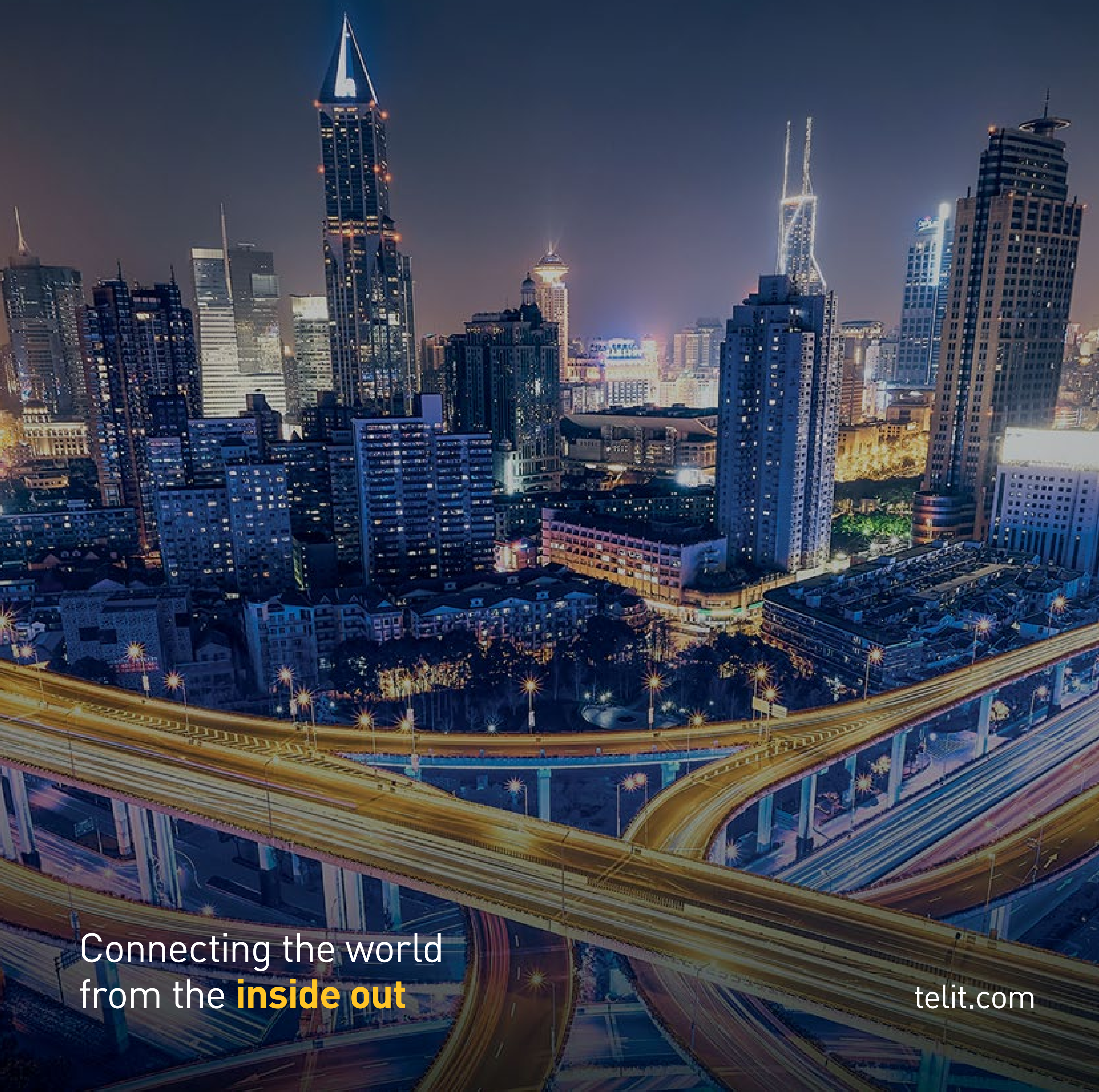
2017 Annual Report



Connecting the world
from the **inside out**

telit.com

ENABLING IoT IS WHAT WE DO

Telit Communications PLC is a global leader in Internet of Things (IoT) enablement, with an extensive portfolio of wireless connectivity modules, platforms, virtual cellular IoT operator and professional services, which empower hundreds of millions of connected 'things'.

The Group sells its products and services directly, and through a network of distributors, to thousands of direct and indirect customers, globally. With nearly two decades of IoT innovation experience, Telit continues to redefine the boundaries of digital business, by delivering secure, integrated end-to-end IoT solutions for many of the world's largest brands, including enterprises, original equipment manufacturer (OEMs), system integrators and service providers across all industries, enabling their pursuit of enterprise digital transformation.

The Group offers a broad portfolio of integrated products and services. This includes cellular communication modules (from 2G to 4G technologies), global navigation satellite system (GNSS), short range wireless modules including low power Wi-Fi and Bluetooth, IoT connectivity and IoT platform services.

At the end of 2017, the Group employed 1,040 people worldwide.

Telit is listed on the AIM market of the London Stock Exchange (AIM: TCM).

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TELIT AND THE INTERNET OF THINGS

Enabling Digital transformation of enterprises through our end-to-end offering.

IOT

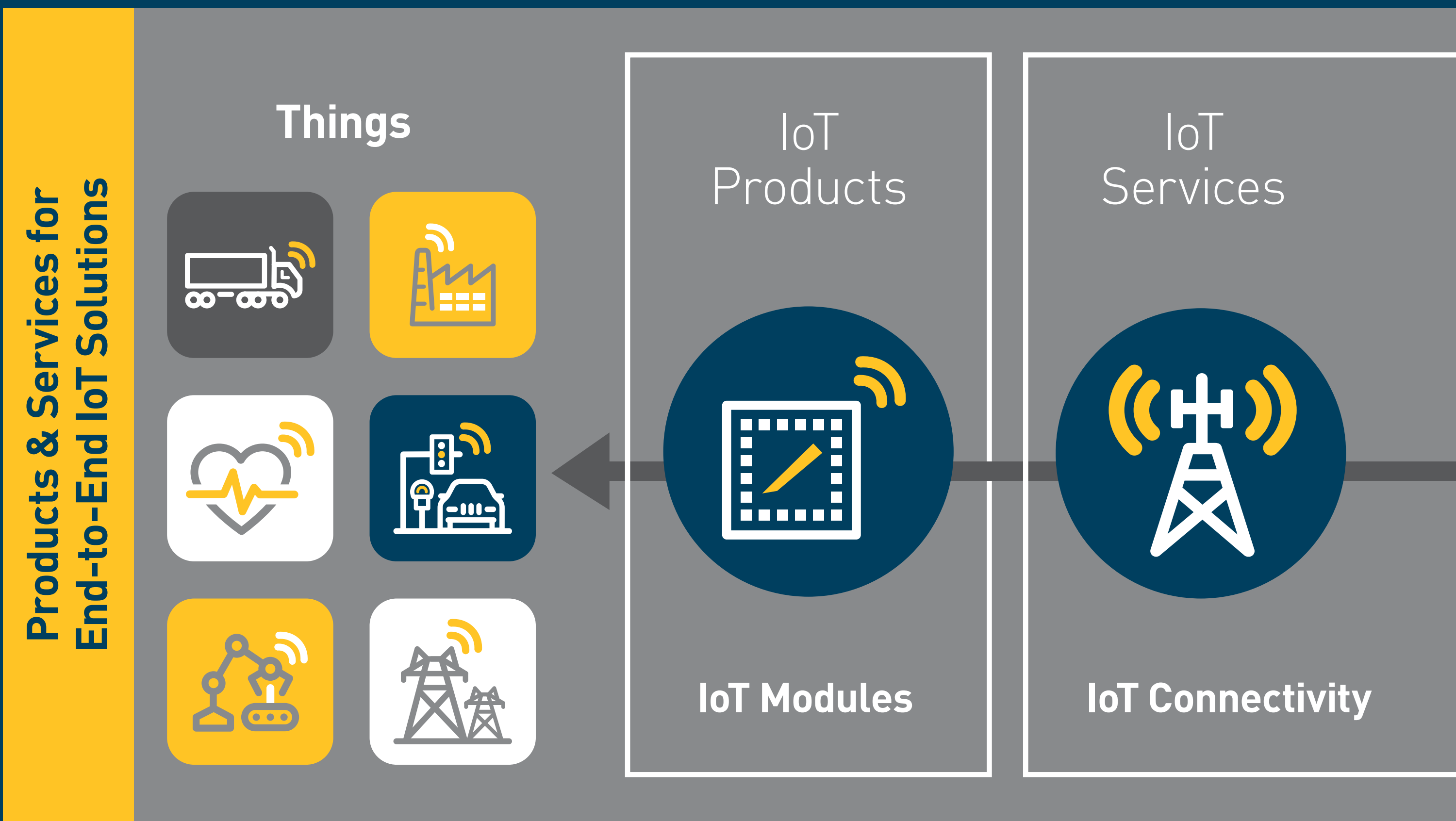
According to IDC's Worldwide Internet of Things Forecast 2017-2021[1] published in September 2017, the momentum of the IoT market continues to grow due to organizations, governments and consumers that are making investment decisions to use connected products and solutions. The report predicts that IoT market worldwide spend will grow from $689.2 billion in 2016 to $1.4 trillion in 2021, with a compound annual growth rate (CAGR) of 14.5%.

In 2016, the largest portion of spend was in the device category, representing 27% of overall spend. However, by 2021 the report indicated that this portion of spend will reduce to 24.5%, reflecting stronger growth in application software, platform and IT services.

IDC predicts that the worldwide installed base of IoT endpoints ("things") will grow at a rate of 19.4% per annum through to 2021, with IDC expecting approximately 36.1 billion connections by that time.

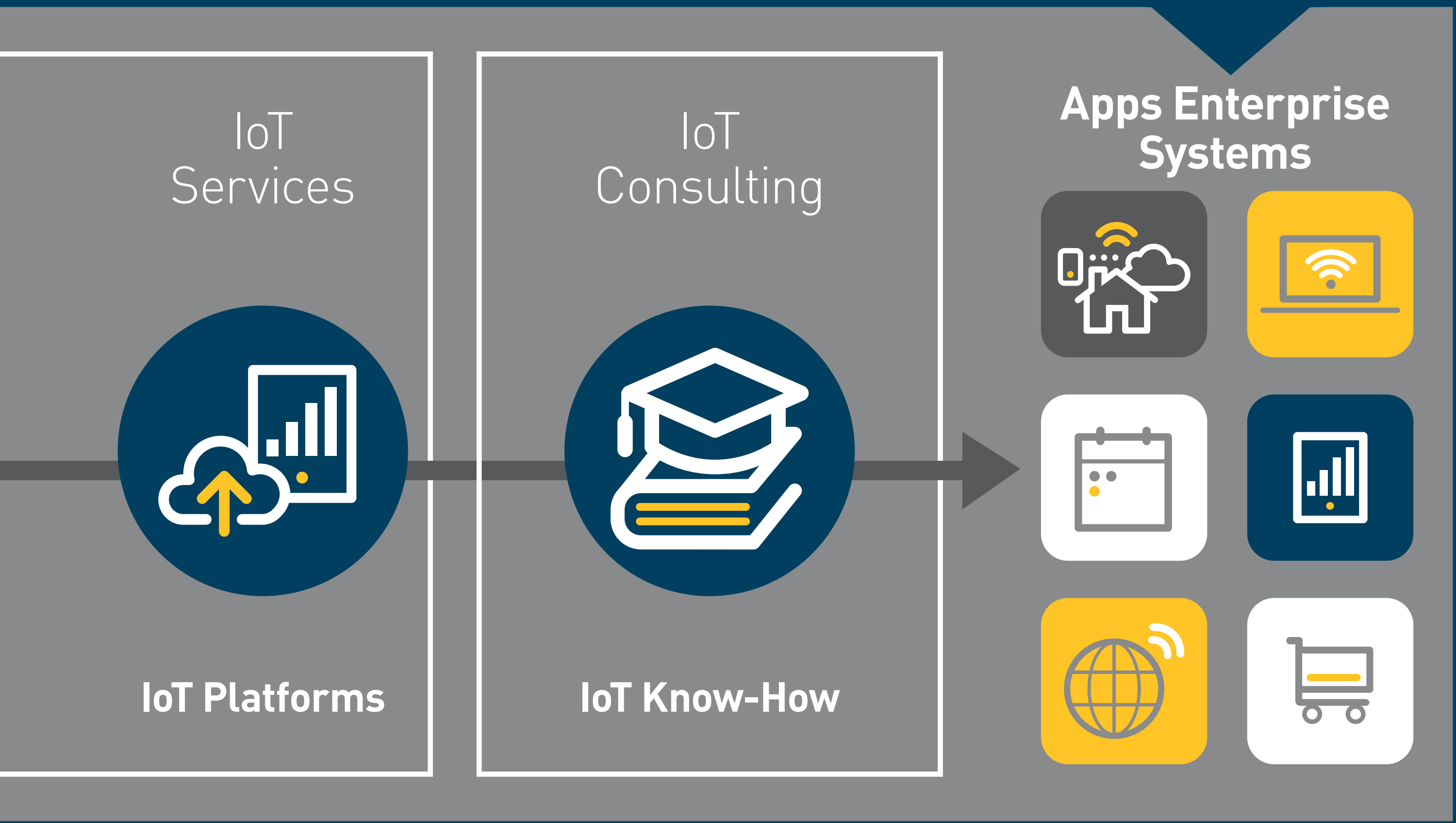
The global cellular IoT market is going through a massive change, the next wave of cellular IoT adoption is focused on new vertical segments like smart cities and infrastructure, smart industrial supply chains and connected consumer products. In mid-2017, more than half a billion devices were connected to wide area networks based on cellular, Low power wide area (LPWA) and satellite technologies. The market is highly diverse and divided into multiple ecosystems.

1 IDC, Worldwide Internet of Things Forecast, 2017-2021, Doc #US43087717, September 2017



Berg Insight in the global M2M/IOT communications market estimates that the global number of cellular IoT subscribers increased by 56% during 2017 to reach 647.5 million at the end of the year – corresponding to around 8% of all mobile subscribers. The number of cellular IoT subscribers is forecasted to grow at a compound annual growth rate (CAGR) of 33.1% to reach 2.7 billion by the end of 2022. During the same period, cellular IoT network revenues are forecasted to grow at a CAGR of 27.3% from €6.3 billion in 2017 to approximately €21.2 billion in 2022.

IoT analyst firm MachNation in its 2018 IoT application enablement scorecard published in January 2018, forecast that worldwide IoT application enablement and device management revenue will be $3.3 billion in 2017 growing to $64.6 billion by 2026 at a CAGR of 45%. Enterprises now realise that a well-built IoT Application Enablement Platform (AEP) saves significant development time and money in the creation and operation of an IoT solution.



TELIT GLOBAL FOOTPRINT

7000
Customers Worldwide

350
Salesforce (Including distributors)

20
Years Experience in IoT

4
Company Owned Protocol Stacks

50
Outsourced EMSs

10
Top 10 customers compriseonly 31.7% of the revenues

+20
Languages Spoken among our Employees

+400
Product Certifications Worldwide

The Group has now established a leading position in the IoT industry.

27
Nationalities Among our Employees

ISO/TS16949
Compliant for Manufacturing, R&D and Support Functions Worldwide

36
Sales offices & +70 distributors, covering 80 countries around the globe

10
R&D centers with over 600 engineers

1030
Employees Worldwide

+5000
Total Man-Years of Research & Development

+100
Module Types

HIGHLIGHTS

KEY CORPORATE DEVELOPMENTS

- Change in management following departure of former CEO
- New board of directors
- Initiation of cost optimization plan based on product and activities review
- Integration process of hardware and services business units initiated, addressing the strategy of becoming a leader in end-to-end IoT solutions
- Automotive division being considered for sale – range of proposals being evaluated

FINANCIAL HIGHLIGHTS[2]

$374.5m
Revenues
(2016: $370.3 million)

$27.7m +7%
Cloud and connectivity revenues
(2016: $25.9 million)

35.1%
Gross margin
(2016[3]: 40.3%)

$131.6m
Gross profit
(2016: $149.4 million)

$18.1m
Adjusted EBITDA
(2016: $53.3 million) reflecting lower gross margin and increase in operating expenses

$10.7m
Adjusted EBIT loss
(2016: profit $33.1 million)

$49.7m
Operating loss
(2016: profit $19.4 million) which includes $29.8 million of non-recurring expenses[4]

$17.8m
Adjusted loss before tax
(2016: profit of $31.7 million)

$56.8m
Loss before tax
(2016: profit of $17.9 million) which includes $29.8 million of non-recurring expenses[4]

16.4¢
Adjusted basic loss per share
(2016: earnings per share of 25.4 cents)

41.9¢
Basic loss per share
(2016: earnings per share of 13.4 cents)

$4.8m
Negative cash flow from operating activities
(2016: cash generated $46.8 million)

$30.2m
Net debt at 31 December 2017
(31 December 2016: $17.7 million)

2 For the definition of 'Adjusted' figures and reconciliation from IFRS financial results to adjusted financial results please refer to note 11 to the attached financial statements.

3 2016 figures are presented following a restatement. For further details, see Finance Director Statement.

4 Comprised of $16 million exceptional items related to restructuring; $5.4 million other non recurring expenses; and $8.4 million impairment of internally generated development assets. For further details, see notes 5,6 and 13 to the attached financial statements.

OPERATIONAL HIGHLIGHTS

- Acquisition of GainSpan in February 2017 – added ultra-low power Wi-Fi to capabilities
- Strong growth in the Automotive business with new designs in North America and Asia
- New partnerships with Idemia to deliver SimWISE-embedded SIM card within low category 4G module
- Received the certifications for:
  - CAT-1 modules, including VoLTE from the two main mobile operators in US
  - new LTE CAT-M and CAT-M1 modules
- New collaboration with Wind River®, an Intel® company, to accelerate Industrial IoT (IIoT) adoption
- Rationalisation of product portfolio and operating costs result in a restructuring plan implementation – will contribute to $10 million reduction in cash expenses in 2018

WHERE WE OPERATE

OUR BUSINESS MODEL

Telit develops, markets and sells cellular, Global Navigation Satellite System (GNSS), short range wireless modules, mobile connectivity services and application enablement platforms (AEPs), to on-board edge devices to the IoT.

The Group's IoT 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 segment, Telit sells modules to car OEMs – normally through Tier-1 suppliers, that are certified and manufactured in compliance with regulations such as ISO/TS16949 and delivered through one of the industry's most scalable industrial and logistics apparatus.

The Group operates in a highly competitive market, which requires constant innovation. As a result, the Group continuously makes significant investments in research and development in its products and services in order to provide its customers with cutting edge IoT products and capabilities.

Telit products and services are sold directly and indirectly, through a network of distributors, solution providers, engineering/design firms, device manufacturers, and system integrators.

"IoT remains a fast growing and exciting space, and Telit is well positioned in this market. We are fully committed to continue to position Telit as a leading enabler in the IoT space, delivering value and growth for our business."

Richard Kilsby
Chairman of the Board

I joined the Board relatively late in the year, and I report on behalf of the Board on what has clearly been a year where the Group has fought through challenges at every level. The Group is changing rapidly and 2018 will be very different to 2017, as well as very different to the years before.

As a revitalised Board, we have implemented wide-ranging and fundamental changes to the business. We are pleased that the early signs are that these changes, especially to the Group's activities and cost base, have led to positive operational progress since the beginning of 2018.

Financial performance

The financial performance of the business was clearly disappointing.

As the year progressed, Telit was adversely affected by several key factors, including later than expected certification from leading North American mobile network operators (MNOs) of our LTE CAT 1 Voice over LTE (VoLTE) modules; delays in several existing projects; and the faster than expected transition from mature technologies to the lower gross margin LTE technology.

The effect of operational and management changes impacted the short term financial performance in the second half of the year. These issues have stabilised and we do not expect this short term impact to continue into 2018.

One result of the disappointing financial performance in 2017 was that we were required to seek waivers of actual and potential breaches of bank covenants in a facility agreement with our lead financing bank. As we have announced, we obtained waivers and in March 2018 we agreed to amend the financial covenants with that bank.

The new covenants are more appropriate for the Group following the rationalisation of product lines and costs. They are also more easily measured and therefore more predictable, and the Board is closely monitoring compliance.

Managerial upheaval

Shortly after the release of the first half year results in August, the Board became aware of media speculation that the then CEO, Oozi Cats, was a fugitive from US justice, and that an indictment against him remained outstanding for matters unrelated to Telit, which occurred many years before the Group's establishment.

An independent review found an indictment was issued against Mr Cats in the US and that this fact was knowingly withheld by him from the Board. While the Board was in process to dismiss Mr Cats, he resigned and left the business on 14 August 2017.

Following the departure of Mr Cats, Yosi Fait was appointed interim CEO and in late November was appointed CEO (having previously been Telit's President and Finance Director) and Yariv Dafna stepped into the role of Group Finance Director, a position that he had also previously held.

Recognising investor concern, the Board initiated a programme of reviews of Telit's corporate governance and financial reporting and controls.

The Board will endeavour to ensure the reporting and controls within the Group are appropriate for what is a very complex business. In particular, going forward we will ensure that the business is run in a prudent manner. The Board also commissioned an external report on its corporate governance compliance in order to bring the Group up to the highest standards of corporate governance and transparency relative to a company of Telit's size.

The Board has taken steps to implement the recommended changes, including Simon Duffy's and my appointment as new non executive directors and other changes to the composition of and responsibilities of the Board of directors. We continue to make progress in 2018, and indeed, after the year end welcomed Shlomo Liran and Miriam Greenwood as non executive directors. More details are in the 'Corporate Governance' section of this report.

The Board also engaged Grant Thornton to perform a review of certain elements of the Group's financial policies, controls, and procedures related to consolidation, third party distributors and revenue process. No material issues relating to our reported financial performance were identified by this review in relation to matters already completed, and several process and control improvements which were identified have been addressed. For further details, see the Audit Committee report.

Operational review and rationalisation

On appointment as CEO, Yosi Fait and the team, with the support of the new non executive directors, conducted a thorough review of Telit's activities, cost base and product portfolio. The review concluded that Telit should significantly rationalise the Group's activities to concentrate on the product portfolio which will allow us to upsell our services.

We reduced our R&D centres and decided to focus future growth in R&D spend in low-cost centres. The Group also reduced its sales and general and administrative costs, mainly by optimising headcount. We expect cash operating expenses in 2018 to be reduced by approximately 10% and to be $10m lower than 2017.

Telit has made significant progress in reducing its costs and realigning its operations and activities and we move into 2018 with a better focus on the product portfolio, as well as reduced development and product maintenance costs.

FCA investigation

In March we announced that the FCA has commenced an investigation into Telit with regard to the timeliness of announcing certain matters included in the interim results published on 7 August 2017. Telit has cooperated fully with the FCA in its enquiries to date and will continue to do so.

People

On behalf of all the Board, I would like to thank all our employees worldwide for their hard work and dedication during a very challenging year. In difficult times a company is also measured by its people and I know that they will continue to be the cornerstone of the Group's success. Together we will deliver our targeted growth for 2018 and beyond.

Outlook

I am happy to report that from an operational standpoint, Telit has made substantial progress and as a result, from the beginning of the current financial year we delivered revenues in line with our projections.

The established transition to LTE means we are now able to better manage the new mix of products and technologies and focus on stabilising the gross margin.

IoT remains a fast growing and exciting space, and Telit is well positioned in this market. We are fully committed to continue to position Telit as a leading enabler in the IoT space, delivering value and growth for our business.

As previously announced, we considered the future of a number of product lines which may not fit the Group's long-term strategy leading to a process for potentially selling our Automotive business unit. We are currently reviewing a range of proposals in this regard.

Despite a challenging and disappointing 2017, we are confident that our performance in 2018 will significantly improve and see double-digit growth, stabilised gross margins and the implementation of cost optimisation. We are on course to meet the Board's expectations.

Richard Kilsby
Chairman

30 April 2018

"Our strategy continues to focus increasingly on the development of our IoT solutions capabilities and to become a leading end-to-end IoT provider that enables enterprises' digital transformation."

Yosi Fait
Chief Executive Officer

Operational overview

2017 was a very challenging year for Telit. Declining revenues and margins in our module business, together with slower than expected growth in our IoT services business and a sharp increase in operating expenses, resulted in poor financial performance.

Although our strategy in recent years, to invest heavily in IoT services and in our hardware portfolio is correct, our execution was missing a key component. The business was not sufficiently focused on operating expenditure, free cash flow generation and did not address the decline in the gross margin, a phenomenon that started during the first half of 2017 and accelerated during the second half of the year.

The pressure on margins is mainly attributable to the fast adoption of 4G technology, at the expense of the mature 2G and 3G technologies, which are optimized technologies and have better gross margins (2017: 35.1% gross margin, compared to 40.3% in 2016). Accordingly, it was clear that there was a need to optimise our costs.

In addition, the two acquisitions we made to enhance our short-range product portfolio, which remains important technology in the growing IoT market, Stollmann (BLE) in 2016 and GainSpan (Ultra low power Wi-Fi) in February 2017, have significantly increased our operating expenditure, while revenues in these two business lines are growing slower than expected. These businesses are both making operational losses in the short term. We are now refocussing our portfolio of the short-range products to include only those that could be sold with our cellular module or as part of our end-to-end IoT offering.

We initiated a comprehensive analysis of our product portfolio and our 11 R&D sites, with the aim to optimise our product portfolio and product development plan (based on ROI parameters), during the second half of 2017. We have decided to reduce the number of R&D centres during the next three years and shift our investment into lower cost R&D centres. This will lower our short and, more importantly, long-term cost of our product development, which is the biggest cost for a technology company like Telit.

We also worked to reduce our cost base elsewhere – particularly the sales & marketing and general & administrative categories of expenses – with a target to achieve a reduction of 10% in cost run rate compared to October 2017. I am pleased to report that this cost optimization plan is on track, and we expect to achieve it in full.

I believe that the double-digit growth planned for 2018, together with stabilisation of our gross margins and the cost optimisation we are implementing, should bring the Group to a better financial performance on the operational level and also improve our cash flow generation.

Strategy

IoT is the prime driver of the digital transformation for enterprises with spend in the IoT market by 2021 forecast by IDC to reach $1.4 trillion.

Our strategy continues to focus increasingly on the development of our IoT solutions capabilities and to become a leading end-to-end IoT provider that enables enterprises' digital transformation. To address our strategy, we have started to change our organization by unifying our module and IoT services sales and product teams across our three geographical regions.

The integrated business will enable us: to better define and develop the products required for the market; to focus much more on synergies from leveraging the combination of our modules (cellular and short range) and the IoT Platform and Portal; to better utilise Telit's sales force; and generally, become a more efficient and focused organisation.

A key element of our strategy is to continue our growth by expanding into the enterprise market, as companies of all sizes around the world are now exploiting more and more digital transformation via IoT that will drive down their cost base, improve efficiencies, will lead innovation and will create new revenue streams. Despite its tremendous potential to impact the enterprise, IoT project delivery remains complex and difficult. Telit is well positioned to deliver the key components and the necessary know how to complete IoT projects successfully.

Together with our extensive ecosystem of blue chip customers and suppliers, technology partners, system integrators, implementer communities and MNOs, we will have best in class products for our customers, and will continue to be an innovative global leader for IoT solutions.

Today's competitive markets demand creative and innovative solutions to stay ahead in business.

Operational review – divisions and geographical

Group revenues marginally increased to $374.5 million (2016: $370.3 million), of which Cloud and connectivity revenues were $27.7 million (2016: $25.9 million), an increase of 7%.

Hardware (modules) – Revenue growth was disappointing. We suffered from a significant delay in several projects, some of which due to the delay in the LTE CAT1 certifications. In addition, during December, we suffered from shortage of several components, mainly memories, which negatively affect our performance in the last month of the year.

IoT solutions – The 7% increase in Cloud and connectivity revenues was also disappointing, after recording rapid growth in the last few years. In the Cloud unit, we faced a slower than expected ramp up of certain projects in our IoT factory unit. On connectivity, we enjoyed significant growth in EMEA which was offset by a weakness in the US, derived from substantial customer churn due to the closure of the 2G networks, as well as a sharp decline in the average revenue per user (ARPU), which was traditionally much higher in this market.

In Q1 2018 we saw some stabilisation in the ARPU in the US as well as growth in terms of new connections and activations.

Americas – revenues were up by 7.5% to $160.2 million (2016: $149.0 million), but this was well below our expectations. The overall market for LTE products continued to grow, with additional certifications of our CAT-1 and CAT-M1 products but our growth in the region was impacted by a significant delay in certifying our CAT-1 products with VoLTE. In addition, the major US carriers have announced plans to shut down the CDMA network in 2018 and to focus exclusively on LTE, with a significant impact on our CDMA-based revenue during the year.

We managed to complete the delayed certifications and to certify additional CAT-M1 products and we are therefore well positioned in 2018 with our family concept to enable customers to migrate from 3G and CDMA designs towards LTE, either CAT-1 or CAT-M1.

EMEA – revenues increased by 7.4% to $147.4 million (2016: $137.3 million). This growth came from the strong performance of our Automotive business. EMEA continues to be impacted by cellular technology stagnation, with deployments remaining in 2G and 3G and growing competition from Chinese vendors.

The uncertainty of the timing of MNOs in the region moving to new LTE technologies, remains a significant factor but it is now expected that low category LTE will start to ramp up in 2018. Telit's portfolio includes a full set of products supporting the new LTE technologies with fall-back to the legacy 2G and 3G networks, to allow customers to go through this uncertain period with as little disruption as possible to the serviceability of their devices in the field.

Telit foresees that the move to NB-IoT will also significantly impact the adoption of IoT for new verticals and will contribute to the growth of total number of units sold in Europe in the coming years and we are developing new modules following our family concept and form factors to be well positioned for this growth opportunity.

APAC – revenues were down to $66.9 million (2016: $84.0 million), mainly as a result of the loss of a design with one of our major customers in the region. While we were expecting to offset this design loss with a significant new design from a different customer, this project was delayed which negatively impacted our overall performance in this region.

We released new LTE products for the Japan and Korea markets and plan to bring this region back to growth in 2018 on the back of the ramp up of the delayed project as well as additional adoption of our modules for new designs and deployments in the region.

Research and development

We will continue to invest and develop best in class IoT products and services including our IoT connectivity and IoT platform, and utilise one of our stronger assets, our IoT know-how, which has been accumulated over almost two decades. This investment and know-how is positioning Telit as the recognised leader in delivering operational technology (OT) System Integration Services (IoT technology, services and know-how) which can help our customers increase their digital transformation velocity while reducing risk and complexity.

Constant innovation is key in delivering our strategy. A recent example is our simWISE solution, an embedded software technology for cellular modules that acts as a replacement or complement to the traditional SIM card. simWISE technology reduces total cost of ownership and improves functionality. simWISE technology is applicable across all industries and markets. We are the first to introduce such a solution in our 2G product portfolio, and are now expanding it into our 4G product line together with IDEMIA, a world leader in SIM card technology and security.

Telit's end-to-end capabilities

Today's competitive markets demand creative and innovative solutions to stay ahead in business. The new digital transformation impact is being felt broadly. The underlying objective is to collect the right information, process it into actionable knowledge, transmit that knowledge to the right person, and act on it – achieved with increasing affordability. In doing so, this allows us to solve an increasing number of problems, including many that we had never thought of.

Telit's business is at the forefront of this digital transformation – providing the key ingredients critical to fulfil the need for real time data from the physical world.

Telit's business is at the forefront of this digital transformation – providing the key ingredients critical to fulfil the need for real time data from the physical world. These include the following components:

- **IoT Products.** A diversified portfolio of connected modules that allow "things" to be connected using the best available and most suitable technology (Cellular - from 2G to 4G, Wi-Fi and BLE) for the application being developed. These provide cost performance and a significant reduction in time-to-market.

  The Group markets its IIoT modules 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 continue to grow significantly during the next few years, with a substantial number of projects already in advanced stages around the world. In order to cater to all of these verticals, Telit continues to develop a wide range of cellular LTE products and a wide range of CAT-M1 and NB-IoT modules.
- **Dedicated IoT Connectivity services.** These allow scaling and global deployments of customers' IoT solutions with a single point of contact. We deliver the ease of a single bill and dedicated 24/7 IoT support services at competitive rates, without the need for in-house know-how, mapping and contracting separately with multiple global MNOs. The Group continues to invest and develop its IoT connectivity business, which covers all customer connectivity needs and provides a recurring revenue stream.
- **IoT Platforms.** Allow customers to create value by using data to solve problems. The challenge is that the data needed to solve a problem has often been difficult or expensive to collect, or needs to be enriched with other related data. Telit's deviceWISE IoT platform is an industrial grade suite of software that provides Connectivity Management, Device Management and Application Enablement, which allows for the creation and management of IoT Applications. From standalone applications such as metering and asset tracking to more robust Industry 4.0 / IIoT and factory automation solutions.
  - The IoT Portal is designed to enable customers to manage their IoT deployments through a single portal that makes them easier, more efficient and cuts time to market. The IoT Portal provides customers with access to Connectivity Management, Device Management, Data Management and facilitates interaction with MNOs, dash boarding tools, security and administration. The Telit IoT portal ties with our modules in the field and is a significant tool to manage any IoT deployment very efficiently, save costs, be flexible, solve issues remotely and more.
  - The Telit IoT platform, deviceWISE, integrates any devices, production assets and remote sensors with web-based and mobile apps and enterprise systems. deviceWISE reduces risk, time-to-market, complexity and cost of deploying solutions for monitoring and control, industrial automation, asset tracking and field service operations across all industries and market segments around the world.
  - deviceWISE provides an easy way to collect, normalise and transport real time manufacturing data to allow processing for improved uptime, better efficiency, predict failures and improved compliance.
  - The IoT Factory Solutions business unit, through deviceWISE, is designed to easily connect production machines and processes with enterprise resource planning (ERP), manufacturing resource planning (MRP) systems and Supervisory Control and Data Acquisition (SCADA) applications in addition to native integration into emerging cognitive analytic services such as SAP Cloud Platform, IBM Watson and leading IaaS Data Centric Clouds such as AWS and Microsoft Azure.

Overall, Telit enables the creation of solutions and applications for fast deployment of IoT projects with complete life cycle management (long and short-range connectivity devices, global data plans and IoT platform), both in the traditional IoT verticals such as asset tracking, logistics, remote industrial monitoring, automated utility meter reading, telematics, mobile health devices, and for the fast-growing enterprise market.

Telit's investments in the last few years include not only the development of each of the above-mentioned components but also, increasingly, the integration of the different components in order to transform our products and services into a cohesive solution which is ready to connect and send data.

Telit remains on the cutting edge of innovation for solutions to connect 'things' to the IoT.

Market position and competitive advantage

With extensive R&D experience, gained through thousands of engineering staff-years, Telit has several differentiators that increase its market position and competitive advantage including:

- **Flexibility:** Telit offers customers cross-technology products (being the first company to add non-cellular modules, including short-range location technologies, to its portfolio) and services to take a stand-alone device and connect it to the IoT and to business Apps. Our offering enables customers the flexibility of sourcing any service or product and any combination thereof.

  Telit modules are designed in a family concept: all modules in a family have the same form factor and software compatibility but offer different functionalities to meet the requirements of different vertical application segments and regional configurations. The advantage for users is substantial: all modules in a family are interchangeable, so customers can easily replace the modules with successive products without changing the application. This reduces effort, time to market and total cost of ownership.
- **Scalability:** Telit produces more than 20 million modules a year, with an extensive supply chain that includes strong relationships with suppliers, high skilled manufacturing partners and full control on capacity. This supply chain helps Telit to support significant growth in the number of customers, as well as in the capacity of each customer. Our IoT services 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.
- **Innovation:** Telit remains on the cutting edge of innovation for solutions to connect 'things' to the IoT. Our innovation includes introduction of combo devices or bundles of different hardware products as well as bundles of hardware and services which we expect to ramp up in 2018. The most innovating product developed in 2017 is our SimWISE solution, the embedded software technology for cellular modules that acts as a replacement or complement to the traditional SIM card, reduces total cost of ownership and improves functionality.
- **Focus:** Telit is a pure play IoT business. It focuses on customer needs to connect and maximise value from connected assets. Our R&D and M&A efforts are focused on creating the best portfolio of products and services to provide customers with the full solutions necessary to effectively run and grow their businesses deriving value from their IoT deployments.

Yosi Fait
Chief Executive Officer

30 April 2018

AUTONOMOUS LAWN MOWERS POWERED BY TELIT

Italian high-tech business Zucchetti designs and manufactures innovative robots by combining information technology, electronics and mechanics expertise - and uses Telit's IoT platform and embedded SIMs and cloud-ready cellular modules in some of its robotic lawn mowers.

By providing the three fundamental building blocks - platform, connectivity and modules - Telit is powering end-to-end communication from the lawnmower robot to Zucchetti's mobile app. Data generated by the robot is stored in the Telit IoT platform and visualised by the mower's connected app, allowing customers to interact with the robot remotely and securely. As a result, customers can manage and control their robot anytime and anywhere. For the future, the insights gained from this project will help scale Telit's IoT solution to other areas of the business including industrial automation and sensoring applications.

ZUCCHETTI Centro Sistemi

"We collaborated with Telit to create a smarter Ambrogio robot mower because we wanted to align the product with our mission: innovative, efficient, ecofriendly and competitive products to improve the quality of life for our customers."

Fabrizio Bernini,
CEO, Zucchetti Centro Sistemi

Making lawn care easier

"We took several actions to rationalise the Group's activities and our operating cost structure."

Yariv Dafna
Finance Director & Chief Corporate Development Officer

As stated in the Chairman's and Chief Executive's reports, after the departure of the former CEO, we commenced a review of the Group's activities, cost base and product portfolio in order to address the issues around decreased gross margin and increased operating cost base.

As a result of this review, we took several actions to rationalise the Group's activities and our operating cost structure including:

- Declaring a number of our products and services portfolio "end of life", which will reduce the R&D and operations investment in maintaining products with low contributions and reduce operating costs. In some cases, this led to write-off of capitalised development assets and inventory (both finished goods and components). These write-offs were recorded under restructuring costs in the 2017 income statement.
- Reducing the number of R&D centres by 2019. We already closed one expensive R&D centre and transferred its knowledge to lower-cost sites. Future growth in R&D spend will be focused on our low-cost centres.
- Adjusted the headcount of our sales and administrative teams in each region to align them with the actual group growth globally. Cost rationalisation will continue in 2018 and we expect that these measures will reduce the cash operating expenses in 2018 by approximately $10 million over comparable costs in 2017.
- Accelerated the strategic review of our Automotive business unit and started a process for potentially selling the business – process is ongoing and several proposals received.

Restatement of 2016 figures

During the preparation of the 2017 financials, we discovered an error in the 2016 financials related to the booking of a $2.0 million credit note from a supplier in 2016, of which $1.2 million should have been recorded in 2017. In addition, comparative amounts have been reclassified in order to correct presentation of certain items and present them on a basis consistent with the current year. Correcting these errors led to a restatement of our 2016 results, as presented below. (See also note 1(ab) in the financial statements).

Financial results

	2017 $'000	2016 (Restated) $'000	2016 (as presented) $'000
Revenues	**374,531**	**370,264**	**370,264**
Gross profit	**131,582**	**149,401**	**150,560**
Gross margin	35.1%	40.3%	40.66%
Other operating income	2,437	2,842	2,842
Research and development expenses	(66,870)	(38,256)	(38,256)
Selling and marketing expenses	(66,786)	(63,848)	(63,848)
General and administrative expenses	(28,640)	(29,996)	(29,996)
Exceptional expenses related to restructuring	(15,979)	–	–
Other non-recurring expenses	(5,412)	(780)	(780)
Adjusted EBITDA	**18,052**	**53,285**	**54,363**
Operating (loss)/profit (EBIT)	**(49,668)**	**19,363**	**20,522**
Adjusted EBIT	**(10,705)**	**33,137**	**34,215**
(Loss)/profit before tax	**(56,781)**	**17,930**	**19,089**
Adjusted (loss)/profit before tax	**(17,818)**	**31,704**	**32,782**
Basic (loss)/profit per share (cents)	**(41.9)**	**13.4**	**14.4**
Adjusted basic (loss)/profit per share (cents)	**(16.4)**	**25.4**	**26.4**

$374.5m

Group revenues (2016: $370.3 million)

Revenues

Group revenues marginally increased to $374.5 million (2016: $370.3 million), out of which Cloud and connectivity revenues were $27.7 million (2016: $25.9 million), an increase of 7%.

In the hardware business, we suffered from a significant delay in several projects, some of which due to the delay in the LTE-CAT1 certifications. In addition, during December we suffered from a shortage of several components, mainly memories, which negatively affect our performance in the last month of the year.

The 7% increase in Cloud and connectivity revenues was also disappointing, after recording rapid growth in the last few years. In the cloud side we faced a slower than expected ramp up of certain projects, mainly in our IoT factory unit and on the connectivity side, we enjoyed significant growth in EMEA which was offset by a weakness in the US, derived from substantial customer churn due to the closure of the 2G networks as well as a sharp decline in the average revenue per user (ARPU), which was traditionally much higher in this market.

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.

Telit's activities in the IoT services business unit have grown in recent years and, although operational results from this business unit still comprise less than 10% from the Group's results, it focuses more and more on IoT services and end-to-end IoT solutions, as the future growth engine.

Adjusted EBIT is defined as Earnings Before Interest, Tax, share based payment expenses, amortisation of acquired intangibles, impairment of intangible assets, exceptional expenses related to restructuring and non-recurring expenses; Adjusted EBITDA as Adjusted EBIT plus depreciation and other amortisation; Adjusted Profit before tax as Profit before tax plus share based payment expenses, amortisation of acquired intangibles, impairment of intangible assets, exceptional expenses related to restructuring and non-recurring expenses; and Adjusted net profit for the year as net Profit for the year plus share based payment expenses, amortisation of acquired intangibles, impairment of intangible assets, exceptional expenses related to restructuring and non-recurring expenses less change in deferred tax assets, net.

Segmental information for each business line is presented below:

2017	IoT Products $'000	IoT services $'000	Consolidated $'000
Revenue			
External sales:			
Sales of HW products	343,678	–	343,678
Sales of Connectivity and IOT platforms services	–	27,728	27,728
Sales of licences and other services	–	3,125	3,125
Inter-segment sales[1]	–	–	–
Total revenue	**343,678**	**30,853**	**374,531**
Result			
Gross profit	113,740	17,842	131,582
Gross margin	33.1%	57.8%	35.1%
Impairment of goodwill	(1,610)	–	(1,610)
Impairment of internally generated development costs	(6,438)	(1,976)	(8,414)
Segment EBIT	(8,942)	(17,492)	(26,434)
	(2.6%)	(56.7%)	
Unallocated expenses[2]			(23,234)
Operating loss			(49,668)
Finance income			155
Finance costs			(7,268)
Loss before income taxes			(56,781)
Income taxes			4,565
Loss for the period			**(52,216)**

2016 – Restated *	IoT Products $'000	IoT services $'000	Consolidated $'000
Revenue			
External sales:			
Sales of HW products	335,132	–	335,132
Sales of Connectivity and IOT platforms services	–	25,871	25,871
Sales of licences and other services	–	9,261	9,261
Inter-segment sales[1]	–	–	–
Total revenue	**335,132**	**35,132**	**370,264**
Result			
Gross Profit	127,261	22,140	149,401
Gross Margin	38.0%	63.0%	40.3%
Segment EBIT	54,249	(10,230)	44,019
	16.2%	(29.1%)	
Unallocated expenses[2]			(24,656)
Operating profit			19,363
Finance income			2,109
Finance costs			(3,542)
Profit before income taxes			17,930
Income taxes			(2,474)
Profit for the period			**15,456**

1 There are no transactions between business unit segments.

2 Unallocated expenses principally including general and administrative expenses such as director's compensation, salaries of certain senior executives, professional fees and other expenses which cannot be directly allocated to one of the segments.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

The split of revenues by geographical markets is as follows:

	2017 $m	% of total revenue	2016 $m	% of total revenue	change
Americas	160.2	42.8%	149.0	40.2%	+7.5%
EMEA	147.4	39.4%	137.3	37.1%	+7.4%
APAC	66.9	17.8%	84.0	22.7%	-20.4%
Total	**374.5**		**370.3**		**1.1%**

Revenues in Americas were up by 7.5% but this was well below our expectations for double-digit growth. The decline in revenue in APAC was mainly due to a loss of a design with one of our major customers in the region, combined with a delay in delivering for a significant new design from a different customer.

Gross margin and gross profit

The decline in the gross margin was another of the main reasons for the weak performance of 2017. Gross margin decreased from 40.3% in 2016 to 35.1% in 2017. The sharp decline was mainly due to the faster than expected shift from 2G and CDMA, both mature technologies with higher gross margins, to LTE, which is a relatively new technology, with lower margins at this stage.

LTE product margins are expected to improve through the maturity and growth in volumes, as it is normal to ramp up new products with lower gross margin and improve it over time. However, we expect that future gross margin will be in-line with the gross margin recorded in 2017 and we are working to adjust our cost structure to this new level.

Our position in the IoT industry, further improvements in the hardware business and the increasing share of cloud and connectivity services business revenues with its higher margin will assist us to stabilise the gross margin.

Gross profit was $131.6 million (2016: $149.4 million), affected by the minimal growth in revenue with the sharp decline in the gross margin.

Operating expenses

- Gross R&D expenses as follows:

	2017 $m	2016 $m
Gross research & development expenses[1]	71.4	57.4
Less – Capitalisation[2]	(31.1)	(30.7)
Add – Amortisation[3]	18.2	11.6
Add – Impairment[4]	8.4	–
Research and development, net	**66.9**	**38.3**

1 Gross research and development expenses increased to $71.4 million (2016: $57.4 million) mainly due to the full year impact in 2017 of the increase in headcount and resulting salary costs in the second half of 2016, increase in certification costs, due to more LTE certifications, which are more expensive than mature technologies, and the acquisition of GainSpan in February 2017.

2 The amount capitalised in respect of internally generated development assets remained flat but decreased, as a percentage of gross R&D expenses from 53.5% in 2016 to 43.6% in 2017. This amount is mainly related to the development of high category LTE products for both industrial and automotive and low categories including the CAT-M1 and NB-IoT for the industrial IoT.

3 The amortisation of internally generated development assets increased by 56.9%, relates mainly to further release of 4G products to the market.

4 A non cash impairment loss on capitalised development assets as a result of decrease in future revenues from specific products.

- Selling and marketing expenses increased to $66.8 million (2016: $63.8 million). The increase was mainly due to the acquisition of GainSpan in February 2017 and the increase in the sale force of our IoT services business.
- General and administrative expenses decreased to $28.6 million (2016: $30.0 million). Excluding the former CEO compensation, the costs were $27.1 million (2016: $26.6 million).
- Other non recurring expenses:

	2017 $m	2016 $m
Integration and transaction costs[1]	5.0	0.7
Legal and other expenses related to crisis management[2]	1.5	–
Net gain in relation to the departure of the former CEO[3]	(1.2)	–
Other	0.1	0.1
Total	**5.4**	**0.8**

1 Costs related mainly to the GainSpan integration including $1.3 million for impairment of goodwill related to GainSpan workforce in the San Jose site which the company decide to close.

2 Costs related mainly to legal and advisory costs in association with the crisis management following the departure of former CEO and the covenant breach.

3 Net gain in relation to the termination of the relationship with the former CEO, affected mainly by the reversal of unvested share based payment charges.

Restructuring plan

Following the review of the Group's activities, cost base and product portfolio, we took several actions in order to rationalise our operating cost structure and improve future profitability as part of a restructuring plan. The restructuring plan was approved by the Board in Q4 with the aim of cutting approximately 10% of the annualised cash operating expenses.

The restructuring plan will be implemented over 18 months (until Q1 2019) and the impact on 2018 expected to be a reduction of $10 million in cash operating expenses compared to 2017.

Restructuring costs recognised in 2017 include the following:

	2017 $m
Termination fees and other employees related costs[1]	1.9
Accelerated amortisation of capitalised development assets related to restructuring[2]	6.2
Accelerated amortisation of acquired technology related to restructuring[2]	1.8
Provision for impairment of goodwill related to restructuring[2]	0.3
Provision of inventory items related to restructuring[3]	5.7
Total	**15.9**

1 Although operating expenses increased, mainly as a result of an increase in overall headcount, following the management change there were some headcount reductions which resulted in termination costs.

2 The restructuring plan included a classification of several products and services as "end of life" led to non cash write-off of capitalised development assets, acquired technology and goodwill which recorded under restructuring costs in 2017 income statement.

3 The rationalisation of the product portfolio made some inventory (both finished goods and components) redundant which resulted in non cash impairment charges.

We adopted the "profit in cash" performance measure which together with revenue and adjusted EBITDA, are the most important KPIs.

Finance costs (income), net

	2017 $m	2016 $m	Difference
Non-cash expenses related to effective rate interest on preferred loan	1.1	1.1	–
Interest expense on bank loans and overdrafts[1]	2.3	1.6	0.7
Bank fees and other bank expenses	1.2	0.8	0.4
Exchange rate differences, net[2]	2.6	(1.9)	4.5
Interest income	(0.1)	(0.2)	0.1
Total	**7.1**	**1.4**	**5.7**

1 Interest expenses related to loans and overdrafts increased by $0.7 million, due to an increased utilisation of our bank facilities.

2 The $4.5 million increases in the exchange rate differences is the main driver for the sharp increase in the total finance costs. The negative exchange rates derive mainly from the increase in the euro and the Israeli shekel over the US dollars.

Profitability

We measure our profitability based on adjusted figures to eliminate non-recurring and share based charges. The adjusted figures exclude a share-based payment charge of $1.8 million, net of reversal of unvested awards related to employees who left in 2017 (2016: $8.1 million), restructuring costs of $16.0 million (2016: nil), other non-recurring expenses of $5.4 million (2016: $0.8 million), impairment of capitalised development assets of $8.4 million (2016: nil) and amortisation of acquired intangible assets of $4.8 million (2016: $4.9 million).

At the end of 2017 and while planning the 2018 budget, we adopted the "profit in cash" performance measure which together with revenue and adjusted EBITDA, are the most important KPIs. The profit in cash is defined as Adjusted EBITDA less R&D capitalisation less capital expenditures. In 2017 the loss in cash was $27.0 million (2016: profit in cash of $12.7 million). We expect to generate profit in cash in 2018.Gross profit decreased to $131.6 million (2016: $149.4 million), due to the sharp decline in the gross margin.

Adjusted EBITDA decreased to $18.1 million (2016: $53.3 million).

Adjusted EBIT was a loss of $10.7 million (2016: profit $33.1 million). The operating loss was $49.7 million (2016: profit of $19.4 million). This decline was caused by the decrease of $17.8 million in gross profit, $29.8 million increase in non-recurring and exceptional expenses, and the remaining due to increase in operating expenses which were increased based on expectation to a higher level of revenue.

Adjusted net loss for the year was $20.5 million (2016: profit of $29.3 million) and reported net loss was $52.2 million (2016: profit of $15.5 million).

Adjusted basic loss per share was 16.4 cents (2016: earnings per share 25.4 cents). Basic and diluted loss per share was 41.9 cents (2016: basic earnings per share 13.4 cents; diluted earnings per share 13.0 cents).

Dividend

The Board is not proposing to pay a dividend for the period (2016: 7.4 cents per share).

Net debt and cash flow

As at 31 December 2017, net debt was $30.2 million (2016: $17.7 million). The $12.5 million difference, together with $49.7 million raised in May 2017 from the placing of new ordinary shares, represent a cash spent of approximately $62 million during the year.

The cash spent comprised mainly from the loss in cash of $27.0 million, an increase of approximately $9.4 million in net working capital, $6.7 million spent on acquisition, tax and interest of $6.3 million, a cash dividend of $5.7 million and non recurring cash expenses (including restructuring and integration cost) of $5.3 million.

Cash flow used in operating activity moved from net cash generated by operating activities of $46.8 million in 2016 to net cash used in operating activities of $4.8 million. The change was mainly driven by the net loss for the year.

Cash flow used in investing activity was $51.9 million (2016: $56.1 million). The decrease was mainly due to a decrease in the amount spent on acquisition.

Cash flow provided from financing activity was $72.2 million (2016: $8.2 million). The increase was mainly due to the proceeds of $49.7 million from issue of new shares and the remaining mainly from the net increase in borrowings.

Bank covenants

Telit relies on financing mainly in the form of committed credit facilities from HSBC Bank plc and certain of its affiliates and Bank Hapoalim B.M. ("Credit Facilities"). In October 2016 the Group entered into committed credit facilities with HSBC Bank plc and certain of its affiliates ("HSBC") and Bank Hapoalim B.M. ("BHI USA") for an aggregate amount of $110 million (the "Facilities").

One result of the disappointing financial performance in 2017 was that we were required to seek waivers of actual and potential breaches of bank covenants in a facility agreement with our lead financing bank. As we have announced, we obtained these waivers and in March 2018 we agreed to amend the financial covenants with that bank.

The new covenants are more appropriate for the Group following the rationalisation of product lines and costs. They are also more easily measured and therefore more predictable, and the Board is closely monitoring compliance. See note 1 for further details.

Balance sheet

Internally generated development assets, net

As at 31 December 2017, the net amount of internally generated development assets increased by $4.9 million to $74.7 million (2016: $69.8 million). The split of the net assets by technology is as follows:

	Internally generated development assets, net as at 31 December 2017		Internally generated development assets, net as at 31 December 2016		Change year over year	
Technology	**$'000**	**%**	**$'000**	**%**	**$'000**	**%**
IoT Services	**8,736**	**12%**	**11,143**	**16%**	**(2,407)**	**(22%)**
4G	49,708	67%	36,368	52%	13,340	37%
3G	9,377	12%	13,431	19%	(4,054)	(30%)
Non-Cellular	1,020	1%	2,837	4%	(1,817)	(64%)
Other IoT Modules	5,825	8%	6,030	9%	(205)	(3%)
IoT Products	**65,930**	**88%**	**58,666**	**84%**	**7,264**	**12%**
31 December	**74,666**	**100%**	**69,809**	**100%**	**4,857**	**7%**

Internally generated development assets that completed the development phase, moved to mass production phase and which have started to be amortised, decreased to 47% of the total internally generated development assets (2016: 60%). The period of amortisation is three to five years.

	2017		2016	
	$'000	%	$'000	%
Net assets in development process (not amortised yet)	39,909	53%	28,030	40%
Net assets in amortisation phase	34,757	47%	41,779	60%
Total	**74,666**		**69,809**	

The net assets that are in development phase, before starting to be amortised, are mainly 4G products and IoT services software.

	Net assets started to be amortised		Weighted average of remaining years to be amortised	Net assets in development process (not amortised yet)		Internally generated development assets, net as at 31 December 2017	
Technology	**$'000**	**%**		**$'000**	**%**	**$'000**	**%**
IoT Services	**4,266**	**12%**	**1.4**	**4,470**	**11%**	**8,736**	**12%**
4G	19,736	57%	3.8	29,972	75%	49,708	67%
3G	8,732	25%	3.3	645	2%	9,377	12%
Non-Cellular	1,008	3%	3.1	12	–	1,020	1%
Other IoT Modules	1,015	3%	3	4,810	12%	5,825	8%
IoT Products	**30,491**	**88%**	**3.6**	**35,439**	**89%**	**65,930**	**88%**
31 December 2017	**34,757**	**100%**	**3.4**	**39,909**	**100%**	**74,666**	**100%**

Total equity

In 2017, the Group issued 11,593,000 ordinary shares for a net value of $49.7 million and paid $5.7 million in cash as final dividend for the 2016 financial year.

Net shareholders' equity increased from $119.2 million as at 31 December 2016 to $124.5 million as at 31 December 2017 with the dividend and the net loss offsetting the capital increase from May 2017.

KEY INDICATORS

The Board and management has several indicators to measure its financial and operational performance. Among all indicators management defines the following as the key indicators, in order to measure growth and profitability.

Revenues

$374.5m
2017

$370.3m
2016

Cloud & Connectivity Revenues

$27.7m
2017

$25.9m
2016

Gross Profit

$131.6m
2017

$149.4m
2016

Adjusted EBITDA

$18.1m
2017

$53.3m
2016

Profit (loss) in cash[5]

($27.0)m
2017

$11.8m
2016

Yariv Dafna
Finance Director & Chief Corporate Development Officer
30 April 2018

5 Profit (loss) in cash defined as Adj. EBITDA less capitalisation of internally generated assets and less acquisition of tangible and intangible assets net of proceeds from disposal of assets – See also note 11.

Telit has an established risk management process to identify, assess and monitor the principal risks that we face as a business.

We have performed a robust and detailed assessment of those risks that we believe could seriously affect the Group's business model, future performance, solvency or liquidity.

The Board has overall responsibility for risk management and internal controls and is fully supported by the Audit Committee. The key features of our system of internal control and risk management, including those relating to the financial reporting process, are:

- a management structure to enable effective decision making
- a compliance officer with responsibility for the day-to-day operation of the Group's compliance process
- clearly defined financial reporting, business planning and forecasting processes and systems
- monthly review of key performance indicators and regular service of performance against budget
- updated whistleblowing policy to encourage a culture of openness with regards to risks.

We set out below our principal risks and how we are managing or mitigating those risks. The Board considers these to be the most significant risks faced by the Group however they do not comprise all the risks associated with our business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

With respect to the particular risks related to Telit's financing, in addition to the principal risk described, we also draw attention to the commentary on page 26 addressing the breach of covenant in 2017.

For financial instrument risk management and objectives please see note 27 of the financial statements.

Market growth

Telit's future success is dependent in a large part on the continued growth in the overall size of the IoT market which is, in turn, a product of the number of IoT modules sold and the average selling price of an IoT 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. Market growth is also a key driver of our strategy to upsell IoT services. Inability to scale our IoT services, which is now a loss-making activity, will negatively affect our future performance.

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. During the second half of 2017, Telit's management undertook a thorough review of its product portfolio with a view of reducing the overall number of product variants and focusing on those that are either currently or are expected to be in the future, high runners.

Competition

Telit has experienced and expects to continue to experience strong competition from a number of companies including competitors that offer low cost products. 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 greater than expected 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 greater financial resources than Telit and therefore 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 including expanding into connectivity services, creating a differentiator in our offering to customers. We continually review our trading channels and customer relationships. More specifically, we developed in the last few years the IoT services which not only provide additional streams of revenues but also help us to differentiate us from our hardware-only competitors.

Key talent

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.

The Board recognises the importance of retaining critical staff to ensure effective delivery of its strategy. A range of controls are used to manage this risk effectively. The Executive Board meets regularly to review and monitor people policies and procedures, talent development and succession planning. We ensure compensation is competitive, with a balance of short term and long term incentives. We invest in training and development of our staff. Objectives and performance reviews ensure appropriate behaviours and delivery of results.

Financing

Telit relies on financing mainly in the form of committed credit facilities from HSBC Bank plc and certain of its affiliates and Bank Hapoalim B.M. ("Credit Facilities"). The Group is dependent upon the Credit Facilities as a source of cash to fund its operations. The availability of the Credit Facilities is conditioned upon the Group complying with the terms of the Credit Facilities, including meeting certain financial covenants. During 2017 the Group did not meet certain covenants imposed by one of the financing banks. In each case, the Group obtained a waiver. In March 2018 Telit agreed a new set of covenants with its lead financing bank which are more appropriate for the Group following its rationalisation of product lines and costs. The new covenants are also more easily measured and therefore more predictable. The Group closely monitors these loan covenants and the level of debt. However, should the Group fail to comply with any Credit Facilities covenant in the future, the banks may choose not to grant a waiver nor to continue to make available the Credit Facilities.

Should the Credit Facilities become unavailable, the Group may not be able to find alternative sources of financing and may not be able to pay its liabilities and expenses when due, which could result in the suspension of some or all of the Group's current operations. It could also adversely affect the willingness of the Group's vendors and employees to continue to work with the Group.

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, while maintaining a portfolio with a manageable size.
- 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.
- execute its strategy to upsell its IoT services to enable end to end solutions.

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 IoT. As well, Telit continuously invests in developing more products and services in order to mitigate products concentration risks and to remain an IoT market leader.

Dependency 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 Telit has infringed the intellectual property rights of others. Telit is currently involved in certain intellectual property litigation (see note 22 of the Financial Statements). 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.

The Chief Legal Officer has responsibility for the management of the commercial aspects of the Group's IP matters. Where appropriate, we obtain specialist or legal advice including to help ensure our ability to use our IP is not restricted by infringement claims. We have policies, controls and processes to ensure the originality and confidentiality of intellectual property created internally, including in relation to the use of open source software.

Dependency on suppliers

Our products include components some of which are purchased from a single, or a limited number of, suppliers. From time to time, certain components used in our products have been, and may be in the future, 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. In addition, suppliers may decide to exit the market segment that caters to Telit's business and in such a case, Telit's business may be adversely affected if it cannot find a suitable replacement.

We also depend on a limited number of manufacturing 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. In addition, Telit's failure to maintain the relationships with existing manufacturer partners could have a material adverse effect on its business and financial condition.

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.

In order to mitigate these risks, we are maintaining relationships with as many suppliers as possible. In relation to manufacturing, Telit maintains relationships with secondary manufacturing partners to provide backup manufacturing in the event of inability to manufacture via Telit's primary partner.

System failures and breaches of security

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

In order to mitigate this risk Telit continuously invests in the improvement and strengthening of the relevant systems in order to minimise the risk of system failures. This includes a full set of security policies, tools and software to identify security weakness and a strong IT team which is responsible for close monitoring the security of all our IT systems.

Data security and data privacy

Telit holds and processes data and information that could be of interest to third parties with criminal intentions. Telit prioritises maintaining and improving measures to protect information systems and the data stored in them. This includes careful design of the IT system architecture, consistent risk management, regular tests and automatic monitoring of applications and systems in order to identify attacks at an early stage and achieve the highest possible level of data security and operational reliability.

As an international business, Telit holds personal data in a number of locations. Failure to comply with legal or regulatory requirements relating to data security or data privacy may result in reputational damage, regulatory action, fines and litigation, which would adversely impact Telit's reputation and its financial results.

The EU General Data Protection Regulation (EU GDPR), which comes into force on 25 May 2018, stipulates particular requirements for the protection of personal data and necessitates comprehensive measures to adapt existing IT systems as well as the introduction of suitable organizational regulations. A dedicated team is overseeing Telit's GDPR readiness. Ongoing compliance efforts include: – (a) assessing where and how Telit's business collects, stores and discards personal data; (b) updating policies; (c) reviewing and updating contractual commitments with third parties to address GDPR requirements; (d) raising awareness among Telit staff on the GDPR; and (d) ensuring that transfer of data from the EU meets GDPR requirements.

Reputation and ethics

The incident in August 2017 in relation to Telit's previous CEO has highlighted to the Board how incidents of ethical misconduct can damage the Group's reputation and lead to consequential damage to financial performance.

The international nature of Telit's business means it is subject to a complex and rapidly changing legal and regulatory environment. Non-compliance with applicable laws and regulations, including anti-bribery and corruption and anti-fraud laws, trade restrictions or other sanctions and action or inactions which is perceived by stakeholders to be inappropriate could lead to loss of trust, damage to our reputation, result in litigation, regulatory action, fines and other penalties.

The Board is committed to improving corporate responsibility at Board level and throughout the Group and has instigated a programme of change to ensure transparency, compliance and a culture of openness. This includes greater diversity at Board level, undertaking regular risk assessments, refreshing internal policies in respect of anti-bribery and whistleblowing, and the use of internal and external investigations and audits.

"We have a social responsibility to ensure that our business dealings are ethical and that our people operate to a high standard."

Yosi Fait
Chief Executive Officer

As Telit continues to develop and provide ever-better technology and services in the Internet of Things sector, to a world-wide customer base, it also believes that it has a social responsibility to ensure that its business dealings are ethical.

Telit works to promote a marketplace that does not tolerate social abuses or unethical business.

Human resources

Our employees are at the heart of our business and we recognise that our employees play a part in the delivery of our goals. We aim to attract, retain, and motivate the best people and take responsibility for staff welfare, training and development. In addition, Telit aims to be an inclusive and professional workplace. Telit is opposed to discrimination and is committed to sustaining equality in all employment matters.

Business ethics

We believe that personal and business integrity is an essential part of delivering strong financial performance and we expect every person working for or on behalf of Telit to operate to a high ethical standard. Telit's efforts to operate ethically, include on-going projects to detect and prevent anti-bribery and corruption, modern slavery and ethical sourcing of materials. In addition, Telit recognises that as a major, global corporation it has a duty to conduct its business with concern on its impact on the environment.

Health & Safety

We employ staff in multiple locations, world-wide. We aim to conduct our activities to international health and safety standards and do our utmost to provide a safe working environment for our employees.

By order of the Board

Yosi Fait
Chief Executive Officer
30 April 2018

For more information about Telit's Code of Ethics, Anti-Bribery and Corruption, Anti-Slavery & Human Trafficking Policy, and our Supply Chain Responsibility, please visit our website: www.telit.com/about/company-information/corporate-responsibility/

BOARD OF DIRECTORS

RICHARD PHILIP KILSBY
INDEPENDENT NON-EXECUTIVE CHAIRMAN AND MEMBER OF THE NOMINATION COMMITTEE, AGED 66

Richard Kilsby has held non executive and executive roles in both listed and unlisted companies in industries ranging from financial services to technology. Until December 2017 he was a non-executive chairman of FxPro Group Limited. Before that, he was non executive Chairman of 888 Holdings Plc for 10 years. He has also been a non executive director at Tullet Prebon, Impact Holdings Plc and Collins Stewart plc and has acted as an Independent Monitor for the SEC. From 1998 to 2002 he was Chief Executive/Vice Chairman of Tradepoint / virt-x and, from 1995 to 1998, executive director at the London Stock Exchange, responsible for secondary market regulation and introducing the order driven market and associated stamp duty changes to London. He was also the Competent Authority for Listing, which was subsequently taken on by the FSA. Prior to that, he worked in London and New York for Bankers Trust in a number of roles and was the CEO of Charterhouse Bank. He trained with and became a partner at Price Waterhouse, during which time he worked in the UK, Middle East and USA as an auditor and jointly created the Treasury Management consulting practice. He also acted as an Inspector for the Bank of England.

YOSI FAIT
CHIEF EXECUTIVE OFFICER, AGED 56

Mr. Fait joined Telit as Finance Director in 2011, having filled the role of executive chairman of one of its subsidiaries from 2007. Since November 2017 he is Chief Executive Officer of Telit.

Mr. Fait is also 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. He has 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.

YARIV DAFNA
FINANCE DIRECTOR AND CHIEF CORPORATE DEVELOPMENT OFFICER, AGED 44

Mr. Dafna joined Telit in 2003 and took an active role in Telit's IPO on AIM in 2005 and in other fundraisings that the company undertook since then. In 2006, he was instrumental in the purchase of the M2M division of Bellwave (currently named Telit APAC) and the establishment of Telit Americas. Mr. Dafna took the position of group CFO from February 2007 to June 2012 then, Mr. Dafna took the position of Corporate Development officer including responsibility for all the M&A activities in the Telit Group. In 2016 he was appointed as COO with responsibility of all the operations and purchasing activities. In November 2017 he was appointed to the Board as Finance Director.

Mr. Dafna holds a BA in Business Administration and Accounting from the College of Management Academic Studies (Rishon LeZion, Israel), MBA from the Tel-Aviv University and he is a Certified Public Accountant. Mr. Dafna began his professional career as an accountant at Deloitte Israel.

SIMON PATRICK DUFFY
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT AND NOMINATION COMMITTEES AND MEMBER OF THE REMUNERATION COMMITTEE, AGED 68

Mr. Duffy has held a number of non executive and executive roles in both listed and unlisted companies across a number of industries. His current directorships include Millicom International Cellular, Wizz Air Holdings Plc and Oger Telecom Ltd.

His executive roles have included: Executive Chairman of Tradus Plc; Executive Vice Chairman of Virgin Media Group; CFO of Orange SA; Chief Executive of End2End Holdings AS; Deputy Chairman and Chief Executive WorldOnline International BV; and Deputy Chairman and Group Finance Director at Thorn EMI Plc.

RAM ZEEVI
INDEPENDENT NON-EXECUTIVE DIRECTOR, AGED 56

For the past five years, Mr. Zeevi has been a private investor successfully investing in several 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 several 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 47

Mr. 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 immobilisers. 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.

ENRICO TESTA
EXECUTIVE DIRECTOR, CEO OF TELIT COMMUNICATIONS SPA, THE COMPANY'S ITALIAN SUBSIDIARY AGED 66

Mr. Testa was Telit's Chairman until November 2017. Between 1996 and 2002 Mr. Testa was Chairman of the Board at ENEL S.p.A. (the Italian provider of power and gas) and founder and member of the Board of Directors at WIND S.p.A. Between 2004 and 2009 Mr. Testa was Executive President at Roma Metropolitane S.p.A, Chairman of the Organizing Committee of the 20th World Energy Congress and Senior Partner at Franco Bernabè Group, which owns several companies in the IT sector. In addition, between 2004 and August 2012, Mr. Testa was Managing Director of Rothschild S.p.A.

MIRIAM VALERIE GREENWOOD[6]
INDEPENDENT NON-EXECUTIVE DIRECTOR, CHAIR OF THE REMUNERATION COMMITTEE AND MEMBER OF THE AUDIT AND NOMINATION COMMITTEES, AGED 64

Ms. Greenwood is a founding Partner of SPARK Advisory Partners Limited, an independent corporate advisory business. With qualifications as a barrister and corporate finance, Ms. Greenwood has experience working for leading investment banks and other financial institutions. Ms. Greenwood is currently a non-executive director of Mithras Investment Trust, Eclipse Shipping Limited and Smart Metering Systems PLC, where she is the Senior Independent Director and Chair of the Remuneration Committee. Ms. Greenwood has had a distinguished City career and was recognised and awarded the OBE for her services to corporate finance as the Deputy Lieutenant of the City of Edinburgh. Prior to SPARK, she worked for Warburgs, Morgan Grenfell and Deutsche Bank; was a founding director of British Linen Advisors and latterly worked for Quayle Munro Holdings plc and Brewin Dolphin; and was on the board of GEMA, the UK energy regulator for 9 years.

SHLOMO LIRAN[7]
INDEPENDENT NON-EXECUTIVE DIRECTOR, AND MEMBER OF THE AUDIT, REMUNERATION AND NOMINATION COMMITTEES, AGED 67

Mr. Liran is currently on the Board of Directors of Ceragon Networks (NASDAQ) and Minrav Holdings (Tel Aviv Stock Exchange listed) and has held several executive roles in the telecommunication industry with over 30 years of experience. Mr. Liran has served as the Chief Executive Officer at Hadera Paper, Avgol Industries 1953 Ltd. and Ericsson Israel. Mr. Liran also led the Scandinavian cellular network TRE in Sweden and Denmark and the satellite television company YES. Mr. Liran holds an engineering degree from the Technion and a master's degree in systems engineering from the University of Toronto and an AMP-ISMP diploma in business administration from Harvard.

6 Miriam Greenwood was appointed as an independent non executive director on 5 March 2018.

7 Shlomo Liran was appointed as an independent non executive director on 5 March 2018.

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

"Over the coming year, and in addition to our normal duties, the Board will continue to monitor, assess, and seek ways to underpin and improve our governance further."

Richard Kilsby
Chairman

In August 2017, after the departure of the Company's previous CEO, Oozi Cats, the Board took steps to enhance the Company's governance and transparency. This included the commissioning of a review of Telit's corporate governance by the Group's solicitors, CMS. The Board took steps to implement the recommended changes in the second half of the financial year and has continued to take further steps in 2018.

The Board believes that the Group and the delivery of its strategy should be based on strong corporate governance. We also believe that good governance is essential to the way in which we operate on a day-to-day basis. The Board is committed to developing a culture of openness, transparency, constructive challenge and support.

As an AIM-listed company, we fulfilled the corporate governance requirements of the AIM Rules for Companies during the year. We did not comply throughout the financial year with certain provisions of the UK Corporate Governance Code. However, in recognition of best practice and bearing in mind AIM Notice 50, from 2018 we aim to comply with the principles and provisions of the UK Corporate Governance Code and associated guidance or to explain where we do not comply.

The Composition of the Board

The composition of the Board has changed significantly over the last year. We appointed Yosi Fait as CEO on the resignation of Oozi Cats and we appointed Yariv Dafna as Finance Director and Chief Corporate Development Officer. Davidi Gilo resigned as a non executive director on 31 December 2017. Simon Duffy and I were appointed to the Board on 23 November 2017. I took over as Chairman from Enrico Testa and Simon was appointed senior independent non executive director. Both Simon and I were independent on appointment and remain independent.

We have kept the composition of the Board under review since the year end. Miriam Greenwood and Shlomo Liran were appointed as independent non executive directors on 5 March 2018 and Ram Zeevi and Enrico Testa will be stepping down from the Board at the 2018 AGM.

In making changes to the Board, the Board's review of composition took into account various considerations including length of director tenure, Board diversity, independence and the mix of skills and experience of the Directors. We are satisfied that the current composition of the Board reflects an appropriate balance of skills, experience and knowledge.

Since my appointment we have defined the roles of Chairman and Chief Executive Officer to ensure a clear division of responsibility at the head of the Company. I am responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. Our CEO is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of Telit's operations and business.

The appointment of Simon as senior independent non executive director is an important step for Telit in improving its corporate governance. Simon's role is to provide a sounding board for me and to serve as an intermediary for the other directors when necessary. He will also be available to shareholders if they have concerns which contact through the normal channels of Chairman, CEO or other executive directors has failed to resolve or for which such contact is inappropriate.

The year ahead

Over the coming year, and in addition to our normal duties, the Board will continue to monitor, assess, and seek ways to underpin and improve our governance further, particularly in light of AIM Notice 50. This will include refreshing, as needed, the matters reserved for the Board, reviewing our risk management and internal risk control systems, and conducting a formal evaluation of the Board's performance and that of its committees.

Richard Kilsby
Chairman
30 April 2018

The Board

It is the Board's responsibility to:

- formulate, review and approve Telit's long term strategy and annual plan
- monitor Telit's performance against strategy and the annual plan
- identify principal risks, ensure systems of risk management and control are in place and monitor them
- review succession plans for the Board and management.

A number of matters are reserved specifically to the Board including approval of the annual report, adoption of budgets, material financial commitments and any M&A activity. To ensure the Board is the decision-making body for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences and to retain control of these key decisions, on 9 February 2018, the Board adopted a schedule of matters reserved for the decision of the Board or a duly authorised committee thereof.

The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees, as detailed further below.

The Board comprises six non executive directors, of which five are independent, one of them the chairman and three executive directors. A short biography of each of the directors in office at the year end and those nominated following the period end is set out on pages 30 to 32.

The Board generally meets a minimum of once every quarter and receives appropriate and timely information prior to each meeting. A formal agenda is produced for each meeting, and Board and committee papers are distributed several days before meetings take place. Any director can challenge proposals, and decisions are taken democratically after discussion. Any director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all directors. Specific actions arising from such meetings are agreed by the Board or relevant committee and then followed up by management. During 2017, in light of the circumstances surrounding the departure of the former CEO and the necessity of the Board to closely monitor the Group's business and corporate activities, the Board and its committees met many more times than during a normal year.

The table below sets out Board attendance during the year to 31 December 2017.

	Board meetings		Audit Committee meetings		Remuneration Committee meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Yosi Fait	25	25				
Lars Reger	25	20				
Oozi Cats	15	15				
Enrico Testa	25	25				
Yariv Dafna	3	3				
Ram Zeevi	25	21	3	3	3	3
Davidi Gilo	25	19	2	2	3	3
Richard Kilsby	3	3				
Simon Duffy	3	3[1]	1	1		

1 Including one which he attended for most of the meeting.

In addition, the Board and Remuneration Committee adopted, respectively, 9 and 11 resolutions by written consent.

Appointment, removal and re-election of directors

Directors are appointed by the Board or at the Annual General Meeting (AGM). Board appointed directors need to be re-appointed by the shareholders at the subsequent AGM.

The Company's Articles of Association require that at each AGM 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. However in line with best practice, starting from 2018 all directors will be re-appointed by the shareholders annually.

Board appointments are conducted in a formal, rigorous and transparent manner by the entire Board. Since 10 August 2017, all appointments by the Board have been made based on the recommendations of the Nomination Committee.

Induction, development and evaluation of directors

On appointment to the Board, new directors receive a comprehensive and tailored induction programme, the aim of which is to introduce them to key management and personnel across the business and to enhance their knowledge and understanding of the Group's business, strategy and governance structure, as well as their own duties and responsibilities. This includes time with each of the executive directors, and with a wide range of senior management from across the business.

The Board will undertake a formal evaluation of its own performance and the performance of the Board committees during the course of 2018.

Information and support

The directors have access to the advice and services of the Chief Legal Officer, who is responsible for ensuring that all Board procedures have been complied with. Individual directors are also able to take independent legal and financial advice at the Company's expense where they judge it necessary to support the performance of their duties as directors. In addition, a Directors' and Officers' liability insurance policy is maintained for all directors and each director has the benefit of a Deed of Indemnity.

Board committees

The Board is supported by the Audit, Remuneration and Nomination Committees, each of which has access to the resources, information and advice that it deems necessary, at the cost of the Company, to enable the committee to discharge its duties. Those duties are set out in the Terms of Reference of each committee, which are available at www.telit.com/about/investor-relations.

Executive directors are not members of the Board committees, although they may be invited to attend meetings. The Chief Legal Officer acts as secretary to each committee. The minutes of committee meetings are circulated to all committee members and are given by each relevant committee chairman to the Board.

The specific responsibilities of each committee are set out below.

Audit Committee

As at 31 December 2017 the Audit Committee comprised Simon Duffy (Chairman) and Ram Zeevi[8], both independent non-executive directors, and meets periodically. Simon Duffy replaced Davidi Gilo as Chairman of the Audit Committee upon his appointment to the Board in November 2017. The Finance Director, Chief Financial Officer, Chief Legal Officer and Corporate Controller attend each meeting by invitation. The Audit Committee is primarily responsible for considering reports from the Finance Director on the half year and annual financial statements, for reviewing reports from the external auditors on the scope and outcome of the annual audit and for oversight of the Group's policies (implementation and compliance). The financial statements are reviewed considering these reports and the results of the review reported to the Board. The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience. The Audit Committee as a whole has competence relevant to the sector in which Telit operates.

Remuneration Committee

As at 31 December 2017, the Remuneration Committee comprised Davidi Gilo (Chairman) and Ram Zeevi[9], both independent non-executive directors. The Remuneration Committee's primary responsibility is 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.

Nomination Committee

As at 31 December 2017, the Nomination Committee, which was established on 10 August 2017, comprised Davidi Gilo (Chairman), Ram Zeevi and Lars Reger. Prior to 10 August 2017 the whole Board led the process for board appointments. Since the year end the Board has changed the membership of the Nomination Committee[10]. The responsibilities of the Nomination Committee include proposing candidates for appointment to the Board having regard to the balance of skills, structure and composition of the Board and ensuring the appointees have sufficient time available to devote to the role.

Risk management and internal controls

The Board has responsibility for establishing and maintaining the Group's internal control systems. The Board regularly reviews and evaluates internal controls, ensuring they meet the needs of the Group. The internal controls are designed to manage risk rather than eliminate it and therefore cannot provide absolute assurance against material misstatement or loss. The Company does not have an internal audit function.

8 Ram Zeevi has since resigned from the Audit Committee and Miriam Greenwood and Shlomo Liran have been appointed as members of the Committee.

9 Davidi Gilo resigned as a director on 31 December 2017 and Ram Zeevi resigned from the Remuneration Committee since the year end. Miriam Greenwood has since been appointed as Chair of the Remuneration Committee, and Simon Duffy and Shlomo Liran have been appointed as members of the Committee.

10 As from 2 March 2018, the Nomination Committee is chaired by Simon Duffy. The other members of the Committee are Richard Kilsby, Miriam Greenwood and Shlomo Liran.

Whistleblowing

The Company has a whistleblowing policy in place which includes arrangements by which staff can, in confidence, raise concerns about possible improprieties in financial or other matters. The policy aims to encourage staff to report suspected wrongdoing in the knowledge that their concerns will be taken seriously; to provide staff with guidance as to how to raise concerns and to reassure staff that they can raise concerns without fear of reprisals.

Engagement with shareholders

The Board realises that effective communication with shareholders on strategy and governance is an important part of its responsibilities. The Group's Investor Relations Manager has responsibility for ensuring Telit communicates openly with shareholders and that shareholder views are communicated back to the Board. Interim and final results are communicated via formal meetings during roadshows, participation in conferences and additional dialogue with key investor representatives held in the intervening periods. The Board uses the Annual General Meeting to encourage communication with private shareholders in particular. Care is taken to ensure that all price-sensitive information is made available to all shareholders at the same time.

Directors share dealings

The Company has adopted a code in compliance with Market Abuse Regulation (EU) No 596/2014, which is appropriate for an AIM-quoted company. In response to concerns about director dealings in 2017, a PDMR Trading Committee comprising at least one of the Chairman or Senior Independent Non Executive Director, plus a representative from each of the legal and finance departments, must now approve all dealings by PDMRs. Telit also now operates an expanded closed period of 45 calendar days before the announcement of an interim financial report or year-end report to further limit the risk of insider dealing.

The Company's AGM

The 2017 AGM was held on Wednesday, 26 April 2017 at 65 Gresham Street, London EC2V 7NQ. At the meeting, shareholders were given an opportunity to question the Board on the business being proposed. The Chief Executive Officer and the Finance Director attended the meeting and were available to answer questions. Starting from the 2018 AGM, the Board intends that all, or substantially all, of the directors will attend the meeting and be available to answer questions.

Shareholders were able to vote by proxy if they could not attend. Shareholders were given the option to vote for or against the resolutions or to withhold their vote. The proxy form and results made it clear that a vote withheld was not a vote in law and would not be counted. The results of the AGM were published on the Telit website.

The AGM for this year will be held on 25 June 2018. Full details will be included in the Notice of Meeting. A majority of the directors will attend the AGM.

> "As a Committee, we intend to monitor best practice in executive compensation and corporate governance."

Miriam Greenwood
Chair of the Remuneration Committee

Report from the Chair of the Remuneration Committee

On behalf of the Board, I am presenting the Remuneration Committee's (the "Committee") report for the year to 31 December 2017. I took over the role on 22 March 2018 and this is my first report as Chair of the Committee.

The Committee has been reconstituted and will now comprise Simon Duffy, Shlomo Liran and me. We will, on behalf of shareholders, support ongoing development and strong, effective governance of a remuneration framework appropriate for the business.

Remuneration and business strategy

The Committee's aim is to reward and encourage excellent performance as well as to promote the interests and the success of the 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, and remain in line with the industry.

The year under review

In August 2017, the Company's then chief executive resigned (for further details, see Chairman's statement) and the Company's President and Finance Director, Yosi Fait, was appointed interim CEO. In November 2017, Mr Fait was appointed as CEO and Yariv Dafna was appointed Finance Director.

In the context of these changes, the Committee (and the Committee as previously constituted in 2017) took a number of actions on remuneration matters which the Board believes are in the best long-term interests of shareholders:

- On his appointment as interim CEO and then as CEO, Mr Fait's base salary was left unchanged and Mr Dafna's base salary was increased by 7%. This is important as it permits the Committee to look at pay arrangements in 2018 in the round and with flexibility.
- The performance measures for 2018's annual bonus have been amended to align better with the Company's plans for 2018, linking a substantial portion of the 2018 bonus to achieving cash savings during this year, in meeting revenue and gross margin targets.
- Maximum bonuses for 2018 have been reduced so that these are at half the maximum levels applying in 2017: CEO 100% of fixed pay (200% in 2017); FD 75% of fixed pay (150% in 2017).
- We enforced the rules of our share plans so that all of Mr Cats outstanding share options lapsed when he stepped down in August 2017.
- We initiated steps to recover amount paid to Mr Cats in April 2017, as an advance of his 2017 annual bonus (US$ 1.2 million at the average EURO-USD exchange rate in 2017).

It is the Committee's intention to continue to look at aspects of the Company's remuneration practices in 2018 to ensure alignment with the strategy for the business.

In November 2017, at the time of Mr Fait's appointment as permanent CEO, the Remuneration Committee decided that the 2017 annual bonus advance paid to Mr Fait in April 2017 ($419,000 at the average ILS-USD exchange rate in 2017) be retained for the following reasons

- Mr Fait did not receive an "acting up" allowance whilst interim CEO
- Mr Fait accepted the permanent CEO role with no increase in salary or other fixed pay elements. Moreover his salary is unchanged from 1 April 2014.
- Going forward, the maximum percentage of salary payable as bonus has been reduced to 100%.

The year ahead

In March 2018 the Board adopted new terms of reference of the Remuneration Committee, a copy of which can be found on the Telit website at www.telit.com/about/investor-relations/aim-rule-26/. This sets out clearly how the Committee will operate, in future. To assist us in 2018, we have appointed FIT Remuneration Consultants LLP ("FIT") as advisors to the Committee. FIT provide no other services to the Company and accordingly the Committee regards FIT as appropriately independent and objective.

Shareholder support

As a Committee, we intend to monitor best practice in executive compensation and corporate governance. Whilst we are an AIM listed company, we will voluntarily seek shareholder approval for the Remuneration Report. The Committee is appreciative of the support received from shareholders.

We hope that this year's Remuneration Report will be informative on the remuneration of Telit's senior management team, and on the changes that we have made during the year and how we intend to act in the future.

Miriam Greenwood
Chair of the Remuneration Committee
30 April 2018

The Committee's Responsibilities

The Committee has responsibility for:

- setting and recommending to the Board the remuneration policy for all executive directors and the Company's Chairman;
- monitoring the ongoing appropriateness and relevance of the remuneration policy;
- determining the levels of fixed pay for Executive Directors, and the balance between fixed and variable pay elements;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans;
- determining each year whether any share incentive awards will be made, and the scope of any performance targets to be used; and
- reviewing and approving any material termination payment

The remuneration of Non-Executive Directors, other than the Chairman is determined by the Chairman of the Board and the Executive Directors.

Committee composition

The Remuneration Committee comprises three independent Non-Executive Directors: Miriam Greenwood (Chair), Mr Duffy and Shlomo Liran. During 2017, the committee comprised two independent Non-Executive Directors: Davidi Gilo (chair), who retired from the board on 31 December and Ram Zeevi, who retired from the Committee on 5 March 2018. Mr Duffy chaired the Committee from 1 January 2018 until Miriam Greenwood's appointment to the Board and chair of the Committee, on 5 March 2018.

The 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.

Remuneration policy

The objective of the remuneration policy is to promote the long-term success of the Company, keeping an appropriate balance between fixed and performance-related, immediate and deferred remuneration.

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.

Service contracts and treatment of leavers

No service contracts currently have notice periods of more than six months.

The employment agreements of the former CEO and current CEO provide that in the event that the relevant individual resigns or his employment is terminated by Telit other than for cause and, if at the Company's discretion, the individual is required to work during the notice period, he will be entitled, at the end of such notice period, to severance pay equal to one year's base salary and the average of the variable remuneration paid to him over the preceding three years.

Changes to incentive arrangements for Executive Directors in the 2017 financial year

Bonus Schemes – 2018

On 22 November 2017 the Committee reviewed the effectiveness and relevance of the variable remuneration elements of the policy to ensure it continues to create alignment with both the business strategy and shareholder interests.

As a result, several changes to the performance criteria for the annual bonus have been approved for the financial year beginning 1 January 2018; the revised performance criteria are designed to align the annual bonus more closely to the Company's plans in 2018:

- 40% of the bonus is based on achieving operating expenses (OPEX) cash savings in 2018 versus 2017 OPEX run rate
- 17.5% of the bonus is based achieving the revenue budget for 2018
- 17.5% of the bonus is based on achieving the gross margin target for 2018
- 25% of the bonus is based on a qualitative assessment by the Committee of both business and personal performance.

The variable compensation is capped at a maximum of 100% of the CEO's fixed annual compensation (down from 200% for the former CEO) and at 75% of the Finance Director's gross annual pay (down from 150% for the former Finance Director, currently the CEO).

In the event of a change of control, the Finance Director will be entitled to a bonus equal to at least 6 months' gross salary (this arrangement pre-dates Mr Dafna's nomination to the Board).

No advance payments of bonuses will be made from 1 January 2018.

Special Arrangement – Chief Executive

In recognition of Mr Fait's willingness to undertake the highly demanding task of stabilising the company in very difficult circumstances, the Committee resolved the following:

- if, before 31 December 2018, the CEO is served with a notice of termination other than for cause or in the event of a change of control following which he resigns, then he will be entitled to the following, in addition to any other right under his employment agreement:
  - A bonus payment of US $1million; and
  - The discretionary element of the 2018 bonus will be paid in full.
- The CEO's 2017 bonus will be at least equal to the advance already received (see further details below).
- In addition, the CEO will be entitled to a bonus if the Company is sold during the term of his employment, the terms of which are commercially confidential but will be linked to the value generated on any such sale. However, if such a sale takes place before the end of 2018, Mr Fait could receive either the special arrangement bonus described above or the bonus in the case of a sale of the company, but not both.

Remuneration policy implementation

Base Salary and Benefits

Following a review undertaken by the Committee during Q4-2016 and Q1-2017, Mr. Cats' base salary for 2017-2019 remained unchanged from his base salary in 2014-2016 at €1,064,800 per year (approximately $1,202,479 at the average EURO-USD exchange rate in 2017). In 2017, Mr. Cats was paid a salary to the end of August 2017.

Mr Fait's base salary has remained unchanged since 1 April 2014 and in 2017 was ILS 1,980,000 (approximately $555,000 at the average ILS-USD exchange rate in 2017). Mr Fait's base salary was not increased when he took on the position of CEO. 15% of this amount is paid to Mr Fait direct and 85% to a company under his control.

Enrico Testa's base salary was fixed on 1 July 2014 and in 2017 he was paid €150,000 in fees for his role as Chairman of Board and €150,000 in salary for his role as CEO of Telit Italy (in aggregate, approximately $338,790[11] at the average EURO-USD exchange rate in 2017). Mr Testa stepped down as Chairman of the Board on 23 November 2017.

Mr Dafna's base salary as Finance Director was fixed at ILS 900,000. In 2017, he was paid ILS 100,000, for the period from 23 November to the end of the year (in aggregate, approximately $28,000[11] at the average ILS-USD exchange rate in 2017).

Bonus Schemes – 2017

Mr Cats' and Mr Fait's annual bonuses for 2017 were determined by the following performance criteria:

- adjusted EBITDA (amount) growth for 2017
- revenue growth for 2017
- services revenues growth for 2017
- free cash flow (defined as Adjusted EBITDA minus capitalization minus CAPEX) target for 2017
- a discretionary element decided by the Board, comprising 25% of the total annual bonus

During the first half of 2017 Mr Cats and Mr Fait were both paid advances of their annual bonus (in accordance with the Company's policy at the time), equal to 50% of the maximum possible payment. Mr Cats was paid €1,064,800 (approximately $1,202,479 at the average EURO-USD exchange rate in 2017) and Mr Fait was paid ILS 1,490,000 (approximately $419,000 at the average ILS-USD exchange rate in 2017).

As a consequence of the Group's disappointing financial results in 2017, none of the KPIs were met.

Given the circumstances of Mr Cats' departure from the Group, the Board set the discretionary element of his annual bonus for 2017 at nil. The Company is in the process of pursuing Mr Cats for reimbursement of the advance payment.

In recognition of Mr Fait's willingness to undertake the highly demanding task of stabilising the company in very difficult circumstances, the Committee resolved on 22 November 2017, that the advance payment to Mr Fait in 2017 was payable as bonus for 2017.

Mr Testa was paid a bonus of €50,000 in 2017 ($56,465 at the EURO-USD exchange rate average in 2017), for his contribution to Telit Italy's successes in litigating VAT assessments against it.

11 Not including social contribution element of the remuneration.

Directors' remuneration table (audited)

The single figure of total remuneration in respect of the year ended 31 December 2017 and paid to each director who held office during the year was as follows:

	Salary and fees $'000	Benefit in kind $'000	Bonus $'000	Post-employment benefits $'000	Total 2017 $'000
Executive directors					
Enrico Testa	383	–	56	17	456
Oozi Cats *	1,127	174	–	188	1,489
Yosi Fait **	555	86	419	4	1,064
Yariv Dafna ***	42	1	–	6	49
Non-executive directors					
Ram Zeevi ****	46	–	–	–	46
Davidi Gilo	134	–	–	–	134
Richard Kilsby ***	25	–	–	–	25
Simon Duffy ***	11	–	–	–	11
Lars Reger *****	–	–	–	–	–
Total – 2017	**2,323**	**261**	**475**	**215**	**3,274**

* Until date of termination. Salary in 2017 was paid until the end of August and also includes $292,000, as payment for unused vacation days. The information above excludes an amount of $1.2 million paid to Mr. Cats in April 2017 as advance of his annual bonus for the year. The Company is in the process of pursuing Mr. Cats for the reimbursement of this amount, as he did not meet any of the KPIs for the year. Benefits in kind is composed of $104,000 rent of apartment, $42,000 of legal fees paid by the Company on Mr. Cats' behalf, and the remaining related to other travel and company car costs.

** 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). Benefits in kind is composed of: $30,000 usage of company car and $56,000 of legal fees paid by the Company on Mr. Fait's behalf.

*** From date of appointment.

**** Amounts in respect of the services of Mr. Zeevi are paid directly to a company under his control.

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

The single figure of total remuneration in respect of the year ended 31 December 2016 and paid to each director who held office during the year was as follows:

	Salary and fees $'000	Benefit in kind $'000	Bonus $'000	Post-employment benefits $'000	Total 2016 $'000
Executive directors					
Enrico Testa	372	–	–	13	385
Oozi Cats *	1,339	159	1,746	135	3,379
Yosi Fait **	513	–	768	4	1,285
Non-executive directors					
Ram Zeevi ***	44	–	–	–	44
Davidi Gilo	133	–	–	–	133
Lars Reger ****	–	–	–	–	–
Total – 2016	**2,401**	**159**	**2,514**	**152**	**5,226**

* Salary in 2016 includes $126,000, as payment for unused vacation days.

** 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).

*** Amounts in respect of the services of Mr. Zeevi are paid directly to a company under his control.

**** 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.

Payments to past directors

During the year ending 31 December 2017, no payments were made to past directors.

Directors' Interests in Shares

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

	At 31 December 2017		At 31 December 2016	
Directors	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Oozi Cats[12]	16,733,470	12.85	22,961,977	19.85
Enrico Testa	1,441,146	1.11	1,055,000	0.91
Yosi Fait	–	–	315,000[13]	0.27
Yariv Dafna[14]	30,000	–		
Lars Reger[15]	2,255,943	1.73	2,255,943	1.95
Davidi Gilo	–	–	–	–
Ram Zeevi	–	–	–	–
Richard Kilsby	–	–	–	–
Simon Duffy	–	–	–	–

12 Mr. Cats ceased holding office within the Company and Group in August 2017. The information provided as at 31 December 2017 is based on the information Mr Cats provided to the Company on 7 August 2017 and released to the market the following day.

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

14 Mr. Dafna was not a director in 2016.

15 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 and RSUs as at 31 December 2017 are provided below.

Executive directors	Grant date	Number	Exercise price (pence)	Exercised	Vested	Unvested
Enrico Testa	1 April 2011	520,000	81	520,000	–	–
	16 September 2014[1]	250,000	260	–	62,500	187,500
Total		**770,000**		**520,000**	**62,500**	**187,500**
Yosi Fait	16 April 2014	500,000	206	500,000	–	–
	16 September 2014[1]	1,000,000	260	–	250,000	750,000
Total		**1,500,000**		**500,000**	**250,000**	**750,000**
Yariv Dafna	16 April 2014[2]	100,000	206	25,000	50,000	25,000
	3 August 2015[3]	166,666	217	–	41,666	125,000
	3 August 2015[3]	25,000	1	–	–	25,000
	4 October 2017[4]	80,000	183	–	–	80,000
	4 October 2017[4]	12,000	1	–	–	12,000
Total		**383,666**		**25,000**	**91,666**	**267,000**

1 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 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.

2 These options vest in 4 equal instalments on the anniversaries of the grant and expire 5 years from the grant date. Mr Dafna was not a director when these options were granted.

3 The options granted on this date vest as follows: 25% on the second anniversary of the grant date; 25% on the third anniversary and 50% on the fourth anniversary. The options expire 5 years from the grant date. The RSUs granted on this date vest on the fourth anniversary of the grant date. Mr Dafna was not a director when these options were granted.

4 The options and RSUs granted on this date vest in 4 equal instalments on the anniversaries of the grant date. The options expire 5 years from the grant date. Mr Dafna was not a director when these options and RSUs were granted.

No options have expired in respect of any of the above grants.

The share based compensation attributable to the directors in 2017 is an income of $1,788,677 due to the reversal of the costs associated with the unvested options of the former CEO which expired when his employment ended (2016: $1,500,707 expense).

The aggregate of the amount of gains made by directors on the exercise of share options in 2017 was $7,876,809 (2016: $2,202,423).

The highest and lowest closing prices of the Company's shares on AIM during 2017 were 372.25 pence (April 28, 2017) and 103.75 pence (August 24, 2017). The Company's share price on the close of trading on 31 December 2017 was 150 pence.

By order of the Remuneration Committee

Miriam Greenwood
Chairman of the Remuneration Committee

30 April 2018

"The Committee will continue to review the internal controls, financial statements and supporting processes to ensure they are robust and fit for purpose."

Simon Duffy
Chairman of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee's report for the year to 31 December 2017. This is my first report as Chair of the Audit Committee since I took over the role on 23 November 2017.

Membership

The membership of the Audit Committee has been reconstituted and now comprises myself as Chair, Miriam Greenwood and Shlomo Liran, who both joined the Board and the Committee on 5 March 2018.

Role

In March 2018 the Board adopted new terms of reference for the Audit Committee, a copy of which can be found on the Telit website at www.telit.com/about/investor-relations/aim-rule-26/.

In overview, the role of the Audit Committee is to:

- monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary announcements and any other formal statements relating to its financial performance, and, having regard to matters communicated to it by the auditor, review and report to the board on significant financial reporting issues and judgements which those statements contain;
- keep under review the Company's internal controls and systems that identify, assess, manage and monitor financial and other risks;
- review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow up action.
- consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment, removal and remuneration of the Company's external auditor.

FRC review of the Annual Report and Accounts for the year ended 31 December 2015[16]

In January 2017 the Group received a letter from the Financial Reporting Council (FRC) confirming that the Annual Report and Accounts for the year ended 31 December 2015 has been subject to review by the Conduct Committee. The Audit Committee updated certain disclosures in the 2016 Annual Report to address the comments from the FRC, in particular disclosures relating to capitalised development costs included in intangible assets and to revenue recognition. The FRC's inquiry closed with no further questions in July 2017.

Main activities of the Audit Committee relating to the 2017 financial year

During the year, the Audit Committee met three times. It reviewed the 2016 annual report and associated preliminary year end results announcement, focusing on key areas of judgement and complexity, critical accounting policies, provisioning and any changes required in these areas or policies. In addition, the Audit Committee reviewed the interim results announcement, which included the interim financial statements that were released on 7 August 2017. These statements reported disappointing financial results which were below the expectations of both the Board and shareholders. Shortly thereafter, the employment of the Company's then chief executive terminated (for further details, see Chairman's statement).

Following these events, the Board engaged Grant Thornton to perform a review of certain of the Group's financial policies, controls, and procedures. The Audit Committee received and reviewed the first two of the reports in December 2017 and the third in April 2018. No material issues were identified by Grant Thornton and any process issues which were identified have been or are being addressed.

The committee also considered the impact of new accounting standards on the Company's financial statements.

Significant matters relating to the annual report

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the group's process for preparation of consolidated accounts. The Company does not have an internal audit function. A review of the consolidated financial statements is completed by corporate finance to ensure that the financial position and results of the group are appropriately reflected therein. The Audit Committee reviewed the work of the corporate finance team and a report on the process was provided to the Audit Committee by the Finance Director and CFO. The committee also had comprehensive discussions with the external auditors about the financial reporting process and the financial statements.

16 The FRC stated that the scope of their review was based on the Company's 2015 Annual Report and Accounts and was conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into and therefore their review does not provide assurance that the 2015 Annual Report and Accounts are correct in all material respects.

Significant issues and judgements that were considered in respect of the 2017 financial statements were as follows. These include the matters relating to risks disclosed in the UK external auditor's report.

- Exceptional items and in particular restructuring costs. The committee reviewed all such items and determined they are appropriately classified considering their size and nature and that sufficient disclosure is provided in the financial statements (see note 5 and 6).
- Carrying value of assets, both tangible and intangible, and in particular the carrying value of goodwill and capitalised research and development costs. The committee concluded that the value of the Company's assets was fairly stated and was at least equal to their carrying value (see notes 13 and 14).
- Directors' remuneration and share based payments. The committee reviewed the treatment of these items and agreed they had been properly accounted for and disclosed.
- Going concern and debt covenants review. The committee reviewed the assumptions and methodology employed to generate the forecasts underlying both the going concern statement and compliance with the Company's revised debt covenants. The committee concluded that, on the information available to it, it could recommend to the Board the forecasts were reasonable and provide adequate foundation for making the going concern statement.
- Events in 2017 involving the former CEO. As indicated above, the committee reviewed the three completed reports from Grant Thornton as well as investigations undertaken by the Company's legal advisers. It found no evidence of fraud or misstatement or of improper or inappropriate behaviour by other members of management as a consequence of these events.
- Revenue recognition. The committee reviewed the methodology and controls in the revenue process and concluded the revenues for 2017 are fairly stated.
- Taxation. The committee reviewed the basis of tax provisions and other taxation items, and in particular of deferred tax assets, and concluded they were appropriately valued and disclosed.
- Legal cases. The committee agreed that adequate provision has been made for all material litigation and disputes, based on the currently most likely outcomes, including the litigation summarised in note 22.

As part of its review of the Annual Report, the Committee considered whether the report is 'fair, balanced and understandable'. On the basis of this work, the Audit Committee recommended to the Board that it could make the required statement that the Annual Report is 'fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy'.

Relationship with the external auditor

EY have acted as external auditor since 2013. The Audit Committee reviews annually the appointment of the auditor (taking into account the auditor's effectiveness and independence and all appropriate guidelines) and makes a recommendation to the Board accordingly. There are no contractual obligations that restrict the Company's current choice of external auditor. Fees paid to the auditor for audit, audit related and other services are analysed in the notes to the consolidated financial statements. The Audit Committee takes account of the nature and level of all non-audit services provided by the external auditor in the annual review of its independence. It concluded that the external auditor can correctly be described as independent.

The EY partner responsible for the relationship with the Company has now served in that role for five years and will therefore rotate off the account after the AGM. The Audit Committee has interviewed the new partner from EY and has recommended his appointment to the Board.

The year ahead

The Committee will receive and review the remaining report from Grant Thornton. It will continue to review the internal controls, financial statements and supporting processes to ensure they are robust and fit for purpose and will recommend changes where appropriate. It will also lead a review of the risks the Group faces. This review will form the basis for the Committee's work in monitoring the risks inherent in the Group's business in the years ahead.

Simon Duffy
Chairman of the Audit Committee
30 April 2018

REPORT OF THE NOMINATION COMMITTEE

"The Nomination Committee was responsible for selecting and recommending new non executive directors, including a new chairman, for the Company's Board."

Simon Duffy
Chairman of the Nomination Committee

The Nomination Committee was established 10 August 2017 consisting of Davidi Gilo, (as Chairman), Ram Zeevi, (both independent non-executive directors at the time) and Lars Reger (non executive director). Prior to that date the whole Board led the process of board appointments. As at the date of this report, the committee comprises Simon Duffy (chairman), Richard Kilsby, Miriam Greenwood and Shlomo Liran.

The Nomination Committee was responsible for selecting and recommending new non executive directors, including a new chairman, for the Company's Board.

The committee met eight times in 2017. Prior to making any recommendation to the Board, the Committee evaluated the balance of skills, knowledge, independence, experience and diversity on the Board and, in light of this evaluation, prepared a full description of the roles and capabilities required. In relation to the search for a new chairman, a detailed job specification, including an assessment of the time commitment expected, was prepared.

The Committee instructed executive search firm, Korn Ferry, which does not have any connection to the Company to assist with search for the new Chairman and non executive director. The Committee evaluated the skills and knowledge of the Board in order to ensure an appropriate balance to meet the Group's needs and agreed role specifications. Korn Ferry shared with the Committee a list of potential non-executive directors which the Committee reviewed and agreed a short list of those meeting the key skills, knowledge and personal attributes identified by the Committee.

The Committee met with the identified candidates, further evaluating them against the needs of the Board and giving consideration to their existing commitments to ensure they could dedicate sufficient time to meet the demands of the role.

The Committee concluded that Richard Kilsby's significant experience chairing a FTSE 250-listed company, his regulatory background and substantial IT sector expertise made him the ideal candidate to chair the Board. Richard had one other external appointment on appointment to the Board – non-executive chairman of FxPro Group Limited.

The Committee (in its previous composition) considered that Simon Duffy had the necessary skills and experience to be appointed as senior independent director.

After the year end, the committee also selected and recommended Miriam Greenwood and Shlomo Liran as non executive directors.

Simon Duffy
Chairman of the Nomination Committee
30 April 2018

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2017.

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 16 to 24 and in notes 18 and 23 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 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.

Research and development

Information relating to group's research and development, including expenditure, can be found in Finance Director's statement.

Donations

The Group made $144,000 in charitable donations during the year ended 31 December 2017 (2016: $126,000).

Dividends

The Company is not proposing to pay a dividend in respect of the period (2016: 7.4 cents per share).

Significant shareholders, as at 31 December 2017

	Number of ordinary shares	Percentage of ordinary share capital
Run Liang Tai Management Limited	18,301,129	14.00
Oozi Cats[17]	16,733,470	12.80
Goldman Sachs	8,988,955	6.88
Lazarus Management Company LLC	6,667,173	5.10
Lagoda Investment Management, L.P.	6,306,303	4.83
Allianz Global Investors GmbH	5,839,508	5.05
Davide Renato Ugo Serra	5,593,465	4.28
Senvest Management, LLC	4,999,067	4.33
Norges Bank	4,268,000	3.27

17 Mr. Cats ceased holding office within the Company and Group in August 2017. The information provided as at 31 December 2017 is based on the information Mr. Cats provided to the Company on 7 August 2017 and released to the market the following day.

Directors

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

Richard Kilsby
(appointed on 23 November 2017)

Simon Duffy
(appointed on 23 November 2017)

Enrico Testa
(stepped down from his position of Chairman on 23 November 2017)

Oozi Cats
(resigned from the board and all other position within the group on 14 August 2017)

Yosi Fait

Yariv Dafna
(appointed on 23 November 2017)

Ram Zeevi

Davidi Gilo
(resigned from the board on 31 December 2017)

Lars Reger

On 5 March 2018 Miriam Greenwood and Shlomo Liran were nominated to the board. Both are independent non executive directors.

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 law, regulation and 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 2017, calculated in accordance with the requirements of the Companies Act 2006, were 137 days (2016: 127 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 and Future developments

Please see the Chief Executive's Statement on pages 10 to 13 for particulars of the important events affecting the Company which have occurred since the end of the financial year and an indication of likely future developments in the business of the Company.

By order of the Board

Yariv Dafna
Finance Director
30 April 2018

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

The directors are responsible for preparing the Annual Report, 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 the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by 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 the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation;
- 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 company and enable them to ensure that the 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

Opinion

In our opinion:

- Telit Communications plc's group financial statements and parent company financial statements (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 2017 and of the group's loss 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Telit Communications plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 28 to the financial statements including a summary of significant accounting policies
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	

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 to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Capitalisation of development costs and their potential impairment • Impairment of goodwill and intangible assets • Improper revenue recognition • Complexity of taxation • Going concern and covenants compliance • Management integrity and management override • Non-recurring operating expenses and exceptional items related to restructuring
Audit scope	• We performed a full scope audit of 6 components and audit procedures on specific balances, where we consider the risk of material misstatement to be higher, for a further 7 components. • The components where we performed full or specific audit procedures accounted for 102% of normalised earnings before interest, tax, depreciation, amortisation, non-recurring operating expenses, impairment and exceptional items related to restructuring ('normalised EBITDA'), 98% of Revenue and 91% of Total assets. • For the remaining 13 reporting components of the Group we have performed other procedures appropriate to respond to the risk of material misstatement.
Materiality	• Overall group materiality of $0.33m which represents 2% of normalised EBITDA.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Capitalisation of development costs and potential impairment **Refer to the Audit Committee Report (pages 43 and 44); Accounting policies (pages 72 and 73); and note 13 of the Consolidated Financial Statements (pages 98 to 101)** As at 31 December 2017 net capitalised development costs totalled $74.7m (2016: $69.8m), of which $39.9m is not yet being amortised (2016: $28.0m). The group capitalised development costs of $31.1m in the year (2016: $30.8m). During 2017 management undertook a full review of the development projects portfolio. As a result of this review $6.2m of accelerated amortisation was recorded during the year (2016: nil). Management also recorded impairment of $8.4m in respect of the underperforming development assets. • The capitalisation of costs associated with the development of the group's products, in accordance with the criteria set out in IFRS, involves significant management judgement and is therefore an area of focus for our audit. • There is a risk that costs are capitalised inappropriately, affecting the group's profitability. There is also a risk that management may override controls to influence the significant judgements in respect of the capitalisation of internal development costs in order to meet market expectations, covenant tests or bonus targets. • There is also a risk that impairment of capitalised development assets (including assets not yet amortised) is not recognised.	• At each in-scope location (2 full scope, 6 specific scope and one specified procedures location) related to this significant risk, we understood the process and key controls over the group's capitalisation of internal development costs, including its payroll and purchasing systems. • We tested a sample of gross development costs across the group to supporting documentation, which is to timesheet records, invoices and purchase orders. For the costs that originated in other group entities and were recharged to the IP owner we checked with the originating entity the composition of the costs recharged, and allocation to specific projects and tested these to the supporting documentation as noted above. • For capitalised development costs we tested a random sample of the projects against the IAS 38 capitalisation criteria, including whether the costs were directly attributable to the projects, eligibility and nature of capitalised costs and we read the reports project technical feasibility reports. We also tested the estimated useful life of the project, the timing of when the asset was brought into mass production and the calculation of amortisation. • For the impairment and accelerated amortisation or the end of life capitalised development costs of $6.2m and $8.4m respectively, we checked that all assets determined as "end of life" by Telit Management and approved by the Board of Directors were actually brought down to a nil net book value through accelerated amortisation at the end of the year. • We assessed the rationale for the decision to make certain products "end of life" and checked the reasonableness. • For a sample of development projects which were not declared end of life or impaired as at 31 December 2017, we obtained the 2018 forecast sales and gross profit per project and compared these with the net book value to ensure that the underlying asset was recoverable. • For a sample of the projects in development (and not amortised) and the projects which were released to the market in late 2017 we obtained copies of the feasibility reports and checked the sales forecast for the individual projects selected for 2018 and future years that it covers the capitalised costs as at 31 December 2017. • We covered 96% of the total balance of capitalised development costs as at 31 December 2017. • We discussed the future sales forecast with finance and the research and development team. We challenged the forecast assumptions by comparing to actual 2017 sales per product. • We also obtained and checked management's analysis of the net present value for a sample of projects and assessed the underlying assumptions applied. • We tested separately the consolidation adjustments for elimination of mark-up for development costs recharged from group entities incurring the development costs to IP owners and foreign currency translation adjustments.	Based on our audit procedures on the group's accounting for internal development costs, we concluded that the internal development costs capitalised are in line with IAS 38 capitalisation criteria. We also concluded that the amounts recognised as impaired or subject to accelerated amortisation, are reasonable. We did not identify any material differences in our test of the elimination of intercompany mark-up on consolidation. We also concluded that the disclosures in the financial statements were appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• We checked intangible assets disclosures in the Annual Report and Accounts. We performed full and specific scope audit procedures over this risk area in 9 locations, which covered 79% and 72% of the capitalised and expensed development costs respectively. We also performed specified procedures over the development costs in 1 location, which covered 21% of the capitalised and 28% of the expensed development costs.	
Impairment of goodwill and intangible assets **Refer to the Audit Committee Report (pages 43 and 44); Accounting policies (pages 72 and 73); and note 13 of the Consolidated Financial Statements (pages 98 to 101)** At 31 December 2017 the group recorded goodwill of $20.8m (2016: $19.2m). The increase of goodwill in 2017 relates to the acquisition of Gainspan completed in 2017. The group also has other intangible assets of $89.6m (2016: $85.0m) including capitalised development costs of $74.7m (2016: $69.8m). There is a risk that these assets are not supported by the future cash flows they will generate, resulting in an impairment charge that has not been recognised by management.	• We validated that changes in the Cash Generating Units (CGU's) identified were consistent with changes in the business and reflect the lowest level at which management monitors goodwill in accordance with the requirements of IAS 36, Impairment of Assets ('IAS 36'). • We tested the methodology applied in the value in use calculation ('VIU') as compared to IAS 36 and the mathematical accuracy of management's model. • We considered the market capitalisation compared with the net assets of the group as at 31 December 2017. • We used our EY valuations specialists to assist with our assessment of the appropriateness of the impairment review model specifically the discount rate and long term growth rates including comparison to economic and industry forecasts (where appropriate). • We obtained an understanding and performed an assessment of the underlying assumptions for the FY18 budget and implied growth rates beyond FY18. • We assessed operating results against historic assumptions to assess the historical accuracy of forecasting. • We checked key areas of judgement in management's cash flow forecast used in the impairment review ensuring that revenue is not included from new product developments and future restructuring benefits. • We compared budgets to those forecasts used in other assessments such as going concern, and understood any sensitivity within the cash flows and the impact of changes on key areas of judgement. • We performed sensitivity analysis by stress testing key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of the CGU. • We assessed the disclosures in note 13 of the financial statements against the requirements of IAS 36 Impairment of Assets. The entire goodwill balance was subject to full scope audit procedures by the Primary audit team.	Based on our audit procedures we concurred with management's conclusion that there is no additional impairment of goodwill or intangible assets at 31 December 2017. We noted that assumptions applied by management are within an acceptable range, although as noted in note 13 are particularly sensitive to revenue growth assumptions for the Services CGU. We were satisfied with the disclosures in the Annual Report and financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition **Refer to the Audit Committee Report (pages 43 and 44); Accounting policies (pages 74 and 75); and notes 3 and 4 of the Consolidated Financial Statements (pages 86 and 87)** The group recorded revenue of \$374.5m (2016: \$370.3m), including products revenue of \$343.7m (2016: \$335.1m) and services revenue of \$30.9m (2016: \$35.1m). The group generates a larger proportion of its revenue during the second half of the year which increases the risk of error, or for manipulation of the timing of revenue recognised at or near year-end.	• We tested the key application controls over the revenue process over all locations. We tested the operating effectiveness of key controls over revenue recognition at 2 full scope components. For the remaining components we took a fully substantive audit approach. • For both products and services revenue at full and specific scope locations, we identified and assessed the design of key controls to validate that revenue recognition was appropriate and applied in accordance with the Group's accounting policies. • We performed revenue analytics through a three way correlation between Revenue, Cash, and Accounts Receivable. We tested revenue related journals outside of our expectations. • We performed a detailed review of contracts with significant customers and distributors, including bill and hold arrangements. We assessed the impact of contract terms and conditions on revenue recognition. • We performed detailed cut-off procedures and checked whether revenue was recognised in the correct period. • We checked disclosures in the Annual Report and financial statements. We performed substantive procedures over this risk area in 13 locations, which covered 97% of group revenue. We also performed review procedures over the remaining 3% of revenue.	Based on the procedures performed, we concluded that the revenue recorded for the year ended 31 December 2017 is materially correct.
Complexity of taxation **Refer to the Audit Committee Report (pages 43 and 44); Accounting policies (pages 73 and 74); and note 9 of the Consolidated Financial Statements (pages 89 to 92)** The group operates in a number of jurisdictions, resulting in complexities in the accounting for taxation. The group faces a risk that given the international nature of its operations, material tax exposures may not be appropriately provided or disclosed in the financial statements. As at 31 December 2017, the Group has recognised a deferred tax asset balance of \$15.1 million (2016: \$6.0 million), income tax receivable balance of \$0.9 million (2016: \$0.2 million), deferred tax liability of \$1.1 million (2016: \$0.5 million), and an income tax payable balance of \$2.2 million (2016: \$2.2 million). The total tax credit for FY 17 was \$4.6 million (2016: \$2.5 million tax charge).	• We engaged our tax specialists and inquired with the Group Tax Director regarding how the group manages and controls taxation across the various jurisdictions in which it operates. • We obtained and read the results of the third party tax studies and reviewed correspondence with the relevant tax authorities which supported the tax position of the group as at 31 December 2017. • With support from our tax specialists, we evaluated management's rationale for the forecast supporting the likelihood of the Group generating sufficient future taxable profits to support the recognition of the deferred tax asset as at 31 December 2017. We considered the appropriateness of management's assumptions based on the known facts and circumstances, including the reliability of forecast models. • We reviewed and assessed the Group's transfer pricing policy. • We inquired with management and assessed the current status of ongoing tax audits or audits concluded during the year in various jurisdictions. • We considered the appropriateness of the Group's disclosures in respect of current and deferred tax and tax provisions as required by IFRS. We performed full and specific scope audit procedures over this risk area in 13 locations, which covered 98% and 99% of the tax receivable and tax payable balances respectively, 100% of both deferred tax asset and tax liability balances and 95% of the corporation tax charge.	We concluded that management's judgements in relation to the taxation charge, tax provisions and the related disclosures were appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Going concern and covenants compliance **Refer to the Audit Committee Report (pages 43 and 44); and Accounting policies (pages 68 and 69)** The group recorded a net loss for 2017 of $52.2m (2016: profit $15.5m). As a result of challenging 2017 performance, the group breached its certain loan covenant at various times in the year but obtained waivers from its lending bank. Subsequent to the year-end as part of the negotiation of covenants for 2018, the Group signed an amended loan agreement which set new revised financial covenants. Management prepared an assessment of going concern, including compliance with amended financial covenants for the period to 30 June 2019. The model is largely dependent on revenue growth, with those assumptions being higher compared to the actuals achieved in 2017 which management regards as a disappointing year. There is a risk that if such revenue growth rates are not achieved, this may result in a covenants breach.	• We inspected management's going concern assessment together with the detailed analysis of compliance with Group's financial covenants for each financial quarter for period ended 30 June 2019. • We re-performed management's assessment based on the terms of the loan covenants set out in the amended agreement with the bank and obtained supporting evidence where appropriate. • We challenged management's forecast assumptions, particularly in respect of the revenue growth rates by comparing them to historical growth rates and market research. We corroborated the revenue growth rate with the cash flow forecast model used in the impairment review and evolving changes in the technology mix of the Group's products portfolio. We analysed quarterly revenue growth rates by comparing to historical growth levels in previous years. We reviewed and performed reasonableness checks for Q1 2018 actual revenue growth. We analysed gross margin comparing to historical performance and performed a reasonability check based on our understanding of the business and industry knowledge. We analysed other assumptions and inquired with management of unexpected changes, and obtained supporting documentation where necessary. • We re-performed management's sensitivity analysis and also performed a stress test on the financial covenants. We assessed the minimum revenue growth required to meet all the covenants: a) based on the 2018 budget, and b) taking into account management's mitigating actions. We compared the re-assessed revenue and gross margin growth rate with historical performance and market data. • We performed management inquiries, obtained supporting documentation and performed a reasonability check of the mitigating actions available to management. • We assessed the appropriateness of the going concern disclosure in the Annual Report and Accounts suggesting changes which were made. The work on the going concern assessment was audited by the Primary audit team.	Based on our audit procedures we concurred with management's conclusion that it is appropriate to apply the going concern basis in preparing the consolidated financial statements at 31 December 2017. We noted that while the assumptions applied by management are somewhat optimistic, they are within an acceptable range. We were satisfied with the disclosures in the Annual Report and financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management integrity and risk of override **Refer to the Audit Committee Report (pages 43 and 44); Accounting policies (pages 78 and 79)** Management has the primary responsibility to prevent and detect fraud. Due to allegations against the former Group CEO related to historical US indictments and negative press against the group in the second half of 2017, we revised our audit procedures in respect of management integrity and the risk of override.	• In identifying our fraud risks during the planning stages, we made inquiries of management about risks of fraud and the controls put in place to address those risks. • We gained an understanding of the oversight given by those charged with governance of management's processes over fraud. We considered the effectiveness of management's controls designed to address the risk of fraud. • We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and top-side consolidation adjustments in the preparation of the financial statements. We incorporated additional criteria in our journal entries testing and checked whether there were any journal entries posted by the former CEO. • We undertook additional procedures, with the assistance of our Forensic specialists, to address the potential risk that the former CEO, given the allegations that impact his integrity, had directly or indirectly caused any inappropriate impact to the 2017 financial statements. • We inspected the results of management's reviews of emails of the former CEO; we challenged the extent of the search and requested additional search criteria be examined. • We undertook interviews of members of Group's finance team and senior management to determine if they had been subject to undue pressure by the former CEO to make inappropriate changes to the financial statements. • We inspected the reports prepared by specialists engaged by management to undertake detailed reviews of the consolidation process, the revenue process and the existence of distributors. • We obtained and read a legal letter from the Group's Italian lawyer regarding an Italian legal case against the former CEO. We understood that based on the current available information it is not possible to estimate the impact (if any) on the Group's financial statements. • We checked disclosures in the Annual Report and financial statements.	We were satisfied with the results of our audit procedures and the disclosures made in the Annual Report and financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Non-recurring operating expenses and exceptional items related to restructuring **Refer to the Audit Committee Report (pages 43 and 44); Accounting policies (page 73); and notes 5 and 6 of the Consolidated Financial Statements (pages 88 and 89)** In line with Group accounting policies, management classifies certain items as exceptional items and non-recurring operating expenses. These items are one-off in nature and significant. During 2017 management recorded \$5.4m on non-recurring operating expenses (2016: \$0.8m) and \$16,0m of exceptional items (2016: nil). related to restructuring, "crisis management" costs related to departure of former group CEO, the appointment of new Directors and integration costs in respect of the Gainspan acquisition. There is a risk that the costs were incorrectly classified as exceptional items or non-recurring operating expenses, as this is an area of management's judgment. There is also a risk that these costs were recorded in the incorrect period or at an incorrect value/amount	• We read management's analysis of non-recurring operating expenses and exceptional items related to restructuring. We assessed each item included against management's accounting policies. • We tested each category of non-recurring operating expenses and exceptional items related to restructuring, by vouching to relevant supporting documents, including management's analyses and calculations, employees' redundancy contracts, third party invoices and contracts. • We checked the clerical accuracy of management's calculations and checked the appropriateness of accounting in accordance with IFRS. • We also tested the provision for non-recurring operating expenses and exceptional items related to restructuring recorded as at 31 December 2017. • We checked disclosures for non-recurring operating expenses and exceptional items related to restructuring in the Annual Report and accounts. We performed full and specific scope audit procedures over this risk area in 11 locations and we performed specified procedures in an additional 2 locations, which covered 98% of exceptional items.	We were satisfied with the results of our audit procedures and the disclosures made in the Annual Report and financial statements.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls and changes in the business environment when assessing the level of work to be performed at each reporting component. In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 26 reporting components of the Group, we selected components covering entities within the United Kingdom, Italy, the United States, Cyprus, Hong Kong, Israel, Korea, Germany, France, Belgium and India, which represent the principal business units within the Group.

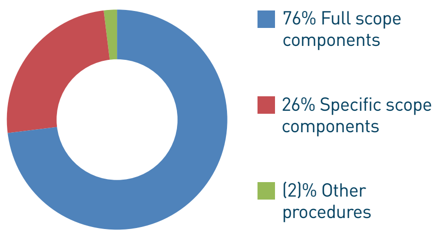
Of the 13 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 7 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 102% (2016: 88%) of the Group's normalised EBITDA, 98% (2016: 96%) of the Group's revenue and 91% (2016: 79%) of the Group's total assets. For the current year, the full scope components contributed 76% (2016: 67%) of the Group's normalised EBITDA, 84% (2016: 83%) of the Group's revenue and 64% (2016: 65%) of the Group's total assets. The specific scope component contributed 26% (2016: 21%) of the Group's normalised EBITDA, 14% (2016: 14%) of the Group's revenue and 27% (2016: 14%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed 1 location to perform specified procedures over certain aspects of capitalised development costs and potential impairment and 2 locations to perform specified procedures over revenue and related balance sheet accounts, as described above.

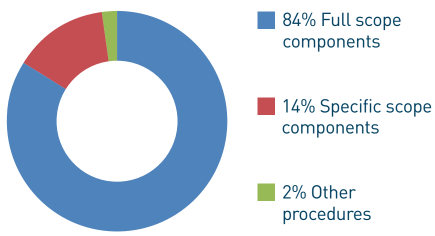
Of the remaining 10 components that together represent 5% of the Group's normalised EBITDA and less than 1% of Group's revenue, none are individually greater than 1% of the Group's normalised EBITDA. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

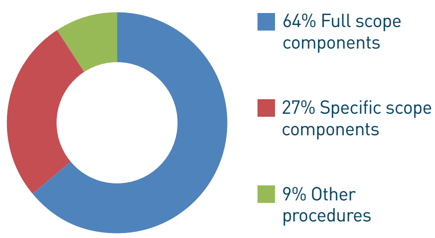
Normalised EBITDA



Revenue



Total assets



Changes from the prior year

Due to the significant reduction of materiality for 2017 we have revised the scope for four components from specified procedures scope to specific scope.

Integrated team structure

The overall audit strategy is determined by the senior statutory auditor. The senior statutory auditor is based in the UK but, since part of Group management and some operations reside in Israel, the Group audit team includes members from both the UK and Israel. The senior statutory auditor visited Israel twice, during the current year's audit and members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process. Whilst in Israel, he focused his time on the significant risks and judgemental areas of the audit. He met the Group Chief Executive Officer and Finance Director and other senior members of management.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 4 of these directly by the EY component audit team and on 1 location audit procedures were performed by a non-EY component audit team. For the 7 specific scope components, where the work was performed by component auditors from EY network firms, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, visits were undertaken by the integrated primary audit team to the component teams in the US, Italy and Israel by the Senior Statutory Auditor and to Hong Kong and Korea by another Primary team Partner. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings and reviewing key audit working papers on risk areas. The integrated primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers, and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group consolidated financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $0.33 million (2016: $0.8 million), which is 2% of normalised EBITDA (2016: 5% of pre-tax profit). We believe that normalised EBITDA, adjusted for the exceptional items described below, provides us with an appropriate materiality basis for 2017. We revised our materiality basis to normalised EBITDA as a result of the significant pre-tax loss in 2017.

We determined materiality for the Parent Company to be $0.1 million (2016: $0.5 million), which was an allocated group materiality based on the total assets. The reduction of materiality is due to reduction of group materiality.

Starting basis	• EBITDA loss – ($16.1)m
Adjustments	• Exceptional expenses related to restructuring – $16.0m • Impairment of goodwill and intangible assets – $10.0m • Other non-recurring operating expenses (excluding share benefit charge/credit) – $6.6m.
Materiality	• Total $16.5m • Materiality of $0.33m (2% of materiality basis)

During the course of our audit, we reassessed initial materiality following downgrades to forecast EBITDA.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 75%) of our planning materiality, namely $0.17m (2016: $0.7m). We have set performance materiality at this percentage due to the increased engagement risk due to losses generated in 2017, the covenant breach and the increased management integrity risk following the allegations about the former Group CEO.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materialities allocated to components was $168,000 to $42,000 (2016: $0.7m to $0.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $17,000 (2016: $47,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 48, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TELIT COMMUNICATIONS PLC CONTINUED

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

The maintenance and integrity of the Telit Communications PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Philip Young (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor

London

30 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 $'000	2016 Restated* $'000
Revenue	3,4	374,531	370,264
Cost of sales	1(ab)	(242,949)	(220,863)
Gross profit		**131,582**	**149,401**
Other operating income	5a	2,437	2,842
Research and development expenses		(66,870)	(38,256)
Selling and marketing expenses		(66,786)	(63,848)
General and administrative expenses		(28,640)	(29,996)
Exceptional expenses related to restructuring	6	(15,979)	–
Other non-recurring expenses	5b	(5,412)	(780)
Operating (loss) / profit		**(49,668)**	**19,363**
Operating (loss) / profit		**(49,668)**	**19,363**
Share based payment charges		4,324	8,121
Exceptional expenses related to restructuring		15,979	–
Impairment of internally generated development assets		8,414	–
Other non-recurring expenses		5,412	780
Amortisation of intangible assets acquired		4,834	4,873
Adjusted EBIT (**)		**(10,705)**	**33,137**
Finance income	7	155	2,109
Finance costs	8	(7,268)	(3,542)
(Loss) / profit before income taxes		**(56,781)**	**17,930**
Tax credit / (expense)	9	4,565	(2,474)
Net (loss) / profit		**(52,216)**	**15,456**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

** Adjusted EBIT is a company specific non GAAP measure which excludes share based payment charges, exceptional expenses related to restructuring, impairment of internally generated development assets, other non-recurring expenses and amortisation of intangible assets acquired. The Group's management believes that non-GAAP measures provide useful information to investors to evaluate operating results and profitability for financial and operational decision-making purposes and to provide comparability between the companies in this sector, as they eliminate non-cash items and non-recurring expense, which are not inherent to the business.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONTINUED

For the year ended 31 December 2017

	Note	2017 $'000	2016 Restated* $'000
Net (loss) / profit		**(52,216)**	**15,456**
Other comprehensive income			
Items to be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences		11,801	(4,242)
Items not to be reclassified in subsequent periods to profit and loss:			
Remeasurement loss on defined benefit plan, net of tax		(242)	–
Total comprehensive (loss) / income for the year		**(40,657)**	**11,214**
Basic (loss) / earnings per share (in USD cents)	12	**(41.9)**	**13.4**
Diluted (loss) / earnings per share (in USD cents)	12	**(41.9)**	**13.0**
Basic weighted average number of equity shares	12	**124,689,682**	**115,157,534**
Diluted weighted average number of equity shares	12	**124,689,682**	**118,891,032**

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

		Group		Company	
		2017	2016 Restated*	2017	2016 Restated*
	Note	$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Intangible assets	13	110,436	104,222	5	801
Property, plant and equipment	14	26,545	22,766	11	17
Investments in subsidiaries	15	–	–	90,042	81,496
Other long term assets	17	1,909	2,321	22,926	18,027
Deferred tax asset	9	15,068	6,025	1,541	756
		153,958	**135,334**	**114,525**	**101,097**
Current assets					
Inventories	16	23,829	28,290	672	527
Trade receivables	17	100,410	105,220	3,251	3,452
Income tax receivables	9	934	195	–	–
Other current assets	17	15,968	14,357	62,524	29,903
Deposits – restricted cash	18	393	84	–	–
Cash and cash equivalents	18	41,908	26,547	11,568	3,753
		183,442	**174,693**	**78,015**	**37,635**
Total assets		**337,400**	**310,027**	**192,540**	**138,732**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	19	2,165	1,984	2,165	1,984
Share premium account	19	49,778	103	49,778	103
Other reserve	19	(2,727)	(2,727)	24,538	21,009
Treasury stock fund	19	–	(1,929)	–	(1,929)
Translation reserve	19	(12,697)	(24,498)	(909)	(2,656)
Retained earnings[18]	19	88,024	146,288	59,630	67,805
Total equity		**124,543**	**119,221**	**135,202**	**86,316**
Non-current liabilities					
Long term borrowings from banks	26	42,203	25,328	16,664	8,483
Post-employment benefits	20	3,272	2,965	–	–
Deferred tax liabilities	9	1,109	490	–	–
Provisions	24	923	4,121	–	–
Other long-term liabilities		–	27	–	–
		47,507	**32,931**	**16,664**	**8,483**
Current liabilities					
Short-term borrowings from banks	26	30,256	18,988	2,508	–
Trade payables	21	104,012	114,644	2,999	1,634
Provisions	24	708	555	–	–
Income tax payables	9	2,190	2,218	–	–
Accruals and other current liabilities	21	28,184	21,470	35,167	42,299
		165,350	**157,875**	**40,674**	**43,933**
Total equity and liabilities		**337,400**	**310,027**	**192,540**	**138,732**

The financial statements on pages 61 to 127 were approved by the board and authorised for issuance on 30 April 2018 and are signed on its behalf by: Yosi Fait, Director.

Company number: 05300693

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

18 Retained earnings for the Company includes profit for the year which amounted to $1,160,000 (2016: $96,000).

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

		Group		Company	
	Note	2017 $'000	2016 Restated* $'000	2017 $'000	2016 Restated* $'000
CASH FLOWS – OPERATING ACTIVITIES					
(Loss) / profit for the year from continued operations		(52,216)	15,456	1,160	96
Adjustments for:					
Depreciation of property, plant and equipment	14	8,765	6,820	12	22
Amortisation of intangible assets	13	32,883	18,201	835	1,142
Impairment of intangible assets	13	10,024	–	–	–
Change in fair value of earn-out	5	–	(532)	–	–
Loss / (gain) on sale of property, plant and equipment		99	(3)	–	–
Loss on disposal of intangible assets	13	446	–	5	–
Increase in provision for post-employment benefits	20	(325)	(1,628)	–	–
Change in long term provisions, net		(3,857)	309	(15)	(26)
Finance costs, net	7,8	7,113	1,433	1,162	(4,042)
Tax (income) / expenses	9	(4,565)	2,474	(562)	840
Share-based payment charge, net	25	1,805	8,121	(1,742)	1,779
Operating cash flows before movements in working capital:		172	50,651	855	(189)
Decrease / (increase) in trade and other receivables		11,468	(33,711)	514	(383)
(Increase) / decrease in other current assets		(376)	61	(22,455)	348
Decrease / (increase) in inventories		8,521	(5,174)	(88)	(360)
(Decrease) / increase in trade payables		(15,027)	37,402	1,148	236
(Decrease) / increase in other current liabilities		(3,284)	1,593	834	4,336
Cash from operations		1,474	50,822	(19,192)	3,988
Income tax paid	9	(3,196)	(1,823)	(117)	(233)
Interest received		155	201	342	1,091
Interest paid		(3,247)	(2,427)	(630)	(35)
Net cash (used in) / from operating activities		**(4,814)**	**46,773**	**(19,597)**	**4,811**
CASH FLOWS – INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	14	(10,167)	(8,918)	(5)	(14)
Acquisition of intangible assets	13	(3,997)	(1,389)	–	(9)
Proceeds from disposal of property, plant and equipment		231	508	–	–
Capitalised development expenditure	13	(31,098)	(30,771)	–	–
Acquisition of subsidiaries, net of cash acquired	2	(6,672)	(15,391)	–	–
Additional investment in subsidiary	15	–	–	(5,017)	(2,137)
Additional loans made to subsidiaries	17	–	–	(27,000)	(2,732)
Repayment of loans from subsidiaries	17	–	–	6,000	8,140
Increase in restricted cash deposits	18	(196)	(94)	–	–
Net cash (used in) / from investing activities		**(51,899)**	**(56,055)**	**(26,022)**	**3,248**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

	Note	Group 2017 $'000	Group 2016 Restated* $'000	Company 2017 $'000	Company 2016 Restated* $'000
CASH FLOWS – FINANCING ACTIVITIES					
Proceeds from exercise of share options	25	196	94	196	94
Purchase of own shares	19	–	(606)	–	(606)
Issue of shares	19	49,660	–	49,660	–
Dividend paid	19	(5,682)	(9,783)	(5,682)	(9,783)
Short-term borrowings from banks, net	26	10,606	13,437	–	–
Proceeds from long term borrowings from banks	26	21,530	8,813	14,370	4,483
Proceeds from long term borrowings from subsidiaries		–	–	–	–
Repayment of long term borrowings from banks		(4,116)	(3,708)	–	–
Repayment of long term borrowings from subsidiaries	26		–	(4,000)	–
Net cash from / (used in) financing activities		**72,194**	**8,247**	**54,544**	**(5,812)**
Increase / (decrease) in cash and cash equivalents		**15,481**	**(1,035)**	**8,925**	**2,247**
Cash and cash equivalents – balance at beginning of year		**26,547**	**29,844**	**3,753**	**898**
Effect of exchange rate differences		**(120)**	**(2,262)**	**(1,110)**	**608**
Cash and cash equivalents – balance at end of year	**18**	**41,908**	**26,547**	**11,568**	**3,753**

(1) amount paid in cash in the period in respect of exceptional items was $5.3 million (2016: $0.7 million).

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Year ended 31 December 2017

	Share capital $'000	Share premium Account $'000	Other reserve $'000	Treasury stock fund $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	1,984	103	(2,727)	(1,929)	(24,498)	147,447	120,380
Correction of error *	–	–	–	–	–	(1,159)	(1,159)
Balance at 1 January 2017 (restated*)	1,984	103	(2,727)	(1,929)	(24,498)	146,288	119,221
Total comprehensive income / (loss) for the year							
Loss for the year	–	–	–	–	–	(52,216)	(52,216)
Other comprehensive income	–	–	–	–	11,801	(242)	11,559
Total comprehensive income / (loss)	–	–	–	–	11,801	(52,458)	(40,657)
Transactions with owners:							
Exercise of options	31	165	–	1,929	–	(1,929)	196
Issue of shares	150	49,510	–	–	–	–	49,660
Share-based payment charge	–	–	–	–	–	1,805	1,805
Cash dividend	–	–	–	–	–	(5,682)	(5,682)
Total transactions with owners	181	49,675	–	1,929	–	(5,806)	45,979
Balance at 31 December 2017	2,165	49,778	(2,727)	–	(12,697)	88,024	124,543

Year ended 31 December 2016 (restated*)

	Share capital $'000	Share premium Account $'000	Other reserve $'000	Treasury stock fund $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2016	1,969	24	(2,727)	(1,323)	(20,256)	132,494	110,181
Total comprehensive income / (loss) for the year							
Profit for the year as restated	–	–	–	–	–	15,456	15,456
Foreign currency translation differences	–	–	–	–	(4,242)	–	(4,242)
Total comprehensive income / (loss)	–	–	–	–	(4,242)	15,456	11,214
Transactions with owners:							
Exercise of options	15	79	–	–	–	–	94
Purchase of own shares	–	–	–	(606)	–	–	(606)
Share-based payment charge	–	–	–	–	–	8,121	8,121
Cash dividend	–	–	–	–	–	(9,783)	(9,783)
Total transactions with owners	15	79	–	(606)	–	(1,662)	(2,174)
Balance at 31 December 2016	1,984	103	(2,727)	(1,929)	(24,498)	146,288	119,221

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Year ended 31 December 2017

	Share capital $'000	Share premium account $'000	Other reserve $'000	Treasury stock fund $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	1,984	103	21,009	(1,929)	(2,656)	67,805	86,316
Total comprehensive income / (loss) for the year							
Profit for the year	–	–	–	–	–	1,160	1,160
Foreign currency translation differences	–	–	–	–	1,747	–	1,747
Total comprehensive income / (loss)	**–**	**–**	**–**	**–**	**1,747**	**1,160**	**2,907**
Transactions with owners							
Exercise of options	31	165	–	1,929	–	(1,929)	196
Issue of shares	150	49,510	–	–	–	–	49,660
Share-based payment charge	–	–	–	–	–	(1,724)	(1,724)
Share-based payments to subsidiaries	–	–	3,529	–	–	–	3,529
Cash dividend	–	–	–	–	–	(5,682)	(5,682)
Total transactions with owners	**181**	**49,675**	**3,529**	**1,929**	**–**	**(9,335)**	**45,979**
Balance at 31 December 2017	2,165	49,778	24,538	–	(909)	59,630	135,202

Year ended 31 December 2016

	Share capital $'000	Share premium account $'000	Other reserve $'000	Treasury stock fund $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2016	1,969	24	14,667	(1,323)	(690)	75,713	90,360
Total comprehensive income / (loss) for the year							
Loss for the year	–	–	–	–	–	96	96
Foreign currency translation differences	–	–	–	–	(1,966)	–	(1,966)
Total comprehensive income / (loss)	**–**	**–**	**–**	**–**	**(1,966)**	**96**	**(1,870)**
Transactions with owners							
Exercise of options	15	79	–	–	–	–	94
Reduction of share premium and merger reserve	–	–	–	(606)	–	–	(606)
Purchase of own shares	–	–	–	–	–	1,779	1,779
Share-based payment charge	–	–	6,342	–	–	–	6,342
Cash dividend	–	–	–	–	–	(9,783)	(9,783)
Total transactions with owners	**15**	**79**	**6,342**	**(606)**	**–**	**(8,004)**	**(2,174)**
Balance at 31 December 2016	1,984	103	21,009	(1,929)	(2,656)	67,805	86,316

1. ACCOUNTING POLICIES

(a) General information

Telit Communications PLC (the "Group" or "Telit") is a global leader in Internet of Things (IoT) enablement, with an extensive portfolio of wireless connectivity modules, platforms, virtual cellular IoT operator, and professional services, empowering hundreds of millions of connected 'things'.

The Group sells its products and services directly, and through a network of distributors, to thousands of direct and indirect customers, globally. With nearly two decades of IoT innovation experience, Telit continues to redefine the boundaries of digital business, by delivering secure, integrated end-to-end IoT solutions for many of the world's largest brands, including enterprises, original equipment manufacturer (OEMs), system integrators and service providers across all industries, enabling their pursuit of enterprise digital transformation.

The Group offers a broad portfolio of integrated products and services. This includes cellular communication modules (from 2G to 4G technologies), global navigation satellite system (GNSS), short range wireless modules including low power Wi-Fi and Bluetooth, IoT connectivity and IoT platform services.

The company financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). 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.

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, borrowing facilities and the related covenants are set out in the Finance Director's statement on pages 16 to 24 and in notes 18, 23, 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 its exposures to credit risk.

The Group relies on financing its day to day working capital requirements mainly on committed credit facilities from HSBC Bank plc and certain of its affiliates and Bank Hapoalim B.M. ("Credit Facilities"). The availability of the Credit Facilities is conditioned upon the Group complying with the terms of the Credit Facilities, including meeting certain financial covenants (the "Financial Covenants"). The Company agreed to comply with certain financial covenants on its consolidated financial statements. During 2017, the Company did not meet certain covenants imposed by one of the financing banks. In each case the Company obtained a waiver. In March 2018, the Company agreed a series of new and amended financial covenants. The new covenants are more appropriate for the Group following the rationalisation of product lines and costs. In particular, the covenant, which in broad terms measured the ratio of free cash flow against debt service obligations, is replaced for 2018 by another covenant that works better for the Group. 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.

One result of the disappointing financial performance in 2017 was that we were required to seek waivers of actual and potential breaches of bank covenants in a facility agreement with our lead financing bank. As we have announced, we obtained these waivers and in March 2018 we agreed to amend the financial covenants with that bank.

The new covenants are more appropriate for the Group following the rationalisation of product lines and costs. They are also more easily measured and therefore more predictable, and the Board is closely monitoring compliance.

In assessing going concern, the Board has considered the risks related to (a) the level of demand for the Group's products which may also affect the possibility of utilising some of these facilities since they depend upon the level of sales in specific markets and in some instances to specific customers; (b) the fluctuations in the exchange rate and thus the consequence for the cost of the Group's raw materials; (c) compliance with the Financial Covenants, as a condition to the continued availability of the Credit Facilities in the foreseeable future; (d) the continuity of supply from key suppliers; and (e) the company's budgets and forecasts in current market environments.

The Board has also carefully reviewed the Group's budget for 2018, its medium-term plans, including the restructuring plan, and assessment of compliance with amended financial covenants. The Directors are mindful that the Group operates in the IoT sector which remains a rapidly growing industry subject to ongoing change in technological and competitive landscape.

In reviewing the Financial Covenants compliance calculations and sensitivity analysis the Directors noted: a) under sensitised conditions, there is headroom available for each of the Financial Covenants, however it is limited for certain covenants at certain measurement points; and b) the Financial Covenants are sensitive to changes in revenue and gross margin. Should the Gross Profit reduce by 10%, without adjusting the operating expenses this might result in breaches of certain covenants, however the Directors believe there are sufficient mitigating actions available within their control, that render such breaches of covenant unlikely and continue to apply the going concern basis in preparing the consolidated financial statements.

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 some 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 due to 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 abovementioned 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.

1. ACCOUNTING POLICIES CONTINUED

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.

Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in other comprehensive income ("OCI") until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

(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 2017 and 31 December 2016. 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.

The results of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the date control is obtained. All intra-group transactions and balances between the Group's companies are eliminated on consolidation.

Gain or loss on partial disposal of investments in subsidiary that do not result in a loss of control are recognised in equity.

(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 (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 acquire at the acquisition date.

(f) 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.

(g) 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.

(h) Investments

Investments in subsidiaries are stated at cost less impairment. The company investment in subsidiaries is tested for impairment by comparison against the underlying value of the subsidiaries' assets.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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	3
Vehicles	4-7
Leasehold improvements	Shorter of lease term and 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.

1. ACCOUNTING POLICIES CONTINUED

(j) 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 or license term
Customer relationships	4.5-5
Acquired technology	2.5-5
Trademark – Company only	8
Internally developed intangible assets:	
IoT Products	3-5
IoT Services	3

The cost of research activities is recognised as an expense in the period in which it is incurred.

An internally developed 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.

(k) 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. On partial disposal of subsidiary where control is not lost any goodwill attributable would be recognised against non-controlling interest in equity.

(l) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets (excluding goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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.

(m) Other operating expenses, exceptional expenses and non recurring expenses

The Group classifies and presents certain items of income and expense as exceptional, as the Group considers that it allows for a comparable analysis of the underlying performance of the Group. The Group also seeks to present a measure of underlying performance which is not impacted by exceptional items. These measures are described as "adjusted" and are used by the management to measure and monitor the Group's underlying performance. The Group considers any non-recurring items of income and expense for classification as exceptional by virtue of their nature and size. The items classified as exceptional (and are excluded from the adjusted measures) are described in further detail in notes 5 and 6.

(n) Income taxes

The tax credit represents the sum of net operating losses recognised as deferred tax assets.

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

1. ACCOUNTING POLICIES CONTINUED

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.

(o) Trade payables

Trade payables are non-interest bearing. Trade payables initially recognised at their fair value and subsequently measured at amortized costs.

(p) Post-employment benefits

The Group operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. 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 'administration expenses' and 'selling and distribution expenses' in the consolidated statement of comprehensive income (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

Severance pay schemes

Severance pay scheme surpluses and deficits are measured as:

- the fair value of plan assets at the reporting date; less
- plan liabilities calculated using the projected unit credit method, discounted to its present value using yields available for the appropriate government bonds that have maturity dates appropriate to the terms of the liabilities; plus

Remeasurements of the net severance pay scheme assets and liabilities, including actuarial gains and losses on the scheme liabilities due to changes in assumptions or experience within the scheme and any differences between the interest income and the actual return on assets, are recognised in the consolidated statement of comprehensive income in the period in which they arise.

(q) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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. The Group sells its products and services to customers and distributors. Both are considered end-customers.

IoT Products revenues

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the customer takes goods from the Group's premises or its agent. In other cases, the risks and rewards are transferred when the goods are delivered to the specific location agreed with the customer.

IoT Services revenues

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

Revenue from Connectivity and IoT Platforms, being the major part of services revenue, is recognised based on usage or on a straight-line basis, depending on the customer's contract. Revenue for other services is recognised by reference to stage of completion of the transaction, which is determined by surveys of work performed.

Royalty income

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.

(r) Supplier rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. All Rebates earned are volume related and are short term in nature, with rebate earned but not yet received typically relating to the preceding quarter's trading. Rebate income is recognised in cost of sales in the Statement of comprehensive income and rebate earned but not yet received is included within other current assets in the Statement of Financial Position.

(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.

(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.

(u) Government grants

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

Government grants received in respect of costs which have been capitalized as development costs are deducted from the carrying amount of the asset.

Government grants relating to costs which have been expensed 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 and subsequently at amortized cost. The difference between the initial carrying value of the loan (its fair value) and the proceeds received is treated as a government grant.

1. ACCOUNTING POLICIES CONTINUED

(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. 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.

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.

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'.

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.

(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 at the date of the grant.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (retained earnings), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. The financial effect of awards by the parent company of options over its equity shares to employees of subsidiary undertakings is recognised by the parent company in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to the IFRS 2 cost in subsidiary undertaking. The subsidiary, in turn, recognised the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the parent company.

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. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

1. ACCOUNTING POLICIES CONTINUED

(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.

(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 5A and 8. 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.

Exceptional and non recurring expenses

Exceptional and non recurring expenses are presented separately in the statement income when the amounts resulting from exceptional or non recurring activities in order to allow for a comparable analysis of the underlying performance of the Group. See also note 5B. Exceptional expenses related to restructuring are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the part of the business concerned, the location and number of employees affected, identified assets related, a detailed estimate of the associated costs, and the employees affected has been notified. see also note 6.

Allocating fair values in a business combination

Business combination 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.

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. See also note 13.

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. See also note 24.

Revenue recognition

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

Revenue from Connectivity and IoT Platforms, being the major part of services revenue, is recognised based on usage or on a straight-line basis, depending on the customer's contract. Revenue for other services is recognised by reference to stage of completion of the transaction, which is determined by surveys of work performed.

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. See also note 9.

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. See also note 13.

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.

1. ACCOUNTING POLICIES CONTINUED

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 in the market;
- uncertainty over global and regional economic conditions and demand for the Group's products;
- long-term growth rates; and
- Selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections could significantly affect the Group's results. See also note 13.

(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

New/Revised standards and interpretations applied

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current period in note 27.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The Group adopted these amendments during the year with no significant impact on the parent company or on the consolidated results or financial position.

Annual Improvements to IFRS Standards 2014-2016 Cycle: Clarification of the scope of the disclosure requirements in IFRS 12

The Group adopted these amendments during the year with no significant impact on the parent company or on the consolidated results or financial position.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The Group will assess the potential impact on its consolidated financial statements of these standards in 2018.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and is effective for accounting periods beginning on or after 1 January 2018. For the Group, transition to IFRS 15 will take place on 1 January 2018. We started initial assessment of the impact of IFRS 15 on the Group's performance, however, due to challenges we had in second half of 2017, this work is continuing. We are yet to finalise our full impact assessment and it is not possible to reasonably estimate the impact of the accounting changes that will arise under IFRS 15 will have on the consolidated income statement and consolidated balance sheet after the Group adopts IFRS 15 on 1 January 2018, although they are not expected to have a material impact. The Group expects to be in a position to quantify the impact of IFRS 15 in the first half of the year 2018.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement of financial assets, introduces a new "expected credit loss" model for the impairment of financial assets and new guidance on the application of hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group has analysed the financial instruments and concluded that there is no significant impact on its statement of financial position, income statement and statement of changes in equity will arise as a result of IFRS 9 implementation.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 presents new requirements for the lessees' recognition, measurement, presentation and disclosure of leases, replacing IAS 17 Leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases of over 12 months unless the underlying asset has a low value. The new standard applies to annual reporting periods beginning on or after 1 January 2019. The Group consider that the adoption of this standard will likely result in interest expense on the lease liability and depreciation expense on the right-of-use asset on the income statement and an increase in the non-current assets (representing "right-of-use" assets) and a corresponding increase in liabilities, both current and non-current on the balance sheet of the Group. The Group will continue to assess the impact in the 2018 financial year. For details is respect of existing operating leases see note 23.

The following relevant interpretations and amendments to existing standards issued by the IASB, have not been adopted by the Group as they were either not effective for the year or not yet endorsed for use in the EU. The Group is currently assessing the impact of these interpretations and amendments will have on the presentation of, and recognition in, parent company or consolidated results or financial position in future periods:

- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (effective for accounting periods beginning on or after 1 January 2018).
- Annual Improvements to IFRS Standards 2014-2016 Cycle: Clarification in IAS 28 that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective for accounting periods beginning on or after 1 January 2018).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) (effective for accounting periods beginning on or after 1 January 2019).
- IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments (effective for accounting periods beginning on or after 1 January 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for accounting periods beginning on or after 1 January 2019).

1. ACCOUNTING POLICIES CONTINUED

(ab) Correction of errors

1. During the preparation of the 2017 financials, we discovered an error in the 2016 financials related to the booking of a $2.0 million credit note from a supplier in 2016, of which $1.2 million should have been recorded in 2017. Correction of this error led to a restatement of our 2016 results.

   The error has been corrected by restating each of the affected financial statement line items for 2016, as follows:

   Impact on equity (decrease in equity):

	31 December 2016 $'000
Total assets – Inventories	(196)
Total liabilities – Trade payables	(963)
Net impact on equity	(1,159)

   Impact on statement of comprehensive income (decrease in profit):

	31 December 2016 $'000
Net impact on profit for the year – Cost of sales	1,159

   Impact on basic and diluted earnings per share (EPS) (decrease in EPS):

	31 December 2016 $'000
Basic earnings per share (in USD cents)	(1.0)
Diluted earnings per share (in USD cents)	(1.0)

   The change did not have an impact on OCI for the period or the Group's operating, investing and financing cash flows.

2. Comparative amounts have been reclassified in order to correct presentation of certain items and present them on a basis consistent with the current year. These reclassifications do not affect profit or loss. These classification changes relate to:

Group:

	31 December 2016 as previously reported $'000	Restatement $'000	31 December 2016 restated $'000
Other current assets	13,751	606	14,357
Income tax receivables	801	(606)	195
Other long-term assets	1,846	475	2,321
Intangible assets – Software and license	3,921	(475)	3,446
Property, plant and equipment – Computers	3,007	(403)	2,604
Income tax payables	2,294	(76)	2,218
Accruals and other current liabilities	21,797	(327)	21,470

Company:

	31 December 2016 as previously reported $'000	Restatement $'000	31 December 2016 restated $'000
Other long-term assets	176	8	184
Intangible assets – software and license	71	(8)	63

Impact on cash flows:

Group:

	31 December 2016 as previously reported $'000	Restatement $'000	31 December 2016 restated $'000
Increase in trade and other receivables	(33,236)	(475)	(33,711)
Increase in other current liabilities	1,996	(403)	1,593
Acquisition of property, plant and equipment	(9,321)	403	(8,918)
Acquisition of intangible assets	(1,864)	475	(1,389)

Company:

	31 December 2016 as previously reported $'000	Restatement $'000	31 December 2016 restated $'000
Increase in trade and other receivables	(375)	(8)	(383)
Acquisition of intangible assets	(17)	8	(9)

None of prior year corrections had impact on the prior year opening balance sheet, therefore the prior year opening balance sheet is not presented.

2. BUSINESS COMBINATIONS

A. In February 2017, Telit acquired 100% of the voting equity interest in GainSpan Corporation for a cash consideration of $8 million. GainSpan designs, develops, manufactures and commercialises ultra-low power Wi-Fi systems-on-chip and modules for battery and line-powered devices. It also owns intellectual property in the network stacks, system and application software it has developed.

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

	Fair value $'000
Cash	1,329
Short term deposits	114
Accounts Receivables	858
Other current assets	524
Intangible assets	19
Tangible assets	298
Inventory	2,082
Deferred income tax assets	120
Long term deposit	25
Technology	4,145
Trade payables	(1,877)
Other current liabilities	(2,402)
Other long term liabilities	(153)
Total net identifiable assets	5,082
Consideration paid	8,001
Excess of cost - goodwill	2,919

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

Following the acquisition, the Group started the integration of GainSpan which included the closure of the development site in San Jose. The total expenses related to GainSpan integration costs, include $0.2 million acquisition related costs and costs related to the shutdown of the development centre of $3.4 million which were recorded under other operating expenses.

In the end of 2017, following the shutdown on San-Jose site, the Group booked an impairment of the goodwill related to GainSpan workforce in the San-Jose site of $1.3 million. This amount is part of the integration costs, see note 5b.

As at 31 December 2017, the activity purchased from GainSpan was fully integrated into the Group and therefore the Company cannot estimate the exact impact of this acquisition on the consolidated results. Nevertheless, the revenue generated from the GainSpan products in 2017 amount to $8.1 million.

B. In April 2016 Telit acquired from Novatel Wireless, Inc.("Novatel") a business that includes several cellular module products, related IP and inventory, for $11 million in cash, and conditional earn-out consideration.

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

	Fair value $'000
Inventory	3,000
Technology	3,613
Customer relationships	3,167
Total net identifiable assets	9,780
Consideration paid	10,949
Contingent consideration	532
Excess of cost – goodwill	1,701

The goodwill is attributable mainly to the enhancement of the Group's position in the security segment.

During 2017, the company decided to abandon one product which was acquired from Novatel and therefore, the Group recorded a partial impairment of the acquired technology in the amount of $1.8 million.

C. In February 2016 Telit acquired Bluetooth and Bluetooth Low Energy ("BLE"), assets from Stollmann Entwicklungs und Vertriebs Gmbh ("Stollmann"), a developer and marketer of low power hardware and software solutions for wireless communications for a cash consideration of €4.2 million ($4.6 million).

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

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

	Fair value $'000
Cash	194
Accounts Receivables	797
Other current assets	63
Intangible assets	16
Tangible assets	81
Inventory	123
Technology	1,500
Customer relationships	288
Other current liabilities	(185)
Total net identifiable assets	2,877
Consideration paid	4,636
Excess of cost – goodwill	1,759

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

3. REVENUE

	Group	
	2017 $'000	2016 $'000
Sales of goods	343,678	335,132
Services income	30,853	35,132
	374,531	**370,264**

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 active in three geographical regions: EMEA, APAC and the Americas.

The Group's activities in the IoT services business unit have grown in recent years and, although operational results from this business unit still comprise less than 10% from the Group's results, the Chief Executive focuses more and more on IoT services and end-to-end IoT solutions, as the future engine of growth for the Group. Therefore, the Group now presents its operational results in two business segments: IoT Services and IoT Products. These two business lines are active in all geographic regions.

Segmental information for each business line is presented below:

2017

	IoT Products $'000	IoT services $'000	Consolidated $'000
Revenue			
External sales:			
Sales of HW products	343,678	–	343,678
Sales of Connectivity and IOT platforms services	–	27,728	27,728
Sales of licences and other services	–	3,125	3,125
Inter-segment sales[1]	–	–	–
Total revenue	**343,678**	**30,853**	**374,531**
Result			
Gross profit	113,740	17,842	131,582
Gross margin	33.1%	57.8%	35.1%
Impairment of goodwill	(1,610)	–	(1,610)
Impairment of internally generated development costs	(6,438)	(1,976)	(8,414)
Segment EBIT	(8,942)	(17,492)	(26,434)
	(2.6%)	(56.7%)	
Unallocated expenses[2]			(23,234)
Operating loss			(49,668)
Finance income			155
Finance costs			(7,268)
Loss before income taxes			(56,781)
Income taxes			4,565
Loss for the period			**(52,216)**

2016 – Restated *

	IoT Products $'000	IoT services $'000	Consolidated $'000
Revenue			
External sales:			
Sales of HW products	335,132	–	335,132
Sales of Connectivity and IOT platforms services	–	25,871	25,871
Sales of licences and other services	–	9,261	9,261
Inter-segment sales[1]	–	–	–
Total revenue	**335,132**	**35,132**	**370,264**
Result			
Gross Profit	127,261	22,140	149,401
Gross Margin	38.0%	63.0%	40.3%
Segment EBIT	54,249	(10,230)	44,019
	16.2%	(29.1%)	
Unallocated expenses[2]			(24,656)
Operating profit			19,363
Finance income			2,109
Finance costs			(3,542)
Profit before income taxes			17,930
Income taxes			(2,474)
Profit for the period			**15,456**

1 There are no transactions between business unit segments.

2 Unallocated expenses principally including general and administrative expenses such as director's compensation, salaries of certain senior executives, professional fees (e.g. legal and audit fees) and other expenses which cannot be directly allocated to one of the segments.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

Geographical information

The Group's performance can also be reviewed by considering the geographical markets and geographical locations within which the Group operates. This information is outlined below:

Revenue by geographical market:

	2017 $m	% of total revenue	2016 $m	% of total revenue	change
Americas	160.2	42.8%	149.0	40.2%	+7.5%
EMEA	147.4	39.4%	137.3	37.1%	+7.4%
APAC	66.9	17.8%	84.0	22.7%	-20.4%
Total	**374.5**		**370.3**		**1.1%**

Non-current operating assets (*):

	2017 $m	2016 $m
Americas	17.9	13.5
EMEA	99.3	100.8
APAC	19.8	12.7
Total	**137.0**	**127.0**

* Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

5. OTHER OPERATING INCOME / EXPENSES

A. Other operating income

	2017 $'000	2016 $'000
Governmental grants and benefits [(a)]	2,383	2,307
Release of earn out provision [(b)]	–	532
Other	54	3
	2,437	**2,842**

(a) The Group recognises such income from the regional grant-making body only 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 2017 and 2016 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

(b) Represents the release of contingent consideration related to the acquisition of assets from Novatel, as no longer incurred.

B. Other non-recurring expenses

	2017 $'000	2016 $'000
Integration and transaction costs[1]	4,970	699
Legal and other expenses related to crisis management[2]	1,540	–
Net gain in relation to the departure of the former CEO[3]	(1,242)	–
Other	144	81
	5,412	**780**

1 Costs related mainly to the GainSpan integration including $1,327,000 for impairment of goodwill related to GainSpan workforce in the San Jose site which the company decide to close. See also notes 2 and 13.

2 Costs related mainly to legal and advisory costs in association with the crisis management following the departure of former CEO and the covenant breach.

3 Net gain in relation to the termination of the relationship with the former CEO, affected mainly by the reversal of unvested share based payment charges.

6. EXEPTIONAL EXPENSES RELATED TO RESTRUCTURING

A. Restructuring plan

As stated in the Chairman's and Chief Executive's reports, after the departure of the former CEO, we commenced a review of the Group's activities, cost base and product portfolio in order to address the issues around decreased gross margin and increased operating cost base. As a result of this review, we took several actions to rationalise the Group's activities and our operating cost structure including:

1. Declaring a number of our products and services portfolio "end of life", which will reduce the R&D and operations investment in maintaining products with low contributions and reduce operating costs. In some cases, this led to write-off of capitalised development assets and inventory (both finished goods and components). These write-offs were recorded under restructuring costs in the 2017 income statement.
2. Reducing the number of R&D centres by 2019. We already closed one expensive R&D centre and transferred its knowledge to lower-cost sites. Future growth in R&D spend will be focused on our low-cost centres.
3. Adjusted the headcount of our sales and administrative teams in each region to align them with the actual group growth globally. Cost rationalisation will continue in 2018 and we expect that these measures will reduce the cash operating expenses in 2018 by approximately $10 million over comparable costs in 2017.

B. Restructuring costs

	2017 $'000	2016 $'000
Termination fees and other employees related expenses[1]	1,890	–
Accelerated amortisation of capitalised development assets related to restructuring[2]	6,218	–
Accelerated amortisation of acquired technology related to restructuring[2]	1,839	–
Provision for inventory items related to restructuring[3]	5,749	–
Provision for impairment of goodwill related to restructuring[2]	283	–
	15,979	**–**

1 Although operating expenses increased mainly as a result of overall headcount increases, following the management change, there were some headcount reductions which results in termination costs.

2 The restructuring plan included a classification of several products and services as "end of life" led to non cash amortization of capitalised development assets, acquired technology and goodwill which recorded under restructuring costs in 2017 income statement. See note 13.

3 The rationalisation of the product portfolio made some inventory (both finished goods and components) redundant which resulted in non cash impairment charges.

7. FINANCE INCOME

	2017 $'000	2016 $'000
Interest income from bank deposits	155	201
Exchange rate differences, net	–	1,908
	155	**2,109**

8. FINANCE COSTS

	2017 $'000	2016 $'000
Non-cash expenses related to effective interest rate on government preferred loan (see note 26)	1,129	1,115
Interest expense on bank loans and overdrafts (see note 26, 27)	2,329	1,580
Bank fees and other bank expenses	1,218	847
Exchange rate differences, net	2,592	–
	7,268	**3,542**

9. INCOME TAXES

A. Tax recognised in statement of comprehensive income

Current income tax:

	2017 $'000	2016 $'000
Current year taxes	1,437	3,163
Prior year taxes	1,239	(456)
Deferred taxes	(7,241)	(233)
Tax (income) / expense	**(4,565)**	**2,474**

Deferred tax related to items recognised in OCI during in the year:

	2017 $'000	2016 $'000
Net loss/(gain) on actuarial gains and losses	46	–
Deferred tax charged to OCI	**46**	**–**

9. INCOME TAXES CONTINUED

B. Income tax payables / receivables, net

	2017 $'000	2016 Restated* $'000
1 January	2,023	1,172
Current year taxes	1,437	3,163
Prior year taxes	1,239	(456)
Income tax paid	(3,196)	(1,823)
Arising from acquisition	7	–
The effect of changes in foreign exchange	(254)	(33)
31 December	**1,256**	**2,023**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

Income tax payable as of 31 December 2017 includes $1,661,000 provision for uncertain tax position. (2016: $432,000).

C. Factors affecting the tax expense for the year

The table below explains the differences between the expected tax charge, at the UK statutory rate 19.25% for 2017 and 20% for 2016, and the Group's total tax expense for the year:

	2017 $'000	2016 Restated* $'000
Profit before income tax from continuing operations	(56,781)	17,930
Tax charge computed at 19.25% (2016: 20%)	10,930	(3,586)
Tax adjustments arising from:		
Non-deductible expenses, net[1]	(1,374)	(2,630)
Tax benefits arising on tax credits	1,696	1,841
Effect of tax rates in foreign jurisdictions	794	(322)
Movements in unrecognised deferred tax asset[2]	(7,372)	(232)
Deferred tax recognized for previous years differences	970	1,865
Utilisation of previously unrecognised deferred tax losses	160	134
Tax for previous years	(1,239)	456
Tax income / (expense)	4,565	(2,474)

1 Non-deductible expenses, net mainly related to share based payments.
Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

2 This relates to losses in the Group's subsidiaries recorded in 2017 on which no deferred tax asset was recognised.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

D. 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 $'000	Temporary differences $'000	Total $'000
At 1 January 2016	3,325	2,320	5,645
Translation adjustments	(334)	(9)	(343)
Tax income / (expenses) recognised in the statement of comprehensive income	628	(395)	233
At 1 January 2017	3,619	1,916	5,535
Translation adjustments	743	401	1,144
Arising from acquisition	–	85	85
Tax expenses recognised in other comprehensive income	–	(46)	(46)
Tax income recognised in the statement of comprehensive income	4,783	2,458	7,241
At 31 December 2017	**9,145**	**4,814**	**13,959**

The deferred tax assets are calculated based on the rates prevailing in the respective subsidiaries' jurisdictions.

E. 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:

	2017 $'000	2016 $'000
Losses for which a deferred tax asset is recognised	36,553	13,681
Losses for which no deferred tax asset is recognised	37,456	15,754
	74,009	**29,435**

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

In addition to the reduction of the UK corporation tax rate from 20% to 19% effective from 1 April 2017, a further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016.

The Group's UK deferred tax asset at 31 December 2017 was calculated based on the rate at which the temporary difference is expected to reverse.

The Group's future tax charge could be affected by numerous factors, including but not limited to:

- The UK's Corporation Tax Loss Reform introduced in Finance (N. 2) Act 2017 relating to the utilisation of brought forward losses which applies from 1 April 2017.
- Any tax reforms in jurisdictions where we have taxable presence, including any reforms which may arise from the UK's proposed exit from the EU, from the European Commission's proposal for a Common Corporate Tax Base across EU or any reforms adopted from the OECD's BEPS actions such as those in relation to the deductibility of interest, anti-avoidance or transfer pricing.

9. INCOME TAXES CONTINUED

U.S. Tax Reform

In the fourth quarter of 2017, the United States Federal government enacted the Tax Cut and Jobs Act ("The Act"), which represents the most significant change to the Internal Revenue Code in more than 30 years. From a corporate tax perspective, it provides a significant reduction in the corporate tax rate, reforms the U.S. taxation of international transactions and businesses, and eliminates certain business tax deductions.

Reduction of the US Federal Corporate Tax Rate: The Act reduces the corporate tax rate from 35% to 21%, effective January 1, 2018. Consequently, we have calculated a provisional reduction in our net deferred tax asset balance, with a corresponding credit to income tax expense for the year ended December 31, 2017. However, we note that the reduction of the corporate tax rate in the U.S. does not have an impact on the Company's net deferred tax asset for the year, as a valuation allowance was recorded against our deferred tax asset for the period.

While we are able to make a reasonable estimate of the impact of the reduction in corporate tax rate, it may be affected by other factors related to The Act.

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of certain of our foreign subsidiaries.

To determine the amount of Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. The Company anticipates that any Transition Tax due with respect to the Company's foreign subsidiary will be offset by current year net operating losses.

Belgian Tax Reform

In December 2017, a large reform of the Belgian corporate income tax regime was agreed upon by Belgian parliament. Part of the reform will be effective as of tax year 2019 with other measures mainly coming into force as of tax year 2021.

Main item of the reform is a decrease of the general corporate income tax rate from 33.99% to 29.58% (as of tax year 2019) and to 25% (as of tax year 2021). A number of compensating measures were introduced to compensate for the budgetary impact of this rate reduction. One of the most important compensating measures is a limitation to the use Belgian corporate taxpayers can make of their tax losses carried forward. While these can still be carried forward without any time limitation, the use of the losses is limited per year to EUR 1 million plus 70% of the company's taxable result exceeding EUR 1 million. Another compensating measure is the reduction of the Belgian notional interest deduction to incremental capital only.

The company's deferred tax asset and liability at 31 December 2017 was calculated based on the rate at which the losses and temporary differences are expected to reverse.

10 EMPLOYEES' AND DIRECTORS' EMOLUMENTS

Employees' emoluments

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

	Group		Company	
	2017	2016	2017	2016
Research and development	552	474	–	–
Sales, marketing and operation	384	330	10	9
General and administration	140	136	–	–
	1,076	**940**	**10**	**9**

Their aggregate remuneration comprised:

	Group Year ended 31 December		Company Year ended 31 December	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Wages and salaries	81,822	70,930	843	1,008
Social security costs	13,058	11,673	120	105
Defined benefit pension costs (see note 20)	744	765	–	–
Defined contribution pension costs	4,361	3,751	198	117
Total	**99,985**	**87,119**	**1,161**	**1,230**

Directors' emoluments

The directors received the following remuneration in respect of services rendered to the Group. Please refer to the table on pages 40 and 41 of the Annual Report:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Remuneration[1]	3,059	5,074
Gain from exercise of share options	7,877	2,202
Post-employment benefits	215	152
Total emoluments	**11,151**	**7,428**

1 Includes payment of $292,000 for unused vacation days to one executive director (2016: $126,000).

The share based compensation attributable to the directors in 2017 is an income of $1,788,677 due to the reversal of the costs associated with the unvested options of the former CEO which expired when his employment ended (2016: $1,500,707 expenses).

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

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Total emoluments[1]	1,301	3,244
Gain from exercise of share options	5,662	–
Post-employment benefits	188	135
	7,151	**3,379**

1 Includes payment of $292,000 for unused vacation days to one executive director (2016: $126,000)

11. PROFIT FOR THE YEAR, ADJUSTED MEASURES AND GROUP AUDIT FEE

(i) EBIT for the year is stated after charging

	2017 $'000	2016 Restated* $'000
Depreciation of owned fixed assets (note 14)	8,765	6,820
Amortisation of intangible assets (note 13):		
Amortisation of purchased customer list – included in selling and marketing expenses	1,754	2,432
Amortisation of acquired technology –		
Included in R&D expenses (note 13)	2,920	2,014
Included in exceptional expenses related to restructuring (note 6)	1,839	–
Amortisation of software – included mainly in R&D expenses	1,995	2,162
Amortisation of Internally generated development costs –		
Included in R&D expenses	18,157	11,593
Included in exceptional expenses related to restructuring (note 6)	6,218	–
Research and development expenditure	66,871	38,256
Costs of inventories recognised as an expense	229,938	207,871
Write-downs of inventories recognised as an expense	1,740	1,316

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

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

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, adjusted profit before tax and profit in cash are provided as additional information only and should not be considered as a substitute for operating profit/loss (EBIT) or net cash provided by operating activities.

Adjusted EBIT is defined as Earnings Before Interest, Tax, share based payment expenses, amortisation of acquired intangibles, impairment and non-recurring and exceptional expenses; Adjusted EBITDA as Adjusted EBIT plus depreciation and other amortisation; profit/loss in cash as Adjusted EBITDA less capitalisation of internally generated development assets less acquisition of tangible and intangible assets net of proceeds from disposal of assets.

Adjusted (Loss) / Profit before tax as (Loss) / Profit before tax plus share based payment expenses, amortisation of acquired intangibles and non-recurring and exceptional expenses; and Adjusted net (loss) / profit for the year as net (Loss) / Profit for the year plus share based payment expenses, amortisation of acquired intangibles and non-recurring items less deferred tax (credit) / expense. The Group's management believes that these non-GAAP measures provide useful information to investors to evaluate operating results and profitability for financial and operational decision-making purposes and to provide comparability between the companies in this sector, as they eliminate non-cash items and non-recurring items, which are not inherent to the business. Consequently, Adjusted EBIT, Adjusted EBITDA, (loss) / profit in cash, Adjusted (loss) / profit before tax and Adjusted net (loss) / profit for the year are presented in addition to the reported results.

	Note	2017 $'000	2016 Restated* $'000
Operating (loss) / profit – EBIT		**(49,668)**	**19,363**
Share-based payments	25	4,324	8,121
Exceptional expenses related to restructuring	6	15,979	–
Impairment of internally developed assets	13	8,414	–
Other non-recuring expenses [3]	5	5,412	780
Amortisation – intangibles assets acquired	13	4,834	4,873
Adjusted EBIT		**(10,705)**	**33,137**
Depreciation and other amortisation [3a]	13,14	28,757	20,148
Adjusted EBITDA		**18,052**	**53,285**
Capitalisation of internally generated development assets	13	(31,098)	(30,771)
Acquisition of tangible and intangible assets, net of proceeds from disposal of assets		(13,933)	(9,799)
(Loss) / profit in cash		**(26,979)**	**12,715**
(Loss) / profit before tax		**(56,781)**	**17,930**
Share-based payments	25	4,324	8,121
Exceptional expenses related to restructuring	6	15,979	–
Impairment of internally developed assets	13	8,414	–
Other non-recurring expenses [3]	5	5,412	780
Amortisation – intangibles acquired	13	4,834	4,873
Adjusted (loss) / profit before tax		**(17,818)**	**31,704**
Net (loss) / profit for the year		**(52,216)**	**15,456**
Share-based payments	25	4,324	8,121
Exceptional expenses related to restructuring	6	15,979	–
Impairment of internally developed assets	13	8,414	–
Other non-recurring expenses [3]	5	5,412	780
Amortisation of intangibles acquired	13	4,834	4,873
Deferred tax (credit) / expense		(7,241)	110
Adjusted net (loss) / profit for the year		**(20,494)**	**29,340**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

3 For the breakdown of non-recurring expenses in 2017 see note 5b. (2016: mainly relate to integration and transaction costs).

3a Excluding amortisation on acquired intangibles.

11. PROFIT FOR THE YEAR, ADJUSTED MEASURES AND GROUP AUDIT FEE
CONTINUED

(iii) Audit fee

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	394	195	394	195
The audit of the Company's subsidiaries pursuant to legislation:	416	356	–	–
Total audit fees	**810**	**551**	**394**	**195**
Fees payable to the Company's auditor and their associates for other services to the Group:	370	91	220	13
Other services relating to taxation	387	70	99	10
Total non-audit fees	**757**	**161**	**319**	**23**
Total fees	**1,567**	**712**	**713**	**218**

12. 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

	2017 $'000	2016 Restated* $'000
(Loss) / profit for the year attributable to the owners of the Company	(52,216)	15,456
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares (1)	124,689,682	115,157,534
Diluted weighted average number of equity shares (2)	124,689,682	118,891,032
Basic earnings per share (in US dollar cents)	(41.9)	13.4
Diluted earnings per share (in US dollar cents)	(41.9)	13.0

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

(1) Basic weighted average number of equity shares:

	2017 No. of Shares	2016 No. of Shares
Issued ordinary shares at 1 January	115,688,131	114,740,976
Effect of purchase of own shares (see note 19)	–	(105,442)
Effect of placing of shares (see note 19)	7,495,748	–
Effect of share options exercised	1,505,803	522,000
Basic weighted average number of equity shares at 31 December	**124,689,682**	**115,157,534**

(2) Diluted weighted average number of equity shares:

	2017 No. of Shares	2016 No. of Shares
Basic weighted average number of equity shares	124,689,682	115,157,534
Effect of share options on issue	–	3,733,498
Diluted weighted average number of equity shares at 31 December	**124,689,682**	**118,891,032**

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.

	2017 $'000	2016 Restated* $'000
(Loss) / profit for the year	(52,216)	15,456
Share-based payments	4,324	8,121
Exceptional expenses related to restructuring	15,979	–
Impairment of internally developed assets	8,414	–
Other non-recurring expenses[3]	5,412	780
Amortisation of intangibles acquired	4,834	4,873
Deferred tax (credit) / expense	(7,241)	110
Adjusted (loss) /profit for the year attributable to the equity shareholders	**(20,494)**	**29,340**
Adjusted basic (loss)/ earnings per share (in USD cents)	(16.4)	25.4
Adjusted diluted (loss)/ earnings per share (in USD cents)	(16.4)	24.6

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

For the year ended 31 December 2017

13. INTANGIBLE ASSETS

	Intangible assets with finite life					
	Software and licenses	Internally generated development assets (A)	Customer relationships	Acquired technology	Goodwill (B)	Total
			Restated *			
GROUP	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost						
1 January 2016	22,607	76,390	13,745	4,217	15,837	132,796
Net additions [1]	1,614	29,293	–	–	–	30,907
Disposals	(23)	(350)	–	–	–	(373)
Transfer	(4,504)	–	–	4,504	–	–
Arising from acquisitions	17	–	3,455	5,112	3,460	12,044
Translation adjustments	(503)	(2,696)	(95)	(143)	(94)	(3,531)
31 December 2016	**19,208**	**102,637**	**17,105**	**13,690**	**19,203**	**171,843**
Net additions [1]	3,997	30,416	–	–	–	34,413
Disposals	(685)	(1,540)	–	–	–	(2,225)
Transfer	–	–	–	–	–	–
Arising from acquisitions	19	–	–	4,145	2,919	7,083
Translation adjustments	1,661	11,436	376	601	339	14,413
31 December 2017	**24,200**	**142,949**	**17,481**	**18,436**	**22,461**	**225,527**
Amortisation and accumulated impairment losses						
1 January 2016	(15,638)	(22,143)	(8,966)	(4,172)	–	(50,919)
Charge for the year	(1,735)	(11,593)	–	–	–	(13,328)
Disposals	–	148	–	–	–	148
Transfer	1,609	–	–	(1,609)	–	–
Charges for the year from intangible assets acquired	(427)	–	(2,432)	(2,014)	–	(4,873)
Translation adjustments	429	760	67	95	–	1,351
31 December 2016	**(15,762)**	**(32,828)**	**(11,331)**	**(7,700)**	**–**	**(67,621)**
Charge for the year	(1,835)	(24,375)	–	–	–	(26,210)
Disposals	241	1,540	–	–	–	1,781
Impairment	–	(8,414)	–	–	(1,610)	(10,024)
Charges for the year from intangible assets acquired	(160)	–	(1,754)	(4,759)	–	(6,673)
Translation adjustments	(1,449)	(4,206)	(280)	(393)	(16)	(6,344)
31 December 2017	**(18,965)**	**(68,283)**	**(13,365)**	**(12,852)**	**(1,626)**	**(115,091)**
Net book value						
31 December 2017	5,235	74,666	4,116	5,584	20,835	110,436
31 December 2016	3,446	69,809	5,774	5,990	19,203	104,222

1 Net of grant to receive. 2017: $682k. (2016: $1,478k)

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

A. Capitalised development assets are related mainly to development of 4G, 3G, other IoT products and IoT Services software. Internally generated assets related to IoT products amortize over 3 to 5 years and IoT Services amortize over 3 years.

The split of the net assets by technology is as follows:

Technology	Internally generated development assets, net as at 31 December 2017 $'000	%	Internally generated development assets, net as at 31 December 2016 $'000	%	Change year over year $'000	%
IoT Services	**8,736**	**12%**	**11,143**	**16%**	**(2,407)**	**(22%)**
4G	49,708	67%	36,368	52%	13,340	37%
3G	9,377	12%	13,431	19%	(4,054)	(30%)
Non-Cellular	1,020	1%	2,837	4%	(1,817)	(64%)
Other IoT Modules	5,825	8%	6,030	9%	(205)	(3%)
IoT Products	**65,930**	**88%**	**58,666**	**84%**	**7,264**	**12%**
31 December	**74,666**	**100%**	**69,809**	**100%**	**4,857**	**7%**

Internally generated development assets that completed the development phase, moved to mass production phase and which have started to be amortised, decreased to 47% of the total internally generated development assets (2016: 60%).

	2017 $'000	%	2016 $'000	%
Net assets in development process (not amortised yet)	39,909	53%	28,030	40%
Net assets in amortisation phase	34,757	47%	41,779	60%
Total	**74,666**		**69,809**	

Each technology includes various subprojects which are in development stage, as demonstrated in the table below:

31 December 2017

Technology	Net assets started to be amortised $'000	%	Weighted average of remaining years to be amortised	Net assets in development process (not amortised yet) $'000	%	Internally generated development assets, net as at 31 December 2017 $'000	%
IoT Services	**4,266**	**12%**	**1.4**	**4,470**	**11%**	**8,736**	**12%**
4G	19,736	57%	3.8	29,972	75%	49,708	67%
3G	8,732	25%	3.3	645	2%	9,377	12%
Non-Cellular	1,008	3%	3.1	12	–	1,020	1%
Other IoT Modules	1,015	3%	3	4,810	12%	5,825	8%
IoT Products	**30,491**	**88%**	**3.6**	**35,439**	**89%**	**65,930**	**88%**
31 December 2017	**34,757**	**100%**	**3.4**	**39,909**	**100%**	**74,666**	**100%**

31 December 2016

Technology	Net assets started to be amortised $'000	%	Weighted average of remaining years to be amortised	Net assets in development process (not amortised yet) $'000	%	Internally generated development assets, net as at 31 December 2016 $'000	%
IoT Services	**6,331**	**15%**	**2.2**	**4,812**	**17%**	**11,143**	**16%**
4G	18,167	43%	4.4	18,201	65%	36,368	52%
3G	11,026	26%	4.0	2,405	9%	13,431	19%
Non-Cellular	3,418	9%	3.5	2,612	9%	6,030	9%
Other IoT Modules	2,837	7%	3.4	–	–	2,837	4%
IoT products	**35,448**	**85%**	**4.1**	**23,218**	**83%**	**58,666**	**84%**
31 December 2016	**41,779**	**100%**	**3.8**	**28,030**	**100%**	**69,809**	**100%**

There are no capital commitments for intangible assets as at 31 December 2017 and 2016.

13. INTANGIBLE ASSETS CONTINUED

B. The Group tests annually for goodwill impairment, or more frequently if there are indications that they might be impaired. Management considers the IoT product lines and IoT Services (collectively, "Business Units") to be the cash generating units ("CGUs", individually, a "CGU") for goodwill allocated to them. The cash generating units have been identified based on the lowest levels at which goodwill is monitored for internal management purposes. The cash generating units have been identified based on the lowest levels at which goodwill is monitored for internal management purposes.

During 2017 the management revised their CGUs and merged the Module EMEA, Module Americas and Module APAC to one CGU and Services EMEA and Services Americas to one CGU. The main reason for merging these CGUs is the group inability to allocate the carrying value of the assets to the different geographic areas and the inability to measure the cash flows on geography basis, therefore goodwill is not monitored by management on geographic bases.

The recoverable amount of the Business Units have been determined based on a value in use calculation using discounted cash flow projections. Management engaged an external appraiser to assist in the preparation of the valuations. The Group's cash flow forecast has been derived from the most recent financial budget approved by management and the board of directors adjusted for expected growth for the following years, based on growth rates in each CGU.

The carrying value of goodwill by CGU at 31 December, and the key management assessments are as follows:

CGU Group	2017 $'000	2016 $'000	Average revenues growth rate[1]	EBITDA margins[2]	Weighted Average Cost of Capital
IoT Services	6,016	6,016	25.2%	22%	18%
IoT Products	14,819	13,187	9.9%	19%	15%
	20,835	**19,203**			

1 Represent over five-year period.

2 Represent the rate by the end of the five-year period covered by the forecasts.

The Group tests goodwill for impairment annually or more frequently if there are indications that they might be impaired.

Impairment in IoT products CGU:
In the end of 2017, following the shutdown on San-Jose site, the Group booked an impairment of the goodwill related to GainSpan workforce in the San-Jose site of $1.3 million. This amount is part of the integration costs, see notes 2 and 5b.

As part of restructuring plan, a goodwill in the amount of $0.3 million, related to group activity that was declared as "end of life" was impaired. See note 6.

The main assumption for each CGU is sales growth which is based on recent history and expectations of future changes in the market.

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

Revenue

Management forecast mainly relies on external forecasts of growth in the IoT industry. A double-digit annual growth rate is expected over the next five years for the entire m2m market, with higher rates among the services CGUs (IoT products 12.1%, IoT Services 29.6%). Management has also forecasted changes in the average sales price based on past experience and external forecasts of changes in the selling price in the IoT industry, which was incorporated in the appraiser's report (IoT products 9.9%, IoT Services 25.2%). The permanent growth rate applied for all CGU's was 3%.

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 19%-22% by the end of the five-year period covered by the forecasts.

Sensitivity analysis

Management has performed sensitivity analyses which include lower growth rates applied to the revenue forecasts of the CGUs and different discount rates.

Services CGU is sensitive to the short term revenue growth rate, however management used conservative short term growth rate, which is lower than market expectations by 4.4%. Management therefore, expect that this growth rate will be achieved over the forecast period.

A reduction of the average revenue growth rate by 1% would result in an impairment in goodwill but given that the discount rate applied was reflective of the market risk of the CGU and other mitigating actions that would be applied, management does not consider any impairment charge to be required.

COMPANY	Trademark $'000	Software Restated* $'000	Total $'000
COST			
1 January 2016	8,759	869	9,628
Additions	–	9	9
Translation adjustments	(1,489)	(149)	(1,638)
31 December 2016	7,270	729	7,999
Translation adjustments	712	149	861
31 December 2017	**7,982**	**878**	**8,860**
AMORTISATION			
1 January 2016	(6,775)	(643)	(7,418)
Charge for the year	(997)	(145)	(1,142)
Translation adjustments	1,240	122	1,362
31 December 2016	(6,532)	(666)	(71,98)
Charge for the year	(772)	(63)	(835)
Disposal	–	2	2
Translation adjustments	(678)	(146)	(824)
31 December 2017	**(7,982)**	**(873)**	**(8,855)**
Net book value			
31 December 2017	–	5	5
31 December 2016	738	63	801

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

14. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings[1]	Computers	Office equipment	Vehicles	Leasehold Improvements	Total
			Restated *			
GROUP	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
COST						
1 January 2016	5,890	9,113	28,203	449	1,268	44,923
Net additions	–	1,086	7,040	332	263	8,721
Acquisitions through business combinations	–	79	4	23	–	106
Disposals	–	(64)	(688)	(149)	–	(901)
Translation adjustments	(187)	(1)	(1,009)	(3)	(14)	(1,214)
31 December 2016	5,703	10,213	33,550	652	1,517	51,635
Net additions[1]	50	1,709	8,043	83	205	10,090
Transfer	–	566	(566)	–	–	–
Disposals	–	(1,195)	(1,559)	(337)	(116)	(3,207)
Arising from acquisitions	–	57	226	–	15	298
Translation adjustments	789	451	4,293	9	63	5,605
31 December 2017	**6,542**	**11,801**	**43,987**	**407**	**1,684**	**64,421**
DEPRECIATION						
1 January 2016	(599)	(6,261)	(15,531)	(222)	(518)	(23,131)
Charge for the year	(141)	(1,444)	(4,966)	(88)	(181)	(6,820)
Acquisitions through business combinations	–	–	(8)	(17)	–	(25)
Disposals	–	45	262	89	–	396
Translation adjustments	26	51	622	3	9	711
31 December 2016	(714)	(7,609)	(19,621)	(235)	(690)	(28,869)
Charge for the year	(143)	(1,629)	(6,682)	(93)	(218)	(8,765)
Transfer	–	(196)	196	–	–	–
Disposals	–	1,117	1,460	241	59	2,877
Translation adjustments	(107)	(319)	(2,658)	(4)	(31)	(3,119)
31 December 2017	**(964)**	**(8,636)**	**(27,305)**	**(91)**	**(880)**	**(37,876)**
Net book value						
31 December 2017	**5,578**	**3,165**	**16,682**	**316**	**804**	**26,545**
31 December 2016	4,989	2,604	13,929	417	827	22,766

1 Net of grant to receive. 2017: $77k. (2016: $197k)

2 The Group has pledged the buildings as collateral for the mortgage loan received to fund the purchase of these assets. See also note 26.

3 Regarding liens on certain of the Group's assets see note 23.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

15. INVESTMENTS IN SUBSIDIARIES

COMPANY	Investments in subsidiaries $'000
1 January 2016	70,375
Additions[1]	2,135
Loan converted to equity[2]	2,644
Additions – subsidiaries share-based payment charge[2]	6,342
1 January 2017	**81,496**
Additions[3]	5,017
Additions – subsidiaries' share-based payment charge[4]	3,529
31 December 2017	**90,042**

1 During 2016 there was additional Investment in Telit Automotive Solutions NV in the amount of $2.1 million.

2 In 2016 the Company converted to equity $2.6 million out of the loan issued to Telit Automotive Solutions NV.

3 During 2017 there was additional Investment in Telit Wireless solutions HK in the amount of $5 million and $17,000 investment in Telit Taiwan.

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

15. INVESTMENTS IN SUBSIDIARIES CONTINUED

Details of the subsidiary undertakings of the Company at 31 December 2017 are as follows:

Name of company	Country of incorporation	Registered office	Principal activity in 2017
Telit Automotive Solutions S.a.r.l.[1]	France	2 Esplanade Anton Philips Esplanade Effiscience – 14460 COLOMBELLES	Development services and presales of m2m wireless products
Telit Wireless Solutions Srl[1] ("TWS")	Italy	Via San Nicola da Tolentino 1/5, 00187, Rome (Italy)	No trading activities
Telit Communications SpA[1] ("Telit EMEA")	Italy	5/b, Via Stazione di Prosecco, Sgonico (TS) 34010, Italy	Development, sale and distribution of m2m wireless products and services
Telit Wireless Solutions GmbH[1]	Germany	Friesenweg 4 Haus 14, 2nd floor 22763 Hamburg	Development services and presales and distribution of m2m wireless products and services
Telit Wireless Solutions, Inc.[1] ("Telit Americas")	United States	3131 RDU Center Drive, Suite 135 Morrisville, NC 27560	Development, sale and distribution of m2m wireless products
Telit Communications Spain SL[1]	Spain	Paseo della Castellana 141, Planta 20 28046 Madrid, Spain	Presales of m2m wireless products
Telit Wireless Solutions Tecnologia E Serviços Ltda[2]	Brazil	Av. Paulista, 1776. 10th floor. Suite C. São Paulo, SP	Sale and marketing of m2m wireless products and services
Telit Wireless Solutions Co Ltd1 ("Telit APAC")	Republic of Korea	12th Fl., Shinyoung Securities Bld., 6, Gukjegeumyung-ro8-gil, Yeongdeungpo-gu, Seoul, 150-884, Korea	Development, sale and distribution of m2m wireless products and services
Dai Telecom Holdings (2000) Ltd.[1]	Israel	10 Habarzel Street Tel Aviv 6971014 Israel	No trading activities
Telit Wireless Solutions Ltd. ("Telit Israel")[1]	Israel	10 Habarzel Street Tel Aviv 6971014 Israel	Development of m2m wireless products and services; and other intra-Group services
Telit Wireless Services Ltd.[2]	Israel	10 Habarzel Street Tel Aviv 6971014 Israel	Distribution and sale of m2m wireless products and services
GlobalConect Ltd[1]	Israel	10 Habarzel Street Tel Aviv 6971014 Israel	No trading activities
Telit Wireless Solutions (Pty) Ltd.[2]	Republic of South Africa	Prism Office Park Building 1, Ruby Close, Fourways, Gauteng, 2121	Distribution of m2m wireless products
Telit Wireless Solutions Hong Kong Limited[1]	Hong Kong	Rm 8 17/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Kowloon, Hong Kong	Distribution of m2m wireless products and services and provide intra-Group services
Telit Communications Cyprus Ltd.[2]	Cyprus	Arch. Makarios III, Ave 3-7 6017, Larnaca, Cyprus	Intra-Group supply of m2m wireless products and services
Telit Technologies (Cyprus) Ltd.[2]	Cyprus	Arch. Makarios III, Ave 3-7 6017, Larnaca, Cyprus	Development of m2m wireless products and services
Telit Wireless Solutions (Australia) Pty Limited[2]	Australia	Tower 1, Level 2 495 Victoria Street Chatswood NSW 2067 Australia	Presales of m2m wireless products
Telit Automotive Solutions NV[1] (0.88 % is indirectly held)	Belgium	Interleuvenlaan 80 3001 Leuven, Belgium	Development and intra-group sale of m2m wireless products
Telit IoT Platforms, LLC[2]	United States	5300 Broken Sound Blvd. Suite 150 Boca Raton, FL 33487 USA	Development and distribution of m2m wireless services; and intra-Group services

Name of company	Country of incorporation	Registered office	Principal activity in 2017
Telit Wireless Solutions (Shenzen) Ltd.[2]	China	Room 807, East building of Coast City, No. 3 Hai De Avenue, NanShan, Shen Zhen	Presales of m2m wireless products, and other intra-Group services
Telit Wireless Solutions Japan KK[1]	Japan	Ebisu Garden Place Tower 18th Floor Ebisu 4-20-3 Shibuya-ku, Tokyo	Presales of m2m wireless products, and other intra-Group services
Telit Wireless Solutions (Shanghai) Ltd (formerly: Shanghai Stollmann Communication Technology Co., Ltd.)[2]	China	Room 13305, 498 Guoshoujing Road Zhangjiang Hi-tech Zone Pudong, Shanghai P. R. China	Presales of m2m wireless products and services, and other intra-Group services
GainSpan Corporation[3]	United States	3590 North First Street, Suite 300 San Jose, CA 95134 USA	Development, sale and distribution of m2m wireless products[3]
Telit Wireless Solutions Taiwan Limited[2] (formally GainSpan Taiwan)	Taiwan	6F-3, No. 5, Sec. 2, Anhe Road, Da-An District, Taipei, Taiwian	Presales of m2m wireless products and services, and other intra-Group services
Telit Communications India Private Limited[2]	India	#3E, Monarch Romani, 7th "C" Main, 3rd Block, Koramangala Industrial Layout Bangalore, 560034 India	Development of m2m wireless products and services on behalf of related-parties

All subsidiary undertakings are 100% owned; their respective share capital is made up solely of ordinary shares.

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

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

3 Over the course of 2017, as part of the post-merger integration of GainSpan Corporation, trading activity was migrated to Telit Wireless Solutions Inc. GainSpan Corporation, as of 31.12.2017 has no trading activity.

16. INVENTORIES

	Group	
	2017 $'000	2016 Restated* $'000
Finished goods	16,939	17,899
Raw materials and work in progress	6,890	10,391
	23,829	**28,290**

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 $8,433,000 (2016: $1,538,000). See note 6 for more detailed regarding inventory provision as part of restructuring plan.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

17. TRADE RECEIVABLES AND OTHER ASSETS

	Group		Company	
	2017 $'000	2016 Restated* $'000	2017 $'000	2016 Restated* $'000
Within current assets:				
Trade receivables[1]	100,410	105,220	3,251	3,452
Income tax receivables (see note 9)	934	195	–	–
Other current assets[2]	15,968	14,357	787	571
Due from Group undertakings (see note 27)	–	–	61,737	29,332
	117,312	**119,772**	**65,775**	**33,355**
Within non-current assets:				
Due from Group undertakings[3]	–	–	22,717	17,843
Other long term assets	1,909	2,321	209	184
	1,909	**2,321**	**22,926**	**18,027**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

1 The average credit period on trade receivables in 2017 was 83 days (2016: 74 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.

2 Included within other current assets mainly prepaid expenses, supplier rebates and advance payments to suppliers of $7.8 million (2016: $6 million), VAT and other tax authorities $2.3 million (2016: $2.3 million), government grant to receive of $5.4 million (2016: $5 million) and remaining other receivables.

Included in the Group's trade debtors balance are debtors with a carrying amount of $16,284,000 (2016: $11,926,000) 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 89 days (2016: 96 days).

	2017 $'000	2016 $'000
Ageing of past due but not impaired trade debtors		
1-30 days	13,297	7,251
30-60 days	1,278	2,610
60-90 days	209	909
Above 90 days	1,500	1,156
	16,284	**11,926**

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

The Group's trade receivables and other current assets are stated after allowances for mainly individually doubtful debts, an analysis of which is as follows:

	2017 $'000	2016 $'000
At 1 January	1,093	1,072
Increase in allowance for the year	1,602	304
Amounts written off	(108)	(270)
Translation adjustments	27	(13)
At 31 December	**2,614**	**1,093**

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.

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

COMPANY	**Loans to subsidiaries $'000**
1 January 2016 (a)	33,144
Additions (b)	2,732
Repayments (c)	(8,140)
Reduction due to Group undertaking (c)	(6,484)
Loan converted to equity (d)	(2,644)
Translation adjustments	(765)
1 January 2017	**17,843**
Additions (b)	3,000
Translation adjustments	1,874
31 December 2017	**22,717**

(a) Includes $2 million current maturity of loan to Telit Wireless Solutions LTD. presented in short term balance Due from Group undertakings.

(b) During 2017 the Company increased the Loan to Telit Wireless Solutions Inc by $3 million. During 2016 the Company increased the Loan to Telit Wireless Solutions GmbH by $2.7 million.

(c) The repayment in 2016 is due to loan balance repayment made by Telit Wireless Solutions LTD ($8 million). Loans to Telit Wireless Solutions Inc. ($2.5 million) and Telit IoT Services Inc. ($4.1 million), were offset due to Group undertaking.

(d) In 2016 the Company converted to equity $2.6 million out of the loan stand for Telit Automotive Solutions NV.

Interest on the Group's intercompany loans is at arm's length. See note 27.

All loans are non-current as of 31 December 2016 and 2017.

18. CASH

The Group's cash resources are as follows:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deposits – restricted cash	393	84	–	–
Cash and cash equivalents	41,908	26,547	11,568	3,753
Total	**42,301**	**26,631**	**11,568**	**3,753**

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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Sterling	272	17	272	16
US dollar	35,388	21,582	10,639	3,068
Euro	3,912	2,870	657	669
KRW	1,368	451	–	–
Brazilian Real	152	853	–	–
HKD	177	114	–	–
ILS	339	301	–	–
Other	693	443	–	–
Total	**42,301**	**26,631**	**11,568**	**3,753**

19. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2017 $'000	2016 $'000
Allotted and issued:		
474,137 ordinary shares of 1 penny each (2016: nil).	–	–
Allotted, issued and fully paid:		
130,217,154 ordinary shares of 1 penny each (2016: 116,305,251 ordinary shares of 1 penny each).	2,165	1,984

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

During 2017 the Company issued:

- In May, 11,593,000 new ordinary shares at a price of 340 pence per share. The net value after costs was $49.7 million.
- 1,898,065 ordinary shares as a result of exercises of options and RSUs by employees (2016: 1,154,877)
- 500,000 and 400,000 ordinary shares were allotted and issued to a broker in May and August, respectively, to be held for the fulfilment of options and RSUs exercises by employees. The par value of these shares is paid to the Company once they are used to fulfil an option or RSU exercise. As at 31 December 2017, the balance held by the broker was 474,137 ordinary shares.

Share options

The number of outstanding options as at 31 December 2017 and at the date of this report was 13,963,042 and 13,675,167 equal to 10.7% and 10.5% respectively, of the outstanding share capital of the Company (9.69% and 9.50%, 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.

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 and 2016 the Group repurchased 409,400 and 207,722 ordinary shares for a total consideration of $1.9 million. During 2017 the Company used all these shares to cover the exercise of options and RSUs by employees.

Dividend

On 5 May 2017, the Company paid $5,682,000, for the financial year ended 31 December 2016, of 4.9 cents per share.

On May 27, 2016, the Company paid $6,893,000, for the financial year ended 31 December 2015, of 6 cents per share.

On September 23, 2016, the Company paid $2,890,000 interim dividend of 2.5 cents per share.

Total dividend paid in 2016 was $9,783,000.

20. POST-EMPLOYMENT BENEFITS

A. Until 1 January 2007, employees of Telit's Italian subsidiaries received defined benefit pension arrangements under which employees were entitled to retirement benefits based on the accumulated contributions upon attainment of the retirement age or when leaving the Company. Due to changes in applicable retirement and severance benefit legislation in Italy, existing entitlements as at 1 January 2007 were frozen. For all new entitlements, employees can elect to have their entitlements paid into a group defined contribution plan or alternatively, into an Italian government defined contribution plan for private sector employees. The accrued benefit as at 1 January 2007 is unfunded. The actuarial present value of this frozen defined benefit obligation, 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 $52,000 (2016: $67,000) and the charge to the statement of comprehensive income in the year is an income of $15,000 (2016: $26,000 expenses).

C. The Group sponsors a partially funded Defined Benefit Plan in APAC. The plan provides a benefit to employees on leaving employment. The benefit is determined regarding the employee's salary and service at the time of leaving employment. 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. In 2016 the group deposit amounts in defined benefit plan.

D. Following the acquisition of ATOP BU the Group has liability for severance pay for Germany resident employees in the amount of $489,000 (2016: $428,000) and for Belgium resident employees of $183,000 (2016: nil).

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

Expense recognised in the statement of comprehensive income	2017 $'000	2016 $'000
Interest cost	107	113
Current service costs	637	652
	744	**765**

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:

	2017 $'000	2016 $'000
Present value of defined benefit scheme obligation		
1 January	4,281	4,347
Current service costs and interest	744	765
Benefits paid by the Company	(208)	(334)
Actuarial gains	(103)	(359)
Allocated to short term liability	(126)	–
The effect of changes in foreign exchange	588	(138)
	5,176	4,281
Present value of defined benefit scheme asset (APAC)	(2,628)	(1,822)
31 December	**2,548**	**2,459**

	2017 $'000	2016 $'000
Present value of defined benefit scheme asset (APAC)		
1 January	1,822	–
Contributions by employer	619	1,896
Return on plan assets	38	2
Maintenance fee	(14)	–
Benefit paid	(100)	–
The effect of changes in foreign exchange	263	(76)
31 December	**2,628**	**1,822**

Plan assets were valued at fair market value. The pension plan assets are quoted in an active market and represent the following:

	2017 $'000	2016 $'000
Government bonds and corporate bonds	1,324	1,175
Loans	925	–
Saving deposit	56	476
Other investments	323	171
Total defined benefit scheme asset	**2,628**	**1,822**

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

	2017	2016
Discount rate (Italy / APAC)	0.88%/3.14%	1.36%/2.84%
Expected salary increase rate (Italy)	2.63%	2.85%
Expected salary increase rate including inflation (APAC)	4.00%	4.00%
Inflation (Italy)	1.5%	1.8%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled $51,120 (2016: $72,611) and the expected contributions to be paid in 2018 total $282,912.

21. CURRENT LIABILITIES

	Group		Company	
	2017 $'000	2016 Restated* $'000	2017 $'000	2016 $'000
Short-term bank loans	22,112	13,516	–	–
Current maturities of long term loans	8,144	5,472	2,508	–
Total short-term borrowing from banks	30,256	18,988	2,508	–
Trade creditors (i)	104,012	114,644	2,999	1,634
Due to Group undertakings	–	–	33,309	41,402
Provisions (see also note 24)	708	555	–	–
Income tax payables (see also note 9)	2,190	2,218	–	–
Accruals and other current liabilities (ii)	28,184	21,470	1,858	897
Total current liabilities	**165,350**	**157,875**	**40,674**	**43,933**

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 2017 was 137 days (2016: 127 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 consists of current liabilities related to employees of $14.3 million (2016: $12.8 million) and accrued expenses of $10.8 million (2016:0$7.3 million) of which $2.7 million (2016: nil) related to restructuring plan implemented in H2 2017. Also includes $1.1 million for VAT authorities (2016: $0.7 million) and $1.8 million for deferred revenues and customer down payments (2016: $0.7 million).

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

22. CONTINGENT LIABILITIES

Legal proceedings

1. Claims filed by M2M Solutions LLC ("M2M")

On August 26, 2014, M2M Solutions filed a Complaint in the United States District Court for the District of Delaware against the Company and Telit Americas, alleging that they infringed one of M2M's patents. On August 5, 2015, the Company was dismissed from the case, leaving Telit Americas as the sole defendant. In October 2015 Telit Americas filed Inter Partes Reviews ("IPR") in the U.S. Patent Office directed to the asserted patent in the 2014 case. The parties agreed to stay the 2014 case, pending the outcome of the IPRs.

On March 6, 2017, the Patent Trial and Appeal Board in the U.S. Patent and Trademark Office determined that all claims for which an IPR had been instituted were invalid. From October to December 2017, the parties briefed invalidity of the remaining claims of the asserted patent.

The Court has not scheduled a hearing date or set a time for resolution on the merits.

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 relation to the 2014 Case, no provision is considered necessary.

2. Claim filed by Koninklijke KPN N.V., ("KPN")

On January 30, 2017, KPN filed a Complaint in the United States District Court for the District of Delaware against the Company and Telit Americas (the "Telit Defendants") and a number of other parties, alleging infringement of one of KPN's patents, which had expired prior to the filing.

The Defendants in the KPN suit filed a motion to have the asserted patent declared invalid as a matter of law under 35 U.S.C. § 101. A hearing on that motion was held on December 8, 2017.

By order dated March 22, 2018, the Court granted Telit Americas' motion to dismiss the KPN litigation, finding that the patent is directed to abstract subject matter.

On April 19, 2018, KPN filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit concerning the Court's Final Judgment.

3. Telit Wireless Services Ltd. ("Telit Ltd.") filed a statement of claim against Ingeniorsfirman Sjoberg AB, a foreign Swedish Company ("Ingeniorsfirman")

On May 24, 2016, Telit Wireless Services Ltd. ("Telit Ltd.") filed a statement of claim in the Tel Aviv court against Ingeniorsfirman Sjoberg AB, a foreign Swedish Company ("Ingeniorsfirman"). Telit Ltd. is suing for damages from a breach of contract claim arises from a distribution agreement entered into by Telit Ltd. and Ingeniorsfirman, in which Ingeniorsfirman ordered from Telit Ltd in a total sum of ILS 583,290.

On January 1, 2017, Ingeniorsfirman delivered a statement of defense and counterclaim in the Tel Aviv court against Teit Ltd., which claimed that Ingeniorsfirman had no choice but to cancel the order of Kits and that Telit Ltd. breached its obligation to assist in publicizing and advertising the product in the local market. The amount claimed is ILS 420,000.

On March 7, 2017, Telit Ltd. submitted a statement of defense to the counterclaim denying Ingeniorsfirman's claims and asked the court that Ingeniorsfirman post a bond in favor of Telit Ltd. in case the counterclaim is rejected. The court ruled in favor of Telit Ltd. and ordered Ingeniorsfirman to post a bond in the amount of ILS 75,000 which was reduce by a court of appeals in January 2018 to ILS 42,000.

The case is currently in the preliminary proceedings stage. Attempts to reach a settlement through mediation were not successful. In the opinion of Telit Ltd.'s management, supported by the opinion of its legal advisers, the counterclaim is without merit and it is more likely than not that Telit Ltd. will be successful in its defense against it. Therefore, no provision was recorded.

4. Criminal investigation against former Group CEO in relation to Bartolini After Market Electronic Services Srl. ("BAMES")

Between 2007 and 2010, the Company and its Italian subsidiaries were parties to several agreements with BAMES and its subsidiary Services for Electronic Manufacturing Srl. (SEM), as disclosed in the Company's financial statements for 2007 to 2010. BAMES went into liquidation in 2013. In 2016, the Company became aware of a criminal investigation against, among others, its then CEO, Mr. Oozi Cats, with respect to BAMES' insolvency.

In March 2018 the Company was informed that the public prosecutor intends to file a criminal complaint against several people including Mr. Cats, subject to a preliminary hearing which has been scheduled for 25 May 2018.

The Company is not formally involved at this legal proceeding, but. the Board is closely monitoring the status of this legal proceeding and should any charges be levelled against the Group (or its associates in place of the Group) it intends to defend its position vigorously.

Having taken legal advice, the Board does not believe that at this stage of the proceedings a liability is probable. It is not possible to quantify any potential claims at this early stage in the legal proceedings.

23. COMMITMENTS AND GUARANTEES

Operating lease commitments

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

	Land and buildings		Other	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Operating leases which expire:				
Within one year	3,887	3,625	952	987
In the second to fifth years inclusive	8,125	9,287	1,055	726
Above five years	584	1,144	–	–
	12,596	14,056	2,007	1,713
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	4,367	3,605	1,170	1,082

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

Bank Facilities, Guarantees and liens

A. In October 2016, the Company and some of its subsidiaries entered into committed credit facilities with HSBC Bank plc and certain of its affiliates ("HSBC") and Bank Hapoalim B.M. ("BHI USA") for an aggregate amount of $110 million (the "Facilities"). The Facilities consist of a committed five year term credit facility for $40 million and a committed three year term revolving credit facility for $35 million – in total $75 million – with HSBC, and a committed three year term revolving credit facility with BHI USA for $35 million.

The Company agreed to comply with certain financial covenants on its consolidated financial statements. See more details related to the covenants and the borrowings in notes 1 and 26.

The Company and those subsidiaries which entered into the Facilities provided guarantees, not limited in amount, to HSBC and BHI USA and placed liens over certain assets, mainly patents registered in the major territories where the Group does business pledged the share capital of the main subsidiaries, as well as recording floating charges and negative pledges, as typical for such borrowings.

B. The Company provides guarantees to certain banks in Italy to sustain long term loans granted by those banks to one of the Company's subsidiary. The guarantees are for a total amount of $37.9 million (2016: $39.4 million) but shall not exceed the amount of current borrowings from these banks.

C. The Company provided guarantees, in the ordinary course of business, of up to $17.1 million (2016: $16.6 million) to certain suppliers of the Group to sustain credit lines granted by the suppliers to Group companies in respect of purchases actually made.

24. PROVISIONS

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

	Warranties (a) $'000	VAT (b) $'000	Other (c) $'000	Total $'000
Balance at 1 January 2017	126	429	4,121	4,676
Utilized in the year	(15)	–	–	(15)
Provided in the year	7	–	–	7
Release in the year	–	–	(3,015)	(3,015)
Subsidiaries' not previously consolidated	86	–	–	86
Exchange differences	16	59	(183)	(108)
Balance at 31 December 2017	**220**	**488**	**923**	**1,631**
Classified as:				
Current liabilities	220	488	–	708
Non-current liabilities	–	–	923	923
	220	**488**	**923**	**1,631**

a. The Group provides warranties on the sale of its IoT products generally 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.

b. In December 2014 Telit EMEA received three VAT assessments from the Italian tax authorities in the amount of approximately €15.6 million including interest and penalties (approximately $18.6 million), in relation to 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 has 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.

The Tax Office appealed the first level decisions and Telit EMEA filed its counter briefs accordingly. In June 2017, the Regional Tax Court issued a favourable decision for Telit, confirming the first level one, and annulled the tax assessments accordingly. In January 2018, the Tax Office appealed this decision before the Italian Supreme Court. Telit has filed its counter appeal and a hearing for the merits of the case has not yet been scheduled.

In August 2015, in parallel to the discussion about the main assessments mentioned above, Telit EMEA received three penalty deeds from the Italian tax authorities in the approximate aggregate amount of €5 million approximately $6 million), which are related to the abovementioned VAT assessments for tax years 2005, 2006 and 2007. Telit EMEA filed appeals against such penalty deeds with the first level tax court. In March 2018, the Provincial Tax Court rejected the appeals filed by Telit against the three penalty deeds. Telit will file an appeal against this first level decision with the Regional Tax Court (the formal deadline for filing the appeal is October 13, 2018) and intends to vigorously defend its position and has been advised that its position in this matter remains strong.

24. PROVISIONS CONTINUED

c. The Group is involved from time to time in various legal and other proceedings incidental to the ordinary course of its business. Management believes, based on the opinions of the legal advisers handling the different proceedings, that the provisions recorded in the financial statements in relation to such legal and other proceedings are sufficient under the circumstances, and that none of these proceedings, individually or in the aggregate, are expected 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. During 2017, the accrual of this provision was changed from a general one, covering general IP infringement risks to an accrual on a case-by-case basis, where a provision is accrued when license negotiations reach an advanced stage.

25. SHARE-BASED PAYMENTS

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

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 (Mr. Testa 250,000, Mr. Fait 1,000,000 and Mr. Cats 2,000,000). 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 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 Mr. Fait 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 Mr. Fait's options was issued on 2 November 2015. The other executive directors were issued, on 26 September 2016, 500,000 options to Mr. Cats and 250,000 options to Mr. Testa. Accordingly, Mr. Cats, at the time of his departure from the Company on 14 August 2017 had yet to receive the entire number of options promised to him and was supposed to, 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.

In 2017, Mr. Cats' vested and unvested options were cancelled following his departure from the Company, and the Company reversed the share based payment charge related to the unvested options.

In 2017 and 2016 the Company granted options to employees of the Company and its subsidiaries, as follows:

Date of grant	Amount granted	Exercise price, original (GBP)	Exercise price, as amended * (GBP)	Vesting schedule	Expiration date
14/04/16	400,000	2.10		25% on 14/04/18 25% on 14/04/19 50% on 14/04/20	14/04/21
11/05/16	150,000	1.9825		25% on 11/05/18 25% on 11/05/19 50% on 11/05/20	11/05/21
29/08/16	40,000	2.46		25% on 29/08/18 25% on 29/08/19 50% on 29/08/20	29/08/21
13/10/16	55,000	2.625	1.83	25% on 13/10/18 25% on 13/10/19 50% on 13/10/20	13/10/21
18/12/16	80,000	2.64	1.83	25% on 18/12/18 25% on 18/12/19 50% on 18/12/20	18/12/21
19/03/17	86,000	3.27	1.83	25% on 19/03/19 25% on 19/03/20 50% on 19/03/21	19/03/22
20/04/17	280,000	3.415	1.83	25% on 20/04/19 25% on 20/04/20 50% on 20/04/21	20/04/22
04/10/17	2,176,660	1.83		25% on 10/04/18** 25% on 10/04/19 25% on 10/04/20 25% on 10/04/21	04/10/22
17/11/17	53,333	1.83		25% on 17/11/18 25% on 17/11/19 25% on 17/11/20 25% on 17/11/21	17/11/22

* On December 29, 2017 the Remuneration Committee repriced substantially all of the options granted to specific employees of the Company and its subsidiaries, with an exercise price greater than GBP 2.6, to GBP 1.83. The incremental fair value granted as a result of this modification $111,572 which is spread over the remaining life.

The incremental fair value granted as a result of these modifications was measured using Binominal model, which is in line with Group accounting policies.

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.

25. SHARE-BASED PAYMENTS CONTINUED

In 2017 and 2016 the Company granted Restricted Stock Units (RSUs) to employees of the Company and its subsidiaries, as follows:

Date of grant	Amount granted	Vesting schedule
11/05/16	8,000	25% on 11/05/18 25% on 11/05/19 50% on 11/05/20
29/08/16	10,000	100% on 29/08/20
29/08/16	56,000	25% on 29/08/18 25% on 29/08/19 50% on 29/08/20
05/10/16	16,000	25% on 05/10/18 25% on 05/10/19 50% on 05/10/20
18/12/16	5,000	100% on 18/12/20
18/12/16	12,000	25% on 18/12/18 25% on 18/12/19 50% on 18/12/20
19/03/17	16,000	100% on 19/03/21
09/05/17	10,000	25% on 09/05/19 25% on 09/05/20 50% on 09/05/21
04/10/17	2,512,000	25% on 10/04/18** 25% on 10/04/19 25% on 10/04/20 25% on 10/04/21
06/11/17	32,000	25% on 06/11/18 25% on 06/11/19 25% on 06/11/20 25% on 06/11/21
17/11/17	8,000	25% on 17/11/18 25% on 17/11/19 25% on 17/11/20 25% on 17/11/21

** In respect of individuals whose employment or consultancy services for the Company or any of its subsidiaries, began on or after 1 January 2017, their Grants will vest as follows:

50% will vest on the second anniversary of the Grant Date;

25% will vest on the third anniversary of the Grant Date;

The remaining 25% will vest on the fourth anniversary of the Grant Date.

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

	Number		Weighted average exercise price (pence)	
	2017	**2016**	**2017**	**2016**
Outstanding at beginning of year	13,258,314	14,547,996	1.88	2.03
Granted during the year	2,595,993	1,475,000	1.84	2.40
Exercised during the year	(2,689,050)	(1,154,877)	1.51	0.91
Cancelled due to cashless exercise during the year	(1,603,347)	(768,972)	1.48	1.26
Forfeited during the year	(1,452,868)	(840,833)	2.27	2.56
Outstanding at year end	**10,109,042**	**13,258,314**	**2.08**	**1.88**
Exercisable at year end	**2,795,194**	**5,202,139**	**2.05**	**1.40**

The options outstanding at 31 December 2017 have an exercise price in the range of £1.78 to £3.2750 (2016: £0.81 to £3.2750) and a weighted average contractual life of 1.68 years (2016: 2.56 years).

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

	Number	
	2017	**2016**
Outstanding at beginning of year	1,735,000	1,714,000
Granted during the year	2,578,000	107,000
Exercised during the year	(252,000)	-
Forfeited during the year	(207,000)	(86,000)
Outstanding at year end	**3,854,000**	**1,735,000**
Exercisable at year end	**–**	**–**

The RSU's outstanding at 31 December 2017 have an exercise price of 1 pence and a weighted average contractual life of 3.06 years (2016: 2.67 years).

The Group recognised a total expense of $1,805,000 in respect of equity settled share based payment transactions for the year ended 31 December 2017 (2016: $8,121,000). Of this amount, an income of $1,724,000 is attributed to the Company (2016: expense of $1,779,000). This includes reversal of unvested options charge relating to the former CEO of the company.

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. In 2016 the Company changed the valuation model from Black-Scholes to Binominal model to reflect a possibility of early exercise of the option before the end of the option's life.

25. SHARE-BASED PAYMENTS CONTINUED

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 (%)	Fair value per option (pence)
14 April, 2016	2.07	2.10	47	5	0.70	0	0.63
11 May, 2016	1.98	1.98	46	5	0.74	0	0.59
11 May, 2016 RSU's	1.98	0	46	5	0.74	0	1.76
29 August, 2016	2.46	2.46	42	5	0.21	0	0.66
29 August, 2016 RSU's	2.46	0	42	5	0.21	0	2.17
5 October, 2016 RSU's	2.81	0	42	5	0.22	0	2.47
13 October, 2016	2.63	2.63	42	5	0.35	0	0.70
18 December, 2016	2.64	2.64	42	5	0.49	0	0.83
18 December, 2016 RSU's	2.64	0	42	5	0.49	0	2.30
19 March, 2017	3.27	3.27	40	5	0.6	2	0.71
19 March, 2017 RSU's	3.27	0	40	5	0.6	2	1.98
20 April, 2017	3.42	3.415	40	5	0.52	2	0.70
09 May, 2017 RSU's	3.63	0	40	5	0.52	2	2.44
04 October, 2017	1.77	1.83	53	5	0.79	0	0.56
04 October, 2017 RSU's	1.77	0	53	5	0.79	0	1.37
06 November, 2017 RSU's	1.69	0	54	5	0.76	0	1.31
17 November, 2017	1.825	1.83	54	5	0.76	0	0.60
17 November, 2017 RSU's	1.825	0	54	5	0.76	0	1.41

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

A charge to the consolidated income statement in respect of any RSU's or options granted to employees is recognised and spread over the vesting period of the RSU's or options based on the fair value of the RSU's or options at the grant date, adjusted for changes in vesting conditions at each balance sheet date.

These charges have no cash impact.

26. BORROWINGS

	Group		Company	
	2017 $ '000	2016 $'000	2017 $'000	2016 $'000
Secured – at amortised cost				
Current maturities of long term loans	8,144	5,472	2,508	–
Other long-term loans	42,203	25,328	16,664	4,483
Total	**50,347**	**30,800**	**19,172**	**4,483**
Unsecured – at amortised cost				
Short-term bank loans and other borrowings	22,112	13,516	–	–
Due to Group Undertakings	–	–	–	4,000
Total	**22,112**	**13,516**	**–**	**4,000**
Disclosed in the financial statements as:				
Current borrowings	30,256	18,988	2,508	–
Non-current borrowings	42,203	25,328	16,664	8,483
Total	**72,459**	**44,316**	**19,172**	**8,483**

	Group		Company	
	2017 $ '000	2016 $'000	2017 $'000	2016 $'000
Borrowings breakdown				
Working capital borrowing[1]	22,112	13,516	–	–
Long term loan[2]	23,351	8,582	19,172	8,483
Governmental loan[3]	24,657	19,582	–	–
Mortgage loan[4]	2,339	2,636	–	–
Total	**72,459**	**44,316**	**19,172**	**8,483**

1 Short term borrowings, less than one year, based on committed credit facilities used for working capital. The credit facilities of up to $70 million bear interest at a rate of 2.10% to 3.70%.

2 Representing long term loans from HSBC in the amount of $19.2 million with interest at a rate of LIBOR plus 2.7% and is being repaid in 7 half year instalments that commenced in October 2018 and long term loans from banks in Italy- (i) for $0.6 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) $3.6 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 $23.6 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 $1.0 million with a fixed-rate of 0.74% 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. The loans are initially recognised at fair value and subsequently measured at amortised cost.

4 Representing a preferential rate loan of $2.3 million 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 80% of Euribor 6 months, with a minimum interest rate of 0.85% ,and is repayable in 15 semi-annual instalments that commenced in June 2012. The loan is initially recognised at fair value and subsequently measured at amortised cost.

The directors believe 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.

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.

Changes in liabilities arising from financing activities

	1 January 2017	Cash flows	Reclassification[1]	Foreign exchange movement	Other	31 December 2017
Short term borrowings from banks	13,516	10,606	–	1,237	(3,247)[2]	22,112
Long terms loans including current maturities	30,800	17,414	(839)	1,544	1,428[3]	50,347
Total liabilities from financing activities	**44,316**	**28,020**	**(839)**	**2,781**	**(1,819)**	**72,459**

1 This reclassification relates to preferential loans which are initially recognised at fair value. These loans therefore contain a benefit element which is recorded within 'other current assets' until the preferential loan is received, at which point it is net-off against the loan balance. See note 26.

2 The Group classifies interest paid as cash flows from operating activities.

3 This relates to non-cash expenses related to the effective interest rate on preferred loans (see note 8), and the amortisation of loan arrangement fees.

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 that the impact on our operating profits is 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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
US Dollar	57,330	44,850	33,463	19,347
Euro	2,768	2,150	634	1,119
ILS	318	7,848	1,733	8,704
Other	435	243	83	67

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	
	2017 $'000	**2016 $'000**
Impact on profit or loss of a 10% decrease	2,494	2,585
Impact on profit or loss of a 10% increase	(2,494)	(2,585)

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.

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% lower/higher and all other variables were held constant, the Group's net loss would decrease/increase by $761,000 (2016: $439,000); 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 derived from sales to customers in America, EMEA and APAC. The Group performs ongoing credit evaluations of its customers and until 2010 did not experience any material losses. Following recognition of material bad debt during 2011, the Group began insuring part of its trade receivables balance. Allowance for doubtful accounts is determined with respect to those amounts that the Group has determined to be doubtful from collection.

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

27. FINANCIAL RISK MANAGEMENT CONTINUED

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

Maximum credit risk:

	Group		Company	
	2017 $'000	**2016 Restated* $'000**	**2017 $'000**	**2016 Restated* $'000**
Group				
Cash and cash equivalents	41,908	26,547	11,568	3,753
Deposits – restricted cash	393	84	–	–
Trade receivables	100,410	105,220	3,251	3,452
Due from Group undertakings	–	–	61,737	29,332
Other long term asset	1,909	2,321	209	184
Loan (or investment in) to subsidiaries	–	–	22,717	17,843
Guarantee provided to banks on subsidiary's borrowings	–	–	37,908	39,369

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

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 2017 where such guaranteed borrowings were not fully drawn at that date.

Liquidity risk

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

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

Group

	2017			2016		
	Weighted average effective interest rate %	Less than 1 year $'000	More than 1 year $'000	Weighted average effective interest rate %	Less than 1 year $'000	More than 1 year $'000
Trade payables	–	104,012	–	–	113,681	–
Other current liabilities	–	28,184	–	–	21,470	–
Fixed rate	5.89%	4,752	19,905	5.89%	4,167	15,415
Variable rate	3.85%	25,504	22,298	3.10%	14,821	9,913

Company

	2017			2016		
	Weighted average effective interest rate %	Less than 1 year $'000	More than 1 year $'000	Weighted average effective interest rate %	Less than 1 year $'000	More than 1 year $'000
Trade payables	–	2,999	–	–	1,634	–
Other current liabilities	–	1,858	–	–	897	–
Variable rate	4.40%	2,508	16,664	3.58%	–	4,483
Due to group undertakings	–	–	33,309	–	–	41,402
Variable rate loan due to group undertakings	2.99%	–	–	–	–	4,000
Guarantees	–	–	37,908	–	–	39,369

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 66.

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	
	2017 $'000	2016 Restated* $'000
Cash and cash equivalent	41,908	26,547
Restricted cash deposits	393	84
Total cash	**42,301**	**26,631**
Current borrowings	(30,256)	(18,988)
Non-current borrowing	(42,203)	(25,328)
Total borrowings	**(72,459)**	**(44,316)**
Net debt	**(30,158)**	**(17,685)**
Shareholders' equity	124,543	119,221
Net debt to equity ratio	(24.21%)	(14.83%)

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

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to note 1(ab).

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 2017, the Company does not have any financial instruments at the Level 1, Level 2 and Level 3 categories.

The management assessed that fair value of 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 market interest rates. As at 31 December 2016 and 2017 the carrying amounts of loans were not materially different from their calculated fair values.

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 17.

(b) **Accounts payable –** See note 21.

(c) **Intercompany transactions:**

	2017 $'000	2016 $'000
Royalties (i)	12,669	12,833
Revenues from sale of products and services	5,956	1,849
Cost of sale	(5,387)	(6,157)
Research and Development (ii)	(381)	(168)
Selling and marketing (iii)	(5,324)	(4,286)
General and Administrative (ii)	(3,309)	(565)
Other expenses	(838)	–
Interest income	1,116	797
Guarantee fees	867	1,364

(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) Services provided to the Company by related parties include research and development expenses and general and administrative support services.

(iii) Marketing and sales support services. Global Marketing services are provided to the Company in support of the Telit brand.

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 executive directors of Telit Communications PLC. Details of transactions with the directors and their compensation are detailed in the Report on Directors' Remuneration on pages 37 to 42. 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.

GLOSSARY

3GPP	3rd Generation Partnership Project, a collaboration between groups of telecommunications associations, known as the Organizational Partners. 3GPP standardization encompasses Radio, Core Network and Service architecture.
AEP	Application enablement platform a form of platform-as-a-service meant to enable a developer to rapidly deploy an IoT application or service without worrying about scale-out or scale-up factor
BLE	Bluetooth low energy also known as Smart Bluetooth- a wireless personal area network technology
CDP	Connected Device Platform. An IoT connectivity management platform that enables enterprises to effectively manage connectivity on a global scale throughout the full device lifecycle
DR	Dead Reckoning the process of calculating one's current position by using a previously determined position, or fix, and advancing that position based upon known or estimated speeds over elapsed time and course
GNSS	Global Navigation Satellite System (GNSS) receivers, using GPS, GLONASS, Galileo or Beidou system, are used in many applications.
Industry 4.0	The current trend of automation and data exchange in manufacturing technologies. It includes cyber-physical systems, the Internet of things and cloud computing
IoT	The Internet of Things is the inter-networking of physical devices, vehicles, also referred to as "connected devices" and "smart devices", buildings, and other items—embedded with electronics, software, sensors, actuators, and network connectivity that enable these objects to collect and exchange data.
IIoT	Industrial Internet, IIoT incorporates machine learning and big data technology, harnessing the sensor data, machine-to-machine (M2M) communication and automation technologies that have existed in industrial settings for years.
LTE	Long-Term Evolution is a standard for high-speed wireless communication for mobile phones and data terminals, based on the GSM/EDGE and UMTS/HSPA technologies. 3GPP release 12 (2015) marked the introduction of MTC (Machine Type Communications) LTE standards, essentially bifurcating LTE solutions in two categories: **LTE LOW CAT –** Focused on MTC / IoT applications 'lower throughput' with 'Low Cost' and 'Lower Energy Consumption' **LTE HIGH CAT –** higher and higher throughput' based on Carrier Aggregation (2 CC, 3CC and even 4CC) CC (Carrier Component).
NB-IoT	Narrow Band IoT – a LPWA Network (LPWAN) radio technology standard that has been developed to enable a wide range of devices and services to be connected using cellular telecommunications bands. NB-IoT is a narrowband radio technology designed for the Internet of Things (IoT), and is one of a range of Mobile IoT (MIoT) technologies
LTE CAT-M	LTE-CAT M is part of the 3GPP LTE Release 13 Advanced Pro standard and is intended for narrowband LTE applications such as mobile healthcare applications and wearables that require a low power network with widespread coverage. LTE CAT-M competes with other low-power connectivity options such as Wi-Fi, Bluetooth, ZigBee, and Zwave.
LPWA	Low Power Wide Area a type of wireless telecommunication network designed to allow long range communications at a low bit rate among things (connected objects), such as sensors operated on a battery.
MNO	Mobile Network Operator – also known as a wireless service provider, wireless carrier, cellular company, or mobile network carrier, is a provider of services wireless communications that owns or controls all the elements necessary to sell and deliver services to an end user including radio spectrum allocation, wireless network infrastructure, back haul infrastructure, billing, customer care, provisioning computer systems and marketing and repair organizations.
MVNO	Mobile Virtual Network Operator – a wireless communications services provider that does not own the wireless network infrastructure over which the MVNO provides services to its customers. An MVNO enters into a business agreement with a mobile network operator to obtain bulk access to network services at wholesale rates, then sets retail prices independently
PLC	A programmable logic controller, or programmable controller is an industrial digital computer which has been ruggedised and adapted for the control of manufacturing processes
Wi-Fi	A technology for wireless local area networking with devices based on the IEEE 802.11 standards. 802.11 is the "radio frequency" needed to transmit Wi-Fi.

COMPANY INFORMATION

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Yariv Dafna, Finance director &
Chief Corporate Development Officer

Simon Duffy, Senior Non executive director

Ram Zeevi, Independent
Non executive director

Lars Reger, Non executive director

Enrico Testa, Executive director

Miriam Greenwood, Independent
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