr. Cats' other holdings.

[7] Mr. Fait's holdings are comprised of: (i) personally held (265,000), (ii) Jeopal Ltd., a company in which Mr. Fait is the beneficial owner (50,000).

[8] Mr. Reger was nominated as a director on behalf of NXP B.V. and is therefore considered as having an interest in NXP's holdings of 2,255,943 shares.

Details of directors' share options as at 31 December 2014 are provided below:

Executive directors	Grant date	Number	Exercise price (pence)	Vested	Unvested	Exercised during 2014
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	520,000	-	-
	16 September 2014 *		2.60	-	-	
Total		**2,020,000**		**520,000**	**-**	**1,500,000**
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	1,952,000	-	
	16 September 2014 *		2.60	-	-	
Total		**5,052,000**		**1,952,000**	**-**	**3,100,000**
Yosi Fait	29 January 2009 [9]	50,000	0.20	-	-	50,000
	25 May 2010 [9]	50,000	0.25	-	-	50,000
	19 September 2011 [10]	150,000	0.80	150,000	-	
	26 March 2012 [10]	150,000	0.80	150,000	-	
	19 March 2013[11]	600,000	0.80	600,000	-	
	16 April 2014	500,000	2.06	-	500,000	
	16 September 2014 *	500,000	2.60	-	500,000	
Total		**2,000,000**		**900,000**	**1,000,000**	**100,000**

The Options granted up to and including 16 April 2014 vest in 3 equal instalments beginning one year following the date of grant and expiring 5 years from the date of grant.

* On 16 September 2014 the Committee committed to grant Messers. Testa, Cats and Fait, options over up to 250,000, 2,000,000 and 1,000,000 shares, respectively. These Options will vest in four equal tranches subject to the achievement of share price targets of 325.0p, 375.0p, 425.0p and 475.0p (in each case the closing share price shall be equal to, or above, each target price over 20 consecutive trading days) but will also be subject to vesting over time, so that 1/4 of the options will vest on each anniversary of the grant (the grant date being 16 September 2014) provided the executive is employed by the Company at such time. By way of example, even if the share price should reach 475.0p before the first anniversary of the grant, the relevant executive would only be entitled to 1/4 of the options on the first anniversary of the grant; 1/2 on the second anniversary and so on. The Options expire 5 years from the date of grant. The Company has nearly reached the overall limit on the granting of options over newly issued shares contained in the rules of its option plan. The Committee had therefore resolved to grant 500,000 options to Mr. Fait on 16 September 2014, with the balance of Mr. Fait's award and the entirety of Messers Testa's and Cats' awards to be granted only as headroom becomes available under the overall limit under the plan (or any replacement, or follow-on plan). Accordingly, Messers. Testa, Cats and Fait will from time to time be formally granted additional options (either in one tranche or in a series of separate grants) at the same exercise price and on the same terms as the options set out above, until the full number of options mentioned above are granted within this framework

9 Mr. Fait was not a director on this date.

10 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.

11 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.

No options have expired in respect of any grants.

The share based compensation attributable to the directors in 2014 is $1,432,338 (2013: $568,158).

The aggregate of the amount of gains made by directors on the exercise of share options in 2014 was $11,800,274 (2013: nil). The exercised options were granted in 2009 and 2010 with exercise prices ranging between 20p and 32p, equal to the share price at the dates of grant. The underlying shares were retained by the directors and are still in their possession at the date of this report.

The highest and lowest closing prices of the Company's shares on AIM during 2014 were 277.25p (12 September 2014) and 171.75p (8 January 2014).The Company's share price on the close of trading on 31 December 2014 was 241p.

By order of the Remuneration Committee

Davidi Gilo
Chairman of the Remuneration Committee
20 March 2015

Strategic Report

The directors present the Strategic Report of the Group for the year ended 31 December 2014.

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 strategy, financial position and future developments, including the key performance indicators, is given within the operational highlights on page 3, the Chief Executive's statement on pages 10 to 13, the regional information on pages 4 to 5, technology, services and products on page 5 to 6, together with a review of the Group's principal risks and uncertainties on pages 14 to 16.

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 $27 million were expensed in the year, compared to $24 million in 2013. Internally-generated intangible assets arising from development costs capitalized amounted to $26.1 million compared to $11.2 million in 2013.

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 approximately $28 million from this facility up to the date of this report.

By order of the Board

Yosi Fait
Financial Director
20 March 2015

Directors' Report

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2014.

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 made $56,000 in charitable donations during the year ended 31 December 2014 (2013: $137,000). The Group does not have a policy regarding donations.

Dividends

The Company is not proposing to pay a dividend in respect of the period (2013: $ nil).

Significant shareholders

	At 31 December 2014		At 31 December 2013	
	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats [12]	22,861,977	20.08	19,580,357	18.72
Old Mutual Global Investors	7,049,539	6.19	-	-
Idea Capital Funds	6,035,284	5.30	9,375,000	8.96
Herald Investment Management	4,981,250	4.37	5,081,250	4.86
Sherman Capital	4,560,089	4.00	5,128,578	4.90
JP Morgan Asset Management	3,883,940	3.41	1,593,645	1.52

Directors

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

Enrico Testa
Oozi Cats
Yosi Fait
Ram Zeevi
Davidi Gilo
Nicola Miglietta (retired by rotation from the Board on June 19, 2014)
Sergio Luciano Buonanno (resigned on March 11, 2014)
Lars Reger (appointed on 31 March, 2014)

[12] Mr. Cats' holdings are comprised of: (i) personally held (6,900,357), (ii) Boost (14,520,000), a company held by Mr. Cats through Mariselia Ltd. (50%) and VAG Holdings Ltd (50%), (iii) Mariselia Ltd. (361,620), a company in which Mr. Cats is the beneficial owner; and (iv) Viola Credit Funds (1,080,000), over which shares Mr. Cats has a power of attorney over the voting rights.

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 2014, calculated in accordance with the requirements of the Companies Act 2006, were 105 days (2013: 92 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
President & Finance Director
20 March 2015

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 2014 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 30 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 2014 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 LLP

Philip Young (Senior statutory auditor)

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

London

20 March 2015

For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Revenue	3,4	294,004	243,224
Cost of sales		(177,734)	(150,742)
Gross profit		116,270	92,482
Research and development expenses		(26,986)	(24,049)
Selling and marketing expenses		(50,393)	(38,617)
General and administrative expenses		(26,529)	(22,348)
Other operating income	5	2,855	6,668
Operating profit	10	15,217	14,136
Investment income	6	1,502	25
Finance costs	7	(2,811)	(2,210)
Profit before income taxes		13,908	11,951
Tax expense	8	(1,421)	(1,065)
Profit for the year from continuing operations		12,487	10,886
Loss for the year from discontinued operations	23	(540)	-
Net profit		11,947	10,886
Other comprehensive income			
Items which will be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences		(9,381)	1,092
Total comprehensive income/ (loss) for the year		2,566	11,978
Profit/(loss) attributable to:			
Owners of the Company		11,954	10,933
Non-controlling interest		(7)	(47)
Profit for the year		11,947	10,886
Total comprehensive income/ (loss) attributable to:			
Owners of the Company		2,567	12,033
Non-controlling interest		(1)	(55)
Total comprehensive income/ (loss) for the year		2,566	11,978
Basic earnings per share (in USD cents)	11	10.6	10.5
Diluted earnings per share (in USD cents)	11	10.2	9.8
Basic weighted average number of equity shares	11	112,427,822	103,826,885
Diluted weighted average number of equity shares	11	117,111,456	111,067,069

Telit Communications PLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

		Group		Company	
		2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Intangible assets	12	72,576	49,459	6,395	6,599
Property, plant and equipment	13	20,113	16,182	49	64
Investments in subsidiaries	14	-	-	95,794	84,793
Other long term assets	16	851	807	222	232
Deferred tax asset	8	4,658	3,954	1,244	-
		98,198	70,402	103,704	91,688
Current assets					
Inventories	15	21,506	18,520	135	46
Trade receivables	16	63,967	63,118	3,403	696
Other current assets	16	15,306	14,338	33,479	13,972
Deposits – restricted cash	17	845	291	-	88
Cash and cash equivalents	17	25,399	23,886	2,711	3,068
		127,023	120,153	39,728	17,870
Total assets		225,221	190,555	143,432	109,558
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	18	1,942	1,791	1,942	1,791
Share premium account	18	90,533	78,678	90,533	78,678
Other reserve	18	(2,727)	(2,993)	11,157	8,692
Merger reserve	18	1,235	1,235	1,235	1,235
Translation reserve	18	(13,254)	(3,867)	444	2,048
Retained earnings		20,048	4,181	(18,658)	(24,360)
Equity attributable to owners of the Company		97,777	79,025	86,653	68,084
Non- controlling interest		-	367	-	-
Total equity		97,777	79,392	86,653	68,084
Non-current liabilities					
Other loans	26	17,612	22,134	-	-
Post-employment benefits	19	4,537	3,780	-	-
Deferred tax liabilities	8	10	21	-	-
Provisions	23	2,626	2,236	-	-
Other long-term liabilities	24	23	369	-	-
		24,808	28,540	-	-
Current liabilities					
Short-term borrowings from banks and other lenders	26	12,497	13,790	-	-
Trade payables	20	70,463	51,860	672	1,112
Provisions	23	1,446	1,217	-	-
Accruals and Other current liabilities	20	18,230	15,756	56,107	40,362
		102,636	82,623	56,779	41,474
Total equity and liabilities		225,221	190,555	143,432	109,558

The financial statements on pages 33 to 87 were approved by the board and authorized for issuance on 20 March 2015 and are signed on its behalf by: Oozi Cats, Director

Company number: 05300693

For the year ended 31 December 2014

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
CASH FLOWS - OPERATING ACTIVITIES				
Profit/(loss) for the year from continued operations	12,487	10,886	4,276	(4,274)
Adjustments for:				
Depreciation of property, plant and equipment	4,092	2,800	32	17
Amortization of intangible assets	10,396	7,994	2,229	1,623
Change in fair value of earn-out	(301)	(1,667)	-	(1,714)
Gain on sale of property, plant and equipment	(99)	(37)	-	-
Loss on transfer of investment in subsidiary	-	-	1,599	-
Increase / (decrease) in provision for post-employment benefits	791	(50)	-	-
Finance costs, net	1,309	2,185	(6,710)	(1,078)
Tax expenses	1,421	1,065	(1,168)	271
Fair value of preferential rate loan	-	(3,754)	-	-
Share-based payment charge	4,011	742	1,508	658
Operating cash flows before movements in working capital:	34,107	20,164	1,766	(4,497)
(Increase)/decrease in trade and other receivables	(6,237)	(3,807)	(2,748)	447
Increase in other current assets	(1,196)	(3,678)	(20,176)	(2,133)
(Increase) /decrease in inventories	(869)	3,776	(92)	(16)
Increase/(decrease) in trade payables	23,073	11,487	(377)	531
Increase/(decrease) in other current liabilities	(262)	(273)	23,286	8,920
increase /(decrease) in provisions and other long term liabilities	394	320	-	-
Cash from/(used in) operations	49,010	27,989	1,659	3,252
Income tax paid	(980)	(741)	(147)	-
Interest received	135	25	1,584	-
Interest paid	(1,941)	(1,901)	(8)	-
Net cash from operating activities from continued operations	46,224	25,372	3,088	3,252
Loss for the year from discontinued operations	(540)	-	-	-
Increase in provisions	540	-	-	-
Net cash from operating activities from discontinued operations	-	-	-	-
CASH FLOWS - INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(9,611)	(4,847)	(20)	(66)
Acquisition of intangible assets	(2,651)	(*) (3,320)	(481)	(1,231)
Proceeds from disposal of property, plant and equipment	362	51	-	-
Capitalized development expenditure	(26,071)	(*) (11,177)	(1,935)	-
Acquisition of subsidiaries, net of cash acquired	(2,100)	(9,509)	-	-
Settlement of earn out	-	(1,149)	-	(1,149)
Additional investment in subsidiary	-	-	(493)	-
Additional loans made to subsidiaries	-	-	(2,100)	(4,860)
Repayment of loans from subsidiaries	-	-	688	2,356
(Increase)/ decrease in restricted cash deposits	(700)	56	88	-
Net cash used in investing activities	(40,771)	(29,895)	(4,253)	(4,950)

(*) Reclassified.

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
CASH FLOWS - FINANCING ACTIVITIES				
Proceeds from exercise of options	3,119	259	3,119	259
Acquisition of non-controlling interest	(100)	-	-	-
Short-term borrowings from banks and others	1,647	(10,870)	-	-
Proceeds from other loans	-	19,301	-	-
Repayment of other loans	(2,924)	(2,361)	-	-
Net cash fromfinancing activities	1,742	6,329	3,119	259
Increase/(decrease) in cash and cash equivalents	7,195	1,806	1,954	(1,439)
Cash and cash equivalents - balance at beginning of year	23,886	21,044	3,068	4,418
Effect of exchange rate differences	(5,682)	1,036	(2,311)	89
Cash and cash equivalents - balance at end of year	25,399	23,886	2,711	3,068

Non – cash transactions:

a. At April 2014 the Company issued 2,255,943 shares for a value of $8.9 million, as part of ATOP BU acquisition (see note 2A).

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

Year ended 31 December 2014

	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 2014	1,791	78,678	1,235	(2,993)	(3,867)	4,181	79,025	367	79,392
Total comprehensive income/(loss) for the year									
Profit /(loss) for the year	-	-	-	-	-	11,954	11,954	(7)	11,947
Foreign currency translation differences	-	-	-	-	(9,387)	-	(9,387)	6	(9,381)
Total comprehensive income/(loss)	-	-	-	-	(9,387)	11,954	2,567	(1)	2,566
Transactions with owners:									
Issue of shares	38	8,849	-	-	-	-	8,887	-	8,887
Exercise of options	113	3,006	-	-	-	-	3,119	-	3,119
Purchase of minority interest	-	-	-	266	-	-	266	(366)	(100)
Share-based payment charge	-	-	-	-	-	3,913	3,913	-	3,913
Total transactions with owners	151	11,855	-	266	-	3,913	16,185	(366)	15,819
Balance at 31 December 2014	1,942	90,533	1,235	(2,727)	(13,254)	20,048	97,777	-	97,777

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 2014

	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 2014	1,791	78,678	1,235	8,692	2,048	(24,360)	68,084
Total comprehensive income /(loss) for the year							
Profit for the year	-	-	-	-	-	4,276	4,276
Foreign currency translation differences	-	-	-	-	(1,604)	-	(1,604)
Total comprehensive income/ (loss)	-	-	-	-	(1,604)	4,276	2,672
Transactions with owners							
Issue of shares	38	8,849	-	-	-	-	8,887
Exercise of options	113	3,006	-	-	-	-	3,119
Share-based payment charge	-	-	-	-	-	1,426	1,426
Capital contribution	-	-	-	2,465	-	-	2,465
Total transactions with owners	151	11,855	-	2,465	-	1,426	15,897
Balance at 31 December 2014	1,942	90,533	1,235	11,157	444	(18,658)	86,653

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

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 eight R&D centres 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 35 sales and support offices, a global distributor network of experts, 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 13. 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) The Group's significant accounting policies are listed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Changes in accounting policies
The following new standards, amendments to standards and interpretations were mandatory for the first time for the financial year beginning 1 January 2014, but had no significant impact on the Group:
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IAS 27 (revised) – Separate Financial Statements
IAS 28 (revised) – Investments in Associates and Joint Ventures
IAS 32 (amendment) – Offsetting Financial Assets and Financial Liabilities
IAS 36 (amendment) – Recoverable Amount Disclosures for Non-financial Assets
IAS 39, IFRS 9 (amendment) – Novation of Derivatives
IFRS 10, IFRS 12 and IAS 27 (amendment) – Investment Entities
IFRIC 21 – Levies
New Standards and amendments not applied
Standards, interpretations and amendments to existing standards that have been published as mandatory for later accounting periods but are not yet effective and have not been adopted early by the Group are as follows:
IFRS 9 – Financial Instruments (effective for accounting periods beginning on or after 1 January 2015);
IFRS 14 – Regulatory Deferral Accounts (effective date not yet published);
IAS 19 (amendment) – Employee contributions (effective for accounting periods beginning on or after 1 July 2014);
Annual Improvements (2010-2012 Cycle) (effective for accounting periods beginning on or after 1 July 2014);
Annual Improvements (2011- 2013 Cycle) (effective for accounting periods beginning on or after 1 July 2014);
Annual Improvements (2012- 2014 Cycle) (effective for accounting periods beginning on or after 1 January 2016);
IFRS 10, IAS 28 (amendment) – Sale or Contribution of Assets (effective for accounting periods beginning on or after 1 January 2016);
IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations (effective for accounting periods beginning on or after 1 January 2016);
IFRS 14 Regulatory Deferral Accounts (effective for accounting periods beginning on or after 1 January 2016);
IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for accounting periods beginning on or after 1 January 2016);
IAS 16 and IAS 41 (amendment) – Bearer Plants (effective for accounting periods beginning on or after 1 January 2016);
IAS 27 (amendment) – Equity Method in Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2016);
IFRS 15 – Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2017)

The Directors do not expect that the adoption of the Standards and amendments listed above will have a material impact on the financial statements of the Group in future periods, although the detailed impact has not yet been quantified.

NOTE 2:- BUSINESS COMBINATIONS

A. On 31 March 2014 Telit Automotive Solutions NV, a fully owned subsidiary of Telit Communications PLC, completed the acquisition (announced in December 2013) from NXP Semiconductors N.V. (Nasdaq: NXPI), of NXP's ATOP business,, related assets and certain liabilities of NXP ("ATOP BU").
The acquisition of ATOP includes sales, engineering and support staff, which were fully integrated during the year into Telit's automotive organization, extending the Company's market reach with solutions leveraging the expanded engineering and sales expertise serving to better address automotive and telematics customers.
Under the terms of the agreement, the total consideration of $11 million for the acquisition is comprised of:
- Cash payment of $2.1 million
- 2,255,943 Telit Shares at a total value of $8.9 million.

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

	Fair value
	$'000
Inventory	1,630
Tangible assets	1,179
Prepaid Expenses	176
Technology	5,683
Customer relationships	2,458
Liabilities (employees related)	(924)
Loss (onerous) contract	(587)
Severance Arrangements	(441)
Total identifiable assets	9,174
Consideration paid	10,989
Excess of cost - goodwill	1,815

The goodwill is attributable mainly to the skills and experience of the workforce.

In the year from the acquisition date to 31 December 2014 the activity that was purchased from NXP was integrated into the Group and therefore the Company cannot estimate the impact of the ATOP BU, by itself, on the consolidated results.

NOTE 2:- BUSINESS COMBINATIONS (continued)

B. On September 3, 2013 – Telit Wireless Solutions Inc. a fully owned subsidiary of Telit Communications PLC, purchased 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 consideration was $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, ILST contributed to the consolidated revenues a 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.

C. 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. The total consideration was approximately $1 million in cash. Goodwill arising from this acquisition is in the amount of $292,000.

NOTE 3:- REVENUE

	Group	
	2014	**2013**
	$'000	**$'000**
Sales of goods	273,910	233,455
Services income	20,094	9,769
	294,004	243,224

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, which includes services income and sales of modules.

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

2014	**EMEA**	**APAC**	**Americas**	**Total**	**Eliminations**	**Consolidated**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue						
External sales	117,494	40,832	135,678	294,004	-	294,004
Inter-segment sales (1)	105,917	19,323	415	125,655	(125,655)	-
Total revenue	223,411	60,155	136,093	419,659	(125,655)	294,004
Result						
Segment result (2)	20,212	5,272	808	26,292	-	26,292
Unallocated corporate expenses (3)						(11,075)
Operating profit						15,217
Investment income						1502
Finance costs						(2,811)
Profit before income taxes						13,908
Income taxes						(1,421)
Profit for the year from continued operations						12,487
Loss for the year from discontinued operation						(540)
Net profit						11,947

NOTE 4:- SEGMENTAL ANALYSIS (continued)

2013	EMEA	APAC	Americas	Total	Eliminations	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'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

(1) Transactions between geographic segments are charged at market prices.
(2) During the year, the Group recognised grant income which was recorded in EMEA. See note 5 for further detail.
(3) 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.

In the EMEA segment, UK revenue in 2014 was $9.8 million (2013 $2.9 million)

	2014	2013
	$'000	$'000
Total assets:		
EMEA	112,808	95,070
APAC	17,744	15,228
Americas	67,758	55,284
Unallocated assets	26,911	24,973
Total assets	225,221	190,555
Total liabilities:		
EMEA	79,055	58,519
APAC	12,407	9,366
Americas	4,631	6,111
Unallocated liabilities	31,205	37,167
Total liabilities	127,298	111,163

Unallocated assets comprise:

	2014	2013
	$'000	$'000
Other debtors in respect of general entity and head office purposes	667	796
Deposits - restricted cash	845	291
Cash and cash equivalents	25,399	23,886
Unallocated assets	26,911	24,973

NOTE 4:- SEGMENTAL ANALYSIS (continued)

Unallocated liabilities comprise:

	2014	2013
	$'000	$'000
Other loans	17,612	22,134
Short-term borrowings from banks and other lenders	12,497	13,790
Other current liabilities in respect of general entity and head office purposes	1,242	1,243
Unallocated liabilities	31,351	37,167

2014

	EMEA	APAC	Americas	Consolidated
	$'000	$'000	$'000	$'000
Non-cash items:				
Depreciation and amortization	9,638	1,310	3,540	14,488
Bad debt expense	1	6	26	33
Share-based payments	3,084	284	643	4,011

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

NOTE 5:- OTHER OPERATING INCOME

	2014	2013
	$'000	$'000
Change in fair value of earn out [(a)]	301	1,667
Governmental grants and benefits [(b)]	3,241	6,120
Gain on sale of assets	99	37
Integration and transaction costs	(941)	(814)
Other	155	(342)
	2,855	6,668

(a) In 2014, represents the change in the fair value of the contingent consideration related to the acquisition of Navman in 2012 (see note 24).

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).

(b) 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 and 2014 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

NOTE 6:- INVESTMENT INCOME

	2014	2013
	$'000	$'000
Exchange rate differences, net	1,367	-
Interest income from bank deposits	135	25
	1,502	25

NOTE 7:- FINANCE COSTS

	2014	2013
	$'000	$'000
Interest expense on bank loans and overdrafts	2,025	1,170
Exchange rate differences, net	-	298
Other bank expenses	786	742
	2,811	2,210

NOTE 8:- INCOME TAXES

A. Tax recognised in statement of comprehensive income

	2014	2013
	$'000	$'000
Current year taxes	1,409	1,020
Prior year taxes	960	121
Deferred taxes	(948)	(76)
Tax expense	1,421	1,065

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 21.50% for 2014 and 23.25% for 2013, and the Group's total tax expense for the year:

	2014	2013
	$'000	$'000
Profit before income tax from continuing operations	13,908	11,951
Tax charge computed at 21.50% (2013: 23.25%)	(2,990)	(2,779)
Tax adjustments arising from:		
Non-deductible expenses	(1,761)	(237)
Deferred tax assets recognized and other timing differences, net	(415)	(896)
Recognition of previously unrecognised tax losses	1,315	3,416
Effect of tax rates in foreign jurisdictions	(544)	(1,345)
Utilization of carry forward losses for which no deferred tax was recorded	3,934	898
Tax for previous years	(960)	(121)
Tax expense	(1,421)	(1,065)

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.

NOTE 8:- INCOME TAXES (continued)

C. Deferred tax

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

	Net operating loss	Temporary differences	Total
	$'000	$'000	$'000
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 1 January 2014	3,084	849	3,933
Translation adjustments	(71)	(162)	(233)
Credit to the statement of comprehensive income	(176)	1,124	948
At 31 December 2014	2,837	1,811	4,648

In the year ended 31 December 2014, the Group recognised deferred tax assets of $2,342,000, $661,000, $529,000 and $1,116,000 in respect of Telit EMEA, Telit APAC, Telit Inc. and Telit Israel, respectively.

D. Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the finalization and acceptance of tax returns with relevant tax authorities, the resolution of inquiries from tax authorities, 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:

	2014	2013
	$'000	$'000
Losses for which a deferred tax asset is recognised	11,790	11,195
Losses for which no deferred tax asset is recognised	21,730	34,748
	33,520	45,943

The losses for which no deferred tax asset has been recognized primarily relates to our UK entity.
The Group 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, provides for a 21% tax rate effective from 1 April 2014 and 20% effective from 1 April 2015. This will reduce the Company's future tax charge accordingly. The deferred tax asset at 31 December 2014 and 2013 was calculated based on the rate of 20%.

NOTE 9:- EMPLOYEES AND DIRECTORS' EMOLUMENTS

Employees emoluments:

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

	2014	**2013**
Research and development	369	297
Sales, marketing and operation	224	190
General and administration	101	86
	694	573

Their aggregate remuneration comprised:

	2014	**2013**
	$'000	**$'000**
Wages and salaries	58,934	35,111
Social security costs	6,581	5,378
Other pension costs	1,588	2,562
	67,103	43,051

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 2014	**Year ended 31 December 2013**
	$'000	**$'000**
Remuneration	5,959 (*)	4,930
Post-employment benefits	108	87
Total emoluments	6,067	5,017

(*) including a bonus of $387,000 paid in 2014 on account of 2013.

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

	Year ended 31 December 2014	**Year ended 31 December 2013**
	$'000	**$'000**
Total emoluments	3,663	3,512
Post-employment benefits	98	87
	3,761	3,599

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

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

	2014 $'000	2013 $'000
Depreciation of owned fixed assets (note 13)	4,092	2,800
Amortization of intangible assets (note 12):		
Amortization of purchased customer list – included in selling and marketing expenses	2,298	1,078
Amortization of acquired technology – included in R&D expenses	258	899
Amortization of software – included mainly in R&D expenses	3,576	3,129
Amortization of Internally generated development costs – included mainly in R&D expenses	4,264	2,888
Research and development expenditure	26,986	24,049
Costs of inventories recognised as an expense	169,974	144,337
Write-downs of inventories recognised as an expense	317	808

(i) Adjusted EBIT, Adjusted EBITDA, Adjusted profit before tax and Adjusted net Profit for the Year

	2014 $'000	2013 $'000
EBIT	**15,217**	**14,136**
Share-based payments	4,011	742
Non-recurring expenses	941	1,229
Amortization - intangibles acquired	4,518	2,688
Adjusted EBIT	**24,687**	**18,795**
Depreciation & amortization[3]	9,970	8,106
Adjusted EBITDA	**34,657**	**26,901**
Profit before tax	**13,908**	**11,951**
Share-based payments	4,011	742
Non-recurring expenses	941	1,229
Amortization - intangibles acquired	4,518	2,688
Adjusted profit before tax	**23,378**	**16,610**
Net profit for the year	**11,947**	**10,886**
Loss attributable to non-controlling interest	(7)	(47)
Profit attributable to the owners of the Company	**11,954**	**10,933**
Share-based payments	4,011	742
Non-recurring expenses	941	1,229
Amortization of intangibles acquired	4,518	2,688
Change in deferred tax asset, net	(715)	(126)
Adjusted net profit for the year	**20,709**	**15,466**

[3] Excluding amortisation on acquired intangibles.

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

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 EBIT 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) , Adjusted Profit before tax (Profit before tax plus share based payments expenses, amortisation of acquired intangibles and non-recurring expenses) and Adjusted net profit for the year (net Profit for the year attributed to the owners of the company plus share based payments expenses, amortisation of acquired intangibles and non-recurring expenses less change in deferred tax assets, net) 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 , Adjusted profit before tax and Adjusted net profit for the year are presented in addition to EBIT.

(ii) Audit fee

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	183	267	183	267
Fees payable to the Company's auditor and their associates for other services to the Group:	268	194	241	188
The audit of the Company's subsidiaries pursuant to legislation:	271	242	-	-
Total audit fees	722	703	424	455
Other services relating to taxation	24	69	10	10
Total fees (1)	746	772	434	465

(1) The 2013 fees relating to Ernst & Young are $579K. The rest of the 2013 fees were paid to KPMG Audit plc.

NOTE 11:- EARNINGS PER SHARE

Basic earnings per share

	2014	2013
	$'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 from continues operations	12,494	10,933
Loss for the year attributable to the owners of the Company from discontinued operations	(540)	-
Profit for the year attributable to the owners of the Company	11,954	10,933
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares(1)	112,427,822	103,826,885
Diluted weighted average number of equity shares (2)	117,111,456	111,067,069
Basic earnings per share from continuing operations (in US dollar cents)	11.1	10.5
Basic loss per share from discontinued operations (in US dollar cents)	(0.5)	-
Basic earnings per share (in US dollar cents)	10.6	10.5
Diluted earnings per share from continuing operations (in US dollar cents)	10.7	9.8
Diluted loss per share from discontinued operations (in US dollar cents)	(0.5)	-
Diluted earnings per share (in US dollar cents)	10.2	9.8
Adjusted basic earnings per share (in USD cents)	18.4	14.9
Adjusted diluted earnings per share (in USD cents)	17.7	13.9

(1) Basic weighted average number of equity shares:

	2014	2013
	No. of Shares	**No. of Shares**
Issued ordinary shares at 1 January	104,592,692	103,304,206
Effect of issue of shares (see note 2A)	1,691,957	-
Effect of share options exercised	6,143,173	522,679
Basic weighted average number of equity shares at 31 December	112,427,822	103,826,885

(2) Diluted weighted average number of equity shares:

	2014	2013
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares	112,427,822	103,826,885
Effect of share options on issue	4,683,634	7,240,184
Diluted weighted average number of equity shares at 31 December	117,111,456	111,067,069

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.

	2014	2013
	$'000	$'000
Profit for the year	11,947	10,886
Loss attributable to non-controlling interest	7	47
Profit for the year attributable to the owners of the Company	11,954	10,933
Share-based payments	4,011	742
Amortization of intangibles acquired	4,518	2,688
Other non-recurring expenses	941	1,229
Change in deferred taxes, net	(715)	(126)
Adjusted profit for the year attributable to the equity shareholders	20,709	15,466

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 2013	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
Additions	2,938	25,643	-	-	-	28,581
Transfer	(2,292)	2,292	-	-	-	-
Arising from acquisitions	5,683	-	2,458	-	1,815	9,669
Translation adjustments	(1,916)	(5,001)	(314)	-	(186)	(7,130)
31 December 2014	22,513	55,412	14,011	4,217	16,024	112,177
AMORTIZATION						
1 January 2013	(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)
Charge for the year	(1,614)	(4,264)	-	-	-	(5,878)
Transfer	546	(546)	-	-	-	-
Arising from acquisitions	(1,962)	-	(2,298)	(258)	-	(4,518)
Translation adjustments	1,089	1,259	45	-	-	2,393
31 December 2014	(13,241)	(15,736)	(6,696)	(3,928)	-	(39,601)
Net book value						
31 December 2014	9,272	39,676	7,315	289	16,024	72,576
31 December 2013	6,800	20,293	7,424	547	14,395	49,459

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 the acquisition of ATOP BU in 2014 (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, LTE product lines and PaaS are amortized over a three to five year period.

C. As at 31 December 2014 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 ATOP BU.

Other than the goodwill arising on acquisitions made during the year, management considers the product lines developed by Modules Americas, Modules APAC, Modules EMEA, Services EMEA & Services Americas (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.

NOTE 12:- INTANGIBLE FIXED ASSETS (continued)

The recoverable amount of the business units (expect for Modules APAC, due to the immaterial carrying value of its goodwill) have been determined based on a value in use calculation using discounted five-year cash flow projections. An external appraiser has prepared the valuations. 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 double digit growth rates in each CGU.

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

CGU Group		2014		2013
		$'000		
Modules Americas	APAC	3,396		3,393
	Navman	1,095		1,095
		4,491		**4,488**
Modules APAC	APAC	**291**		**303**
Modules EMEA	Motorola m2m	3,255		3,255
	Telit RF	329		332
	ATOP BU	1,641		-
		5,225		**3,587**
Services EMEA	GlobalConnect	**1,926**		**1,926**
Services Americas	CrossBridge	2,239		2,239
	ILST	1,852		1,852
		4,091		**4,091**
	Total	**16,024**		**14,395**

The main assumption for each CGU is sales growth which is based on recent history and expectations of future changes in the market. The pre-tax discount rate being between 21% and 29% (2013: 14% to 20%):

In developing its projections, management have taken into account the CGU's past performance as well as external forecasts of growth in the m2m industry. The key assumptions used in determining value in use are:

Revenue
The forecast mainly relies on external forecasts of growth in the m2m industry. A double-digit annual growth rate is expected over the next four years for the entire m2m market, with higher rates among the services CGU's. The appraiser has also forecasted 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
Changes in operating costs have been forecasts based on the current and expected future infrastructure required to execute the assumed revenues.

EBITDA margins
EBITDA margins are expected to reach 15%-30% by the end of the five year period covered by the forecasts.

Sensitivity analysis on the carrying value of goodwill
Management has performed sensitivity analyses which include lower growth rates 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	Internally generated development costs $'000	Total $'000
COST				
1 January 2013	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
Additions	-	481	1,935	2,416
Transfer	-	(2,292)	2,292	-
Translation adjustments	(564)	(48)	(237)	(849)
31 December 2014	9,204	808	3,990	14,002
AMORTIZATION				
1 January 2013	(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)
Charge for the year	(1,216)	(220)	(793)	(2,229)
Transfer	-	546	(546)	-
Translation adjustments	362	22	74	458
31 December 2014	(5,967)	(375)	(1,265)	(7,607)
Net book value				
31 December 2014	3,237	433	2,725	6,395
31 December 2013	4,655	1,944	-	6,599

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 2013	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
Additions	106	1,468	8,226	-	440	10,240
Disposals	-	(241)	(327)	(77)	(133)	(778)
Translation adjustments	(868)	(365)	(2,242)	(25)	(24)	(3,524)
31 December 2014	6,569	7,896	23,820	417	1,106	39,808
DEPRECIATION						
1 January 2013	(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)
Charge for the year	(169)	(1,008)	(2,714)	(75)	(126)	(4,092)
Disposals	-	124	328	48	15	515
Translation adjustments	64	221	1,282	1	2	1,570
31 December 2014	(514)	(5,626)	(13,038)	(178)	(339)	(19,695)
Net book value						
31 December 2014	6,055	2,270	10,782	239	767	20,113
31 December 2013	6,922	2,071	6,229	367	592	16,182

(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 2014 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.

(2) Regarding liens on certain of the Group’s assets see note 22.

NOTE 14:- INVESTMENTS IN SUBSIDIARIES

COMPANY	Loans to subsidiaries	Investments in subsidiaries	Total
	$'000	**$'000**	**$'000**
Investment in subsidiaries			
1 January 2013	19,661	64,315	83,976
Additions [1,2]	4,860	-	4,860
Additions - subsidiaries share-based payment charge [3]	-	86	86
Repayments [4]	(2,356)	-	(2,356)
Loan converted to equity [5]	(210)	210	-
Translation adjustments	227	-	227
Move to current liability	(2,000)	-	(2,000)
1 January 2014	20,182	64,611	84,793
Additions [1,2]	15,054	490	15,544
Transfer [6]	-	(5,752)	(5,752)
Additions - subsidiaries' share-based payment charge [3]	-	2,465	2,465
Repayments [4]	(688)	-	(812)
Translation adjustments	(568)	-	(444)
31 December 2014	33,980	61,814	95,794

(1) In 2014 the Company completed the purchase of the 8% minority interest in Telit Wireless Solutions Co. Ltd. for a consideration of $100,000, bringing its holdings to 100%.
In addition, in 2014 the Company established an additional subsidiary in Belgium: Telit Automotive Solutions NV with an initial share capital of $390,000.

(2) During 2014, as part of ATOP BU acquisition, a loan in the amount of approximately $9.5 million was made available to Telit Automotive Solutions NV, a loan in the amount of approximately $1.0 million was made available to Telit Automotive Solutions SARL and a loan in the amount of approximately $0.4 million was made available for Telit Wireless Solutions GMBH. In addition, a loan in the amount of $4.15 million was made available to ILST.

During 2013, a loan in the amount of $4.25 million was made available to Telit Wireless Solutions Inc., a loan in the amount of $0.4 million was made available to Telit Wireless Solutions Hong Kong Limited and a loan in the amount of approximately $0.2 million was made available to Telit Automotive Solutions SARL.

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

(4) The repayment in 2014 is due to loan balance repayments made by DAI telecom holdings.

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

(5) During 2013 the Company converted the loan to Telit RF Technologies Sarl to equity.

(6) In 2014 the Company transferred the investment in CrossBridge to ILST for a consideration of $4.15 million, recorded as a loan, resulting in a loss to the Company of $1.6 million.

NOTE 14:- INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiary undertakings of the Company at 31 December 2014 are as follows:

Name of company	Country of incorporation and operation	Type of shares	Effective ownership interest and voting rights	Principal activity in 2014
Telit Automotive Solutions S.a.r.l (previously named Telit RF Technologies S.a.r.l) .[1]	France	Ordinary	100%	Development and presales of m2m wireless products
Telit Wireless Solutions Srl[1] ("TWS")	Italy	Ordinary	100%	Non-trading Company
Telit Communications SpA[1] ("Telit EMEA")	Italy	Ordinary	100%	Development, manufacturing selling and distributing m2m wireless products
Telit Wireless Solutions GmbH (previously named m2mapps GmbH)[1]	Germany	Ordinary	100%	Presales of m2m wireless products
Telit Wireless Solutions, Inc. [1] ("Telit Americas")	United States	Ordinary	100%	Development, Selling and distributing m2m wireless products
Telit Communications Spain SL[1]	Spain	Ordinary	100%	Presales of m2m wireless products
Telit Wireless Solutions Tecnologia E Serviços Ltda[2]	Brazil	Ordinary	100%	Manufacturing, Selling and marketing m2m wireless products
Telit Wireless Solutions Co Ltd[1] ("Telit APAC")	Republic of Korea	Ordinary	100%	Development, manufacturing selling and distributing m2m wireless products
Dai Telecom Holdings (2000) Ltd.[1]	Israel	Ordinary	100%	No trading activities
Telit Wireless Solutions Ltd. ("Telit Israel")[1]	Israel	Ordinary	100%	Development of m2m wireless products and intermediate holding company
Telit Wireless Services Ltd. (previously named Dai Telecom Ltd.)[2]	Israel	Ordinary	100%	Manufucturing, Selling and distributing m2m wireless 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%	Distributing m2m wireless products
Telit Wireless Solutions Hong Kong Limited[1]	Hong Kong	Ordinary	100%	Distributing m2m wireless products
Telit Communications Cyprus Ltd. [2]	Cyprus	Ordinary	100%	No trading activities
Telit Location Solutions LP[2]	United States	Partnership Units	100%	No trading activities
CrossBridge Solutions, Inc[2]	United States	Ordinary	100%	Selling and marketing managed services.
Telit Wireless Solutions (Australia) Pty Limited[2]	Australia	Ordinary	100%	Presales m2m wireless products
Telit GPS Solutions GP LLC[2]	United States	Membership Interests	100%	No trading activities
Telit Automotive Solutions NV[1 (5% is indirectly held)]	Belgium	Ordinary	100%	Development of m2m wireless products
ILS Technology LLC[2]	United States	Ordinary	100%	Development and Selling of platform as a service (PAAS)
Telit Wireless Solutions (Shenzen) Ltd. [2]	China	Ordinary	100%	Presales of m2m wireless products

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	
	2014	2013
	$'000	$'000
Finished goods	11,505	10,233
Raw materials and work in progress	10,001	8,287
	21,506	18,520

The directors consider that there is no significant difference between the net book value and replacement cost of stocks held. Inventories are stated net of provisions for slow moving and obsolete items of $1,144,000 (2013: $445,000).

NOTE 16:- TRADE RECEIVABLES AND OTHER ASSETS

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Within current assets:				
Trade receivables	63,967	63,118	3,403	696
Other current assets	15,306	14,338	667	468
Due from Group undertakings	-	-	32,812	13,504
	79,273	77,456	36,882	14,668
Within non-current assets:				
Long term assets	851	807	222	232

Included within other current assets are prepaid expenses, supplier rebates and government grant to receive.

The average credit period on trade receivables in 2014 was 76 days (2013: 76 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 $14,888,000 (2013: $14,596,000) 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 credit period of these receivables is 93 days (2013: 111 days).

	2014	2013
	$'000	$'000
Ageing of past due but not impaired trade debtors		
1-30 days	10,595	5,736
30-60 days	2,329	4,844
60-90 days	228	810
Above 90 days	1,736	3,206
	14,888	14,596

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:

	2014	2013
	$'000	$'000
At 1 January	661	663
Increase in allowance for the year	6	234
Amounts written off	(70)	(262)
Translation adjustments	(53)	26
At 31 December	544	661

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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Deposits – restricted cash	845	291	-	88
Cash and cash equivalents	25,399	23,886	2,711	3,068
Total	26,244	24,177	2,711	3,156

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.

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

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Sterling	177	39	175	38
US dollar	17,784	10,069	2,419	2,481
Euro	5,543	10,616	117	637
KRW	185	634	-	-
Brazilian Real	396	297	-	-
HKD	132	1,760	-	-
ILS	1,581	517	-	-
Other	446	245	-	-
Total	26,244	24,177	2,711	3,156

NOTE 18:- ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	**2014**	**2013**
	$'000	**$'000**
Allotted, issued and fully paid:		
113,861,225 ordinary shares of 1 penny each (2013: 104,592,690 ordinary shares of 1 penny each).	1,942	1,791

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

During 2014, 7,012,592 options were exercised by employees into ordinary shares. (2013: 1,288,486), and 2,255,943 shares were issued as part of the acquisition of the ATOP BU (see note 2A).

Share options

The number of outstanding options as at 31 December 2014 and at the date of this report was 11,487,085 and 10,946,415 equal to 10.1% and 9.6% respectively, of the outstanding share capital of the Company (9.2% and 8.7%, 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 $52,000 (2013: $39,000) and the charge to the statement of comprehensive income in the year is $19,000 (2013: $26,000).

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. Following the acquisition of ATOP BU the Group has liability for severance pay for Germany resident employees in the amount of $360,000.

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

	2014	2013
Expense recognised in the statement of comprehensive income	**$'000**	**$'000**
Interest cost	134	116
Current service costs	404	429
	538	545

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:

	2014	2013
	$'000	**$'000**
Present value of defined benefit scheme obligation		
1 January	3,704	3,656
Current service costs and interest	538	545
Contributions paid by the Company	(327)	(144)
Actuarial gains	553	(466)
The effect of changes in foreign exchange	(342)	113
31 December	4,126	3,704

19. POST-EMPLOYMENT BENEFITS (continued)

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

	2014	2013
Discount rate	1.49%/3.47%	3.17% /4.50%
Expected salary increase rate	1.95%/5.00%	3.00% /5.00%
Inflation	0.00%/0.6%	0.00% /2.00%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled $20,852 (2013: $19,318) and the expected contributions to be paid in 2014 total $132,204.

NOTE 20:- CURRENT LIABILITIES

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Short-term bank loans and other borrowings	9,895	10,802	-	-
Current maturities of long term loans	2,602	2,988	-	-
Total short-term borrowing from banks and other lenders	12,497	13,790	-	-
Trade creditors (i)	70,463	51,860	672	1,112
Due to Group undertakings	-	-	54,865	39,163
Provisions	1,446	1,217	-	-
Accruals and other current liabilities	18,084	15,756	1,096	1,199
Total current liabilities	102,490	82,623	56,633	41,474

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 2014 was 105 days (2013: 92 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. Claims filed by M2M Solutions LLC (“M2M”)

(a) <u>The 2012 Case</u>:

On January 13, 2012, M2M filed a Complaint in the United States District Court for the District of Delaware against Motorola Solutions, Inc. (“Motorola”), the Company and Telit Americas (collectively with the Company, the “Telit Defendants”), alleging that Motorola infringed one of the asserted patents, and that the Telit Defendants infringed two patents.

In February 2012, Motorola asserted a claim for indemnification against the Company. Motorola, the Company and their relevant subsidiaries entered into a Tolling Agreement, reserving all rights to challenge Motorola’s claim in an arbitration to be held after the resolution of the litigation.

On November 12, 2013, the Court entered its claim construction order, which invalidated the patent asserted against Motorola. Claims against Motorola have been stayed until the case against the Telit Defendants (and other co-pending cases filed by M2M) are resolved. The Telit Defendants’ case is in the expert discovery stage. The parties exchanged expert reports in 2014, and expert depositions are scheduled to be held in April and May 2015.

As of May 5, 2014, M2M’s damages expert report demands a royalty of approximately $4.2 million for the period January 10, 2012 to mid-May 2015. The Telit Defendants’ damages expert report estimates a non-material lump-sum royalty or running royalty rate for the period January 10, 2012 to mid-2014, if the remaining patent is found to be valid and enforceable, and the Telit Defendants are found to infringe. In addition, regardless of which damages analysis is adopted, M2M has asked the Court to award it damages for future alleged infringements, treble damages, post-judgment interest, and attorneys’ fees. M2M has also asked the Court to issue an injunction prohibiting the Telit Defendants from selling any allegedly infringing products in the future.

In the opinion of the Company’s management based, among other things, on the opinion of its professional advisers, no provision is considered necessary.

NOTE 21:- CONTINGENT LIABILITIES (continued)

(b) The 2014 Case:

On August 26, 2014, M2M filed another Complaint in the same Court against the Telit Defendants, alleging infringement of a related patent. Telit Americas moved for a stay pending the outcome of the prior litigation, which M2M has opposed. On January 26, 2015, the Company filed a motion to dismiss M2M's claim against it, which M2m has opposed. The motion is still pending.

The prayers for relief in the Complaint include damages for past alleged infringements, damages for future alleged infringements, treble damages, post-judgment interest, and attorneys' fees. The Company does not believe that M2M would be entitled to duplicative damages on the same allegedly infringing products and/or features that were identified in the earlier case. M2M has also asked the Court to issue an injunction prohibiting the Telit Defendants from selling any allegedly infringing products in the future.

In the opinion of the Company's management based, among other things, on the opinion of its professional advisers, and as M2M has not disclosed the amount of damages it seeks in connection with the 2014 Case, 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.
On August 11, 2014, the Company amicably resolved these legal proceedings. The parties entered into a settlement agreement, which fully and finally settled all disputes among the parties, and dismissed all claims and counterclaims in the case with prejudice.

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. See Note 23 regarding tax assessments issued to certain Group companies.

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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Operating leases which expire:				
Within one year	2,975	2,045	939	607
In the second to fifth years inclusive	3,834	5,557	1,102	433
Above five years	-	-	-	-
	6,809	7,602	2,041	1,040
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	2,818	1,794	1,107	1,059

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

Guarantees and liens

A. The Company provided guarantees of up to $18 million to certain suppliers of the Group to sustain credit lines granted by the suppliers to Group companies in respect of purchases actually made.

B. The Company provides guarantees to certain banks in Italy, the US, Israel and Korea, to sustain credit lines granted by those banks to the Group's subsidiaries. The guarantees are for a total amount of $91.3 million but shall not exceed the amount of current borrowings from these banks.

C. In connection with the borrowings mentioned above, the Group companies which are the beneficiaries of the borrowings have placed certain liens over some of their assets and/or agreed to comply with certain financial covenants, including floating charges and negative pledges in favour of the respective lending banks, as typical for such borrowings. See Note 26 for details on the borrowings.

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)	VAT (D)	Other (C)	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2014	956	261	-	2,236	3,453
Utilized in the year	(97)	(51)	-	-	(148)
Arising from acquisition	-	-	-	57	57
Provided in the year	-	9	540	401	950
Exchange differences	(107)	(19)	(46)	(68)	(240)
Balance at 31 December 2014	752	200	494	2,626	4,072
Classified as:					
Current liabilities	752	200	494	-	1,446
Non-current liabilities	-	-	-	2,626	2,626
	752	200	494	2,626	4,072

A. In 2011, Telit EMEA received assessments and/or penalty notices for the years 2004, 2005 and 2006 in the approximate aggregate amount of €1.6 million (approximately $2.0 million). Telit EMEA’s appeals against such assessments and penalty notices were upheld by the relevant tax court; the tax authorities filed appeals against these decisions, which are still pending.
In 2012 Telit EMEA received an assessment, penalty notice and R&D recovery deed for the 2007tax year, in the approximate aggregate amount of €1.3 million (approximately $1.6 million). Telit EMEA’s appeals against such assessments and penalty notices were mostly upheld by the relevant tax court and Telit EMEA’s appeal before a higher court is still pending.
In 2013 Telit EMEA received a Vat assessment for the year 2004, and two assessments for the years 2008 and 2009 in the approximate aggregate amount of €1.7 million (approximately $2 million). The Company is in various stages of attempting to settle or otherwise to appeal such assessments. Telit EMEA’s appeals against said VAT and tax assessments were upheld by the relevant tax court.
Also in 2013 Telit Wireless Solutions Srl. received tax assessments for the years 2008 and 2009 in the approximate aggregate of €1.2 million (approximately $1.5 million). Following discussions with the tax authorities, these assessments were annulled by the authorities.

B. The Group provides warranties on the sale of its m2m products for a period of 12 to 18 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.

In December 2014 Telit EMEA received 3 VAT assessments from the Italian tax authorities in the amount of approximately €15.6 million including interest and penalties (approximately $19 million), in connection with tax years 2005, 2006 and 2007. The assessments are wholly related to the Company's discontinued EVAR business unit which was divested in January 2008 and have no relation to the Company's current business. The Company believes it has strong arguments against the assessments to be brought before the Tax Court and intends to defend its position vigorously.

NOTE 24:- OTHER LONG-TERM LIABILITIES

	Group	
	2014	2013
	$'000	$'000
Earn out from acquisitions (a)	23	303
Other	-	66
	23	369

a. During 2014, the Company reassessed the fair value of the contingent consideration related to the acquisition of Navman and decreased the liability by $280,000 to $23,000.

NOTE 25:- SHARE-BASED PAYMENTS

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

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.

On January 13, 2014 and March 17, 2014, employees of the Company’s subsidiaries were granted 3,041,000 and 928,000 options, respectively, at an exercise price of £1.78 per share. The options vest in four equal annual instalments starting from 13 January 2014 and expire five years from the date of grant.

On April 16, 2014, a director and employees of the Company and its subsidiaries were granted 1,460,000 options, at an exercise price of £2.06 per share. 660,000 of the options vest in three equal annual instalments and 800,000 vest in four equal annual instalments, starting from 16 April 2014 and expire five years from the date of grant.

On May 15, 2014, an employee of the Company’s subsidiary was granted 150,000 options, at an exercise price of £1.90 per share. The options vest in four equal annual instalments starting from 15 May 2014 and expire five years from the date of grant.

On June 10, 2014, employees of the Company’s subsidiaries were granted 50,000 options, at an exercise price of £2.09 per share. The options vest in four equal annual instalments starting from 10 June 2014 and expire five years from the date of grant.

NOTE 25:- SHARE-BASED PAYMENTS (continued)

On 16 September 2014, the Company committed to grant three executive directors options over up to 3,250,000 shares in the aggregate at an exercise price of 260p per share. These options will vest in four equal tranches subject to the achievement of share price targets of 325.0p, 375.0p, 425.0p and 475.0p (in each case the closing share price shall be equal to, or above, each target price over 20 consecutive trading days) but will also be subject to vesting over time, so that 1/4 of the options will vest on each anniversary of the grant provided the executive is employed by the Company at such time. By way of example, even if the share price should reach 475.0p before the first anniversary of the grant, the relevant executive would only be entitled to 1/4 of the options on the first anniversary of the grant; 1/2 on the second anniversary and so on.

The Company had nearly reached the overall limit on the granting of options over newly issued shares. It was therefore resolved to grant 500,000 options to one of the directors immediately, with the balance of his award and the entirety of the other executive directors' awards granted only as headroom becomes available under the overall limit under the option plan (or any replacement, or follow-on plan). Accordingly, the executive directors will from time to time be formally granted additional options (either in one tranche or in a series of separate grants) at the same exercise price and on the same terms as the options set out above, until the full number of options mentioned above are granted within this framework.

On November 13, 2014, an employee of the Company's subsidiary was granted 70,000 options, at an exercise price of £2.40 per share. The options vest in four equal annual instalments starting from 13 November 2014 and expire five years from the date of grant.

The number of outstanding options as at 31 December 2014 was 11,487,085, equal to approximately 10.1% of the issued share capital of the Company.

Starting from June 2014, substantially all options under the Company's share option plans are exercised on a cashless basis, which is a mechanism according to which an optionholder is issued such number of shares that is equal to the spread between the exercise price and the market price of the shares on the day of exercise, and does not pay the exercise price to the Company.

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

	Number		Weighted average exercise price (pence)	
	2014	**2013**	**2014**	**2013**
Outstanding at beginning of year	12,710,387	13,529,905	0.47	0.43
Granted during the year	6,199,000	600,000	1.88	0.80
Exercised during the year	(7,012,592)	(1,288,486)	0.26	0.27
Cancelled due to cashless exercise during the year	(99,345)	-	0.48	-
Lapsed during the year	(310,365)	(131,032)	1.66	0.63
Outstanding at year end	11,487,085	12,710,387	1.32	0.45
Exercisable at year end	5,418,419	11,011,547	0.71	0.40

The weighted average share price at the date of exercise for share options exercised in 2014 was £1.90 (2013: £1.17).

NOTE 25:- SHARE-BASED PAYMENTS (continued)

The options outstanding at 31 December 2014 have an exercise price in the range of £0.25 to £2.6 (2013: £0.20 to £0.905) and a weighted average contractual life of 2.7 years (2013: 1.3 years).

The Group recognised a total expense of $4,011,000 in respect of equity settled share based payment transactions for the year ended 31 December 2014 (2013: $742,000). Of this amount, $1,508,000 is attributed to the Company (2013: $658,000).

The fair value of services received in return for share-based options is measured by reference to the fair value of the share-based options granted. The estimate of the fair value of the services received is measured using the Black-Scholes pricing model except for the grant dated 16 September, 2014, which is measured using the Monte Carlo 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
13 January, 2014	1.78	1.78	44	5	1.83	0	5	0.64
17 March, 2014	1.78	2.09	42	5	1.77	0	5	0.82
16 April, 2014	2.06	2.06	45	5	1.78	0	5	0.68
16 April, 2014	2.06	2.06	43	5	1.78	0	5	0.67
15 May, 2014	1.90	1.90	44	5	1.75	0	5	0.63
10 June, 2014	2.088	2.09	44	5	1.94	0	5	0.70
16 September, 2014	2.60	2.60		5				
13 November, 2014	2.398	2.398	43	5	1.51	0	5	0.78

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

NOTE 26:- BORROWINGS

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$ '000	**$'000**	**$'000**	**$'000**
Unsecured – at amortized cost				
Current maturities of long term loans	2,602	2,988	-	-
Other long-term loans	17,612	22,134	-	-
Total	20,214	25,122	-	-
Secured – at amortized cost				
Short-term bank loans and other borrowings	9,895	10,802	-	-
Total	9,895	10,802	-	-
Disclosed in the financial statements as:				
Current borrowings	12,497	13,790	-	-
Non-current borrowings	17,612	22,134	-	-
Total	30,109	35,924	-	-

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$ '000	**$'000**	**$'000**	**$'000**
Borrowings breakdown				
Working capital borrowing (1)	9,949	10,960	-	-
Long term loan (2)	5,372	7,482		
Governmental loan (3)	11,183	13,060	-	-
Mortgage loan (4)	3,605	4,422	-	-
Total	30,109	35,924	-	-

(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**	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
US Dollar	26,284	27,305	55,406	36,615
Euro	3,191	3,248	279	687
ILS	6,955	4,531	1,128	801
Other	409	39	-	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	
	2014	**2013**
	$'000	**$'000**
Impact on profit or loss of a 10% change	1,997	338

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 $309,000 (2013: $240,000); 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**	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Cash and cash equivalents	25,399	23,886	2,711	3,068
Deposits – restricted cash	845	291	-	88
Trade receivables	63,967	63,118	3,403	696
Due from Group undertakings	-	-	32,812	13,504
Other long term asset	851	807	222	232
Loan (or investment in) to subsidiaries	-	-	33,980	20,182
Guarantee provided to banks on subsidiary's borrowings	--	-	91,310	99,241

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 2014 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

	2014			2013		
	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	0.58%	1,140	10,392	0.61%	1,295	12,988
Variable rate	2.91%	11,616	7,877	3.14%	12,849	10,186

Company

	2014			2013		
	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	-	91,310	-	-	99,241	-

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 38.

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	
	2014	**2013**
	$'000	**$'000**
Cash and cash equivalent	25,399	23,886
Restricted cash deposits	845	291
Total cash	26,244	24,177
Current borrowings	(12,497)	(13,790)
Non-current borrowing	(17,612)	(22,134)
Total borrowings	(30,109)	(35,924)
Net debt	(3,865)	(11,747)
Shareholders' equity	97,923	79,025
Net debt to equity ratio	3.95%	14.86%

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:**

	2014	**2013**
	$'000	**$'000**
Royalties *	12,556	4,809
Cost of sale	(6,585)	(1,651)
Interest income	3,149	1,882

* 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. The percentage was increased in 2014.

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 20 to 26. 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 profit for the year amounted to $4,276,000 (2013: loss of $4,274,000).

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 Lars Reger, Non-executive director
Company Secretary	Michael Galai
Registered Office	7th Floor, 90 High Holborn, London WC1V 6XX
Nominated Adviser And Broker	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Solicitors	Olswang 7th Floor, 90 High Holborn London WC1V 6XX
Independent Auditor	Ernst & Young LLP 1 More London Place, London SE1 2AF
Registrar	Capita Asset Services 40 Dukes Place London EC3A 7NH

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