2015 Annual Report

TABLE OF CONTENTS

INTRODUCTION

Telit Communications PLC (the “Group" or "Telit") operates in the field of the Internet of Things (IoT) and machine to machine (M2M) communications. M2M refers to aggregate of technologies that allow both wireless and wired systems to communicate, exchanging data with devices typically in remote locations (i.e. edge devices) and is considered an integral part of the IoT industry.

The Group offers the industry’s broadest portfolio of integrated products and services for end-to-end IoT deployments – including cellular communication modules in all technologies, GNSS, short-to-long range wireless modules, IoT connectivity plans and IoT platform services. Through the ***IoT Portal,*** Telit makes IoT onboarding easy, reduces risk, time to market, complexity and costs for asset tracking, remote monitoring and control, telematics, industrial automation and others, across many industries and vertical markets worldwide.

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

The Internet of Things (IoT) market opportunity

IoT has the power to completely transform businesses and industries, enhance the way in which they gather, analyse and distribute data and in turn, convert that data into productivity gains.

The ABI Research report, "M2M and IoT Embedded Modules - 2015", predicts that the demand for cellular IoT modules will grow significantly over the coming years. ABI predicts that the number of units in all cellular technologies to be shipped globally will reach 208 million by 2020, representing a 2015-20 CAGR of 23%.

The report, which was published in June 2015, projects an average selling price decline for the period 2015-20 of 5% CAGR for 2G modules, 5% CAGR for WCDMA/HSPA (3G), 9% for LTE multi-mode (4G) and 14% for LTE single-mode (4G), this trend of declining prices is fueling the growth of the industry.

Considering the product mix forecast by ABI, the market will grow in monetary value at a CAGR of 22% from 2015 to 2020, with total revenues from cellular module sales reaching $4.1 billion in 2020.

In IoT services for connectivity and platforms, growth is estimated to be even more robust. According to IoT expert analyst firm Berg Insight in its Global M2m/IoT Communications Market, M2M Research Series 2015 report published in December 2015, until 2020, the number of cellular IoT subscribers is expected to grow at a CAGR of 22.9%, reaching 744.2 million at the end of the period. During the same period, cellular IoT cellular connectivity revenues grow at a CAGR of 23.3% from $9 billion in 2015 to approximately $25.5 billion in 2020. Meanwhile the monthly ARPU is expected to remain stable at around $2.80.

In its IoT Platforms and Software, M2M Research Series 2015 report, Berg Insight estimates that total revenues from IoT platform third-party services (excludes in-house solutions) will grow at a CAGR of 32.2% from $580 million in 2014 to $3 billion in 2020.

Telit Worldwide

Telit sells its products through a network of value added resellers to more than 6,500 direct and indirect customers and systems integrators in more than 80 countries around the world. At the end of 2015, Telit employed 883 employees worldwide, an increase of 11.2% (2014: 794).

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.

Financial Highlights[1]

- Revenues up 13.4% to $333.5 million (2014: $294 million)
  - IoT services revenues grew 30% to $26 million (2014: $20 million)
- Gross margin increased to 39.9% (2014: 39.55%)
- All operational expenses as percentage of revenues decreased: Gross R&D to 15.4%(2014: 16.6%), Sales and marketing to 16.6% (2014: 17.1%) and General and Administration to 8% (2014: 9%).
- Adjusted EBITDA up 31% to $45.3 million (2014: $34.7 million); as a percentage of revenues, increased to 13.6% (2014: 11.8%)
- EBIT increased 23.7% to $18.8 million (2014: $15.2 million)
- Adjusted EBIT increased 23.9% to $30.6 million (2014: $24.7 million)
- Adjusted profit before tax increased 18.4% to $27.7 million (2014: $23.4 million)
- Adjusted basic earnings per share up 18% to 21.7 cents (2014: 18.4 cents)
- At the period end, net cash was $1.1 million (31 December 2014: net debt $3.9 million)

Operational highlights

- Jump in APAC revenues, up 74% to $70.9 million (2014: $40.8 million)
- Continued investment in product line for automotive modules
- Continued investment in Services division
  - IoT Portal tool developed and launched
  - deviceWISE for Factory, enterprise-grade industrial automation business unit, launched

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

CHAIRMAN'S STATEMENT

Enrico Testa, Chairman of the Board

Telit's strong competitive positioning and global reach has enabled us to continue to achieve double-digit growth.

The focus in 2015 was on the continued investment in the IoT Services division, which consists of Telit's connectivity and platform capabilities as well as the Telit IoT Portal tool. We have seen good growth in our Services business, with revenues up 30%.

After several years of making acquisitions and high R&D investment, we are now in a position to scale the business and benefit from the Group's operational leverage. We plan to continue to reduce gross R&D, Sales and Marketing and G&A costs as a percentage of Group revenue and in the medium term, we are targeting gross R&D as a percentage of Group revenue at 14%, Sales and Marketing at 14% and G&A at 6%.

As these cost elements are reduced as a percentage of revenue and the Group continues to scale, we also anticipate that the business will start to generate significant free cash flows.

The combination of products and services needed to deliver IoT capabilities for global enterprises is now in place. Major corporates around the world are poised to exploit this new development to drive down their cost base, improve efficiencies and create new revenue streams. With our market leading position in modules as well as our connectivity, connectivity management and Platform as a Service, we are well positioned to exploit this market developments.

People

At the end of 2015, Telit has a total of 883 employees worldwide, an increase of 11.2% (2014: 794). The headcount increase is largely driven by Telit's R&D centres and IoT Services business.

The significant progress made in 2015 is a reflection of the quality of Telit's team of highly skilled employees. The Board believes that Telit's staff are, and will continue to be, the cornerstone of the Group's success.

I would like personally to thank all of the Company's employees for their hard work and to welcome all of the new employees.

Outlook

The outlook for the automotive and Industrial IoT sectors, including the automotive sector, continues to be very encouraging as all the technology and connectivity elements of end-to-end IoT solutions are now in place.

Our acquisitions over the past few years have materially enhanced our cloud Platform capabilities, which is a key factor in delivering on our strategy to increase our recurring revenues from our IoT Services division.

Telit will continue implementing this strategy, both through its robust organic growth, which is buoyed by the strong growth in the industrial and other IoT verticals, and through selective acquisitions to enhance its products and services offering.

With our market leading position in modules, connectivity, connectivity management and Platform as a Service, we are poised to exploit the numerous opportunities developing across the Group as well as increase our recurring revenues.

The Board is confident of maintaining Telit's double-digit revenue growth in the current financial year.

Enrico Testa
Chairman of the Board
4 March 2016

FINANCE DIRECTOR'S STATEMENT
Yosi Fait, President and Finance Director

2015 was the sixth consecutive year of double-digit revenue growth for Telit and improvements in all profitability parameters.

Financial results[2]

	2015 *$'000*	**2014** *$'000*
Revenue	**333,493**	**294,004**
Gross profit	**133,060**	**116,270**
Gross margin	39.90%	39.55%
Research and development	(32,768)	(26,986)
Selling and marketing	(55,508)	(50,393)
General and administrative	(26,582)	(26,529)
Other operating income	593	2,855
Adjusted EBITDA	**45,333**	**34,657**
Adjusted EBIT	**30,617**	**24,687**
Operating profit	**18,795**	**15,217**
Profit before tax	**15,873**	**13,908**
Adjusted profit before tax	**27,695**	**23,378**
Adjusted basic profit per share (US cents)	**21.7**	**18.4**

Revenue

Group revenue increased by 13.4% to $333.5 million (2014: $294.0 million), driven by organic growth. The automotive business unit, which is one of the fast growing vertical with considerable potential, saw revenues increase by 60% to $39.6 million (2014: $24.8 million). The Services division generated revenues of $26 million (2014: $20 million), up 30%.

Geographical revenue

The split of revenue on a geographical basis is as follows:

	2015 **$m**	**% of total revenue**	**2014** **$m**	**% of total revenue**
Americas	129.3	38.8%	135.7	46.1%
EMEA	133.3	40%	117.5	40%
APAC	70.9	21.2%	40.8	13.9%
Total	**333.5**	**100%**	**294.0**	**100%**

Americas

After six years of strong revenue growth (2009 to 2015 CAGR of 44%), revenues were $129.3 million (2014: $135.7 million), down 4.6%.

Revenues were affected by the faster than expected technology shift in the US market, mainly as a result of the imminent shutdown of the 2G networks and the resulting strong shift into 4G technology. Some customers, mainly those in the home security, energy and transportation markets, subsequently delayed their LTE deployment plans as a result, while waiting for the LTE-Cat 1 products to be ready and certified.

[2] For reconciliation from IFRS financial results to adjusted financial results, please refer to the table in note 4.

2015 was also a challenging year in Latin America. The economic downturn significantly impacted sales in Brazil, Telit's largest market in Latin America. However, several competitors reduced their presence in the Brazilian market, which created an additional pipeline of new business opportunities. We anticipate these opportunities will have a positive impact in 2017.

EMEA

Revenues saw a return to double digit growth following a notable slowdown in the region in previous years. Revenues increased 13.4% to $133.3 million (2014: $117.5 million).

2G remains the dominant technology in the region, enjoying a growth in shipments, while 3G saw a substantial ramp-up which we expect to continue. 4G is still in a nascent stage.

The EMEA team secured significant design wins in the energy sector for utilities in the Netherlands and a robust share of the UK's SMIP project, as well as substantial automotive wins. As a result, the Group maintained its market leading position within the region and is confident of maintaining it in the coming years.

APAC

Performed strongly with revenues up 74% to $70.9 million (2014: $40.8 million), reflecting the coming of age of this market and the fruition of Telit's investment in its penetration during the last few years.

The growth in the region was driven by multiple key projects and customers moving into mass production during the year. As we continue to strengthen our presence in the region, including the recently added Japan and Singapore sales offices, we are winning new customers and designs to secure further growth in the region.

Gross margin and gross profit

Gross margin continued to improve, from 39.55% in 2014 to 39.9% in 2015, due to the Group's strong positioning in the IoT industry, further improvements in the hardware business and the increasing share of revenues from the higher margin IoT services business.

Gross profit increased by 14.4% to $133.1 million (2014: $116.3 million).

Operating expenses

Gross R&D operating expenses (expenses before capitalisation and amortisation of internally generated development costs) increased slightly to $51.2 million (2014: $48.8 million), As a percentage of revenues, 2015 expenses decreased to 15.4% out of revenue (2014: 16.6%).

The amount capitalised in respect to internally generated development costs in 2015 is $26.1 million, which is similar year-on-year, but represents a decline as a percentage of revenues to 7.8% (2014: 8.9%). This figure mainly relates to the development of 3.5G, 4G, automotive products and the Platform as a Service.

The amortisation of internally generated development costs increased by 77% to $7.6 million in 2015 (2014: $4.3 million). This increase relates mainly to the release of 3G and 4G products to the market during the course of 2015.

As planned, Sales and Marketing expenses increased by $5.1 million to $55.5 million (2014: $50.4 million) but decreased as a percentage of revenues to 16.6% (2014: 17.1%).

General and Administrative expenses remained virtually unchanged at $26.6 million, but decreased, as a percentage of revenues to 8% (2014: 9%).

We expect a decrease over the next few years of gross R&D, Sales and Marketing, as well as General and Administrative expenses, as a percentage of Group revenues.

Finance costs, net

	2015 $m	2014 $m	Difference
Non-cash expenses as fair value on Italian preferred loan	1.1	0.8	0.3
Interest on loans and overdrafts	0.9	1.2	(0.3)
Bank fees	0.5	0.8	(0.3)
Exchange rate differences	0.4	(1.4)	1.8
Interest income from bank deposits	-	(0.1)	0.1
Total	**2.9**	**1.3**	**1.6**

The finance costs, net increased by 123.2% to $2.9 million (2014: $1.3 million), mainly due to exchange rate differences which moved from $1.4 million income in 2014 to $0.4 million expense in 2015.

Finance costs includes $1.1 million non-cash expenses as fair value of interest on Italian preferred loan (2014: $0.8 million). The interest expenses related to loans and overdrafts decreased by 18% to $0.9 million (2014: $1.1 million) and the bank fees decrease by 34% to $0.5 million (2014: $0.8 million).

Profitability

Adjusted EBITDA increased by 31% to $45.3 million (2014: $34.7 million); as a percentage of revenues it increased to 13.6% (2014: 11.8%).

Adjusted EBIT increased by 24% to $30.6 million (2014: $24.7 million); as a percentage of revenues it increased to 9.2% (2014: 8.4%).

These improvements reflects the operational leverage that the Group has now obtained.

Adjusted profit before tax increased by 18.4% to $27.7 million (2014: $23.4 million) and reported profit before tax increased by 14.1% to $15.9 million (2014: $ 13.9 million).

The adjusted figures exclude a share based payment charge of $6.3 million (2014; $4.0 million), a non-recurring expense of $1.3 million (2014: $0.9 million) and amortisation of intangible acquired of $4.1 million (2014: $4.5 million).

The Group income tax rate increased slightly from 10.2% in 2014 to 11% in 2015.

Adjusted basic earnings per share increased by 18% to 21.7 cents (2014: 18.4 cents), basic earnings per share increased to 12.3 cents (2014: 11.1 cents) and reported diluted earnings per share was 11.8 cents (2014: 10.2 cents).

Balance sheet

Internally generated development assets, net as of 31 December 2015 increased by $14.5 million to $54.2 million (2014: $39.7 million). The split is as follows:

	2015 $m	**%**	**2014 $m**	**%**
Assets in development process (not amortised yet)	29.9	55	29.8	75
Assets after development process (started to be amortised)	24.3	45	9.9	25
Total	54.2	100	39.7	100

Internally generated development assets that completed the development phase, moved to mass production phase and started the 3 to 5 years of amortisation period increased to 45% of the total internally generated development assets (2014: 25% only).

The net assets that are in development phase, before starting the amortisation phase, are mainly automotive products, 4G products and the Platform as a Service.

Total equity grew from $97.8 million as of 31 December 2014 to $110.2 million as of 31 December 2015. This increase is mainly due to growth in profits.

In October 2015, following approval by the High Court of Justice in England and Wales, Telit cancelled substantially all of its share premium account ($92 million) and subsequently increased the retained earnings by this amount.

The Group repurchased 409,400 ordinary shares for a consideration of $1.3 million during the year.

Cash

As of 31 December 2015, the Group held net cash of $1.1 million (2014: net debt of $3.9 million).

The operating cash flow before movement in working capital items increased by 30% to $44.3 million (2014: $34.1 million). For more details see note 27.

Yosi Fait
President & Finance Director
4 March 2016

CHIEF EXECUTIVE'S STATEMENT

Oozi Cats, Chief Executive

Strategic overview

The Group’s strategy over the last years has been to invest heavily in new product development and our operational infrastructure and we have also acquired a number of businesses to widen and enhance our product and services capabilities, and geographical coverage.

In addition to widening our product range, we have also built our Services division, which enables us to provide an IoT end-to-end solution (IoT as a Service), while increasing our recurring revenue base.

The Group has now established a leading position in the IoT industry and intends to continue to focus on its strategy of becoming a single point of reference, with its unique IoT as a Service concept.

After a number of years of both acquisitive and high R&D investment, we are now in a position to scale the business and benefit from the Group’s operational leverage. Gross R&D, Sales and Marketing and General and Administrative costs are all coming down as a percentage of Group revenue and will continue to go down in the coming years.

The combination of products and services needed to deliver IoT capabilities for global enterprises is now in place. Major Corporates around the world are poised to exploit this new development to drive down their cost base, improve efficiencies and create new revenue streams.

Our hardware strategy focuses on the industrial and automotive segments. Our position in the automotive segment was greatly enhanced by the acquisition of the ATOP business in 2014, which included highly skilled engineering and support staff. ATOP, which is fully integrated into Telit, has become the cornerstone of the automotive division. It has extended the Group’s market reach and is catering to the Connected Car trend, driven by factors such as safety, regulation, and smart infotainment.

The Services division, encompasses the Group’s connectivity and Platform as a Service (PaaS) capabilities. Telit IoT Portal is a unified platform of these services that enables customers to manage their IoT products and services through a single portal, while having unique set of value added services.

Acquisition

In February 2016 Telit acquired Bluetooth Smart, otherwise known as Bluetooth Low Energy ("BLE"), assets from Stollmann Entwicklungs und Vertriebs Gmbh ("**Stollmann**"), a developer and marketer of low power hardware products and software solutions for wireless communications for a cash consideration of €3.6 million, before adjustments. The Company has not yet completed the purchase price allocation required under IFRS 3.

The acquired assets include Stollmann's Bluetooth IP, NFC and other wireless communications IP. Thirty-five Stollmann employees, mainly R&D engineers, transferred to Telit.

The acquisition will materially enhance Telit's short-range low-power Bluetooth product offering and is another step in the Group's strategy to provide a comprehensive solution to connect edge devices, such as sensors, to the Telit IoT enablement platform.

MarketsandMarkets estimates the global BLE and "Smart-Ready" market will be worth $5.6bn by 2020. BLE shipments are expected to surpass 1.2 billion units in five years, up from just 49 million units in 2013.

Products

Technological innovation is Telit's core capability. The Group's nine R&D centres provide a comprehensive portfolio of quality modules 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 the industrial IoT products division, the Group markets to numerous verticals including asset tracking, health care, security, telematics, point of sale, wearables, telemetry, industry and energy and smart metering. These verticals are set to grow significantly during the next few years, with substantial projects already in advanced stages around the world such as SMIP in the UK with energy and smart metering.

To cater to all these verticals, the Group continuously develops a wide range of LTE products, from the high-end categories down to the Cat-1, with a roadmap to launch Cat-M and narrow-band IoT.

In addition, we continued the development of multi-constellation GNSS (GPS, GLO, GAL and BDS) and Dead Reckoning (DR) enabled modules, which dramatically improve navigation performance. New GNSS variants were released with improved performance, integrated LNA and DC blocking capacitor.

Vehicles equipped with location receivers and cellular connectivity have now become mainstream and Telit is an established key supplier in this area. The Group has six dedicated automotive sales offices in Detroit, Munich, Hamburg, Shanghai, Seoul and Tokyo with access to car makers and the relevant tier one suppliers.

Telit continued its investments in its ATOP product line, a product line of automotive connectivity modules that offer embedded security features and processing power. In 2015 we delivered the ATOP 2.5G and ATOP 3.5G products to several Tier1 customers.

IoT Services

Telit has continued to expand its IoT services offering and premium managed connectivity as well as a range of complementary value added services.

- The Group developed and launched its IoT Portal. This tool is designed to enable customers to manage Telit's products and services through a single portal that makes IoT deployments easier, cuts the time to market and saves money.

  The IoT Portal provides customers with access to data management, including collection, storage and big data export, connectivity management, it facilitates interaction with mobile network operators, dash boarding tools, security and administration.

- We continued to invest and develop the IoT connectivity business, which provides Telit with a recurring revenue stream in addition to the revenues from its established module business. The IoT connectivity offering covers all customer connectivity needs, including subscription management, integration of several MNO's through the IoT portal CDP pro, remote module management, security, reporting and monitoring, supply of SIM cards, rate plans and customer support.

- As part of the IoT Platforms business and the Industry 4.0 trend, the Group launched deviceWISE for Factory, an enterprise-grade industrial automation platform designed to easily connect complex, disparate production equipment from different suppliers with different protocols and interfaces to enterprise systems and applications without custom programming.

  The scalable architecture is configurable to any manufacturing environment in any industry by leveraging a vast library of built-in standardised device drivers and enterprise connectors. deviceWISE is perfectly suited to all manufacturing verticals including automotive, pharmaceuticals, machinery, oil and gas, electrical power generation, water and more.

- Telit's secureWISE solution has been widely recognised as the leading solution for highly secured remote access. Connecting more FABs and OEMs than any other platform in the industry, secureWISE delivers secure, configurable end-to-end remote connectivity across private networks, providing OEMs role-based, real-time and on-demand access to their equipment installed at production facilities around the globe.

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.

Oozi Cats
Chief Executive
4 March 2016

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. Telit is well positioned to detect any change within the m2m and IoT markets, accordingly, the management team reviews the strategy and long-term product development plans to test that Telit is developing the technology to meet the future needs of the industry.

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. Telit has mechanisms and strategies in place to mitigate the challenges provided by competitors and we constantly review our trading channels and customer relationships.

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 always a risk that this type of financing will cease to be available to companies including Telit in the future. 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 64
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 20^{th} 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 55
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 55
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 59
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 53
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 45
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, Mr. Reger 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. Mr. Reger 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. 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
4 March 2016

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 2014 the Committee undertook an extensive 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, resulting in an implementation of certain changes to the remuneration packages these executive directors.

During 2015 the Committee maintained mainly a monitoring position and in February 2016 made an adjustment to the variable compensation component of the remuneration packages of Mr Cats and Mr. Fait with effect from 2015 (see further details below). This change was implemented in order to better align the remuneration of the executives directors with the Group financial results.

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2015.

Davidi Gilo
Chairman of the Remuneration Committee
4 March 2016

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. The Remuneration Committee is also responsible for administering the employee share option schemes.

Remuneration Committee Members
The Remuneration Committee comprises two independent Non-Executive Directors: Davidi Gilo (Chairman) and Ram Zeevi.

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

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 2015.

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.

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.

Evaluation of Remuneration Packages of the Chief Executive, 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 $1,159,000 at the EURO-USD exchange rate as at 31 December 2015). 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 is ILS 1,980,000 (approximately $507,000 at the ILS-USD exchange rate as at 31 December 2015). 15% of this amount is paid to Mr. Fait directly and 85% to a company under his control.

Mr. Testa’s annual remuneration, as from 1 July 2014 is €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 $327,000 at the EURO-USD exchange rate as at 31 December 2015).

---

[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 after deducting the effect of the working capital movements[5], 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 are 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 2015 for the directors who held office during the year were as follows:

	Salary and fees	Benefit in kind	Bonus	Post-employment benefits	Total 2015	Total 2014	Bonus paid in 2014 on account of 2013 [3]
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors							
Enrico Testa	375	-	-	13	388	582	
Oozi Cats [1]	1,438	150	1,758	157	3,503	3,761	
Yosi Fait [2]	507	-	761	3	1,271	1,337	387
Non-executive directors							
Ram Zeevi [4]	43				43	53	
Nicola Miglietta [5]	-				-	55	
Davidi Gilo	135				135	125	
Lars Reger [6]	-				-	-	
Sergio Buonanno [5]	-				-	10	
Total – 2015	**2,498**	**150**	**2,519**	**173**	**5,340**		
Total – 2014	**2,598**	**215**	**3,002**	**108**		**5,923**	**387**

1 Salary in 2015 includes $222,000, as payment for unused vacation days.
2 Amounts in respect of the services of Mr. Fait are paid: 85% to a company under his control and 15% to Mr. Fait directly (but the bonus is paid solely to the company under his control).
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 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.

5 As amended in February 2016. The Committee believes that this parameter is better reflects the Group's cash flows from operations. Had this parameter been applied to the bonus calculations of 2013 and 2014, there would have been no effect on the result.

Directors' Interests in Shares

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

	At 31 December 2015		At 31 December 2014	
Directors	**Number of ordinary shares**	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Oozi Cats[6]	22,861,977	19.92	22,861,977	20.08
Enrico Testa	1,038,000	0.90	1,500,000	1.31
Yosi Fait[7]	315,000	0.27	315,000	0.28
Lars Reger[8]	2,255,943	1.97	2,255,943	1.98
Davidi Gilo	-	-	-	-
Ram Zeevi	-	-	-	-

6 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.

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 2015 are provided below:

Executive directors	Grant date	Number	Exercise price (pence)	Vested	Unvested
Enrico Testa	1 April 2011	520,000	0.81	520,000	-
	16 September 2014 *		2.60	-	-
Total		**520,000**		**520,000**	**-**
Oozi Cats	1 April 2011	1,952,000	0.81	1,952,000	-
	16 September 2014 *		2.60	-	-
Total		**1,952,000**		**1,952,000**	**-**
Yosi Fait	19 September 2011 [9]	150,000	0.80	150,000	-
	26 March 2012 [10]	150,000	0.80	150,000	-
	19 March 2013[10]	600,000	0.80	600,000	-
	16 April 2014	500,000	2.06	133,334	366,666
	16 September 2014 *	1,000,000	2.60	250,000	750,000
Total		**2,400,000**		**1,283,334**	**1,116,666**

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 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 had 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). The balance of Mr. Fait's options were issued on 2 November 2015. Accordingly, Messers. Testa and Cats 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

No options have expired in respect of any grants.

The share based compensation attributable to the directors in 2015 is $2,684,877 (2014: $1,461,178).

No options were exercised by directors in 2015. The aggregate of the amount of gains made by directors on the exercise of share options in 2014 was $11,800,274. The exercised options were granted in 2009 and 2010

[9] 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.

[10] 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.

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 2015 were 356.08p (3 September 2015) and 180p (17 November, 2015).The Company's share price on the close of trading on 31 December 2015 was 213.50p.

By order of the Remuneration Committee

Davidi Gilo
Chairman of the Remuneration Committee
4 March 2016

STRATEGIC REPORT

The directors present the Strategic Report of the Group for the year ended 31 December 2015.

Principal Activities

Telit enables the creation of solutions and applications for fast deployment of IoT projects with complete life cycle management in segments including asset tracking, remote industrial monitoring, automated utility meter reading, insurance telematics, consumer electronics, mobile health devices, and others.

Telit develops, and markets cellular, GNSS, short-to-long range wireless modules plus mobile connectivity services (global MVNO) and application enablement platform to onboard edge devices to the Internet of Things.

The Group’s IoT services portal delivers managed and value added services; application enablement; and connectivity management in a Platform-as-a-Service (PaaS) model. In addition, the Group offers mobile data plans in EMEA and the Americas that are packaged and priced specifically for IoT business models.

For the Automotive OEM and Tier One segment, Telit sells modules that are certified and manufactured in compliance with regulations like ISO/TS16949 and delivered through one of industry’s most scalable industrial and logistics apparatus.

Telit products and services are sold directly and through a network of value added resellers, solution providers, engineering/design firms, device manufacturers, and system integrators of connected devices solutions and applications.

Review of Business and Future Developments

A review of strategy, financial position and future developments, including the key performance indicators, is given within the financial and operational highlights on page 3, the Chief Executive's statement on pages 9 to 11, the Finance Director’s report on pages 5 to 8, together with a review of the Group's principal risks and uncertainties on pages 12 to 14.

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 $32.8 million were expensed in the year, compared to $27 million in 2014. The amount capitalized in respect to internally generated development costs in 2015 is $26.1 million, which is similar year-on-year, but represents a decline as a percentage of revenues to 7.8% (2014: 8.9%). This figure mainly relates to the development of 3.5G, 4G, automotive products and the Platform as a Service.

In 2013 Telit EMEA was granted a $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 $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. Telit EMEA received approximately $24 million from this facility up to the date of this report.

By order of the Board

Yosi Fait
Financial Director
4 March 2016

DIRECTORS' REPORT

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2015.

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 Finance Director's statement on pages 5 to 8 and in notes 16, 24, 26 and 27 to the financial statements. These pages also 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.

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 $59,000 in charitable donations during the year ended 31 December 2015 (2014: $56,000). The Group does not have a policy regarding donations.

Dividends

The Company is not proposing to pay a dividend in respect of the period (2014: $ nil).

Significant shareholders

	At 31 December 2015		At 31 December 2014	
	Number of ordinary shares	**Percentage of ordinary share capital**	**Number of ordinary shares**	**Percentage of ordinary share capital**
Oozi Cats [11]	22,861,977	19.91	22,861,977	20.08
Kabouter Management LLC	6,250,751	5.44	-	-
JP Morgan Asset Management	4,488,183	3.91	3,883,940	3.41
Lazard Asset Management	3,957,333	3.45	2,519,906	2.19
Herald Investment Management	3,704,211	3.23	4,981,250	4.37
Idea Capital Funds	1,271,249	1.11	6,035,284	5.30
Sherman Capital	1,114,232	0.97	4,560,089	4.00
Old Mutual Global Investors	-	-	7,049,539	6.19

Directors

The directors who held office during the year were as follows:
Enrico Testa
Oozi Cats
Yosi Fait
Ram Zeevi
Davidi Gilo
Lars Reger

[11] 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 executives 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 2015, calculated in accordance with the requirements of the Companies Act 2006, were 135 days (2014: 126 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.

Subsequent events research and development activities and Future developments

Please see Chief Executive Statement and Strategic Report.

By order of the Board

Yosi Fait
President & Finance Director
4 March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law, and as required by the AIM Rules of the London Stock Exchange, the directors have elected to prepare group and parent company financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under Company Law the directors must not approve the group and parent company 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 the profit or loss of the group for that period. In preparing the group and parent company financial statements the directors are required to:

• present fairly the financial position, financial performance and cash flows of the group and parent company;

• select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

• present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

• make judgements and estimates that are reasonable and prudent;

• provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group‘s and the company’s financial position and financial performance;

• prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business; and

• state whether the group and parent company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group‘s and parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the group and parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2015 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 30. 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' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the 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.

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.

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
4 March 2016

Telit Communications PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Revenue	3,4	333,493	294,004
Cost of sales		(200,433)	(177,734)
Gross profit		133,060	116,270
Research and development expenses		(32,768)	(26,986)
Selling and marketing expenses		(55,508)	(50,393)
General and administrative expenses		(26,582)	(26,529)
Other operating income	5	593	2,855
Operating profit	10	18,795	15,217
Investment income	6	12	1,502
Finance costs	7	(2,934)	(2,811)
Profit before income taxes		15,873	13,908
Tax expense	8	(1,757)	(1,421)
Profit for the year from continuing operations		14,116	12,487
Loss for the year from discontinued operations	23	-	(540)
Net profit		14,116	11,947
Other comprehensive income			
Items which will be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences		(7,002)	(9,381)
Total comprehensive income for the year		7,114	2,566
Profit attributable to:			
Owners of the Company		14,116	11,954
Non-controlling interest		-	(7)
Profit for the year		14,116	11,947
Total comprehensive income attributable to:			
Owners of the Company		7,114	2,567
Non-controlling interest		-	(1)
Total comprehensive income for the year		7,114	2,566
Basic earnings per share (in USD cents)	11	12.3	11.1
Diluted earnings per share (in USD cents)	11	11.8	10.7
Basic weighted average number of equity shares	11	114,809,803	112,427,822
Diluted weighted average number of equity shares	11	119,192,610	117,111,456

Telit Communications PLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	Group 2015 $'000	Group 2014 $'000	Company 2015 $'000	Company 2014 $'000
ASSETS					
Non-current assets					
Intangible assets	12	81,877	72,576	2,210	6,395
Property, plant and equipment	13	21,792	20,113	29	49
Investments in subsidiaries	14	-	-	70,375	61,814
Other long term assets	16	2,198	851	33,327	34,202
Deferred tax asset	8	5,907	4,658	1,577	1,244
		111,774	98,198	107,518	103,704
Current assets					
Inventories	15	20,080	21,506	240	135
Trade receivables	16	72,157	63,967	3,747	3,403
Other current assets	16	13,040	15,306	22,995	33,479
Deposits – restricted cash	17	75	845	-	-
Cash and cash equivalents	17	29,844	25,399	898	2,711
		135,196	127,023	27,880	39,728
Total assets		246,970	225,221	135,398	143,432
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	18	1,969	1,942	1,969	1,942
Share premium account	18	24	90,533	24	90,533
Other reserve	18	(2,727)	(2,727)	14,667	11,157
Merger reserve	18	-	1,235	-	1,235
Treasury stock fund	18	(1,323)	-	(1,323)	-
Translation reserve	18	(20,256)	(13,254)	(690)	444
Retained earnings	18	132,494	20,048	75,713	(18,658)
Total equity		110,181	97,777	90,360	86,653
Non-current liabilities					
Other loans	26	23,812	17,612	-	-
Post-employment benefits	19	4,737	4,537	-	-
Deferred tax liabilities	8	262	10	-	-
Provisions	23	3,894	2,626	-	-
Other long-term liabilities	24	39	23	-	-
		32,744	24,808	-	-
Current liabilities					
Short-term borrowings from banks	26	4,968	12,497	-	-
Trade payables	20	77,627	70,463	1,710	672
Provisions	23	585	1,446	-	-
Accruals and Other current liabilities	20	20,865	18,230	43,328	56,107
		104,045	102,636	45,038	56,779
Total equity and liabilities		246,970	225,221	135,398	143,432

The financial statements on pages 33 to 85 were approved by the board and authorized for issuance on 4 March 2016 and are signed on its behalf by: Oozi Cats, Director

Company number: 05300693

	Note	Group 2015 $'000	Group 2014 $'000	Company 2015 $'000	Company 2014 $'000
CASH FLOWS - OPERATING ACTIVITIES					
Profit/(loss) for the year from continued operations		14,116	12,487	(427)	4,276
Adjustments for:					
Depreciation of property, plant and equipment	13	5,306	4,092	30	32
Amortisation of intangible assets	12	13,532	10,396	2,480	2,229
Change in fair value of earn-out	5	-	(301)	-	-
Gain on sale of property, plant and equipment		(227)	(99)	-	-
Gain on sale of intangible assets	12, 28	-	-	(183)	-
Loss on transfer of investment in subsidiary	14	-	-	-	1,599
Increase in provision for post-employment benefits	19	567	791	-	-
Finance costs, net	6,7	2,922	1,309	(4,852)	(6,710)
Tax expenses	8	1,757	1,421	200	(1,168)
Share-based payment charge	25	6,349	4,011	2,817	1,508
Operating cash flows before movements in working capital:		44,322	34,107	65	1,766
Increase in trade and other receivables		(12,486)	(6,237)	(523)	(2,748)
Increase in other current assets		(1,556)	(1,196)	(450)	(20,176)
Decrease / (increase) in inventories		11	(869)	(115)	(92)
Increase/(decrease) in trade payables		13,231	23,073	1,102	(377)
Increase/(decrease) in other current liabilities		1,231	(262)	3,162	23,286
Increase in provisions and other long term liabilities		1,472	394	-	-
Cash from operations		46,225	49,010	3,241	1,659
Income tax paid		(3,047)	(980)	(605)	(147)
Interest received		12	135	2,083	1,584
Interest paid		(1,978)	(1,941)	(5)	(8)
Net cash from operating activities from continued operations		41,212	46,224	4,714	3,088
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	13	(8,823)	(9,611)	(12)	(20)
Acquisition of intangible assets	12	(1,397)	(2,651)	(34)	(481)
Proceeds from disposal of property, plant and equipment		677	362	-	-
Capitalized development expenditure	12	(26,106)	(26,071)	(1,464)	(1,935)
Acquisition of subsidiaries, net of cash acquired	2	(352)	(2,100)	-	-
Additional investment in subsidiary	14	-	-	(5,051)	(493)
Additional loans made to subsidiaries	16	-	-	(1,479)	(2,100)
Repayment of loans from subsidiaries	16	-	-	3,000	688
Decrease / (increase) in restricted cash deposits	14	657	(700)	-	88
Net cash used in investing activities		(35,344)	(40,771)	(5,040)	(4,253)

		Group		Company	
		2015	2014	2015	2014
	Note	$'000	$'000	$'000	$'000
CASH FLOWS - FINANCING ACTIVITIES					
Proceeds from exercise of share options	25	264	3,119	264	3,119
Acquisition of non-controlling interest	14	-	(100)	-	-
Purchase of own shares	18	(1,323)	-	(1,323)	-
Short-term borrowings from banks	26	(4,949)	1,647	-	-
Proceeds from other loans	26	11,562	-	-	-
Repayment of other loans	26	(2,337)	(2,924)	-	-
Net cash from financing activities		3,217	1,742	(1,059)	3,119
Increase/(decrease) in cash and cash equivalents		9,085	7,195	(1,385)	1,954
Cash and cash equivalents - balance at beginning of year		25,399	23,886	2,711	3,068
Effect of exchange rate differences		(4,640)	(5,682)	(428)	(2,311)
Cash and cash equivalents - balance at end of year	17	29,844	25,399	898	2,711

Non – cash transactions:

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

Year ended 31 December 2015

	Share capital	Share premium Account	Merger reserve	Other reserve	Treasury stock fund	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,942	90,533	1,235	(2,727)	-	(13,254)	20,048	97,777
Total comprehensive income/(loss) for the year								
Profit for the year	-	-	-	-	-	-	14,116	14,116
Foreign currency translation differences	-	-	-	-	-	(7,002)	-	(7,002)
Total comprehensive income/(loss)	-	-	-	-	-	(7,002)	14,116	7,114
Transactions with owners:								
Exercise of options	27	237	-	-	-	-	-	264
Reduction of share premium and merger reserve	-	(90,746)	(1,235)	-	-	-	91,981	-
Purchase of own shares	-	-	-	-	(1,323)	-	-	(1,323)
Share-based payment charge	-	-	-	-	-	-	6,349	6,349
Total transactions with owners	27	(90,509)	(1,235)	-	(1,323)	-	98,330	5,290
Balance at 31 December 2015	1,969	24	-	(2,727)	(1,323)	(20,256)	132,494	110,181

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 2015

	Share capital	Share premium account	Merger reserve	Other reserve	Treasury stock fund	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,942	90,533	1,235	11,157	-	444	(18,658)	86,653
Total comprehensive income /(loss) for the year								
Loss for the year	-	-	-	-	-	-	(427)	(427)
Foreign currency translation differences	-	-	-	-	-	(1,134)	-	(1,134)
Total comprehensive income/ (loss)	-	-	-	-	-	(1,134)	(427)	(1,561)
Transactions with owners								
Exercise of options	27	237	-	-	-	-	-	264
Reduction of share premium and merger reserve	-	(90,746)	(1,235)	-	-	-	91,981	-
Purchase of own shares	-	-	-	-	(1,323)	-	-	(1,323)
Share-based payment charge	-	-	-	-	-	-	2,817	2,817
Capital contribution	-	-	-	3,510	-	-	-	3,510
Total transactions with owners	27	(90,509)	(1,235)	3,510	(1,323)	-	94,798	5,268
Balance at 31 December 2015	1,969	24	-	14,667	(1,323)	(690)	75,713	90,360

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

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: financial assets and liabilities 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 Finance Director’s statement on pages 5 to 8 and in notes 16, 24, 26 and 27 to the financial statements. These pages also 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 and loans facilities. 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 its subsidiaries controlled by the Company for the years to 31 December 2015 and 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- exposure, or rights, to variable returns from its involvement with the investee.

The ability to use its power over the investee to affect its returns.

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 acquire; plus
- the fair value of the existing equity interest in the acquire; 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.
The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.
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:

	Useful life - Years
Buildings	33
Office furniture and equipment	7-17
Computers and software	3
Vehicles	4-7
Leasehold improvements	7-10
Machines and equipment	4-10

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:

	Useful life - Years
Software and licenses	3-7
Customer relationships	4.5-5
Acquired technology	2.5-5
Trademark	8

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 when the Group can demonstrate:

- The technical feasibility of completing the intangible assets so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

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

1. ACCOUNTING POLICIES (continued)

cash flows have not been adjusted.
If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

(o) Income taxes

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
• When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
• In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

Deferred tax is calculated at the tax rates enacted or substantially enacted by the reporting date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(p) Trade payables

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

1. ACCOUNTING POLICIES (continued)

(q) Retirement benefit costs

The Group operates a defined benefit pension plan in Euroland, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post employment healthcare benefits to employees in the United States. These benefits are unfunded.
The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurement, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurement are not reclassified to profit or loss in subsequent periods.
Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

(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.

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) Operating 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.

1. ACCOUNTING POLICIES (continued)

(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.

(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.

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 amortised cost using the effective interest method less impairment.

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

1. ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised 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.

1. ACCOUNTING POLICIES (continued)

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised 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 amortised 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.

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) Provisions

Provisions are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

1. ACCOUNTING POLICIES (continued)

(y) 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. See also note 5.

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. See also note 2.

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. See also note 25.

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.

Amortisation of internally generated development assets

Amortisation shall begin when the asset is available for use, that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation charge for each period shall be recognised in profit or loss over the period in which the asset's future economic benefits are expected to be consumed by the entity, estimated to be 3 – 5 years.

1. ACCOUNTING POLICIES (continued)

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

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.

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.

1. ACCOUNTING POLICIES (continued)

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

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.

(z) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium. Share options exercised during the reporting period are satisfied with treasury shares.

(aa) ***Changes in accounting policies***

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year.

New/Revised standards and interpretations not applied

The following new and amended standards and interpretations in issue at 31 December 2015 are not yet effective and have not been adopted by the group:

	Effective dates*
IFRS 2 Share-based Payment	1 February 2015
Annual Improvements to IFRSs 2010-2012 Cycle	1 February 2015
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
IFRS 9 Financial Instruments (i)	1 January 2018+
IFRS 15 Revenue from Contracts with Customers (i)	1 January 2018+
Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative	1 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments)	1 January 2016
IAS 19 Defined benefit plans – Employee contributions (Amendments)	1 January 2016
IAS 27 Separate Financial Statements (Amendments)	1 January 2016+

(i) With the exception of IFRS 9 and IFRS 15 the directors do not expect the adoption of these standards and interpretations to have a material impact on the consolidated or company financial statements in the period of initial application. The company has yet to evaluate the impact of IFRS 9 and IFRS 15.

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion to early adopt standards.

1. ACCOUNTING POLICIES (continued)

(aa) ***Changes in accounting policies (continued)***

+ At the date of authorisation of these financial statements, these standards and interpretation have not yet been endorsed or adopted by the EU.

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. In August 2015, Telit IoT Platforms, LLC (formerly ILS Technology LLC), acquired substantially all of the assets and business of a U.S. company that provided hardware, software and professional services in the wireless communications industry. The total consideration was $352,000 in cash. No goodwill arising from this acquisition.

B. 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 3:- REVENUE

	Group	
	2015	**2014**
	$'000	**$'000**
Sales of goods	307,751	273,910
Services income	25,742	20,094
	333,493	294,004

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 is presented below:

2015	**EMEA**	**APAC**	**Americas**	**Total**	**Eliminations**	**Consolidated**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue						
External sales	133,320	70,863	129,310	333,493	-	333,493
Inter-segment sales (1)	138,783	27,447	3,355	169,585	(169,585)	-
Total revenue	272,103	98,310	132,665	503,078	(169,585)	333,493
Result						
Segment result (2)	17,409	14,340	376	32,125	-	32,125
Unallocated corporate expenses (3)						(13,330)
Operating profit						18,795
Investment income						12
Finance costs						(2,934)
Profit before income taxes						15,873
Income taxes						(1,757)
Net profit						14,116

NOTE 4:- SEGMENTAL ANALYSIS (continued)

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	20,212	5,272	808	26,292	-	26,292
Unallocated corporate expenses [2]						(11,075)
Operating profit						15,217
Investment income						1,502
Finance costs						(2,811)
Profit before income taxes						13,908
Income taxes						(1,421)
Profit for the year						12,487

(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.
(4) Total assets and liabilities are not disclosed as from 2015 this information is not provided by segment to the Chief Operating decision maker on a regular basis.

NOTE 5:- OTHER OPERATING INCOME

	2015	2014
	$'000	$'000
Change in fair value of earn out [a]	-	301
Governmental grants and benefits [b]	1,753	3,241
Gain on sale of assets	226	99
Integration and transaction costs	(1,129)	(941)
Other	(257)	155
	593	2,855

(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).

(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

	2015	2014
	$'000	$'000
Interest income from bank deposits	12	135
Exchange rate differences, net	-	1,367
	12	1,502

NOTE 7:- FINANCE COSTS

	2015	2014
	$'000	$'000
Fair value of interest on loans beneficiary (see note 26)	1,098	811
Interest expense on bank loans and overdrafts (see note 26, 27)	873	1,214
Bank fees and other bank expenses	535	786
Exchange rate differences, net	428	-
	2,934	2,811

NOTE 8:- INCOME TAXES

A. Tax recognised in statement of comprehensive income

	2015	2014
	$'000	$'000
Current year taxes	3,327	1,409
Prior year taxes	(308)	960
Deferred taxes	(1,262)	(948)
Tax expense	1,757	1,421

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 20.25% for 2015 and 21.50% for 2014, and the Group's total tax expense for the year:

	2015	2014
	$'000	$'000
Profit before income tax from continuing operations	15,873	13,908
Tax charge computed at 20.25% (2014: 21.50%)	(3,214)	(2,990)
Tax adjustments arising from:		
Non-deductible expenses	(4,058)	(1,761)
Deferred tax assets recognized and other timing differences, net	978	(415)
Recognition of previously unrecognised tax losses	-	1,315
Effect of tax rates in foreign jurisdictions	957	(544)
Utilization of carry forward losses for which no deferred tax was recorded	3,272	3,934
Tax for previous years	308	(960)
Tax expense	(1,757)	(1,421)

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

NOTE 8:- INCOME TAXES (continued)

The Group is currently the subject of ongoing tax audits in respect of tax returns in certain jurisdictions. See note 21 for further details.

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 2014	3,084	849	3,933
Translation adjustments	(71)	(162)	(233)
Credit to the statement of comprehensive income	(176)	1,124	948
At 1 January 2015	2,837	1,811	4,648
Translation adjustments	(98)	(167)	(265)
Credit to the statement of comprehensive income	586	676	1,262
At 31 December 2015	3,325	2,320	5,645

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:

	2015	**2014**
	$'000	**$'000**
Losses for which a deferred tax asset is recognised	13,098	11,790
Losses for which no deferred tax asset is recognised	16,851	21,730
	29,949	33,520

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.
Announcements were made during 2015 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Group. A reduction to 19%, effective from 1 April 2017, and a further reduction to 18% effective from 1 April 2020 were enacted on 18 November 2015.

The deferred tax asset at 31 December 2015 and 2014 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:

	2015	2014
Research and development	421	369
Sales, marketing and operation	266	224
General and administration	113	101
	800	694

Their aggregate remuneration comprised:

	2015	2014
	$'000	$'000
Wages and salaries	60,264	58,934
Social security costs	8,732	6,581
Other pension costs	3,392	1,588
	72,388	67,103

Director's emoluments

The directors, deemed to be key management personnel, received the following remuneration in respect of services rendered to the Group. Please refer to the table on page 20 of the Annual Report:

	Year ended 31 December 2015	Year ended 31 December 2014
	$'000	$'000
Remuneration (1)	4,989	5,959
Share based payment charge	2,685	1,461
Post-employment benefits	173	108
Total emoluments	7,847	7,528

(1) In 2015 includes payment of $222,000 for unused vacation days to one executive director. In 2014 includes a bonus of $387,000 paid in 2014 on account of 2013 to another executive director.

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

	Year ended 31 December 2015	Year ended 31 December 2014
	$'000	$'000
Total emoluments (1)	3,346	3,663
Share based payment charge	1,496	713
Post-employment benefits	157	98
	4,999	4,474

(1) In 2015 includes payment of $222,000 for unused vacation days.

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

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

	2015	2014
	$'000	$'000
Depreciation of owned fixed assets (note 13)	5,306	4,092
Amortisation of intangible assets (note 12):		
Amortisation of purchased customer list – included in selling and marketing expenses	2,335	2,298
Amortisation of acquired technology – included in R&D expenses	244	258
Amortisation of software – included mainly in R&D expenses	3,296	3,576
Amortisation of Internally generated development costs – included mainly in R&D expenses	7,657	4,264
Research and development expenditure	26,106	26,071
Costs of inventories recognised as an expense	189,113	169,699
Write-downs of inventories recognised as an expense	1,713	317

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

	2015	2014
	$'000	$'000
EBIT	**18,795**	**15,217**
Share-based payments	6,349	4,011
Non-recurring expenses [3a]	1,351	941
Amortisation - intangibles acquired	4,122	4,518
Adjusted EBIT	**30,617**	**24,687**
Depreciation & amortisation[3]	14,716	9,970
Adjusted EBITDA	**45,333**	**34,657**
Profit before tax	**15,873**	**13,908**
Share-based payments	6,349	4,011
Non-recurring expenses [3a]	1,351	941
Amortisation - intangibles acquired	4,122	4,518
Adjusted profit before tax	**27,695**	**23,378**
Net profit for the year	**14,116**	**11,947**
Loss attributable to non-controlling interest	-	(7)
Profit attributable to the owners of the Company	**14,116**	**11,954**
Share-based payments	6,349	4,011
Non-recurring expenses [3a]	1,351	941
Amortisation of intangibles acquired	4,122	4,518
Change in deferred tax asset, net	(997)	(715)
Adjusted net profit for the year	**24,941**	**20,709**

3 Excluding amortisation on acquired intangibles.
3a Non-reoccurring expenses mainly relate to integration and transaction costs.

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	
	2015	**2014**	**2015**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	213	183	213	183
Fees payable to the Company's auditor and their associates for other services to the Group:	284	268	169	241
The audit of the Company's subsidiaries pursuant to legislation:	277	271	-	-
Total audit fees	774	722	382	424
Other services relating to taxation	64	24	12	10
Total fees	838	746	394	434

NOTE 11:- EARNINGS PER SHARE

The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:

Basic earnings per share

	2015	2014
	$'000	$'000
Profit for the year attributable to the owners of the Company from continues operations	14,116	12,494
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	14,116	11,954
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares(1)	114,809,803	112,427,822
Diluted weighted average number of equity shares (2)	119,192,610	117,111,456
Basic earnings per share from continuing operations (in US dollar cents)	12.3	11.1
Basic loss per share from discontinued operations (in US dollar cents)	-	(0.5)
Basic earnings per share (in US dollar cents)	12.3	10.6
Diluted earnings per share from continuing operations (in US dollar cents)	11.8	10.7
Diluted loss per share from discontinued operations (in US dollar cents)	-	(0.5)
Diluted earnings per share (in US dollar cents)	11.8	10.2

(1) Basic weighted average number of equity shares:

	2015	2014
	No. of Shares	**No. of Shares**
Issued ordinary shares at 1 January	113,861,227	104,592,692
Effect of issue of shares (see note 2B)	-	1,691,957
Effect of purchase of own shares (see note 18)	(8,474)	-
Effect of share options exercised	957,050	6,143,173
Basic weighted average number of equity shares at 31 December	114,809,803	112,427,822

NOTE 11:- EARNINGS PER SHARE (continued)

(2) Diluted weighted average number of equity shares:

	2015	2014
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares	114,809,803	112,427,822
Effect of share options on issue	4,382,807	4,683,634
Diluted weighted average number of equity shares at 31 December	119,192,610	117,111,456

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

Adjusted 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.

	2015	2014
	$'000	**$'000**
Profit for the year	14,116	11,947
Loss attributable to non-controlling interest	-	7
Profit for the year attributable to the owners of the Company	14,116	11,954
Share-based payments	6,349	4,011
Amortisation of intangibles acquired	4,122	4,518
Other non-recurring expenses	1,351	941
Change in deferred taxes, net	(997)	(715)
Adjusted profit for the year attributable to the equity shareholders	24,941	20,709

	No. of Shares	**No. of Shares**
Adjusted basic earnings per share (in USD cents)	21.7	18.4
Adjusted diluted earnings per share (in USD cents)	20.9	17.7

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 2014	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
Additions	1,397	25,965	-	-	-	27,362
Transfer	70	(145)	-	-	-	(75)
Arising from acquisitions	222	-	-	-	-	222
Translation adjustments	(1,595)	(4,842)	(266)	-	(187)	(6,890)
31 December 2015	22,607	76,390	13,745	4,217	15,837	132,796
AMORTISATION						
1 January 2014	(11,300)	(12,185)	(4,443)	(3,670)	-	(31,598)
Charge for the year	(1,614)	(4,264)	-	-	-	(5,878)
Transfer	546	(546)	-	-	-	-
Charges for the year from intangible assets acquired	(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)
Charge for the year	(1,753)	(7,657)	-	-	-	(9,410)
Transfer	(58)	133	-	-	-	75
Charges for the year from intangible assets acquired	(1,543)	-	(2,335)	(244)	-	(4,122)
Translation adjustments	957	1,117	65	-	-	2,139
31 December 2015	(15,638)	(22,143)	(8,966)	(4,172)	-	(50,919)
Net book value						
31 December 2015	6,969	54,247	4,779	45	15,837	81,877
31 December 2014	9,272	39,676	7,315	289	16,024	72,576

A. Capitalized development costs related mainly to development of 3.5G, 4G, automotive products and the Platform as a Service and are amortised over a three to five year period.

B. As at 31 December 2015 there are no borrowing costs capitalized.

C. The Group tests goodwill for impairment annually or more frequently if there are indications that they might be impaired.
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. Management engaged an external appraiser to assist in the preparation of 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		**2015**		**2014**
			$'000	
Modules Americas	APAC	3,396		3,396
	Navman	1,095		1,095
		4,491		**4,491**
Modules APAC	APAC	**273**		**291**
Modules EMEA	Motorola m2m	3,255		3,255
	Telit RF	329		329
	ATOP BU	1,473		1,641
		5,057		**5,225**
Services EMEA	GlobalConnect	**1,926**		**1,926**
Services Americas	CrossBridge	2,239		2,239
	ILST	1,852		1,852
		4,091		**4,091**
	Total	**15,838**		**16,024**

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 19% and 26% (2014: 21% to 29%):

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 13%-26% 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 2014	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
Additions	-	34	1,464	1,498
Transfer	-	70	(70)	-
Disposal (1)	-	-	(5,307)	(5,307)
Translation adjustments	(445)	(43)	(77)	(565)
31 December 2015	8,759	869	-	9,628
AMORTISATION				
1 January 2014	(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)
Charge for the year	(1,128)	(238)	(1,113)	(2,479)
Transfer	-	(58)	58	-
Disposal (1)	-	-	2,296	2,296
Translation adjustments	320	28	24	372
31 December 2015	(6,775)	(643)	-	(7,418)
Net book value				
31 December 2015	1,984	226	-	2,210
31 December 2014	3,237	433	2,725	6,395

(1) In December 2015 the Company sold these assets at fair market value to a subsidiary, for $3.1 million.

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 2014	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
Additions	-	1,757	7,155	75	193	9,180
Acquisitions through business combinations	-	40	-	-	-	40
Disposals	-	(115)	(685)	(44)	-	(844)
Translation adjustments	(679)	(465)	(2,087)	1	(31)	(3,261)
31 December 2015	5,890	9,113	28,203	449	1,268	44,923
DEPRECIATION						
1 January 2014	(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)
Charge for the year	(141)	(962)	(3,945)	(68)	(190)	(5,306)
Disposals	-	101	270	22	-	393
Translation adjustments	56	226	1,182	2	11	1,477
31 December 2015	(599)	(6,261)	(15,531)	(222)	(518)	(23,131)
Net book value						
31 December 2015	5,291	2,852	12,672	227	750	21,792
31 December 2014	6,055	2,270	10,782	239	767	20,113

(1) The Company has pledged the buildings as collateral for the mortgage loan received to fund the purchase of this assets. See also note 26.

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

NOTE 14:- INVESTMENTS IN SUBSIDIARIES

COMPANY	**Investments in subsidiaries**
	$'000
1 January 2014	64,611
Additions [1]	490
Transfer [3]	(5,752)
Additions - subsidiaries share-based payment charge [2]	2,465
1 January 2015	61,814
Additions [1]	5,051
Additions - subsidiaries' share-based payment charge [2]	3,510
31 December 2015	70,375

(1) In 2015 the Company established an additional subsidiary in Japan, Telit Wireless Solutions Japan KK, with an initial share capital of $83,000.

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. During 2015 there was additional investment of $5 million.

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

(3) 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 2015 are as follows:

Name of company	Country of incorporation and operation	Type of shares	Effective ownership interest and voting rights	Principal activity in 2015
Telit Automotive Solutions S.a.r.l.[1]	France	Ordinary	100%	Development services and presales of m2m wireless products
Telit Wireless Solutions Srl[1] ("TWS")	Italy	Ordinary	100%	No trading activities
Telit Communications SpA[1] ("Telit EMEA")	Italy	Ordinary	100%	Development, sale and distribution of m2m wireless products
Telit Wireless Solutions GmbH [1]	Germany	Ordinary	100%	Presales of m2m wireless products
Telit Wireless Solutions, Inc. [1] ("Telit Americas")	United States	Ordinary	100%	Development, sale and distribution of 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%	sale and marketing of m2m wireless products
Telit Wireless Solutions Co Ltd[1] ("Telit APAC")	Republic of Korea	Ordinary	100%	Development, sale and distribution of 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 other intra-Group services.
Telit Wireless Services Ltd. [2]	Israel	Ordinary	100%	Distribution and sale of m2m wireless products
GlobalConect Ltd[1]	Israel	Ordinary	100%	Development and cellular connectivity services
Telit Wireless Solutions (Pty) Ltd. [2] ("Telit RSA")	Republic of South Africa	Ordinary	100%	Distribution of m2m wireless products
Telit Wireless Solutions Hong Kong Limited[1]	Hong Kong	Ordinary	100%	Distribution of m2m wireless products and intra-Group services.
Telit Communications Cyprus Ltd. [2]	Cyprus	Ordinary	100%	Supply chain and intra-Group supply of m2m wireless products.
Telit Technologies (Cyprus) Ltd. [2]	Cyprus	Ordinary	100%	Development of m2m wireless products.
Telit Location Solutions LP[2]	United States	Partnership Units	100%	No trading activities
Telit IoT Services, Inc. (formerly: CrossBridge Solutions, Inc)[2]	United States	Ordinary	100%	Sale and marketing of managed services.
Telit Wireless Solutions (Australia) Pty Limited[2]	Australia	Ordinary	100%	Presales of m2m wireless products
Telit GPS Solutions GP LLC[2]	United States	Membership Interests	100%	No trading activities
Telit Automotive Solutions NV[1] (0.88 % is indirectly held)	Belgium	Ordinary	100%	Development and sale of m2m wireless products
Telit IoT Platforms, LLC (formerly: ILS Technology LLC)[2]	United States	Ordinary	100%	Development and sale of platform as a service (PAAS)
Telit Wireless Solutions (Shenzen) Ltd. [2]	China	Ordinary	100%	Presales of m2m wireless products, and other intra-Group services
Telit Wireless Solutions Japan KK[1]	Japan	Ordinary	100%	Presales of m2m wireless products, and other intra-Group services

1 indicates that the entity is held directly by the Company.

2 indicates that the entity is indirectly held by the Company.

NOTE 15:- INVENTORIES

	Group	
	2015	2014
	$'000	$'000
Finished goods	12,545	11,505
Raw materials and work in progress	7,535	10,001
	20,080	21,506

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 $1,544,000 (2014: $1,144,000).

NOTE 16:- TRADE RECEIVABLES AND OTHER ASSETS

	Group		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Within current assets:				
Trade receivables	72,157	63,967	3,747	3,403
Other current assets	13,040	15,306	1,070	667
Due from Group undertakings	-	-	21,925	32,812
	85,197	79,273	26,742	36,882
Within non-current assets:				
Due from Group undertakings	-	-	33,144	33,980
Other long term assets	2,198	851	183	222
	2,198	851	33,327	34,202

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

The average credit period on trade receivables in 2015 was 74 days (2014: 79 days). No interest is charged on trade receivables unless previously agreed with the customer. The Group has provided against receivables based on estimates of irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Included in the Group's trade debtors balance are debtors with a carrying amount of $11,036,000 (2014: $14,888,000) 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 97 days (2014: 93 days).

	2015	2014
	$'000	$'000
Ageing of past due but not impaired trade debtors		
1-30 days	6,778	10,595
30-60 days	2,477	2,329
60-90 days	263	228
Above 90 days	1,518	1,736
	11,036	14,888

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:

	2015	2014
	$'000	$'000
At 1 January	544	661
Increase in allowance for the year	768	6
Amounts written off	(202)	(70)
Translation adjustments	(38)	(53)
At 31 December	1,072	544

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.

The loans that the Company provided to its subsidiaries are as follows:

COMPANY	Loans to subsidiaries
	$'000
1 January 2014	20,182
Additions (1)	15,054
Repayments (2)	(688)
Translation adjustments	(568)
1 January 2015	33,980
Additions (1)	1,479
Repayments (2)	(1,000)
Translation adjustments	(1,315)
31 December 2015	33,144

(1) During 2015 the Company increased the Loan to Telit Automotive Solutions NV by $1.5 million.

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.

(2) The repayment in 2015 is due to loan balance repayments made by Telit Wireless Solutions LTD.

The repayment in 2014 is due to loan balance repayments made by DAI Telecom Holdings.

NOTE 17:- CASH

The Group's cash resources are as follows:

	Group		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Deposits – restricted cash	75	845	-	-
Cash and cash equivalents	29,844	25,399	898	2,711
Total	29,919	26,244	898	2,711

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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Sterling	68	177	65	175
US dollar	20,686	17,784	619	2,419
Euro	6,132	5,543	214	117
KRW	424	185	-	-
Brazilian Real	271	396	-	-
HKD	142	132	-	-
ILS	1,596	1,581	-	-
Other	600	446	-	-
Total	29,919	26,244	898	2,711

NOTE 18:- ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2015	2014
	$'000	$'000
Allotted, issued and fully paid: 114,740,976 ordinary shares of 1 penny each (2014: 113,861,225 ordinary shares of 1 penny each).	1,969	1,942

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

During 2015, 1,289,149 options were exercised by employees into ordinary shares (2014: 7,012,592).
During 2014 2,255,943 shares were issued as part of the acquisition of the ATOP BU (see note 2B).

Share options

The number of outstanding options as at 31 December 2015 and at the date of this report was 16,261,996[12] and 16,191,997[12] equal to 14.2% and 14.1% respectively, of the outstanding share capital of the Company (12.4% and 12.4%, 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.

12 Not including 2,250,000 options that the Company committed to grant two executive directors on 16 September 2014. See note 25.

NOTE 18:- ALLOTTED SHARE CAPITAL (continue)

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.

Reduction of share premium and merger reserve

In October 2015, following approval by the High Court of Justice in England and Wales, the Company cancelled substantially all of its share premium account ($91,981,000) and subsequently increased the retained earnings by this amount.

Treasury shares fund

During 2015 the group repurchased 409,400 ordinary shares for a total consideration of $1,323,000.

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 projected 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 $41,000 (2014: $52,000) and the charge to the statement of comprehensive income in the year is $10,000 (2014: $19,000).

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 $339,000 (2014: $360,000).

19. POST-EMPLOYMENT BENEFITS (continued)

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

	2015	2014
Expense recognised in the statement of comprehensive income	**$'000**	**$'000**
Interest cost	101	134
Current service costs	572	404
	673	538

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:

	2015	2014
	$'000	**$'000**
Present value of defined benefit scheme obligation		
1 January	4,126	3,704
Current service costs and interest	673	538
Contributions paid by the Company	(202)	(327)
Actuarial gains	102	553
The effect of changes in foreign exchange	(352)	(342)
31 December	4,347	4,126

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

	2015	2014
Discount rate	2.03%/2.95%	1.49%/3.47%
Expected salary increase rate	2.63%/5.00%	1.95%/5.00%
Inflation	0.00%/1.5%	0.00%/0.6%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled $16,602 (2014: $20,852) and the expected contributions to be paid in 2015 total $105,636.

NOTE 20:- CURRENT LIABILITIES

	Group		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Short-term bank loans and other borrowings	2,664	9,895	-	-
Current maturities of long term loans	2,304	2,602	-	-
Total short-term borrowing from banks and other lenders	4,968	12,497	-	-
Trade creditors (i)	77,627	70,463	1,710	672
Due to Group undertakings	-	-	42,397	54,865
Provisions (see also note 23)	585	1,446	-	-
Accruals and other current liabilities (ii)	20,866	18,230	931	1,096
Total current liabilities	104,046	102,636	45,038	56,633

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 2015 was 135 days (2014: 126 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.

(ii) Mainly due to current liabilities related to employees and accrued expenses. Includes $1.9 million for corporate tax (2014: $1.7 million) and $0.8 million for vat authorities (2014: $0.4 million).

NOTE 21:- CONTINGENT LIABILITIES

Legal proceedings

A. Claims filed by M2M Solutions LLC (“M2M”)

(a) The 2012 Case:

On January 13, 2012, M2M Solutions 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 Solutions) are resolved. Fact and expert discovery in the Telit Defendants’ case is now complete.

M2M Solutions’ damages expert reports stated that a reasonably royalty for use of the patented technology is approximately $4.2 million for the period January 10, 2012 to mid-May 2015; however, the Court has excluded their opinions on the basis of unreliable methodology. In addition, M2M has

NOTE 21:- CONTINGENT LIABILITIES (continued)

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.

The Telit Defendants' damages expert report estimated that if the patent is found to be valid and enforceable, and the Telit Defendants are found to infringe, a reasonable royalty for the period January 10, 2012 to mid-2014 would be a non-material lump-sum royalty or running royalty rate.

The Court has dismissed M2M Solutions' allegations of willfulness (effectively denying M2M's request for treble damages), excluded damages based on foreign (non-U.S.) shipments, and dismissed any damages against the Company from the case (leaving only the U.S. subsidiary).

Trial is expected to commence on March 28, 2016. In the opinion of the Company's management based, among other things, on the opinion of its professional advisers, no provision is considered necessary.

(b) The 2014 Case:

On August 26, 2014, M2M Solutions filed another Complaint in the same Court against the Telit Defendants, alleging infringement of a related patent. On August 5, 2015, the Company was dismissed from the case.

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.

On September 10, 2015, the parties agreed to stay the 2014 case, pending the outcome of several petitions for Inter Partes Review that have been filed in the U.S. Patent Office, challenging the validity of the asserted patent.

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.

B. 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. 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. 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.

NOTE 21:- CONTINGENT LIABILITIES (continued)

C. 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	
	2015	**2014**	**2015**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
Operating leases which expire:				
Within one year	3,203	2,975	941	898
In the second to fifth years inclusive	4,336	3,834	824	1,102
Above five years	370	-	-	-
	7,909	6,809	1,765	2,000
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	3,236	2,818	1,015	1,051

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

Guarantees and liens

A. The Company provided guarantees of up to $17.1 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 and Israel, to sustain credit lines granted by those banks to the Group's subsidiaries. The guarantees are for a total amount of $80.2 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 (C)	Other (D)	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	752	200	494	2,626	4,072
Utilized in the year	(675)	(63)	-	-	(738)
Provided in the year	-	20	-	1,255	1,275
Exchange differences	(77)	(15)	(51)	13	(130)
Balance at 31 December 2015	-	142	443	3,894	4,479
Classified as:					
Current liabilities	-	142	443	-	585
Non-current liabilities	-	-	-	3,894	3,894
	-	142	443	3,894	4,479

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, both at first and second instances. The Tax Authorities did not file appeals before the Italian Supreme Court. Therefore, these decisions have become final.

   In 2012 Telit EMEA received an assessment, penalty notice and R&D recovery deed for the 2007 tax 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, both at first and second instances. Since no appeal was filed against the second level decision related to tax assessment for the 2007 tax year, this decision became final and Telit EMEA has already paid the amount due. The second instance decision related to the R&D recovery deed was appealed by the Tax Authorities before the Italian Supreme Court. The case 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 tax court of first instance. The Tax Authorities appealed such decisions before the second level tax court. The cases are still pending.

   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. 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 appeals filed by Telit EMEA with the first level tax court, against these VAT assessments, were upheld by the tax court in December 2015 and the assessments were therefore annulled.

NOTE 23:- PROVISIONS (continued)

In August 2015 Telit EMEA received 3 penalty deeds from the Italian tax authorities in the approximate aggregate amount of €5 million (approximately $6.2 million), which are related to the above mentioned VAT assessments for tax years 2005, 2006 and 2007. Telit EMEA filed appeals against such penalty deeds with the first level tax court. The cases are still pending.

D. 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. While this provision is reviewed on a regular basis and adjusted for management's best current estimates, the judgmental nature of these items means that future amounts settled may differ from those provided.

NOTE 24:- OTHER LONG-TERM LIABILITIES

	Group	
	2015	**2014**
	$'000	**$'000**
Earn out from acquisitions (a)	-	23
Other	39	-
	39	23

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. As of 31 December, 2015 the liability classifies as current liability - accrued expenses.

NOTE 25:- SHARE-BASED PAYMENTS

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

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 Options expire 5 years from the date of grant.

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). The balance of the first director’s options were issued on 2 November 2015. Accordingly, the other 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.

On January 13, 2015, employees of the Company’s subsidiary were granted 131,000 options, at an exercise price of £2.280 per share. The options vest in four equal annual instalments starting from 13 January 2015 and expire five years from the date of grant.

On August 3, 2015, employees of the Company’s subsidiary were granted 3,703,333 options, at an exercise price of £3.275 per share and 1,506,000 restricted stock units (‘RSU’s’).
For those employees, who were granted a combination of options and RSU’s or only options, the vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date
- All RSU’s in a combined package will vest on the fourth anniversary of this grant date.

For those employees, who were granted only RSU’s vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date

All options will expired on August 3, 2020.

On August 12, 2015, employees of the Company’s subsidiary were granted 240,000 options, at an exercise price of £3.3675 per share and 36,000 RSU’s.
The vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date
- All RSU’s in a combined package will vest on the fourth anniversary of this grant date.

All options will expired on August 12, 2020.

NOTE 25:- SHARE-BASED PAYMENTS (continued)

On August 31, 2015, employees of the Company's subsidiary were granted 160,000 options, at an exercise price of £3.2825 per share and 132,000 RSU's.
For those employees, who were granted a combination of options and RSU's or only options, the vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date
- All RSU's in a combined package will vest on the fourth anniversary of this grant date.

For those employees, who were granted only RSU's vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date

All options will expired on August 31, 2020.

On October 13, 2015, employees of the Company's subsidiary were granted 253,333 options, at an exercise price of £2.7175 per share and 8,000 RSU's.
For those employees, who were granted a combination of options and RSU's or only options, the vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date
- All RSU's in a combined package will vest on the fourth anniversary of this grant date.

For those employees, who were granted only RSU's vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date

All options will expired on October 13, 2020.

On November 12, 2015, an employee of the Company's subsidiary was granted 32,000 RSU's. Vesting will be as follows:

- 25% will vest on the second anniversary of this grant date
- 25% will vest on the third anniversary of this grant date
- The remaining 50% will vest on the fourth anniversary of this grant date

The number of outstanding options as at 31 December 2015 was 16,261,996, equal to approximately 14.2% 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 option holder 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.

NOTE 25:- SHARE-BASED PAYMENTS (continued)

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

	Number		Weighted average exercise price (pence)	
	2015	**2014**	**2015**	**2014**
Outstanding at beginning of year	11,487,085	12,710,387	1.32	0.47
Granted during the year	6,701,662	6,199,000	2.54	1.88
Exercised during the year	(1,289,149)	(7,012,592)	0.46	0.26
Cancelled due to cashless exercise during the year	(283,351)	(99,345)	1.09	0.48
Lapsed during the year	(354,251)	(310,365)	1.86	1.66
Outstanding at year end	16,261,996	11,487,085	1.82	1.32
Exercisable at year end	6,255,083	5,418,419	1.20	0.71

The weighted average share price at the date of exercise for share options exercised in 2015 was £1.20 (2014: £1.90).

The options outstanding at 31 December 2015 have an exercise price in the range of £0.80 to £3.3675 (2014: £0.25 to £2.6) and a weighted average contractual life of 2.8 years (2014: 2.7 years).

The RSU's outstanding at 31 December 2015 have an exercise price zero and a weighted average contractual life of 3.1 years (2014: 0).

The Group recognised a total expense of $6,349,000 in respect of equity settled share based payment transactions for the year ended 31 December 2015 (2014: $4,011,000). Of this amount, $2,817,000 is attributed to the Company (2014: $1,508,000).

NOTE 25:- SHARE-BASED PAYMENTS (continued)

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 ,as only this grant has market performance conditions associated with it. 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)
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		0		
13 November, 2014	2.398	2.398	43	5	1.51	0	5	0.78
13 January, 2015	2.280	2.280	40	5	1.07	0	0	0.72
3 August, 2015	3.353	3.275	39	5	1.32	0	0	1.14
3 August, 2015 RSU’s	3.353	0	39	5	1.32	0	0	3.353
12 August, 2015	3.378	3.368	39	5	1.32	0	0	1.13
12 August, 2015 RSU’s	3.378	0	39	5	1.32	0	0	3.378
31 August, 2015	3.283	3.283	41	5	1.32	0	0	1.09
31 August, 2015 RSU’s	3.283	0	41	5	1.32	0	0	3.283
13 October, 2015	2.718	2.718	41	5	1.21	0	0	0.94
13 October, 2015 RSU’s	2.718	0	41	5	1.21	0	0	2.718
12 November 2015 RSU’s	2.328	0	41	5	1.21	0	0	2.328

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

NOTE 26:- BORROWINGS

	Group		Company	
	2015	2014	2015	2014
	$ '000	$'000	$'000	$'000
Secured – at amortised cost				
Current maturities of long term loans	2,304	2,602	-	-
Other long-term loans	23,812	17,612	-	-
Total	26,116	20,214	-	-
Unsecured – at amortised cost				
Short-term bank loans and other borrowings	2,664	9,895	-	-
Total	2,664	9,895	-	-
Disclosed in the financial statements as:				
Current borrowings	4,968	12,497	-	-
Non-current borrowings	23,812	17,612	-	-
Total	28,780	30,109	-	-

	Group		Company	
	2015	2014	2015	2014
	$ '000	$'000	$'000	$'000
Borrowings breakdown				
Working capital borrowing (1)	2,663	9,949	-	-
Long term loan (2)	4,899	5,372	-	-
Governmental loan (3)	18,234	11,183	-	-
Mortgage loan (4)	2,984	3,605	-	-
Total	28,780	30,109	-	-

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

(2) Representing long term loans from banks in Italy- (i) for $6.2 million with interest at a rate of Euribor 3 months plus 3.25% and is being repaid in 20 quarterly instalments that commenced in September 2013, and (ii) $1.3 million and $1.1 million with an interest rate of Euribor 6 months plus + 5.5% and is repayable in 6 semi-annual instalments that will commence in December 2020

(3) Representing preferential long term loans (i) for $7.7 million and $8.3 million with fixed-rate of 0.5% and is 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) for $6.1 million with a fixed-rate of 0.75% and is 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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
US Dollar	35,029	26,284	67,806	55,406
Euro	5,755	3,191	709	279
ILS	5,924	6,955	926	1,128
Other	224	409	235	-

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.

	Group	
	2015	2014
	$'000	$'000
Impact on profit or loss of a 10% decrease	2,298	1,997
Impact on profit or loss of a 10% increase	(2,298)	(1,997)

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 $260,000 (2014: $309,000); 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	
	2015	**2014**	**2015**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Cash and cash equivalents	29,844	25,399	898	2,711
Deposits – restricted cash	75	845	-	-
Trade receivables	72,157	63,967	3,747	3,403
Due from Group undertakings	-	-	21,925	32,812
Other long term asset	2,198	851	183	222
Loan (or investment in) to subsidiaries	-	-	33,144	33,980
Guarantee provided to banks on subsidiary's borrowings	-	-	80,171	91,310

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 2015 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

	2015			**2014**		
	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	0.52%	1,077	17,621	0.58%	1,140	10,392
Variable rate	2.36%	4,128	6,767	2.91%	11,616	7,877

Company

	2015			**2014**		
	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	-	80,171	-	-	91,310	-

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 34.

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	
	2015	**2014**
	$'000	**$'000**
Cash and cash equivalent	29,844	25,399
Restricted cash deposits	75	845
Total cash	29,919	26,244
Current borrowings	(4,968)	(12,497)
Non-current borrowing	(23,812)	(17,612)
Total borrowings	(28,780)	(30,109)
Net cash / (debt)	1,139	(3,865)
Shareholders' equity	110,181	97,777
Net cash / (debt) to equity ratio	1.03%	(3.95%)

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 31 December 2015 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 31 December 2015 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 2015, 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) Intercompany transactions:

	2015	2014
	$'000	$'000
Royalties (i)	10,185	12,556
Revenues from sale of products and services	1,545	1,126
Cost of sale	(7,465)	(6,585)
Gain from sale of assets (ii)	183	-
Interest income	1,606	1,465
Guarantee fees	1,539	1,685

(i) 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.

(ii) In December 2015 the Company sold assets at fair market value to a subsidiary, for $3.1 million.

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

Transactions with key management personnel

A. Key management personnel are determined as the directors of Telit Communications PLC. Details of transactions with the directors and their compensation are detailed in the Report on Directors' Remuneration on pages 17 to 23. There are no outstanding balances as at the year end.

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

NOTE 29:- SUBSEQUENT EVENTS

In February 2016 Telit acquired Bluetooth Smart, otherwise known as Bluetooth Low Energy ("BLE"), assets from Stollmann Entwicklungs und Vertriebs Gmbh ("Stollmann"), a developer and marketer of low power hardware products and software solutions for wireless communications for a cash consideration of €3.6 million, before adjustments. The Company has not yet completed the purchase price allocation required under IFRS 3.

The acquired assets include Stollmann's Bluetooth IP, NFC and other wireless communications IP. Thirty-five Stollmann employees, mainly R&D engineers, are also being transferred to Telit.

NOTE 30:- INFORMATION ON THE COMPANY

As permitted by the Companies Act 2006, the profit and loss account of the Company is not presented in this Annual Report. The loss for the year amounted to $427,000 (2014: profit of $4,276,000).

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 Joint-Broker	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Joint-Broker	Berenberg Bank 60 Threadneedle Street London, EC2R 8HP
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

IoT MODULES

IoT CONNECTIVITY

IoT PLATFORMS

Telit communications PLC

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

www.telit.com