Telit

2018 Annual Report

Connecting the world from the **inside out**

ENABLING IoT IS WHAT WE DO

Telit Communication PLC is a global leader in Internet of Things (IoT) enablement. The Group has an extensive portfolio of IoT products and services including wireless connectivity modules (from 2G to 4G technologies), global navigation satellite system, short-range wireless modules including low power Wi-Fi and Bluetooth, IoT platforms, virtual cellular IoT operator and professional services, all of which enable hundreds of millions of connected "things".

The Group sells its products and services directly, and through a network of distributors, to thousands of customers globally.

With nearly two decades of experience in IoT innovation, 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.

Telit is listed on the AIM market of the London Stock Exchange (AIM:TCM). At the end of 2018, the Group employed 977 people worldwide.

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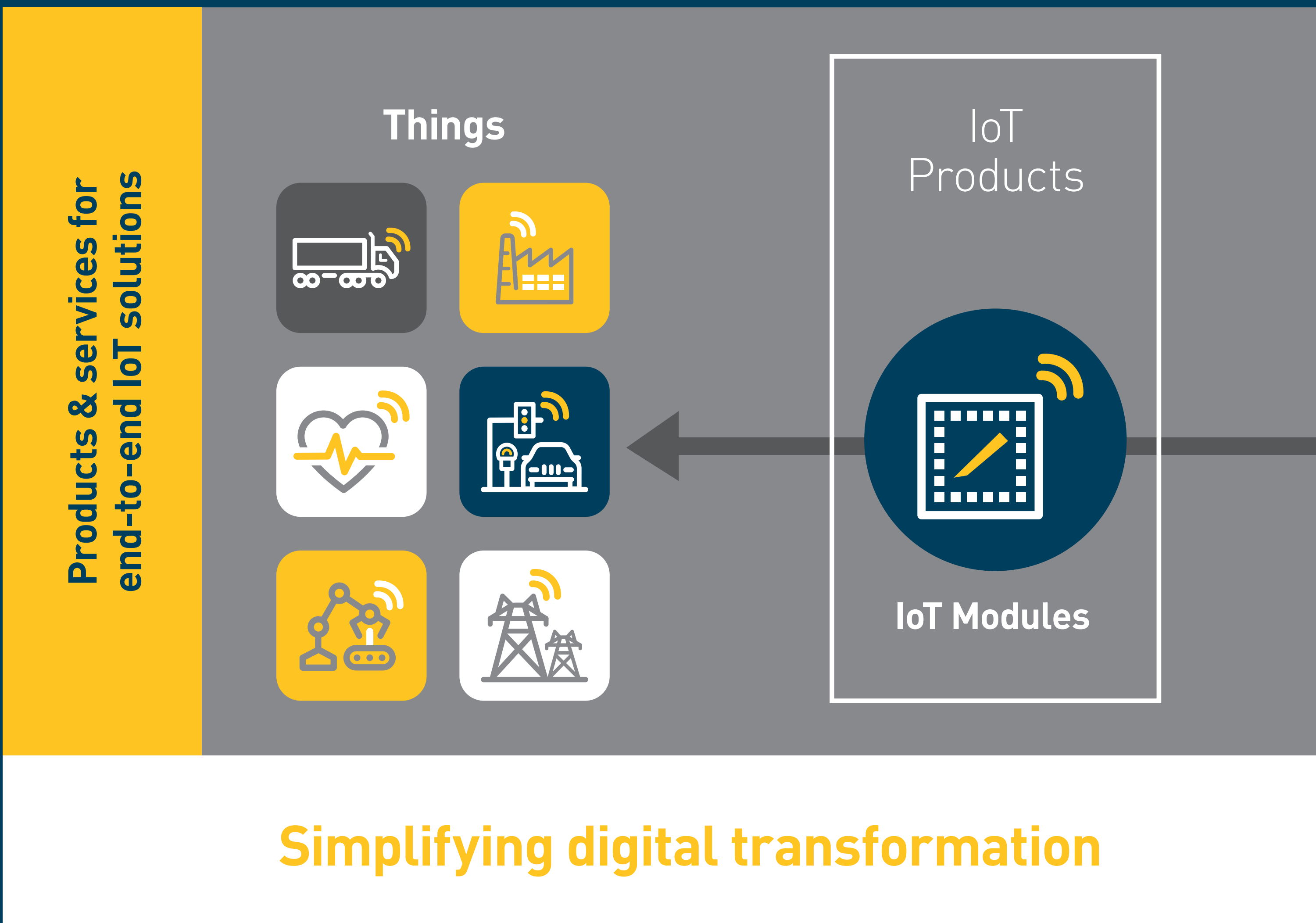
TELIT AND THE INTERNET OF THINGS

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

The development of the IoT industry has been constrained since starting as an offshoot of the telecoms industry nearly 20 years ago. According to Cisco, large scale IoT adoption has been hindered with an estimated 75% of projects failing because of lack of interoperability and escalating complexity in the management and security of IoT deployments.

Telit is uniquely positioned to address these industry wide issues. The Group has the products, services, expertise and resources to bring to market a new generation of offerings, leveraging its global distribution channels, to help customers overcome key challenges in deployment and interoperability.

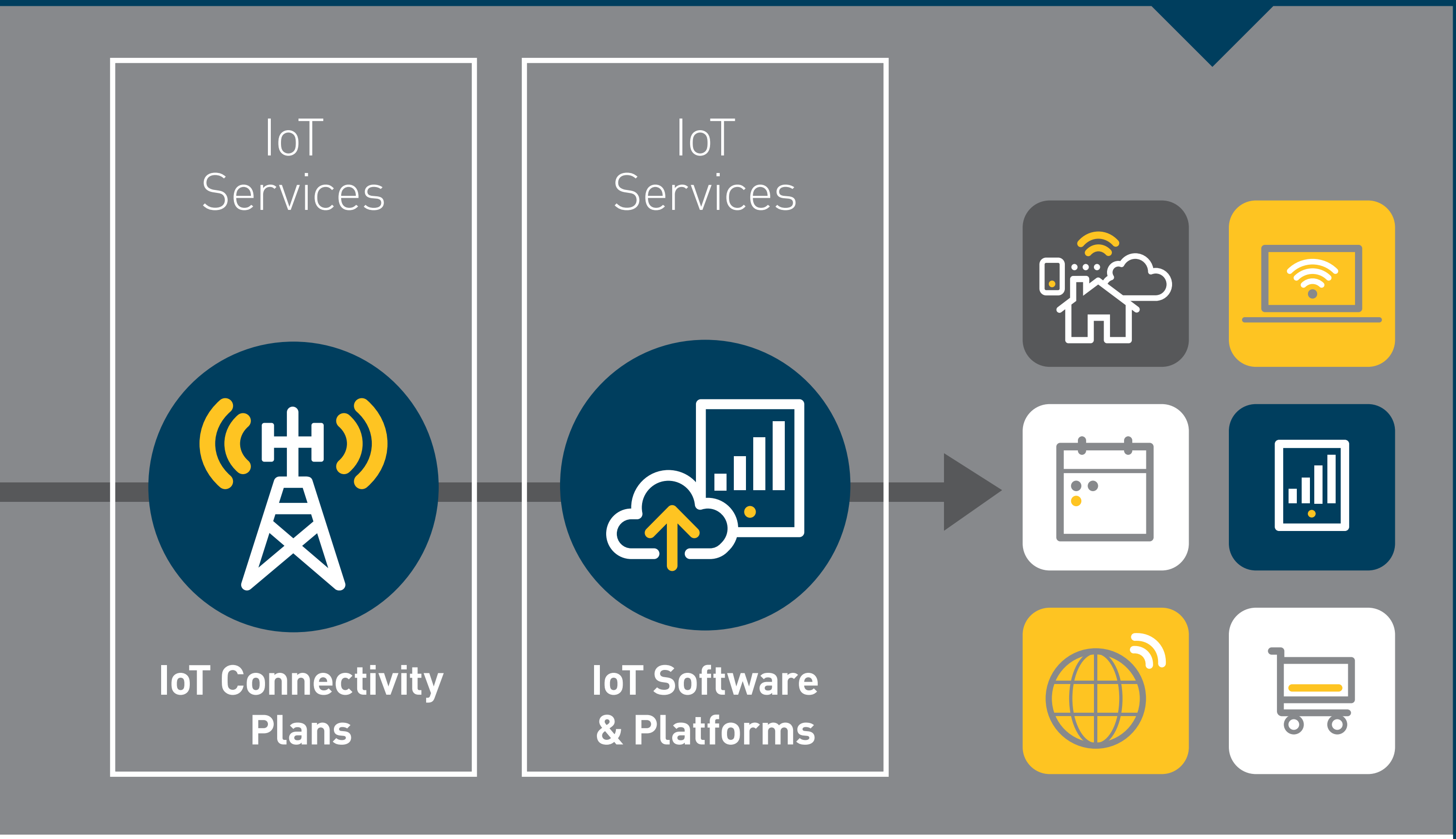
Telit's new product strategy leverages its strengths in the two branches of cellular technology evolution: high-speed/low-latency; and the low-speed/low-power. In both branches, the new corporate directive going forward is "simplification at any scale". This new directive reflects a fundamental restructuring in the way we bring new modules to market considering absolute, tangible and measurable value they add to the businesses that employ them.



The strategy for Telit's high-speed class of offerings focuses on accelerating innovation of 5G products, which enable new generations of enterprise-class, all-cellular routers, gateways and corporate network appliances; and new business green-fields in all-cellular high-speed broadband customer premise equipment (CPE).

On the low-power side, where IoT projects have been hindered the most by deployment complexity and security risks, Telit will redeploy its software development assets to empower a new generation of cellular modules. These software capabilities deliver results at scale in a software as a service (SaaS) model that leverages technology innovation to separate deployment management, integration and security from the data, which is the focal point for businesses adopting IoT.

The new strategy is predicated on gating all new offerings to the simplification of IoT and cellular broadband project at any scale. The goal of the go-to-market strategy refinement is to revitalize confidence by applying enhanced focus to better deliver on the decades-old promise of the IoT as the key catalyst of the digital transformation, and as the next platform for business process improvement and productivity gains.



Global presence providing intelligent edge solutions (modules, connectivity, software, platforms) to enable IoT-based digital transformation

FINANCIAL HIGHLIGHTS[1]

$427.5m +14.1%
Revenues
(2017: $374.5 million)

$34.1m +23.1%
Cloud and connectivity revenues
(2017: $27.7 million)

32.6%
Gross margin
(2017: 35.1%)

$139.2m
Gross profit
(2017: $131.6 million)

$30.1m +66.3%
Adjusted EBITDA
(2017: $18.1 million), with $5.8 million less of R&D capitalisation

$2.3m
Adjusted EBIT
(2017: loss $10.7 million)

$33.4m
Operating loss EBIT
(2017: loss $49.7 million) – includes $16.3 million of exceptional items[2] (2017: $21.4 million)

$4.1m
Adjusted loss before tax
(2017: loss $17.8 million)

$39.8m
Loss before tax
(2017: loss $56.8 million)

3.8¢
Adjusted loss per share
(2017: loss per share of 16.4 cents)

27.9¢
Basic loss per share
(2017: loss per share of 41.9 cents)

$25.8m
Cash flow generated from operating activities
(2017: cash used in operating activities $4.8 million)

$3.6m
Loss in cash[3]
(2017: loss $27.0 million)

$34.0m
Net debt at 31 December 2018
(31 December 2017: $30.2 million)

1 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.

2 Exceptional items comprised of $10.8 million related to restructuring and $5.5 million of other exceptional items. Please refer to Note 5B and Note 6 to the attached financial statements.

3 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.

OPERATIONAL HIGHLIGHTS

- Automotive division sold for $105 million in cash signed in July 2018 and completed on 27 February 2019
- Continued cost optimisation, based on products and activities review started in late 2017
- Integration of hardware and services businesses – clear strategy defined to become the leader in end-to-end IoT solutions
- New partnership with China Unicom, the telecom group, using Telit's deviceWISE IoT platform
- New engagements with Qualcomm for licensing and the development of 5G products as well as CAT-m and NB-IoT modules based on new Qualcomm 9205 LTE Modem
- Received certifications for:
  - CAT-1, CAT 4 and CAT 11 modules, from main mobile operators in the US
  - Three NB-IoT modules, from Deutsche Telekom
- Introduced the new smaller IoT form factor module family (x310) – meet growing demand for ultra-small, high-performance modules

GLOBAL FOOTPRINT

20+ Year's Experience in IoT

Top **10** customers comprise 31.6% of revenues

550+ Module types

850+ Employees Worldwide

Covering 80 Countries Around the Globe

30+ Sales Offices

350 Salesforce (including distributors)

6 R&D Centers

2 Manufacturing Sites (EMS)

400+ Engineers

OUR BUSINESS MODEL

Telit develops, markets and sells cellular, Global Navigation Satellite System (GNSS), short range wireless modules, IoT connectivity and IoT platform services, 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.

The Group operates in a highly competitive market, which requires constant innovation. As a result, Telit 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's products and services are sold directly and indirectly, through a network of distributors, solution providers, engineering / design firms, device manufacturers and system integrators.

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 costs that solution architects and their enterprise customers face as they implement IoT 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 24 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. Telit invested in developing a software suite – "oneEDGE" enabling solutions for a new generation of Telit's cellular LPWA IoT modules. With integrated, secure, easy-to-use tools, it dramatically simplifies design, deployment and management of IoT products and solutions, enabling a leap ahead into the new 5G super-connected world. Combined with Telit's iSIM solution simWISE these technologies solve long-standing challenges related to integration, scalability, management and transform their businesses. The offering is designed to accelerate solutions to market in an industry that is expected to scale to three million-plus new cellular connections per day by 2023. OneEDGE-based products "are born" IoT-ready to connect, to interact and to deliver the next wave of productivity through successful, beyond-the-hype digital transformation.

- **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.

"IoT remains a fast-growing and exciting space. Telit is well positioned in this market, and we are confident that our operational performance will continue to make good progress."

Paolo Dal Pino
Executive Chairman

Overview

I am pleased to report that in 2018 Telit made great progress towards our strategy of:

- refocusing on industrial IoT products and solutions;
- returning to double digit revenue growth;
- stabilising gross margin; and
- optimising our cost structure to focus on growth and cash generation.

We reported significant progress in the Group's financial performance, returning to double digit revenue growth (14.1%). We saw stabilisation of our gross margin, which was a major objective of the turnaround plan. For the year, gross margin was 32.6% which is lower compared to 2017 (35.1%) but higher compared to H2 2017 level. We also saw major improvement in the loss in cash and achieved a profit in cash in H2 2018.

Since I became Executive Chairman in September 2018, the management team and Board have concentrated on the fundamentals of the core business. This encompasses a further rationalisation of our operational structure, better integration of our products and services and a real focus on profitability and cash generation.

We reshaped the IoT Platform organisation and go to market strategy and established the basis for a healthier and more synergic growth.

Our renewed emphasis on the core business, the industrial IoT products and services, was the main reason why we sold the automotive division for $105 million. The transaction closed at the end of February this year. This disposal is an important milestone in executing our strategy. It frees up considerable internal resources, provides significant cash inflow and the financial flexibility following the repayment of the bank debts and resources to accelerate the integration of our hardware products and IoT services.

Strategy

Telit is a key player in the industrial IoT market and aims at becoming a leading end-to-end IoT provider enabling enterprises to successfully execute their digital transformation.

We are focused on products and connected devices to develop and maintain our leading position in the IoT market and increasingly on integrated and value-added software and services.

We believe in end-to-end solutions: connected devices will become more efficient and user friendly, with software playing a key role in simplifying enterprises approach to IoT. This integrated business approach enables us to focus on synergies, leveraging our combined offering of modules (cellular and short range), the IoT connectivity and the IoT platform and portal.

We are focusing on our primary target, the industrial IoT market, which we believe is the main driver of the digital transformation for enterprises. We are committed to maintaining and growing our leading position in the IoT products market and increasing the value and differentiation of our products.

The digital transformation of enterprises globally, across both the public and private sector, presents a significant opportunity. Enterprises are coming to realise the benefit and the business need to collect the right information, process it into actionable data, transmit that information, and act on it. In doing so, this allows them to solve an increasing number of problems, both legacy issues and ones they may not have thought of before.

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

IoT Products. A diversified portfolio of modules that allow "things" to be connected using the best available and most suitable technology (Cellular, GNSS, Wi-Fi and BT/BLE) for the application being developed. These provide cost performance and a significant reduction in time-to-market. The Group markets its IoT modules to numerous market segments including asset tracking, health care, security, telematics, point of sale, wearables, telemetry, industry and energy and smart metering. In order to cater to all these verticals, Telit continues to develop a wide range of cellular products from NB-IoT to LTE high category and 5G modules.

We will continue the process in 2019 in order to deliver further reduction of our cash operating expenses by approximately $10 million.

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 services. Telit's 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 platform is designed to enable customers to manage their IoT deployments through a single IoT Portal which facilitates interaction with MNOs, dash boarding tools, security and administration and it ties with our modules in the field. The Portal is a significant tool to manage any IoT deployment efficiently, save costs, be flexible and solve issues remotely.

Overall, Telit enables the creation of solutions and applications for fast deployment of IoT solutions 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.

Operational overview

The main corporate development was in July 2018, when we agreed to sell our automotive division. The transaction was completed in February 2019 and enabled us to pay off all the HSBC and Hapoalim debt and reduce cash operating expenses.

The disposal, that was completed in February 2019, saw Telit Belgium and its wholly owned subsidiaries in France, Germany, Korea and Israel, representing less than 20% of Telit's revenue, being sold. This business had approximately 120 employees, who support the automotive business across three global R&D and sales offices. As a result of the sale, Telit will focus on the industrial IoT and improvement of Group wide margins. For further information see Note 29.

In 2018, we also continued the review of the Group's activities, cost base and product portfolio in order to address the issues around the decreased gross margin and increased operating cost base. Our achievements in this regard included:

- We further focused on our 3G and 4G portfolio. Several of our products and services portfolio are now "end of life" and we have reduced the R&D and operations costs in maintaining products with low contributions and reduce operating costs. Write-off of capitalised development assets and inventory (both finished goods and components), where applicable from abandoned projects or changes in our business focus, were recorded under restructuring costs in the income statement.
- We completed the restructuring of our short-range business and we closed another R&D centre in Germany. We transferred its knowledge to lower-cost sites.
- Cost rationalisation contribute to a saving of $12.7 million in operating cash expenses in 2018 compared with cash expenses in 2017.
- We will continue this process in 2019 in order to deliver further reduction of our cash operating expenses by approximately $10 million. In order to achieve this, in Q4 2018, we simplified the top management structure and rationalised the IoT platform organisation and go to market approach.
- Integration of the hardware and services businesses – clear strategy defined to become the leader in end-to-end IoT solutions.
- We defined our 5G strategy and engaged with Qualcomm in order to start developing our first 5G product which will address the demand for high bandwidth products including applications like gateway and routers.
- We received certification from US mobile operators for our CAT-1, CAT 4 and CAT 11 modules, and from Deutsche Telekom for our NB-IoT modules.
- Telit introduced the new smaller IoT form factor module family (x310) which will be part of our product family and will cover 2G, CAT-M and NB-IoT new products and will meet the growing demand for ultra-small, high-performance modules.

R&D and investment

We continue to invest across a range of products and services, including the development of our software suite – "oneEDGE" – which enables solutions for a new generation of Telit's cellular LPWA IoT modules. With integrated, secure, easy-to-use tools, it dramatically simplifies design, deployment and management of IoT products and solutions, enabling a leap ahead into the new 5G super-connected world. Combined with Telit's iSIM solution simWISE, these technologies solve long-standing challenges related to integration, scalability, and management.

We have developed best in class products for our customers and will continue to be an innovative global leader for IoT solutions.

Telit's investments in the last few years includes 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 integration is designed to simplify all aspects of IoT implementation for customers and save them time and money, reducing risks and speeding time to revenue by easing deployment.

Board

During the last AGM in June 2018, shareholders voted for three directors to be removed from the Board. I was subsequently appointed to the Board as non-executive Chairman on 1 September 2018. On 7 September 2018 the Board received an EGM requisition notice for the replacement of further Board members. We held several discussions with major shareholders in respect of the proposals brought forward the requisition notice and agreed on a separation agreement with Yosi Fait, the prior Chief Executive. Following the departure of Mr. Fait, I was appointed Executive Chairman for an interim period. Since then, we have significantly enhanced our corporate governance with further Board appointments, four of whom were appointed in October 2018. The Board now comprises of five independent non-executive directors and two executive directors.

I am confident that the current composition of the Board will continue to strengthen and reinforce Telit's governance and its leading position in the global industrial IoT space.

People

On behalf of all the Board, I would like to sincerely thank all our employees worldwide for their commitment, dedication and passion during this year.

We know that our team make the difference in all areas and we trust that together we will deliver significant value creation for all our stakeholders.

FCA Investigation

In December 2018, we announced that the FCA has expanded the scope of the ongoing investigation announced on 27 March 2018 to consider the accuracy of earlier announcements by Telit, including its trading update of 25 April 2017 and regarding the placing, which was announced on 4 May 2017 and completed on 5 May 2017. The Group has cooperated fully with the FCA in its enquiries to date and will continue to do so.

The Board of directors of Telit has changed entirely since the events in question.

Outlook

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

Following an overall improvement in 2018, we are confident that our operational performance in 2019 will continue to make good progress and we will be better positioned for growth opportunities.

We expect the Group's financial performance will also significantly improve as our revenue grows, and we see the benefits of a reduced cost base and stabilising gross margins.

Paolo Dal Pino
Executive Chairman

16 April 2019

AVIWEST

HIGH-DEFINITION NECESSITATES HIGH REQUIREMENTS

While live tv and news broadcast events might be synonymous with the images you've seen of rows and rows of satellite trucks, the truth is that a growing number of these live video transmissions are broadcast over cellular networks. The value proposition is clear: done right, live broadcast transmission on cellular networks offers a compelling combination of mobility and bandwidth for broadcasters.

However, done wrong, live broadcast over cellular can be fraught with out-of-control costs, connections that go down at a hint of network congestion, and insufficient latency for live broadcast requirements.

A leader in video contribution uplink systems over 3G and 4G cellular networks, French Company AVIWEST makes it their mission to equip live video organizations with the right video equipment to do the job.

CREATING AN INDUSTRY-LEADING SOLUTION WITH IOT

Part of the requirements of that mission is to develop and supply market-leading technology to customers in this competitive and fast-moving industry.

AVIWEST sought to provide a remote video uplink system that offered a superior combination for highly mobile live broadcast crews: small size, high efficiency, and powerful video throughput.

"We realize AVIWEST's expertise is in live video broadcast. So, when looking for Internet of Things technology to enable our solution, to truly provide the technology to allow us to combine such transmission power in such a small footprint, we leaned on Telit to provide that expertise."

Samuel Fleischhacker
Senior Product Manager AVIWEST

FINDING THE RIGHT IOT PARTNER

To provide an industry-leading product in terms of footprint, battery life, video quality, and transmission costs, AVIWEST decided to work with Telit to leverage the superior performance of a well-designed cellular module. Including up to eight of these cellular modems as the foundation of the product meant AVIWEST required confidence in the cellular modems ability to perform amidst high data transfer rate requirements across any place in the world.

The PRO 3 series video encoders and transmitter, the flagship model of AVIWEST, is designed for live video producers and news gathering professionals looking for industry-leading performance from any location around the world. Special proprietary encoders compress video data streams, decreasing the cost to transmit by up to 30%. The 8 3G / 4GLTE modems are coupled with a patented custom antenna array for optimal signal strength.

Telit's high-bandwidth, high-category cellular modems offer radio frequency performance that AVIWEST can count on. The industrial-grade PCIe M.2 form factor allows for easy integration in our products and the global-compatibility of these modules ensures AVIWEST's global go-to-market plan can develop with minimal SKUs and manufacturing concerns.

While the PRO 3 series stand as industry-leading solution in terms of cost savings and quality of service, the AIR series focuses on being an ultra-compact cellular transmitter to bring live broadcast events to the masses. This back-pack portable solution is enabled by highly-efficient cellular data cards; battery life is an important consideration in such a small package.

Automatic processes including adaptive clocking, selective suspend, link power management, and more combine with the powerful AVIWEST proprietary video encoding system to keep video streams transmitting efficiently.

"The global nature of the cellular modules allows us to minimize operation costs. It allows us to really focus on growing the competitive nature of our business as opposed to controlling the costs of operating this network of devices. We are proud of the product we offer and our position in the industry. We bring the world to the TV viewer's doorstep; whether that's their favorite sporting event or a news-worthy tragedy they ought to learn about, AVIWEST is an important part of making the citizens of the world more educated. And so, we will continue to push the envelope to make this technology more accessible for our customers and their viewers"

Samuel Fleischhacker
Senior Product Manager AVIWEST

Quality action with reduced cost

"There may not be any mobile broadband application quite as 'broadband' as live transmission of HD quality video streaming; Data rates are massive and thus transmission costs and latency are of significant consideration. We always strive to reduce this cost for our customers."

Ronan Poullaouec
CTO AVIWEST

The Telit LM940 and Telit LN940 modules exceeded all demands

"The Telit LM940 and Telit LN940 modules met all of our demands, exceeding other module offerings on the market in terms of reliability, performance, and worldwide coverage on a single module. We expect a dramatic increase in battery life for our product due to the implementation of this module."

Ronan Poullaouec
CTO AVIWEST

"We have made a significant improvement in overall efficiency without compromising future development."

Yariv Dafna
Finance Director

I am pleased to report that in 2018 Telit made a significant improvement in its financial results based on revenue growth and a reduction in operating costs, which improved the Group's overall efficiency without compromising its future development.

Financial results

	2018 $m	2017 $m	Change $m	Change %
Revenues	**427.5**	**374.5**	**53.0**	**14.1%**
Gross profit	**139.2**	**131.6**	**7.6**	**5.8%**
Gross margin	32.6%	35.1%		
Other operating income	1.9	2.4	(0.5)	(20.8%)
Research and development expenses	(73.0)	(66.9)	(6.1)	9.1%
Selling and marketing expenses	(59.1)	(66.8)	7.7	11.5%
General and administrative expenses	(26.0)	(28.6)	2.6	9.1%
Exceptional expenses related to restructuring	(10.8)	(16.0)	5.2	32.5%
Other exceptional items	(5.5)	(5.4)	(0.1)	1.8%
Adjusted EBITDA	**30.1**	**18.1**	**12.0**	**66.3%**
Loss in cash	**(3.6)**	**(27.0)**	**23.4**	**86.7%**
Operating loss (EBIT)	**(33.4)**	**(49.7)**	**16.3**	**32.8%**
Adjusted EBIT	**2.3**	**(10.7)**	**13.0**	**121.5%**
Loss before tax	**(39.8)**	**(56.8)**	**17.0**	**29.9%**
Adjusted loss before tax	**(4.1)**	**(17.8)**	**13.7**	**77.0%**
Basic loss per share (cents)	**(27.9)**	**(41.9)**	**14.0**	**33.4%**
Adjusted basic loss per share (cents)	**(3.8)**	**(16.4)**	**12.6**	**76.8%**

$427.5m

Group revenues (2017: $374.5 million)

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 other exceptional items; Adjusted EBITDA as Adjusted EBIT plus depreciation and other amortisation; Adjusted Profit (Loss) 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 other exceptional items; 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.

Reconciliation between operational and adjusted operational results

	2018 reported $m	Exceptional items $m	Impairment of internally generated assets $m	Share based payment expenses $m	Amortisation of intangible acquired $m	Change in deferred tax $m	2018 adjusted $m
Revenues	**427.5**	**–**	**–**	**–**	**–**	**–**	**427.5**
Gross profit	**139.2**	**–**	**–**	**–**	**–**	**–**	**139.2**
Gross margin	32.6%						32.6%
Other operating income	1.9	–	–	–	–	–	1.9
Research and development expenses	(73.0)	–	10.2	2.0	2.1	–	(58.7)
Selling and marketing expenses	(59.1)	–	–	2.7	1.3	–	(55.1)
General and administrative expenses	(26.0)	–	–	1.0	–	–	(25.0)
Exceptional items	(16.4)	16.4	–	–	–	–	–
Operating loss (EBIT)	**(33.4)**	**16.4**	**10.2**	**5.7**	**3.4**	**–**	**2.3**
Loss before tax	**(39.8)**	**16.4**	**10.2**	**5.7**	**3.4**	**–**	**(4.1)**
Net loss	**(36.4)**	**16.4**	**10.2**	**5.7**	**3.4**	**(4.2)**	**(4.9)**

Revenues

Group revenues increased to $427.5 million (2017: $374.5 million), an increase of 14.1% of which Cloud and connectivity revenues were $34.1 million (2017: $27.7 million), an increase of 23.1%.

Hardware (modules)

Revenue growth was back to double digit fuelled by growth in all regions with America showing the strongest growth with revenues up to $192.4 million (2017: $160.2 million). We are in a good position to continue to grow our revenue in America at a higher rate than in other markets.

IoT services

The 23.1% increase in Cloud and connectivity revenues is encouraging after the disappointing growth of last year. In the IoT connectivity, we enjoyed another year of fast growth in EMEA which was offset by slower growth in the US. The US recovered from the last year but still suffers from a faster decline in the average revenue per user (ARPU), which was traditionally higher than in EMEA. In the IoT Cloud revenue, we faced a slower than expected growth for lack of ramp up of certain projects which led us to be more selective in engaging for small projects or companies.

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 as one of the future growth engines.

Americas

Revenues were up to $192.4 million (2017: $160.2 million), slightly ahead of our expectations. The overall market for LTE products continued to grow, with additional certifications of our CAT-1 and CAT-M1 products and the major US carriers plans to focus exclusively on LTE. We are in a good position to continue grow our revenue in this market at higher rate than in other markets.

EMEA

Revenues increased to $159.6 million (2017: $147.4 million). EMEA continues to be impacted by cellular technology stagnation. The uncertainty of the timing of MNOs moving to new LTE technologies, remains a significant factor but it is now expected that low category LTE deployment that started in 2018, will ramp up in 2019.

Telit's portfolio for this region includes a full set of products supporting the different LTE technologies with and without 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.

APAC

Revenues were up to $75.5 million (2017: $66.9 million), back to growth after the decline we saw in 2018. The growth was slightly below our expectation mainly as a result of the slower than expected deployment of a significant utility project, which impacted our overall performance since the end of 2017.

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 Executive Chairman / Chief Executive.

Segment performance is evaluated based on operating profit or loss, is presented below:

2018	IoT Products $m	IoT services $m	Consolidated $m
Revenue			
External sales:			
Sales of HW products	391.5	–	391.5
Sales of Connectivity and IOT platforms services	–	34.1	34.1
Sales of licences and other services	–	1.9	1.9
Inter-segment sales[1]	–	–	–
Total revenue	**391.5**	**36.0**	**427.5**
Result			
Gross profit	116.6	22.6	139.2
Gross margin	29.8%	62.8%	32.6%
Impairment of goodwill	(1.1)	–	(1.1)
Impairment of internally generated development costs	(7.9)	(2.3)	(10.2)
Segment EBIT	5.5	(12.0)	(6.5)
	1.40%	(33.3%)	
Unallocated expenses[2]			(26.9)
Operating loss			(33.4)
Finance income			0.1
Finance costs			(6.5)
Loss before income taxes			(39.8)
Income taxes			3.5
Loss for the period			**(36.3)**

2017	IoT Products $m	IoT services $m	Consolidated $m
Revenue			
External sales:			
Sales of HW products	343.7	–	343.7
Sales of Connectivity and IOT platforms services	–	27.7	27.7
Sales of licences and other services	–	3.1	3.1
Inter-segment sales[1]	–	–	–
Total revenue	**343.7**	**30.8**	**374.5**
Result			
Gross profit	113.7	17.9	131.6
Gross margin	33.1%	57.8%	35.1%
Impairment of goodwill	(1.6)	–	(1.6)
Impairment of internally generated development costs	(6.4)	(2)	(8.4)
Segment EBIT	(8.9)	(17.5)	(26.4)
	(2.6%)	(56.7%)	
Unallocated expenses[2]			(23.3)
Operating loss			(49.7)
Finance income			0.2
Finance costs			(7.3)
Loss before income taxes			(56.8)
Income taxes			4.6
Loss for the period			**(52.2)**

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.

The split of revenues by geographical markets is as follows:

	2018 $m	% of total revenue	2017 $m	% of total revenue	Change
Americas	192.4	45.0%	160.2	42.8%	20.1%
EMEA	159.6	37.3%	147.4	39.4%	8.3%
APAC	75.5	17.7%	66.9	17.8%	12.9%
Total	**427.5**		**374.5**		**14.1%**

We have taken several actions in order to rationalise our operating cost structure and improve future profitability.

Gross margin and gross profit

Gross margin was 32.6% (2017: 35.1%). The year-on-year decline was expected, and is mainly due to the faster shift from mature technologies with higher gross margins, to LTE, which is a relatively new technology, with lower margins at this stage. Whilst we are expecting future gross margins to remain in the low thirties, we also expect LTE product margins to improve and take the margin slightly up.

This improvement results from the maturity and growth in volumes as well as the additional improvement coming from the divestment of the automotive business, which traditionally had a lower gross margin.

Gross profit was $139.2 million (2017: $131.6 million), an increase of 5.8%, derived from the growth in revenue which was offset by the decline in the gross margin.

Operating expenses

- Gross R&D expenses as follows:

	2018 $m	2017 $m
Gross research & development expenses[1]	70.9	71.4
Less – capitalisation[2]	(25.3)	(31.1)
Add – amortisation	17.2	18.2
Add – impairment[3]	10.2	8.4
Research and development, net	**73.0**	**66.9**

1 Gross research and development expenses declined by $0.5 million following the implementation of our cost reduction plan.

2 The amount capitalised in respect of internally generated development assets decreased by 19%. As a percentage of gross R&D expenses, it decreased from 43.6% in 2017 to 35.7% in 2018. The amount capitalised is mainly related to the development of high category LTE products for both industrial and automotive (which were disposed in February 2019) and low categories including the CAT-M1 and NB-IoT for the industrial IoT.

3 A non cash impairment loss on capitalised development assets, mainly as a result of decrease in future revenues from several products and products that were put at "end of life" status.

- Selling and marketing expenses decreased by 11.5% to $59.1 million (2017: $66.8 million). The decrease derived from the continued implementation of the cost saving plan.
- General and administrative expenses decreased by 9.1% to $26 million (2017: $28.6 million). Excluding former CEO's compensation in both years suggest a saving of $1.7m, derive mainly from the continued implementation of the cost saving plan.
- Exceptional expenses related to restructuring:

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 aimed to cut approximately 10% of the annualised cash operating expenses in 2018.

The restructuring plan was extended in November 2018 in order to achieve additional reduction of $10 million in cash operating expenses in 2019 in addition to the reduction in operating expenses as a result of the automotive sale.

Restructuring costs recognised include the following:

	2018 $m	2017 $m
Termination fees and other employees related costs[1]	2.6	1.9
Accelerated amortisation of capitalised development assets related to restructuring[2]	1.2	6.2
Accelerated amortisation of acquired technology related to restructuring[2]	0.5	1.8
Provision for impairment of goodwill related to restructuring[2]	1.1	0.3
Provision of inventory items related to restructuring[3]	4.6	5.7
Other expenses related to restructuring[4]	0.8	–
Total	**10.8**	**15.9**

1 Related mainly to the headcount reduction following the closing of the R&D centre in Germany and the reduction in the headcount at the IoT services. The amount was affected by the reversal of unvested share based payment charges related to unvested options and RSUs issued to these employees in the amount of $0.8m.

2 Non cash write-off of capitalised development assets, acquired technology and goodwill which recorded under restructuring costs following a classification of several products and services as "end of life" or for being abandon as part of the overall restructuring plan.

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

4 Including mainly consultancy costs related to restructuring and other costs related to closing of offices in Germany and in IoT services.

- Other exceptional items:

	2018 $m	2017 $m
Integration and transaction costs[1]	2.8	5.0
Legal and other expenses related to crisis management[2]	0.9	1.5
Net expenses (gain) in relation to the departure of the former CEOs[3]	0.4	(1.2)
Legal expenses related to BAMES[4]	1.3	–
Other	0.1	0.1
Total	**5.5**	**5.4**

1 Costs related mainly to the automotive sale which was signed in 2018 and completed in February 2019 and include mainly legal and other costs related to the transaction and the reorganisation. (2017: related mainly to the GainSpan integration and restructuring.)

2 Costs related mainly to legal and advisory costs in association with the crisis management started in 2017 following the departure of former CEO and the ongoing FCA investigation.

3 Net expenses (gain) were affected by the reversal of unvested share based payment charges related to unvested options and RSUs issued to CEOs in the amount of $1.3m (2017: $2.5 million). For more details see also remuneration report.

4 Costs related to defending the Group position in BAMES case including the settlement fees of approximately $1 million – see also note 29.

In 2018 loss in cash was $3.6 million, a significant improvement over the $27.0 million loss in cash of 2017. In H2-2018, the Group moved to a positive profit in cash.

Finance costs, net

	2018 $m	2017 $m	Difference
Non-cash expenses related to effective rate interest on preferred loan	1.2	1.1	0.1
Interest expense on bank loans and overdrafts[1]	3.1	2.3	0.8
Bank fees and other bank expenses	1.2	1.2	–
Exchange rate differences, net[2]	0.4	2.6	(2.2)
Loss from Hedging Transactions[3]	0.6	–	0.6
Interest income	(0.1)	(0.1)	–
Total	**6.4**	**7.1**	**(0.7)**

1 Interest expenses related to loans and overdrafts increased by $0.8 million, due to an increased utilisation of our bank facilities and an increase in the interest rate.

2 The decline in the exchange rate differences derive mainly from the decrease in the euro over the US dollars.

3 Due to the uncertainty around the Euro currency, the company entered into a hedging arrangement to protect the operating costs denominated in Euro – as the Euro currency against the USD was lower than expected, the hedging arrangement resulted in a loss.

Following the repayment of our bank debt in February 2019, we expect a decline in our financing costs in 2019.

Profitability

We measure our profitability based on adjusted figures to eliminate exceptional and share based payment charges. The adjusted figures exclude: a share-based payment charge of $5.7 million, before reversal of unvested awards related to employees who left in 2018 of $2.1 million (2017: $4.3 million); restructuring costs of $10.8 million (2017: $16.0 million); other exceptional expenses of $5.5 million (2017: $5.4 million); impairment of capitalised development assets of $10.2 million (2017: $8.4 million) and amortisation of acquired intangible assets of $3.4 million (2017: $4.8 million).

In 2017, 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 2018 loss in cash was $3.6 million, a significant improvement over the $27.0 million loss in cash of 2017. In H2-2018, the Group moved to a positive profit in cash.

Adjusted EBITDA increased to $30.1 million (2017: $18.1 million).

Adjusted EBIT was $2.3 million (2017: loss $10.7 million). The operating loss was $33.4 million (2017 loss of $49.7 million). This improvement was mainly derived from the increase of $7.6 million in gross profit and the decrease of $5.1 million in the exceptional expenses related to restructuring.

Adjusted net loss for the year was $4.9 million (2017: loss of $20.5 million) and reported net loss was $36.4 million (2017: loss of $52.2 million).

Adjusted basic loss per share was 3.8 cents (2017: loss per share 16.4 cents). Basic and diluted loss per share was 27.9 cents (2017: basic and diluted loss per share was 41.9 cents).

Dividend

The Board is not proposing to pay a dividend for the period. The Board are considering all options in relation to the cash received from the sale of the automotive division, being mindful of the investment requirements of the Group.

Net debt and cash flow

As at 31 December 2018, net debt was $34.0 million (2017: $30.2 million).

Cash flow provided from operating activities of $25.8 million (2017: cash used in operating activities of $4.8 million). The significant improvement of $30.6 million was mainly driven by the overall improvement in the financial performance and an improvement in the working capital level. The operating cash flows before movements in working capital was $14.8 million compared with $0.2 million in 2017.

Cash flow used in investing activity was $33.7 million (2017: $51.9 million). The decrease was mainly due to no acquisition expenditure in 2018 (2017: $6.7 million) and the decrease in capitalised development expenditure.

Cash flow from financing activity was $2.2 million (2017: $72.2 million). The decrease was mainly due to issue of new shares of $49.7 million that took place in 2017 and the remaining mainly from the net increase in borrowings.

Balance sheet

Internally generated development assets, net

As at 31 December 2018, the net amount of internally generated development assets decreased by $7.4 million to $67.3 million (2017: $74.7 million). The split of the net assets by technology is as follows:

Technology	Internally generated development assets, net as at 31 December 2018		Internally generated development assets, net as at 31 December 2017		Change year over year	
	$m	%	$m	%	$m	%
4G	47.9	71%	49.7	67%	(1.8)	(4%)
3G	6.6	10%	9.4	12%	(2.8)	(29%)
Other IoT Modules	8.1	12%	6.9	9%	1.2	17%
IoT Services	**4.7**	**7%**	**8.7**	**12%**	**(4.0)**	**(46%)**
31 December	**67.3**	**100%**	**74.7**	**100%**	**(7.4)**	**(10%)**

Internally generated development assets that completed the development phase, moved to mass production phase and which have started to be amortised, increased to 63% of the total internally generated development assets (2017: 47%).

	2018	%	2017	
	$m		$m	%
Net assets in development process (not amortised yet)	24.8	37%	39.9	53%
Net assets in amortisation phase	42.5	63%	34.8	47%
Total	**67.3**		**74.7**	

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

Technology	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 2018	
	$m	%		$m	%	$m	%
4G	30.7	72%	3.4	17.2	70%	47.9	71%
3G	6.3	15%	2.6	0.3	1%	6.6	10%
Other IoT Modules	2.8	7%	4.2	5.3	21%	8.1	12%
IoT Services	**2.7**	**6%**	**1.3**	**2.0**	**8%**	**4.7**	**7%**
31 December 2018	**42.5**	**100%**	**3.4**	**24.8**	**100%**	**67.3**	**100%**

Total equity

Net shareholders' equity decreases from $124.5 million as at 31 December 2017 to $86.5 million as at 31 December 2018 mainly due to the net loss in 2018.

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

$427.5m
2018

$374.5m
2017

Hardware Revenues

$391.5m
2018

$343.7m
2017

Cloud & Connectivity Revenues

$34.1m
2018

$27.7m
2017

Gross Profit

$139.2m
2018

$131.6m
2017

Adjusted EBITDA

$30.1m
2018

$18.1m
2017

Loss in cash[4]

($3.6)m
2018

($27.0)m
2017

Yariv Dafna
Finance Director
16 April 2019

4 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.

PRINCIPAL RISKS AND UNCERTAINTIES

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

During 2018 we have performed a 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.

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

Market growth

Telit's future success is dependent largely on the continued growth in the overall size of the IoT market which is, in turn, a derivative 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 still 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 2018, Telit's management continued its 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 directors and management meet 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

Following the sale of the automotive division in February 2019, Telit has repaid all previous credit facilities and since then relies on its cash balance to finance its working capital needs. The Group will seek to rebuild commercial credit facilities in order to free some of its cash and increase its financing flexibility. There is always a risk that this type of financing will not be available to companies including Telit in the future. Should such finance not be available there is a risk that lack of enough cash available as financing source, could have a material adverse effect on Telit's business, financial condition or results of operations.

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 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 General Counsel and Finance Director along with external IP experts have responsibility for the management of the commercial aspects of the Group's IP matters ensuring 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, handles, receives and transmits personal data in, to and from different 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.

Telit's ongoing data privacy compliance efforts include: – (a) assessing its exposure and handling of personal data; (b) maintaining appropriate policies; (c) reviewing contractual commitments with third parties; and (d) raising awareness among staff.

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.

Brexit

The UK's decision to exit the European Union in 2016 created significant uncertainty. This uncertainty has yet to recede as political negotiations within the UK and between the UK and EU have yet to reach a conclusion and the future arrangements, timeframes and economic landscape remain unclear.

Management receive regular reports on Brexit and closely monitor the changing economic situation in the UK. The Group has a small proportion of sales from and in the UK and low number of customers based in the UK. In addition, the Group's main functional currency and presentational currency are both US dollars which largely mitigates our exposure to adverse foreign currency impact arising on Brexit.

> "We work hard to promote a marketplace that does not tolerate social abuses or unethical business."
>
> **Yariv Dafna**
> Finance Director

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.

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

Yariv Dafna
Finance Director
16 April 2019

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

PAOLO DAL PINO
EXECUTIVE CHAIRMAN & CHAIRMAN OF THE NOMINATION COMMITTEE, AGED 56
JOINED SEPTEMBER 2018

Mr. Dal Pino has held a number of executive positions, operational and financial roles across a range of multinational businesses. He currently is member of the board of SACE SpA, the Italian export credit agency.

Until January 2018, he was CEO of Prometeon Tyre Group, the industrial tyre business divested from the Pirelli Group. Previously he was President of Pirelli America Latina for five years. He has more than 25 years' experience in the TMT industry. He has been Chief Executive Officer of Wind, the Italian mobile and broadband operator; President of the Latin American operations of the Telecom Italia Group; President of Tim Brazil, Chief Executive Officer of the Seat Group and Managing Director of the Espresso Group. He has been member of the board of Terna SpA, the Italian national grid and of a number of listed and non listed international companies.

YARIV DAFNA
FINANCE DIRECTOR AND PRESIDENT, AGED 45
JOINED NOVEMBER 2017

Mr. Dafna joined Telit in 2003 and took an active role in Telit's IPO on the AIM in 2005 and in other fundraisings that the company undertook since then. Mr. Dafna held the position of Group CFO from February 2007 to June 2012, following which he became Chief Corporate Development Officer with responsibility for all M&A activity in the Telit Group. In 2016, he became also COO, with responsibility of all operation 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), an MBA from Tel-Aviv University and he is a Certified Public Accountant.

SIMON PATRICK DUFFY
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT COMMITTEE, AGED 69
JOINED NOVEMBER 2017

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 Wizz Air Holdings Plc, YouView Television Ltd and Modern Times Group AB. His executive roles have included Executive Chairman of Tradus Plc; Executive Vice Chairman of Virgin Media Group; Chief Executive of NTL Inc; CFO of Orange SA; Chief Executive of End2End Holdings AS; Deputy Chairman and Chief Executive of WorldOnline International BV; and Deputy Chairman and Group Finance Director at Thorn EMI Plc.

GIL SHARON
INDEPENDENT NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION COMMITTEE, AGED 55
JOINED OCTOBER 2018

Mr. Sharon has held a number of executive, operational and marketing roles in several companies, especially in the Telecom sector. He is currently the chairman of the board and CEO of Golan Telecom, an Israeli cellular company (MNO). He was President & CEO of Pelephone Communications LTD, since 2005 until 2016, one of Israel's largest cellular operators. Prior to Pelephone, Mr. Sharon served as deputy CEO and CMO of Barak 013 an internet service provider and international long-distance operator. He started his career as a business consultant at Shaldor, one of Israel's leading strategy consulting firms. He has more than 25 years' experience in the telecommunications industry, leading companies to success, developing strategies and managing operations of major telecom companies in Israel. He has served as a board member at a range of companies, including YES (a multichannel TV company) Bezeq international and others. He also serves as board member of several charity organizations. Mr. Sharon holds an M.B.A from Tel-Aviv University and a B.A in Economics and Business from the Hebrew University in Jerusalem.

SUVI LINDÉN
INDEPENDENT NON-EXECUTIVE DIRECTOR, AGED 56
JOINED OCTOBER 2018

From 2007 to 2011, Ms. Lindén was Minister of Communications for Finland, where she was responsible for media and telecommunications. She had previously served as Minister of Culture, Youth and Sport from 1999 to 2002. She was Member of Parliament in Finland for 16 years. She has a long experience of the Oulu City Council. She has held numerous positions of trust in a number of organizations including roles as ITU´s Special Envoy for the Broadband Commission for Digital Development, memberships in the Broadband Commission and Arctic Economic Council´s (AEC) Telecommunications Infrastructure Working Group. She is Chairperson for NxtVn Finland Oy that develops open-access, carrier-neutral, and multi-tenant Data Center Parks. The Intelligent Community Forum, a New York-based think tank named her as its "Visionary of the Year for 2011" for her commitment to ensuring affordable broadband access to every citizen in Finland. Ms Lindén holds a Master of Science (Computer Science) degree from the University of Oulu, Finland.

HARALD RÖSCH
INDEPENDENT NON-EXECUTIVE DIRECTOR, AGED 50
JOINED OCTOBER 2018

Mr. Rösch is Chief Executive Officer of Melita (Malta) since April 2016. He was previously CEO of blizoo (Bulgaria, 2014-15), Kabel Baden-Württemberg (Germany, 2009-2012) and HanseNet (Germany, 2003-2008). Prior to this he held management positions in Telecom Italia and Infostrada and worked with McKinsey & Co for 6 years. His experience in non-executive board positions include Sky Germany, Internetstores, United Digital Group and SEAT Pagine Gialle. Mr. Rösch has degrees in Business Administration from ESB Reutlingen and ESC Reims and holds an MBA from INSEAD.

ADAM POWER
INDEPENDENT NON-EXECUTIVE DIRECTOR, AGED 49
JOINED OCTOBER 2018

Mr. Power is a career digital and media executive, most recently as president of international and China for CBS Corporation. In this role he founded their Chinese digital media business which became a top 10 online media group by audience and operated the digital businesses across the globe. Mr. Power has led significant growth across global markets through organic development and a strong M&A track record with over 25 acquisitions in China, Europe and Asia. He is also involved in social commerce start-ups and consults media companies, helping them to expand their business into new markets.

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

"The new Board, following the advice of its advisors, decided that it was appropriate for the Company to follow the principles of the QCA Corporate Governance Code."

Paolo Dal Pino
Executive Chairman

The Board believes that the business 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.

In November 2017, the Company's Board began a year-long process of important changes, driven by a desire to strengthen and enhance the Company's governance and transparency. A new chairman and senior non-executive director, who had been recruited through an independent UK executive consultancy firm and approved by the Company's Nomination Committee, were appointed. These were Richard Kilsby and Simon Duffy, respectively. Yariv Dafna, who has served in various roles in Telit since 2003, became Finance Director and joined the Board as an executive director. On 31 December 2017, Davidi Gilo, who had been a non-executive director, resigned. On 5 March 2018, with appraisals from an independent executive consultancy firm, two additional non-executive directors were appointed to the Board, Miriam Greenwood and Shlomo Liran. On 13 June 2018, Enrico (Chicco) Testa, stepped down from the Board. In accordance with best practice, at the Company's AGM in May 2018, all directors stood for re-election. They comprised five non-executives and two executive directors. Five of the seven directors had been appointed to the Board since November 2017. At the 2018 AGM, three of the non-executive directors were not re-elected: Miriam Greenwood, Shlomo Liran and the then chairman, Richard Kilsby. In order to have a sufficient number of non-executive directors for quorate committee meetings, Miriam Greenwood was re-appointed by the remaining Board members immediately following the AGM. This re-appointment was to be on an interim basis, until new non-executives could be found. Simon Duffy took on the chairman role on an interim basis. Following consultation with shareholders, I, Paolo Dal Pino, assumed the chairman role on 1 September 2018 and Mr. Duffy reverted to his role as senior independent non-executive director. As had been agreed, Miriam Greenwood resigned as non-executive director. Following further consultation with shareholders and a shareholder requisition notice which had then been withdrawn, Yosi Fait resigned as director and CEO on 21 September 2018 and four new non-executive directors were appointed on 12 October 2018, with Lars Reger resigning. The new non-executive directors were Gil Sharon, Adam Power, Suvi Lindén and Harald Rösch. On Mr. Fait's resignation, I became executive chairman, until such time that a new CEO will be found.

In the previous year's annual report, the Company stated that it would aim to comply with the principles and provisions of the UK Corporate Governance Code and associated guidance. As the Board's constitution changed following the 2018 AGM, the new Board, following the advice of its advisors, decided that it was appropriate for the Company to follow the principles of the QCA Corporate Governance Code, which would be in accordance with best practice and with AIM Notice 50. The principal means of communicating our application of the QCA Code (and if applicable, explain where we do not comply), are this Annual Report and our website (www.telit.com). Because of the events described above, there were certain provisions of the QCA Code with which the Company did not comply in 2018. For example, there was no Board performance review due to the frequent turnover of Board members. In addition, while there were always at least two non-executive directors on the Board, the general shareholder expectation that at least half of the directors of a board will be independent non-executive directors, was not met due to the changes described above. The Company is also aware that, in accordance with the QCA Code, a single person should not fulfil the roles of both chairman and chief executive officer. I was first appointed as a non-executive chairman but became executive chairman on the departure in September 2018 of the then CEO, Yosi Fait. My appointment as Executive Chairman continues to be temporary until a chief executive is appointed.

In the remainder of this report, I have set out the Group's application of the QCA Code, including where appropriate, cross references to other sections of the Annual Report.

QCA Code compliance

The QCA Code sets out ten principals, split into three categories as follows:

Deliver growth

1. Establish a strategy and business model which promote long-term value for shareholders.
2. Seek to understand and meet shareholder needs and expectations.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.

Maintain a dynamic management framework

5. Maintain the board as a well-functioning, balanced team led by the chair.
6. Ensure that between them the directors have the necessary up-to date experience, skills and capabilities.
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvements.
8. Promote a culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

Build Trust

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Deliver growth

1. Establish a strategy and business model which promote long-term value for shareholders.

The Group's business model is set out on page 6, with its strategy set out on page 7. We believe the model and strategy promote long-term value for our shareholders, as demonstrated by (i) our financial performance set out on page 4, (ii) our end to end capabilities in this industry, set out on page 6 and (iii) our market position and competitive advantage set out on page 6. We are clear in our understanding of the market risks the Group faces, and the risk management processes in place to counter these (see pages 22-24).

2. Seek to understand and meet shareholder needs and expectations.

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 that Telit communicates openly with shareholders and that shareholder views are communicated back to the Board. Following their release to the market, interim and final results are presented to institutional shareholders and analysts. The CEO / Executive Chairman and Finance Director meet regularly with investors and analysts via investor roadshows, participation in conferences and additional dialogue with key investor representatives held in the intervening periods.

The Board uses the AGM to encourage communication with private shareholders. Where voting decisions are not in line with Telit's expectations, the Board will engage with those shareholders to understand and address any issues. It was in consultation with shareholders that, following the 2018 AGM, the Company appointed me as chairman and Gil Sharon, Adam Power, Suvi Lindén and Harald Rösch were appointed as non-executive directors.

The Senior Independent Non-Executive Director also makes himself available to shareholders if they have concerns, where contact through the normal channels of Executive Chairman and / or Finance Director has failed to resolve, or for which such contact is inappropriate.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Company understands that its relationship with its staff, shareholders, customers, partners and suppliers is critical to achieving its goals.

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.

Despite the breadth of the location of staff, the Company strives to bring staff together through communication, engagement and empowerment. Telit's technological infrastructures enable staff to easily communicate with colleagues, wherever they are located. An intranet portal provides staff with relevant information and discussion opportunities.

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. 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.

The Company works with customers to provide them with products and solutions that will be right for their needs and, in turn, continuously assesses how it can bolster its operations and business to better serve its customers. Throughout the customer relationship life-cycle, different Telit departments engage with customers including sales, product marketing and customer support at varying stages of the customer relationship, so that the customer is always supported.

We nurture a panel of strategic suppliers and partners able to deliver top-tier technologies with a focus on quality. We operate a best in class system of category management, performance assessment (cost, quality, delivery), costing, and measures in near real-time its supply chain performance. Regular management meetings, roadmap reviews, technical workshops, and risk assessments are performed to ensure the health and proper functioning of the entire supply chain. In addition, we operate a supplier compliance program which includes modern slavery and conflict mineral checks.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Group's approach to risk is set out in the Audit Committee's Report (pages 43-44). The Board has responsibility for establishing and maintaining the Group's internal risk control systems. The Board regularly reviews and evaluates such 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. While the Company does not have an internal audit function presently, the Board has engaged Grant Thornton to perform a risk analysis. This risk analysis will form a basis for an internal audit plan to be discussed by the audit committee during 2019.

A summary of the principal risks and uncertainties facing the Group, as well as mitigating actions, are set out on pages 22-24 (Principal Risks and Uncertainties).

Maintain a dynamic management framework

5. **Maintain the board as a well-functioning, balanced team led by the chair.**

The board comprises the Executive Chairman, five independent non-executive directors, one of whom is the senior independent director, and one Finance director. The directors are expected to commit sufficient time for the regular business of the board and its committees plus any additional time needed for extraordinary matters requiring the attention of the Board and its committees. The number of meetings of the board (and its committees) during the year, together with the attendance of each director, is set out on page 31.

The Composition of the Board

As I explain in detail above, the composition of the Board altered substantially during the course of last year. The change was driven by a desire to strengthen the Board's constitution, bringing it in line with good corporate governance, and by shareholder consultation and interaction.

As it is now constituted, the Board now has a majority of independent non-executive directors, with diverse industry and jurisdictional expertise.

The Company is aware that, in accordance with the QCA Code, a single person should not fulfil the roles of both chairman and chief executive officer. With the departure in September 2018 of the then CEO, Yosi Fait, my appointment as Executive Chairman continues to be temporary until a chief executive is appointed. Through this process, the Board is maintaining communication and co-operation with its major shareholders.

Simon Duffy has served as the Company's Senior Independent Non-Executive Director since November 2017. Simon's role is to provide a sounding board for me and to serve as an intermediary for the other directors when necessary. He is also available to shareholders if they have concerns which contact through the normal channels of Executive Chairman, or other executive directors has failed to resolve or for which such contact is inappropriate.

The Board is satisfied that, in accordance with the QCA guidelines, those directors it deems to be independent are independent, having regard to their length of service on the Board, as well as the materiality of their interests in Telit (including any pecuniary interests).

In considering the Board's composition overall, the Board took into account various considerations including length of 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.

The Board delegates specific responsibilities to the Audit, Remuneration, Nomination, PDMR Trading and Investigation Committees, as detailed further in principle 9 below.

Board and committee meeting attendance

The table below sets out the attendance at Board meetings, and committee meetings, during the year to 31 December 2018.

	Board meetings		Audit Committee meetings		Remuneration Committee meetings		PDMR Trading Committee		Nomination Committee		Investigation Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Yosi Fait	12	12	–	–	–	–	–	–	–	–	–	–
Lars Reger	14	13	–	–	–	–	–	–	1	1	–	–
Enrico Testa	7	7	–	–	–	–	–	–	–	–	–	–
Yariv Dafna	18	18	–	–	–	–	3	3	–	–	–	–
Richard Kilsby	7	7	–	–	–	–	1	1	–	–	–	–
Miriam Greenwood	9	8	4	4	5	5	1	1	–	–	–	–
Shlomo Liran	5	5	3	3	4	4	–	–	–	–	–	–
Ram Zeevi	7	6	1	1	–	–	–	–	1	1	–	–
Simon Duffy	18	17	6	6	5	5	4	4	–	–	1	1
Paolo Dal Pino	7	7	–	–	–	–	–	–	1	1	–	–
Suvi Lindén	4	4	–	–	1	1	–	–	1	1	1	1
Gil Sharon	4	3	1	1	1	1	–	–	1	1	–	–
Adam Power	4	3	–	–	1	0	–	–	1	0	1	1
Harald Rösch	4	4	1	1	–	–	–	–	–	–	–	–

In addition, the Board and Remuneration Committee adopted, respectively, four and three 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 stood to be re-appointed by the shareholders in the AGM held that year.

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

6. **Ensure that between them the directors have the necessary up-to date experience, skills and capabilities.**

The Company has taken advice from certain of its shareholders on the appointment of the recent non-executive directors to the Board (details of which, and the other members of the board, are set out under principle 5 above).

The Company is confident that its current appointments provide an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate gender balance and balance of personal qualities and capabilities. Furthermore, as a group, the directors have a combined experience in a wide range of jurisdictions and market places, and a wealth of experience in both years and in the number of companies in which they have served over time. We have set out in more detail below the relevant skills, experience, personal qualities and capabilities each director brings to the Board:

Paolo Dal Pino, Executive Chairman

See page 26 for information regarding Mr. Dal Pino.

Mr. Dal Pino's previous executive, operational and financial roles across a range of multinational businesses provide him with the experience and skills needed by an executive chairman of Telit. These positions have included listed companies, which provides Mr. Dal Pino with an important understanding of the expectations placed on listed companies.

Mr. Dal Pino has more than 25 years' experience in technology and telecoms companies which provides the board with an important understanding of Telit's industry. Having previously served as CEO of Wind, an Italian mobile and broadband operator and as President of TIM Brazil, the Brazilian subsidiary of Telecom Italia, an Italian telecommunications company, he has acquired both top-level executive experience and relevant experience and knowledge of Telit's telecommunications business.

With experience of leading multinational companies, Mr. Dal Pino is able to lead a multinational group of companies like Telit. He has also served in senior executive positions in the industrial sector, which fits into Telit's hardware part of the business.

Mr. Dal Pino maintains a connection to the industries in which he has worked, providing him with up to date understanding of the market.

Yariv Dafna, Finance Director and President

See page 26 for information regarding Mr. Dafna.

Mr. Dafna has served in a number of diverse, senior roles in Telit since 2003, as Group CFO, Chief Corporate Development Officer and as Chief Operations Officer. This provides him with a comprehensive view and understanding of Telit and its business. This provides the board with extensive knowledge of Telit from its early beginnings to the present day.

As a Certified Public Accountant and holding an MBA, Mr. Dafna also brings business and financial acumen and qualifications to the board and to the Finance Director role.

Mr. Dafna keeps his skills and experience relevant and up to date by closely following the industry relevant to Telit, as well as the financial landscape in the relevant markets.

Simon Patrick Duffy, Senior Non-Executive Director and Chairman of the Audit Committee

See page 26 for information regarding Mr. Duffy.

Having held a number of senior executive and non-executive positions in major UK corporations, including as Board Chair, Senior Independent Director and Chair of the Audit Committee, Mr. Duffy brings substantial corporate governance and UK public company experience to his role as Telit's senior non-executive director.

He has served as Group Finance Director at Thorn EMI PLC and as CFO of Orange SA, which strengthens the board's and the audit committee's (of which he is chair) financial and business acumen.

Mr. Duffy maintains his knowledge and experience through his other directorships and his continuous connection to the UK market and industry organizations.

Gil Sharon, Non-Executive Director, Chairman of the Remuneration Committee

See page 27 for information regarding Mr. Sharon.

Mr. Sharon brings relevant sector experience to Telit, having held a number of executive, operational and marketing roles in several companies in the telecommunications sector, for a total of more than 25 years. He has served on boards (as CEO as well as other positions) at major Israeli telecom companies, including YES, Bezeq-International, Pelephone and others. Mr. Sharon is therefore able to provide guidance and an outside perspective to the board and the Remuneration Committee on industry practice and strategy.

As current chairman and CEO of a major Israeli cellular company and with strong ties to the industry both in Israel and abroad, Mr. Sharon maintains his connection to, and understanding of, the sector, and to best practice for boards.

Suvi Lindén, Independent Non-Executive Director

See page 27 for information regarding Ms. Lindén.

As former Minister of Communications for Finland and former Special Envoy to the Broadband Commission for Digital Development, Ms. Lindén brings relevant industry experience from a regulatory perspective. Ms. Lindén also brings gender diversity to the board.

Ms. Lindén maintains an active connection to the telecommunications industry through membership to industry organizations and association with industry leaders.

Harald Rösch, Independent Non-Executive Director

See page 28 for information regarding Mr. Rösch.

As current CEO of Melita (a diversified telecommunications operator in Malta) and former CEO and General Manager of telecommunications operators in Germany, Italy and Bulgaria, Mr. Rösch brings relevant sector experience to the board from a diverse European perspective. He also has relevant non-executive role experience, having held non-executive positions in Sky Germany and others.

Mr. Rösch's current role as CEO of a telecommunications operator as well as his continued association with industry leaders and market players, allows Mr. Rösch to maintain relevant skills and experience.

Adam Power, Independent Non-Executive Director

See page 28 for information regarding Mr. Power.

Mr. Power's background in media and digital in diverse locations from the UK to China, brings industry diversity to the board. He also bolsters the board's understanding of the UK market.

Mr. Power is a media, technology and digital consultant to companies around the globe which keeps him up to date with trends and developments.

Induction and development 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.

Independent advice

In 2018, up until his departure on 31 October 2018, the directors had access to the advice and services of the then Chief Legal Officer, who was responsible for ensuring that all Board procedures were complied with. Following his departure, that responsibility was passed to the Company Secretary, who regularly updates and advises the Board on Board procedures and related compliance.

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.

Appointment and re-election

Directors are appointed by the Board or at the AGM. Pursuant to the Company's articles of association, any director appointed by the Board, only holds office until the next AGM, where such director may be recommended for re-election. The Company's articles of association also 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 corporate governance practice all directors elect to resign and if, they so wish, put themselves forward for re-appointment by the shareholders at each AGM.

External advisors

As referenced in principle 4 above, the Board has engaged Grant Thornton to perform a risk analysis. This risk analysis will form a basis for an internal audit plan to be discussed and considered by the audit committee in 2019.

7. **Evaluate board performance based on clear and relevant objectives, seeking continuous improvements**

While the Company did not conduct a formal board evaluation in 2018 due to the frequent changes in the makeup of the Board, following my appointment as Chairman, I assessed the individual contributions of each of the members of the Board to ensure their individual contribution is relevant and effective and that they are committed members of the Board.

Given the recent changes to the Board, the Board will undertake a formal evaluation of its own performance and the performance of the Board committees during the course of 2019, to ensure that the members of the Board collectively function in an efficient and productive manner.

8. **Promote a culture that is based on ethical values and behaviours.**

The Company recognises that it has a social responsibility to ensure that all of its business dealings are ethical and that all employees operate to a high standard. In doing so, the Company promotes a commercial environment that does not tolerate social abuses or unethical business. With that, the Company aims to attract, retain and motivate the best people and takes responsibility for staff welfare, training and development. In addition, the Company aims to be an inclusive and professional workplace. The Company is opposed to discrimination and is committed to sustaining equality in all employment matters.

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.

The Company believes that personal and business integrity is an essential part of delivering strong financial performance and expects every person working for or on behalf of the Company to operate to a high ethical standard. Its 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, the Company recognises that as a major, global corporation it has a duty to conduct its business with concern on its impact on the environment.

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.

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 addition, a PDMR Trading Committee comprising at least one of the Executive Chairman or Senior Independent Non-Executive Director, plus a representative from each of the legal and finance departments, must approve all dealings by PDMRs. The Company 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.

9. **Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.**

As Executive Chairman, I am responsible for running the business of the Board, and for ensuring appropriate strategic focus and direction, as well as ensuring its approach to, and application of, good corporate governance. I am also 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, to deliver value to shareholders and other stakeholders of the Group, as a whole, over the medium to long-term.

The Board's responsibility

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; and
- 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 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.

Board committees

The Board is supported by the Audit, Remuneration, Nomination, PDMR Trading and Investigation 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. The Terms of Reference of the Remuneration, Audit and Nomination Committees can be found at www.telit.com/about/investor-relations/aim-rule-26/.

Apart from the Nomination and PDMR Trading Committees, which are both chaired by the Executive Chairman, and Yariv Dafna (an executive director) is a member of the PDMR Trading Committee, executive directors are not members of the Board committees, although they may be invited to attend meetings.

The Company Secretary 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 2018, the Audit Committee comprised Simon Duffy (Chairman), Gil Sharon and Harald Rösch, who are all independent non-executive directors. The Finance Director, Chief Financial Officer, Company Secretary 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, 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 2018, the Remuneration Committee comprised Gil Sharon (Chairman), Suvi Lindén and Adam Power, all 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 2018, the Nomination Committee, comprised Paolo Dal Pino (Chairman), Gil Sharon, Suvi Lindén and Adam Power. The responsibilities of the Nomination Committee include, among other duties: 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.

PDMR Trading Committee

As at 31 December 2018, the PDMR Trading Committee comprised Paolo Dal Pino (Chairman), Simon Duffy, Yariv Dafna (or the Company's CFO) and a Company lawyer. The responsibilities of the PDMR Trading Committee include (i) considering any applications to deal in securities of the Company made by any person discharging managerial responsibilities ("PDMR") or a person closely associated with a PDMR ("PCA") (both terms as defined in the EU Market Abuse Regulation (EU/596/2014)); (ii) providing clearance to the PDMR or PCA in cases where the committee has deemed it appropriate that clearance be granted; (iii) where clearance to deal is given, following up with the PDMR or PCA to confirm the action taken by the PDMR or PCA was in accordance with the clearance to deal provided; and (iv) ensuring that all relevant announcements to any competent authority or the public are made within the relevant time period.

Investigation Committee

As at 31 December 2018, the Investigation Committee comprised Simon Duffy (Chairman), Suvi Lindén and Adam Power. The responsibilities of the Investigation Committee include overseeing investigations carried out in respect of the Group, supervising the conduct of the Board in respect of an investigation and considering the major findings of an investigation.

Build Trust

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Board communicates how Telit is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders through the mechanisms set out on page 29.

In addition to those steps, Telit makes a range of corporate information, including recent announcements, notices for, and results, of any general meetings and its financial statements, available to the public on its website: www.telit.com.

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the Chief Executive Officer / Executive Chairman, the Finance Director and the Company's brokers. Telit communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to understand the external view of the Group.

Outside of this mechanism, the Board welcomes considered enquiries from shareholders and other stakeholders at any time.

The report to shareholders of the Remuneration Committee is on page 36. The report to shareholders of the Audit Committee is on page 43.

The Company's AGM

The 2018 AGM was held on 25 June 2018, at Cannon Place, 78 Cannon Street, London EC4N 6AF. At the meeting, shareholders were given an opportunity to question the Board on the business being proposed. The Chairman of the board, two directors, Chief Executive Officer and the Finance Director attended the meeting and were 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 6 June 2019. Full details will be included in the Notice of Meeting. The Executive Chairman, Finance Director and the Senior Independent Non-Executive Director plan to attend the AGM.

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. 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.

Paolo Dal Pino
Executive Chairman

16 April 2019

"It is the Committee's intention to continue to look at aspects of the Company's remuneration practices in 2019 to ensure alignment with our strategy."

Gil Sharon
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 2018. I took over the role on 12 October 2018 and this is my first report as Chair of the Committee.

The Committee has been reconstituted and will now comprise Suvi Lindén, Adam Power 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 2018 the Board of Directors changed significantly. In June 2018, prior to the AGM, Enrico (Chicco) Testa resigned as a director. At the AGM, the resolutions to re-elect three non-executive directors, Richard Kilsby, Miriam Greenwood and Shlomo Liran, were defeated on a poll. In order to maintain stability and an effective board with proper independent oversight, the remaining board members resolved to re-appoint Miriam Greenwood on an interim basis, until new non-executive directors could be appointed. In the meantime, the Board engaged with shareholders to discuss its composition, and accordingly, following these discussions it appointed Paolo Dal Pino as independent non-executive Chairman with effect from 1 September 2018, with Miriam Greenwood stepping down on the same date. Following the departure of Yosi Fait as CEO on 21 September 2018, Paolo Dal Pino became Executive Chairman.

In the context of these changes, the Committee (and the Committee as previously constituted in 2018) took a number of actions on remuneration matters which the Board believes are in the best long-term interests of shareholders. This includes an amendment to the performance measures for 2018's annual bonus 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.

It is the Committee's intention to continue to look at aspects of the Company's remuneration practices in 2019 to ensure alignment with the strategy for the business.

In October 2018, at the time of Mr. Dal Pino appointment as Executive Chairman no change in remuneration was applied following the change in his position from non-executive to an executive chairman.

The year ahead

The terms of reference of the Remuneration Committee can be found on the Telit website at www.telit.com/about/investor-relations/aim-rule-26/. This sets out the role and function of the Committee.

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.

Gil Sharon
Chair of the Remuneration Committee
16 April 2019

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 is determined by the Executive Directors based on its long-standing policy.

Committee composition

The Remuneration Committee comprises three independent non-executive directors: Gil Sharon (Chair), Suvi Lindén and Adam Power. The three committee members were appointed to the Board on 12 October 2018. During 2018, the committee comprised Miriam Greenwood (as Chair, and who retired from the board on 1 September 2018), Shlomo Liran (who stepped down from the Board on 25 June 2018, after the resolution for his re-election at the AGM was defeated.) and Simon Duffy. Following 25 June 2018 (and until Ms. Greenwood's retirement from the board), the committee comprised Miriam Greenwood and Simon Duffy.

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.

Changes to incentive arrangements for Executive Directors

Bonus Schemes

The Committee, at its previous composition, 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, the following changes to the performance criteria for the annual bonus have been approved with effect from 1 January 2018:

- 40% of the bonus is based on achieving a saving in the cash OPEX
- 17.5% of the bonus is based achieving the revenue budget
- 17.5% of the bonus is based on achieving the gross margin target
- 25% of the bonus – board discretion following Committee recommendation
- Advance payments of bonus will not be permitted

In 2019, the current Committee, reviewed again the effectiveness and relevance of the variable remuneration elements of the Executive Chairman and Finance Director and set new bonus scheme as detailed below.

Former Chief Executive

The variable compensation plan as described above was capped at a maximum of 100% of the former CEO's fixed annual compensation. This cap was increased to 150% in May 2018, but the increase was not actually implemented as part of the separation agreement.

In accordance with the compensation plan then in place for the Company's then CEO, on his departure from the Company, received $471,500 on account of his compensation plan, pro-rated for the period.

Executive Chairman

Paolo Dal Pino was appointed Independent Non-executive Chairman on 1 September 2018. He became Executive Chairman following the departure of Yosi Fait as CEO, on 21 September 2018.

Mr. Dal Pino had no variable compensation in 2018.

For the year 2019, the Remuneration Committee has approved a performance based variable compensation based on the following performance criteria with effect from 1 January 2019:

- The entire incentive bonus is dependent on the Adjusted EBITDA as approved in the company budget for 2019
- The bonus for achieving in full the Adjusted EBITDA target will be $1 million
- The bonus scheme allows a lower bonus in case of a lower EBITDA but if the EBITDA will be at a lower level than 76.2% from the budget, no bonus will be paid
- The bonus scheme allows a higher bonus in case of a higher EBITDA but the bonus is capped to $1.25 million

The actual adjusted EBITDA will be also adjusted to reflect higher or lower level of R&D capitalization against the amount in the approved budget.

Finance Director

Mr. Dafna's variable compensation plan as described above for 2018 was capped at a maximum of 75% of the Finance Director's fixed annual compensation. Following a change in the fixed annual compensation, as of 1 January 2019, the variable compensation plan was reduced from 75% to a maximum of 50% of fixed annual compensation.

In May 2018 the Committee discussed special bonuses for several executives, including Mr. Dafna, with regards to the sale of the automotive business, and resolved to grant success related bonuses to be paid upon completion of the transaction and based on the commercial terms of the transaction at signing date. This decision of the remuneration committee was further reviewed and confirmed by the current Remuneration Committee in November 2018. According to this Mr. Dafna will be entitled to a special bonus for this transaction in the amount of $400,000.

Following a review by the Committee, the following changes to the performance criteria for the annual bonus have been approved with effect from 1 January 2019:

- 40% of the bonus is based on achieving the adjusted EBITDA
- 20% of the bonus is based achieving the revenue budget
- 20% of the bonus is based on achieving a saving in the cash OPEX
- 20% of the bonus – board discretion following Committee recommendation

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 Yariv Dafna's nomination to the Board).

Former Chief Executive – loss of office compensation

Yosi Fait resigned as director and CEO on 21 September 2018 and on his departure from the Company, received, in addition to the customary clearance until his last working date, the following payments:

- $270,500 in lieu of notice period
- $1,000,000 as special payment arrangement (*)

(*) In 22 November 2017, the Committee resolved the following special arrangement:

- 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, in addition to any other right under his employment agreement:
  - A bonus payment of $1 million; and
  - The discretionary element of the 2018 bonus will be paid in full.
- In addition, the CEO will be entitled to a special bonus if the Company is sold during the term of his employment, provided, however, that if this takes place before the end of 2018, Yosi Fait could receive either the special arrangement bonus or the bonus in case of sale of the company but not both.)

Remuneration policy implementation

Base Salary and Benefits

Former Chief Executive

Mr Fait's base salary was increased during May 2018 by 13.4% from ILS 1,980,000 (approximately $550,000 at the average ILS-USD exchange rate in 2018) to ILS 2,245,000 (approximately $625,000 at the average ILS-USD exchange rate in 2018) plus additional gross up of his benefit in kind related to the use of the company car in the amount of ILS 65,000 (approximately $18,000 at the average ILS-USD exchange rate in 2018).

Finance Director

Yariv Dafna's fixed compensation as of 1 January 2019 is ILS 1,080,000 (approximately $300,000 at the average ILS-USD exchange rate in 2018) compared with ILS 900,000 (approximately $250,000 at the average ILS-USD exchange rate in 2018) in 2018. With this change of the fixed compensation the variable compensation was reduced from up to 75% to 50% from the fixed compensation, reflecting a total increase in overall compensation of 2.85%.

Executive Chairman

Following his transition to Executive Chairman on 21 September 2018 (from previously serving as non-executive Chairman as of 1 September 2018), Mr. Dal Pino's compensation remains unchanged at $250,000 per year.

Directors' remuneration table (audited)

The single figure of total remuneration in respect of the year ended 31 December 2018 and paid to each director who held office during the year was as follows:

	Gross salary and fees $'000	Benefit in kind $'000	Bonus $'000	Post-employment benefits $'000	Total 2018 $'000
Executive directors					
Enrico Testa[1]	78	11		6	95
Paolo Dal Pino[2]	83				83
Yosi Fait[3]	504	38	472	3	1,017
Yariv Dafna[4]	313	26	185	37	561
Non-executive directors					
Ram Zeevi[5]	24				24
Miriam Greenwood[5]	29				29
Shlomo Liran[5]	14				14
Richard Kilsby[5]	125				125
Simon Duffy	94				94
Lars Reger[6]	–				–
Suvi Lindén[2]	10				10
Gil Sharon[2]	13				13
Adam Power[2]	9				9
Harald Rösch[2]	10				10
Total – 2018	**1,306**	**75**	**657**	**46**	**2,084**

1 Mr. Testa compensation in 2018 reflect his remuneration till his resignation in May 2018. Post resignation he continues to act as Executive Chairman of the group's Italian subsidiary.

2 From date of appointment.

3 Amounts in respect of the services of Mr. Fait are until the date of his resignation and 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 $22,000 usage of company car and $16,000 of legal fees paid by the Company on Mr. Fait's behalf. The salary and fees exclude the payment of $272,000 in lieu of notice period and the bonus amount include only the regular bonus and exclude the $1 million special arrangement bonus.

4 Benefits in kind represents usage of company car.

5 Until date of termination.

6 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, received no pay for his role as director and step down on October 2018.

11 Not including social contribution element of the remuneration.

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:

	Gross 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]	1,127	174	–	188	1,489
Yosi Fait[2]	555	86	419	4	1,064
Yariv Dafna[3]	42	1	–	6	49
Non-executive directors					
Ram Zeevi[4]	46	–	–	–	46
Davidi Gilo	134	–	–	–	134
Richard Kilsby[3]	25	–	–	–	25
Simon Duffy[3]	11	–	–	–	11
Lars Reger[5]	–	–	–	–	–
Total – 2017	**2,323**	**261**	**475**	**215**	**3,274**

1 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. Cat's behalf, and the remaining related to other travel and company car costs.

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

3 From date of appointment, benefits in kind represents usage of company car.

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

5 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, received no pay for his role as director.

Payments to past directors

During the year ending 31 December 2018, no payments were made to past directors, apart from fees paid directly to the lawyers and the financial expert of Oozi Cats in the amount of $125,000. The advisors were retained to defend Mr. Cats in criminal proceedings arising from the BAMES case, for further details please see Note 24. The Company had a legal obligation to pay these fees.

Directors' Interests in Shares

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

	At 31 December 2018		At 31 December 2017	
Directors	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Paolo Dal Pino[1]	540,000	0.41%	–	–
Yariv Dafna	58,000	0.04%	30,000	0.02%
Simon Duffy	11,657	0.009%	–	–
Suvi Lindén[1]	–	–	–	–
Gil Sharon[1]	–	–	–	–
Adam Power[1]	–	–	–	–
Harald Rösch[1]	–	–	–	–
Yosi Fait[4]	–	–	–	–
Lars Reger[2, 4]	–	–	2,255,943	1.73%
Richard Kilsby	–	–	–	–
Enrico Testa[4]	–	–	1,441,146	1.11%
Ram Zeevi[4]	–	–	–	–
Oozi Cats[3, 4]	–	–	16,733,470	12.85%

1 Was not a Director in 2017.

2 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.

3 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.

4 Was not a Director in 2018.

Details of directors' share options and RSUs as at 31 December 2018 are provided below.

Executive directors	Grant date	Number	Exercise price (pence)	Exercised	Vested	Unvested
Yariv Dafna	16 April 2014[1]	100,000	206	25,000	75,000	–
	3 August 2015[2]	166,666	217	–	83,333	83,333
	3 August 2015[2]	25,000	1	–	–	25,000
	4 October 2017[3]	80,000	183	–	20,000	60,000
	4 October 2017[3]	12,000	1	3,000	–	9,000
	16 July 2018[4]	300,000	171	–	–	300,000
Total		**683,666**		**28,000**	**178,333**	**477,333**

1 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 – these options will be expired in April 2019.

2 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.

3 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.

4 These options vest in 4 equal instalments on the anniversaries of the grant and expire 5 years from the grant date.

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

The share based compensation cost attributable to the directors in 2018 is an income of $1,390,059 due to the reversal of the costs associated with the unvested options of the former CEO and former director, which expired. (2017: 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).

The aggregate of the amount of gains made by directors on the exercise of share options in 2018 was $6,442 (2017: $7,876,809).

The highest and lowest closing prices of the Company's shares on AIM during 2018 were 189 pence (February 21, 2018) and 125.8 pence (December 18, 2018). The Company's share price on the close of trading on 31 December 2018 was 129.9 pence.

By order of the Remuneration Committee

Gil Sharon
Chairman of the Remuneration Committee
16 April 2019

REPORT OF THE AUDIT COMMITTEE

"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."

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 2018. This is my second 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, Gil Sharon and Harald Rösch, who both joined the Board on 12 October 2018.

Role

In March 2018, the previously constituted 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/. The Audit Committee, as presently constituted, has confirmed its approval of these terms of reference.

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.

Main activities of the Audit Committee relating to the 2018 financial year

During the year, the Audit Committee met seven times. It reviewed the 2017 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 4 September 2018. These statements reported encouraging financial results which reflect the impact of the return to revenue growth and the cost cutting plan.

At the end of 2017 the Board engaged Grant Thornton to perform a review of certain of the Group's financial policies, controls, and procedures. During 2018, the Audit Committee received and reviewed four reports relating to the following matters:

- The existence of third-party distributors
- Consolidation process
- Revenue process
- R&D expense and capitalisation

No material issues were identified by Grant Thornton and any process issues which were identified have been or are being addressed.

The Committee considered the impact of new accounting standards on the Company's financial statements, including IFRS15 and IFRS16.

The Committee also considered the impact of accounting standard IFRS5 on the Company's financial statements in light of the sale of the Automotive division, which was completed in February 2019.

The Committee appointed Grant Thornton to conduct a risk assessment with the objective of identifying the areas of risk the Group faces and of proposing a plan to perform an audit of those risk areas. The assessment will be presented to the Committee and addressed by it in the course of 2019.

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.

Significant issues and judgements that were considered in respect of the 2018 financial statements were as follows. These include the matters relating to risks disclosed in the UK external auditor's report.

- 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 review. The committee reviewed the assumptions and methodology employed to generate the forecasts underlying the going concern statement. 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.
- Revenue recognition. The committee reviewed the methodology and controls in the revenue process and concluded the revenues for 2018 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. The EY partner responsible for the relationship with the Company was rotated off the account after the AGM in June 2018. The new audit partner has since met with the Committee.

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.

FRC review on EY UK's annual audit of Telit for the year ended 31 December 2017

The FRC conducted a review of EY UK's annual audit of Telit for the year ended 31 December 2017 and made recommendations for improvement in relation to the impairment testing of internally generated development assets, impairment of goodwill and intangible assets and involvement in and oversight of the work of component audit teams. In each of these areas, EY has committed to making appropriate changes to the way in which their audits of Telit are conducted. The Committee has reviewed and agreed the proposed changes and will monitor progress against each of them.

The Committee followed up with EY in the early months of 2019 to confirm the actions were implemented for the 2018 audit.

The year ahead

The Committee 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
16 April 2019

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2018.

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 12-21 and in notes 17, 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.

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 $21,000 in charitable donations during the year ended 31 December 2018 (2017: $144,000).

Dividends

The Board is not proposing to pay a dividend for the period. The Board are considering all options in relation to the cash received from the sale of the automotive division, including special dividend and share buy back.

Significant shareholders, as at 31 December 2018

	Number of ordinary shares	Percentage of ordinary share capital
Run Liang Tai Management Limited	19,888,505	15.22%
Oozi Cats[5]	16,733,470	12.80%
Ibex Investors LLC	9,180,492	7.02%
Davide Renato Ugo Serra	9,166,533	6.99%
Senvest Management, LLC	4,999,067	3.82%

5 Mr. Cats ceased holding office within the Company and Group in August 2017. The information provided as at 31 December 2018 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:

Simon Duffy

Yariv Dafna

Paolo Dal Pino (appointed on 1 September 2018)

Suvi Lindén (appointed on 12 October 2018)

Gil Sharon (appointed on 12 October 2018)

Adam Power (appointed on 12 October 2018)

Harald Rösch (appointed on 12 October 2018)

Richard Kilsby (stepped down from the board on 25 June 2018)

Enrico Testa (stepped down from the board on 13 June 2018 but still act as the chairman of the Group's Italian subsidiary)

Yosi Fait (resigned from the board and all other positions with the group on 21 September 2018)

Ram Zeevi (stepped down from the board on 25 June 2018)

Lars Reger (stepped down from the board on 12 October 2018)

Miriam Greenwood (stepped down from the board on 1 September 2018)

Shlomo Liran (stepped down from the board on 25 June 2018)

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, were replaced with an updated version in 2012 and replaced again with an updated version in 2018 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.

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 the see Executive Chairman Statement on page 7 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

16 April 2019

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 2018 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 2018	Balance sheet as at 31 December 2018
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 29 to the financial statements including a summary of significant accounting policies
Related notes 1 to 29 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.

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
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 8 components. • The components where we performed full or specific audit procedures accounted for 95% (2017: 91%) of normalised earnings before interest, tax, depreciation, amortisation, non-recurring operating expenses, impairment and exceptional items related to restructuring ('normalised EBITDA'), 100% (2017: 98%) of Revenue and 93% (2017: 91%) of Total assets. • For the remaining 12 reporting components of the Group we have performed other procedures appropriate to respond to the risk of material misstatement.
Materiality	• Overall group materiality of $0.53m (2017: $0.34m) which represents 2% (2017: 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>

Capitalisation of development costs and their potential impairment

Refer to the Audit Committee Report (page 43); Accounting policies (page 70); and Note 13 of the Consolidated Financial Statements (page 97)

As at 31 December 2018 net capitalised development costs totalled $67.3m (2017: $74.7m), of which $24.9m is not yet being amortised (2017: $39.9m). The group capitalised development costs of $25.3m in the year (2017: $31.1m). During 2018 management continued its review of the development projects portfolio. As a result of this review $1.2m of accelerated amortisation was recorded during the year (2017: $6.2m). Management also recorded impairment of $10.2m in respect of the underperforming development assets (2017: $8.4m).

- 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 or bonus targets.
- There is also a risk that impairment of capitalised development assets (including assets not yet amortised) is not recognised.

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- At each in-scope location (3 full scope, 6 specific scope and 1 specified procedures locations) related to this significant risk, we gained an understanding of the group's process (and key controls) for the capitalisation of internal development costs. This also included gaining an understanding of the group's payroll and purchasing systems.
- We tested a sample of gross development costs across the group to supporting documentation, including timesheet records, invoices and purchase orders.
- For costs that originated in other group entities and were recharged to the IP owner, we checked the composition of costs recharged with the originating entity, including the allocation to specific projects, and tested these to the supporting documentation noted above.
- For capitalised development costs, we tested a sample of the projects against the IAS 38 capitalisation criteria, including the eligibility and nature of the costs, and whether the costs were directly attributable to the projects.
- For capitalised development costs relating to developers' payroll, we inspected timesheet reports from the time tracker system. We tested the integrity of this report, and on a sample basis we checked that the time charged to the project was allocated to the correct project code. We reconciled the total number of hours per the time tracker system report to SAP.
- We analysed the average payroll per hour rate applied by management to calculate the capitalised cost, and investigated anomalies.
- We tested the estimated useful life for a sample of projects, including the timing of when the asset was brought into mass production and the calculation of amortisation. We enquired as to whether there were any changes in accounting policy in respect of useful lives and obtained evidence for a sample of projects to confirm their "mass production" stage (including the start date of amortisation). We recalculated the amortisation charge for the year and compared to the amounts recorded in the financial statements.
- We tested a sample of feasibility reports across the new projects in development as at 31 December 2018 by reviewing the reports and making enquiries with the Heads of the respective R&D Centres to understand their reasoning behind the conclusions / justifications in the reports.
- We made enquiries regarding the current status of the projects included in the sample, including whether any issues / inefficiencies had been encountered which could impact the final completion of the project. We also met with the President of Products & Solutions, with whom we discussed the feasibility approval process, the reasons for any delays noted by the Heads of the R&D centres, the certification process, historical accuracy of feasibility reports prepared in previous years, and the status of the projects within our sample.

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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 the IAS 38 capitalisation criteria.

We also concluded that the amounts recognised as impaired or subject to accelerated amortisation, are reasonable.

We identified an audit adjustment of $1.7m in respect of impairment of capitalised development assets. This adjustment was recorded by management.

We concluded that the disclosures in the financial statements are appropriate.

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</table>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• We agreed the total 2019 budgeted sales from QlikView by product back to the 2019 consolidated budget. We reviewed and compared the budgeted group sales for the top 25 customers to the actual sales of 2018, investigated any significant changes between budget to actual, and obtained support where relevant. • We then agreed budgeted sales for a further sample of projects back to the relevant supporting documents including actual sales made in January-February 2019, the backlog of open POs, and sales team correspondence with customers. • Through discussion with the President of Sales we gained an understanding of the rationale behind the budgeted sales for each of the projects within our sample. This included understanding who the customers are, competition in the market for the relevant products, and whether any delays in the launch of these products is likely to affect anticipated sales. • We tested separately the consolidation adjustments for the elimination of the mark-up for development costs recharged from group entities incurring the development costs to the IP owners, including any foreign currency translation adjustment. • We tested separately the R&D consolidation adjustments for the elimination of intercompany mark-ups and foreign currency translation adjustments. • We reviewed the intangible assets disclosures within the Annual Report and Accounts, to ensure this was consistent with the audited balances. We performed audit procedures at 3 full and 6 specific scope locations, which covered 93% and 94% of the capitalised and expensed development costs respectively. We also performed specified procedures over the development costs in 1 location, which covered 7% of the capitalised and 6% of the expensed development costs.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of goodwill and intangible assets Refer to the Audit Committee Report (page 43); Accounting policies (page 71); and Note 13 of the Consolidated Financial Statements (page 97) As at 31 December 2018 the group recognised goodwill of $19.7m (2017: $20.8m). The group also recognised other intangible assets of $77.3m (2017: $89.6m) including capitalised development costs of $67.3m (2017: $74.7m). 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 the Cash Generating Units (CGUs) identified 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') against the requirements of IAS 36, and the mathematical accuracy of management's model. • We considered the group's market capitalisation compared with the net assets of the group as at 31 December 2018. • We used our EY valuations specialists to assist with our assessment of the appropriateness of the impairment testing 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 FY19 budget and implied growth rates beyond FY19. • 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 revenue, going concern and capitalisation of internally developed intangible assets, 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 including revenue, gross margin and EBITDA with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of each CGU. • We assessed the disclosures in Note 13 of the financial statements against the requirements of IAS 36. The entire goodwill balance was subject to full scope audit procedures by the Primary audit team.	Based on our audit work we agree with management's conclusion that no impairment should be recognised in the current year. We noted that assumptions applied by management are within an acceptable range although, as stated in Note 13 to the financial statements, 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
Improper Revenue recognition Refer to the Audit Committee Report (page 43); Accounting policies (page 73); and Note 3 and 4 of the Consolidated Financial Statements (pages 84-85) The group recorded revenue of $427.5m (2017: $374.5m), including products revenue of $391.5m (2017: $343.7m) and services revenue of $36.0m (2017: $30.9m). The group generates a larger proportion of its revenue during the last quarter of the year, which increases both the risk of error, and the risk of manipulation of the timing of revenue recognised at or near the 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 3 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 at 6 components, with 2 components performing alternative procedures. We tested revenue related journals outside of our expectations. • We performed a detailed review of contracts with significant customers and distributors. 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 read management's assessment of the impact of adopting IFRS 15 and compared it to the guidance in the standard. We checked a sample of the contracts analysed by management to supporting documentation. • We audited the relevant disclosures in the Annual Report and financial statements. We performed substantive procedures over this risk area in 5 full scope and 3 specific scope locations, which covered 100% of group revenue.	Based on the procedures performed, we concluded that the revenue recorded for the year ended 31 December 2018 is materially correct.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Complexity of taxation Refer to the Audit Committee Report (page 43); Accounting policies (page 72); and Note 9 of the Consolidated Financial Statements (page 89) The group operates in several jurisdictions, which creates 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 provided for or disclosed in the financial statements appropriately. As at 31 December 2018, the Group has recognised a deferred tax asset balance of $19.0 million (2017: $15.1 million), income tax receivable balance of $0.8 million (2017: $0.9 million), deferred tax liability of $1.5 million (2017: $1.1 million), and an income tax payable balance of $2.8 million (2017: $2.2 million). The total tax credit for 2018 was $3.5 million (2017: $4.6 million tax credit).	• We engaged our tax specialists and inquired of 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 that supported the tax position of the group as at 31 December 2018. • 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 2018. 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 of 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 audit procedures at 6 full and 6 specific scope locations, which covered 99% and 97% of the tax receivable and tax payable balances respectively, 100% of both deferred tax asset and deferred tax liability balances and 97% of the corporation tax credit.	We concluded that management's judgements in relation to the taxation charge, tax provisions and the related disclosures were appropriate.

In the prior year, our auditor's report included key audit matters in relation to Going concern and covenants compliance, and Management integrity and risk of override. In the current year, these have not been included as key audit matters as we consider the likelihood and magnitude of the risk of material misstatement in relation to these areas to have reduced, and therefore less significant auditor attention was required in performing our audit in these areas.

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.

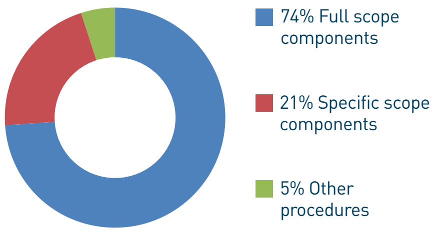
Of the 14 (2017: 13) components selected, we performed an audit of the complete financial information of 6 (2017: 6) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 8 (2017: 7) components ("specific scope components"), we performed audit procedures on specific accounts within each 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 95% (2017: 91%) of the Group's normalised EBITDA, 100% (2017: 98%) of the Group's revenue and 94% (2017: 91%) of the Group's total assets. For the current year, the full scope components contributed 74% (2017: 67%) of the Group's normalised EBITDA, 88% (2017: 84%) of the Group's revenue and 78% (2017: 64%) of the Group's total assets. The specific scope components contributed 21% (2017: 24%) of the Group's normalised EBITDA, 12% (2017: 14%) of the Group's revenue and 16% (2017: 27%) 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 their potential impairment, and 1 location to perform specified procedures over intangible assets and related income statement accounts.

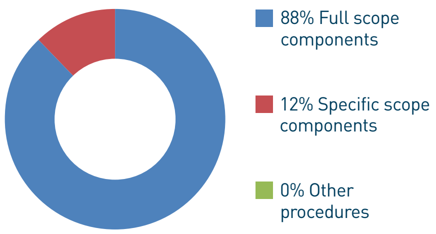
The remaining 10 components (2017: 10) together represent 1% of the Group's normalised EBITDA (2017: 4%) and have no Group revenue (2017: less than 1%). For these components we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, and 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.

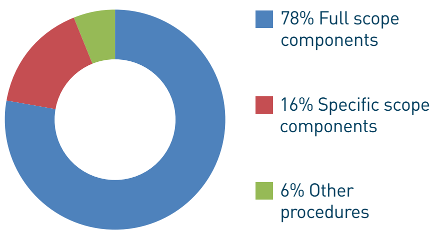
Normalised EBITDA



Revenue



Total assets



Changes from the prior year

Owing to an increase in activity in Korea and Brazil we have revised these scopes from specific scope to full scope, and specified procedures to specific scope, respectively. On the basis of our revised risk assessment, we have changed the scope of the India component from full scope to specific scope. Our specific scope covered all key accounts in the component.

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 3 times 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 Executive Chairman 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. For the 6 full scope components, audit procedures were performed directly by the EY component audit team. For the 8 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 to the component teams in the US, Italy and Israel by the Senior Statutory Auditor and to India, Hong Kong and Korea by another Partner from the Integrated Primary team. These visits involved discussing the audit approach with the component teams 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 $0.53 million (2017: $0.34 million), which is 2% of normalised EBITDA (2017: 2%). We believe that normalised EBITDA, adjusted for the exceptional items described below, provides us with an appropriate materiality basis for 2018, given the significant pre-tax loss.

Starting basis	• EBITDA loss – $(2.3)m
Adjustments	• Exceptional expenses related to restructuring – $11.7m • Impairment of goodwill and intangible assets – $10.2m • Other exceptional expenses (excluding share benefit charge/credit) – $6.9m
Materiality	• Total $26.5m • Materiality of $0.53m (2% of materiality basis)

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

We determined materiality for the Parent Company to be $0.2 million (2017: $0.1 million), which was an allocated group materiality based on normalised EBIT (2017: based on total assets).

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.

Based on our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely $0.27m (2017: $0.17m). We have set performance materiality at this percentage due to the increased engagement risk due to losses generated in 2018.

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 materiality allocated to components was $257,000 to $51,000 (2017: $168,000 to $42,000).

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 $26,000 (2017: $17,000), 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 47, 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 47, 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.

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.

Cameron Cartmell
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London

16 April 2019

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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue	3,4	427,483	374,531
Cost of sales		(288,310)	(242,949)
Gross profit		**139,173**	**131,582**
Other operating income	5A	1,903	2,437
Research and development expenses		(72,985)	(66,870)
Selling and marketing expenses		(59,139)	(66,786)
General and administrative expenses		(25,973)	(28,640)
Exceptional expenses related to restructuring	6	(10,842)	(15,979)
Other exceptional items	5B	(5,545)	(5,412)
Operating loss		**(33,408)**	**(49,668)**
Operating loss		**(33,408)**	**(49,668)**
Exceptional expenses related to restructuring		10,842	15,979
Other exceptional items		5,545	5,412
Share based payment charges		5,715	4,324
Impairment of internally generated development assets		10,238	8,414
Amortisation of intangible assets acquired		3,381	4,834
Adjusted EBIT*		**2,313**	**(10,705)**
Finance income	7	147	155
Finance costs	8	(6,552)	(7,268)
Loss before income taxes		**(39,813)**	**(56,781)**
Tax credit	9	3,453	4,565
Net loss		**(36,360)**	**(52,216)**

* 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 exceptional items 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 and other exceptional items.

For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Net loss		(36,360)	(52,216)
Other comprehensive income			
Items to be reclassified in subsequent periods to profit and loss:			
Foreign currency translation differences		(5,352)	11,801
Items not to be reclassified in subsequent periods to profit and loss:			
Remeasurement loss on defined benefit plan, net of tax		(4)	(242)
Total comprehensive loss for the year		**(41,716)**	**(40,657)**
Basic loss per share (in USD cents)	12	**(27.9)**	**(41.9)**
Diluted loss per share (in USD cents)	12	**(27.9)**	**(41.9)**
Basic weighted average number of equity shares	12	**130,446,810**	**124,689,682**
Diluted weighted average number of equity shares	12	**130,446,810**	**124,689,682**

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000	Company 2018 $'000	Company 2017 $'000
ASSETS					
Non-current assets					
Intangible assets	13	97,012	110,436	1	5
Property, plant and equipment	14	23,101	26,545	4	11
Investments in subsidiaries	15	–	–	91,999	90,042
Other long-term assets	17	1,456	1,909	53,995	22,926
Deferred tax asset	9D	19,043	15,068	2,598	1,541
		140,612	153,958	148,597	114,525
Current assets					
Inventories	16	27,187	23,829	365	672
Trade receivables	17	99,550	100,410	4,233	3,251
Income tax receivables	9B	759	934	–	–
Other current assets	17	15,531	15,968	57,235	62,524
Deposits – restricted cash	18	345	393	–	–
Cash and cash equivalents	18	35,006	41,908	6,419	11,568
		178,378	183,442	68,252	78,015
Total assets		**318,990**	**337,400**	**216,849**	**192,540**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	19	2,165	2,165	2,165	2,165
Share premium account	19	49,778	49,778	49,778	49,778
Other reserve	19	(2,727)	(2,727)	29,669	24,538
Treasury stock fund	19	–	–	–	–
Translation reserve	19	(18,049)	(12,697)	(4,938)	(909)
Retained earnings[1]	19	55,319	88,024	52,052	59,630
Total equity		**86,486**	**124,543**	**128,726**	**135,202**
Non-current liabilities					
Long-term borrowings from banks	26	24,092	42,203	–	16,664
Post-employment benefits	20	2,771	3,272	–	–
Deferred tax liabilities	9D	1,451	1,109	–	–
Provisions	24	1,373	923	–	–
		29,687	47,507	–	16,664
Current liabilities					
Short-term borrowings from banks	26	45,238	30,256	16,615	2,508
Trade payables	21	120,824	104,012	3,219	2,999
Provisions	24	2,254	708	–	–
Income tax payables	9B	2,836	2,190	–	–
Accruals and other current liabilities	21	31,665	28,184	68,289	35,167
		202,817	165,350	88,123	40,674
Total equity and liabilities		**318,990**	**337,400**	**216,849**	**192,540**

The financial statements on pages 59 to 126 were approved by the board and authorised for issuance on 16 April 2019 and are signed on its behalf by: Paolo Dal Pino, Executive Chairman.

Company number: 05300693

1 Retained earnings for the Company includes a loss for the year which amounted to $6,106,000 (2017: $1,160,000).

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000	Company 2018 $'000	Company 2017 $'000
CASH FLOWS – OPERATING ACTIVITIES					
(Loss) / profit for the year		(36,360)	(52,216)	(6,106)	1,160
Adjustments for:					
Depreciation of property, plant and equipment	14	8,905	8,765	8	12
Amortisation of intangible assets	13	23,428	32,883	4	835
Impairment of intangible assets	13	11,829	10,024	–	–
Capital gain from sale of investments in subsidiary	15	–	–	(1,171)	–
Impairment of investments in subsidiary	15	–	–	2,171	–
Impairment of loan to subsidiary	17	–	–	493	–
Loss on sale of property, plant and equipment	14	294	99	–	–
Loss on disposal of intangible assets	13	–	446	–	5
Increase in provision for post-employment benefits	20	(362)	(325)	–	–
Change in long-term provisions, net	24	501	(3,857)	5	(15)
Finance costs, net	7,8	6,405	7,113	(2,028)	1,162
Tax income	9	(3,453)	(4,565)	(883)	(562)
Share-based payment charge, net	25	3,659	1,805	(1,472)	(1,742)
Operating cash flows before movements in working capital:		14,846	172	(8,979)	855
Decrease / (increase) in trade and other receivables		(326)	11,468	(1,146)	514
(Increase) / decrease in other current assets		2,007	(376)	1,936	(22,455)
Decrease / (increase) in inventories		(4,238)	8,521	264	(88)
(Decrease) / increase in trade payables		16,744	(15,027)	309	1,148
(Decrease) / increase in other current liabilities		481	(3,284)	4,057	834
Cash from operations		29,514	1,474	(3,559)	(19,192)
Income tax paid	9	(10)	(3,196)	–	(117)
Interest received		142	155	33	342
Interest paid		(3,880)	(3,247)	(1,221)	(630)
Net cash (used in) / from operating activities		**25,766**	**(4,814)**	**(4,747)**	**(19,597)**
CASH FLOWS – INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	14	(8,296)	(10,167)	–	(5)
Acquisition of intangible assets	13	(869)	(3,997)	–	–
Proceeds from disposal of property, plant and equipment		762	231	–	–
Capitalised development expenditure	13	(25,300)	(31,098)	–	–
Acquisition of subsidiaries, net of cash acquired	2	–	(6,672)	–	–
Additional investment in subsidiary	15	–	–	–	(5,017)
Additional loans made to subsidiaries	17	–	–	–	(27,000)
Repayment of loans from subsidiaries	17	–	–	3,000	6,000
Decrease / (increase) in restricted cash deposits	18	28	(196)	–	–
Net cash (used in) / from investing activities		**(33,675)**	**(51,899)**	**3,000**	**(26,022)**

1 Amount paid in cash in the period in respect of exceptional items was $5.3 million (2017: $5.3 million).

For the year ended 31 December 2018

		Group		Company	
	Note	2018 $'000	2017 $'000	2018 $'000	2017 $'000
CASH FLOWS – FINANCING ACTIVITIES					
Proceeds from exercise of share options	25	–	196	–	196
Issue of shares	19	–	49,660	–	49,660
Dividend paid	19	–	(5,682)	–	(5,682)
Short-term borrowings from banks, net	26	6,895	10,606	–	–
Proceeds from long-term borrowings from banks	26	4,616	21,530	–	14,370
Repayment of long-term borrowings from banks	26	(9,326)	(4,116)	(2,857)	–
Repayment of long-term borrowings from subsidiaries	26	–	–	–	(4,000)
Net cash from / (used in) financing activities		**2,185**	**72,194**	**(2,857)**	**54,544**
Increase / (decrease) in cash and cash equivalents		**(5,724)**	**15,481**	**(4,604)**	**8,925**
Cash and cash equivalents – balance at beginning of year		**41,908**	**26,547**	**11,568**	**3,753**
Effect of exchange rate differences		**(1,178)**	**(120)**	**(545)**	**(1,110)**
Cash and cash equivalents – balance at end of year	**18**	**35,006**	**41,908**	**6,419**	**11,568**

1 Amount paid in cash in the period in respect of exceptional items was $5.3 million (2017: $5.3 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Year ended 31 December 2018

	Share capital $'000	Share premium account $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2018	2,165	49,778	(2,727)	(12,697)	88,024	124,543
Total comprehensive income / (loss) for the year						
Loss for the year	–	–	–	–	(36,360)	(36,360)
Other comprehensive income	–	–	–	(5,352)	(4)	(5,356)
Total comprehensive income / (loss)	**–**	**–**	**–**	**(5,352)**	**(36,364)**	**(41,716)**
Transactions with owners:						
Share-based payment charge	–	–	–	–	3,659	3,659
Balance at 31 December 2018	**2,165**	**49,778**	**(2,727)**	**(18,049)**	**55,319**	**86,486**

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)	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**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Year ended 31 December 2018

	Share capital $'000	Share premium account $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2018	2,165	49,778	24,538	(909)	59,630	135,202
Total comprehensive income / (loss) for the year						
Loss for the year	–	–	–	–	(6,106)	(6,106)
Foreign currency translation differences	–	–	–	(4,029)	–	(4,029)
Total comprehensive income / (loss)	**–**	**–**	**–**	**(4,029)**	**(6,106)**	**(10,135)**
Transactions with owners						
Share-based payment charge	–	–	–	–	(1,472)	(1,472)
Share-based payments to subsidiaries	–	–	5,131	–	–	5,131
Total transactions with owners	**–**	**–**	**5,131**	**–**	**(1,472)**	**3,659**
Balance at 31 December 2018	2,165	49,778	29,669	(4,938)	52,052	128,726

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

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 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 IoT solutions for many of the world's largest brands. This includes 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 5G 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's 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's 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, with the exception IFRS 15 and IFRS 9 applied by the Group for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

(b) Basis of presentation of the financial statements

Both the parent company's 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 Group and parent'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. The groups cash flows, liquidity position and borrowing facilities are set out in the Finance Director's statement on pages 12 to 21 and in notes 18, 23, 24, 26 and 27 to the financial statements. These pages also include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk.

Following the sale of the automotive division on 27 February 2019, the group has repaid all outstanding loans and credit facilities from HSBC Bank plc and certain of its affiliates and also from Bank Hapoalim B.M. Since this date the company has adequate cash to finance its working capital needs. Going forward the group will look to secure new lines of credit and other facilities in order to release cash and increase its financing flexibility.

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 in note 26.

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) the continuity of supply from key suppliers; and (d) the company's budgets and forecasts in current market environments.

The Board has also carefully reviewed the Group's budget for 2019 and its medium-term plans, including the restructuring plan. 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.

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 and company 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's functional currency is the GBP.

The Group and Company report is in US dollars to fully reflect the Group's global operations due to the following: 1) the production of its products in Asia resulting in manufacturing costs denominated in US dollars; and 2) revenues in US dollars, or linked to the US dollars, comprise the biggest share of the Group's overall revenues.

The assets and liabilities of the Company's subsidiaries that have a functional currency other than the US dollar are translated at the closing exchange rates prevailing at the balance sheet date. Income and expense items and cash flows are translated at the average exchange rates for the period. Exchange rate differences arising, from the translation of the above mentioned items, are recorded directly in other comprehensive income as a separate component called "translation differences". Goodwill and intangible assets arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of monetary items that are designated to hedge a portion of the Group's net investment in a foreign operation. These are recognised in the statement of 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.

1. ACCOUNTING POLICIES CONTINUED

(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 2018 and 31 December 2017. 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 at the transaction price less impairment based on the simplified Excepted Credit Losses (ECL) model. For trade receivables, the Group applies a simplified approach in calculating ECLs.

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

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 it's 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 related to restructuring and other exceptional items

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 other exceptional 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.

1. ACCOUNTING POLICIES CONTINUED

(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

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 cost.

(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 from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at the amount that reflects consideration to which the Group expects to be entitled in exchange for goods or services. 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, which are considered end-customers.

IoT Products revenues

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer. This generally occurs when the customer takes goods from the Group's premises or its agent. In other cases, control of the assets is transferred when the goods are delivered to the specific location agreed with the customer.

Warranty obligation

The Group provides warranties for general repairs of defects that existed at the time of sale of its IoT products, in accordance with general terms and conditions. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in section (x).

Customers discounts

The Group provides retrospective discounts to a limited number of certain customers based on the quantity and mix of the products purchased. These discounts are offset against revenue and amounts payable by the customer. The Group records accrued liability using expected value method to reflect the estimated discounts that will be provided in the following periods.

1. ACCOUNTING POLICIES CONTINUED

IoT Services revenues

Revenue from Connectivity and IoT Platforms, being the major part of services revenue, is recognised over time, based on usage or on a straight-line basis, depending on the customer's contract.

Revenue for other services is recognised at point in time by reference to stage of completion of the transaction, which is determined by surveys of work performed.

Royalty income (Parent Company)

Revenue for the Company is recognised for sales-based royalty when the sale occurs.

Contract balances

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section (v).

Contract liabilities (deferred income)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(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 IFRS 9 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.

(v) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. 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

Initial recognition

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in (q) Revenue recognition. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

1. ACCOUNTING POLICIES CONTINUED

Subsequent measurement

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables, and loans to subsidiaries in parent company.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derivative financial instruments

In 2018 the Group entered into forward currency contract as economic hedges of its exposure to foreign currency risk in forecast transactions. These derivatives are measured at fair value through profit and loss. Refer to Note 8 for more details.

Financial liabilities

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 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.

Warranty provisions

Provisions for warranty-related costs are recognised on the sale of its IoT products. 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.

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. Since 2018, the accrual of this provision was changed from a general one, covering general warranty risks to an accrual on a case-by-case basis, where a provision is accrued when a warrant claim or negotiations reach an advanced stage. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

(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.

Revenue recognition

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

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 restructuring expenses

Exceptional items are presented separately in the statement income when the amounts resulting from exceptional or restructuring 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.

Assets held for sale classification

Assets are classified as held for sale if the criteria outlined by IFRS 5 "Non-current assets held of sale and discontinued operations" are met. On 13 July 2018, Telit Communications PLC agreed to sell its automotive business to TUS International Limited ("TUS") for a cash consideration of $105 million (subject to adjustments on completion and an overall cap of $125 million). The transaction was completed on 27 February 2019. Management is required to exercise judgement in determining an assessment of whether criteria for assets held for sale classification have been met as at 31 December 2018, particularly in respect of:

- the asset is available for immediate sale subject only to terms that are usual and customary for sales of such assets (or disposal groups), and
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions).

IFRS 5 outlines how to account for non-current assets held for sale (or for distribution to owners). In general terms, assets (or disposal groups) held for sale are not depreciated, but are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the statement of financial position. Specific disclosures are also required for discontinued operations and disposals of non-current assets.

In general, the following conditions must be met for an asset (or 'disposal group') to be classified as held for sale:

1) Management is committed to a plan to sell

2) The asset is available for immediate sale subject only to terms that are usual and customary for sales of such assets (or disposal groups)

3) An active program to locate a buyer is initiated

4) The sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)

5) The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value

6) Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

1. ACCOUNTING POLICIES CONTINUED

The transaction required a reorganisation of the automotive division and within the Group and transfer of the IP, assets and employees who supported the automotive business in R&D and sales teams in several countries, this reorganization has been substantially completed in January 2019.

Before the completion of the deal, and as announced, the buyer asked for a number of extensions in order to secure funds. The buyer's shareholders approved the raise of equity on 30 January 2019. The debt raising by the buyer was not completed in order to close the deal, and on 27 February 2019 Telit agreed, after the buyer was unable to secure all of the necessary funds, to provide a vendor loan of $38.5m for 6 weeks from the date of completion.

Management judgment is that the transaction as at 31 December 2018 was not mature enough, and did not meet all the conditions of IFRS 5 in order to be classified as held for sale.

If the transaction was classified as held for sale as at 31 December 2018, this would result in reclassification of non-current assets to current of $42.2 million and no material impact on the profit and loss, as no impairment would have been recognised and the impact on the profit and loss would be limited to amortisation and depreciation of non-current assets.

For further details please refer to Note 29.

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.

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.

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

This is the first year the Group has applied IFRS 15 and IFRS 9. The nature and effect of the changes resulting from adoption are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group. The Group has not chosen to implement early adoption of any standards, interpretations or amendments that have been issued but are not yet effective.

1. ACCOUNTING POLICIES CONTINUED

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 from 1 January 2018 without restating comparatives. The Group undertook a review of the main types of commercial arrangement used under this model. In order to determine if a change in policy was required the Group determine the point at which control passes, how the transaction price is determined, accounting for warranties and the impact of variable consideration for discounts to customers. Management performed a detailed analysis based on a five-step model that applies to revenue earned from contracts with customers as follows:

- Identify the revenue streams and analyse the contracts with customers;
- Based on analysis of contracts with customers, identify performance obligations;
- Consider implications of agent vs principal revenue recognition;
- Determine at what point control passes and when revenue should be recognised, i.e. based on point in time or over a period of time;
- Determine transaction price and allocate the transaction price to the distinct performance obligations where relevant;
- Evaluate accounting for customer discounts and assurance type warranties.

Following this analysis management has concluded that the application of IFRS 15 had no material impact on the Group.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. The Group has applied the standard from 1 January 2018 without restating comparatives.

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The Group has analysed the financial instruments and applied the ECL model. The Group concluded that there is no significant impact on its statement of financial position, income statement and statement of changes in equity as a result of IFRS 9 implementation. There were no classification adjustments as a result of the adoption of IFRS 9.

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.

In January 2016, the IASB issued IFRS 16 Leases. The new standard supersedes IAS 17 and is effective for annual periods beginning on or after 1 January 2019. The objective of IFRS 16 is to ensure a single lease accounting model and lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlining asset is of low value. The Group plans to apply modified retrospective approach and measure the lease liability based on the remaining lease payments, discounted using the incremental borrowing rate as of the date of initial application. Right of use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will elect to use the exceptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying assets are low value. The Group will apply the standard to a portfolio of leases with similar characteristics, since it is reasonably expected that the resulting effect is not materially different from applying the standard on a lease-by-lease basis.

The Group believes that at the initial implementation date of the standard, assets are expected to increase by $12.6M and liabilities by $12.6M. Accordingly, from the initial application date, instead of presenting the rental expenses for the leased assets under operating leases, the Group will recognize depreciation expenses for depreciation of the right-of-use assets that were recognized and will also recognize financing expenses for the lease liability. Therefore, application of the standard is expected to result in a decrease in operating expenses in the amount of $3.7M in 2019 and an increase in depreciation and in financing expenses in amount $3.9M. In addition, following application of the standard, there is expected to be an increase in cash flows from operating activities and a decrease in cash flows from financing activities in the amount of $3.1M. Application of the standard is expected to have a negligible effect on the Group's net profit for 2019.

The Group will continue to assess the impact in the 2019 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:

- 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).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for accounting periods beginning on or after 1 January 2019).
- AIP IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity (effective for accounting periods beginning on or after 1 January 2019).
- AIP IAS 23 Borrowing Costs – Borrowing costs eligible for capitalisation (effective for accounting periods beginning on or after 1 January 2019).

2. BUSINESS COMBINATIONS

A. There were no business combinations in 2018.

B. 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.

At 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.

3. REVENUE

	Group	
	2018 $'000	2017 $'000
Sales of IoT HW products	391,477	343,678
Sales of Connectivity and IoT platforms services	34,074	27,728
Sales of licences and other services	1,932	3,125
	427,483	**374,531**

For geographical split of revenue please refer to Note 4.

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 operating 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: Americas, EMEA and APAC.

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:

2018	IoT Products $'000	IoT services $'000	Consolidated $'000
Revenue			
External sales:			
Sales of HW products	391,477	–	391,477
Sales of Connectivity and IOT platforms services	–	34,074	34,074
Sales of licences and other services	–	1,932	1,932
Inter-segment sales[1]	–	–	–
Total revenue	**391,477**	**36,006**	**427,483**
Result			
Gross profit	116,595	22,578	139,173
Gross margin	29.8%	62.7%	32.6%
Impairment of goodwill	(1,056)	–	(1,056)
Impairment of internally generated development costs	(7,876)	(2,362)	(10,238)
Segment EBIT	5,472	(11,978)	(6,506)
	1.4%	(33.3%)	
Unallocated expenses[2]			(26,902)
Operating loss			(33,408)
Finance income			147
Finance costs			(6,552)
Loss before income taxes			(39,813)
Income taxes			3,453
Loss for the period			**(36,360)**

For the year ended 31 December 2018

4. SEGMENTAL ANALYSIS CONTINUED

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)**

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.

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:

	2018 $m	% of total revenue	2017 $m	% of total revenue	Change %
Americas	192.4	45.0%	160.2	42.8%	20.1
EMEA	159.6	37.3%	147.4	39.4%	8.3
APAC	75.5	17.7%	66.9	17.8%	12.9
Total	**427.5**		**374.5**		**14.1**

Non-current operating assets*:

	2018 $m	2017 $m
Americas	26.3	17.9
EMEA	74.2	99.3
APAC	19.6	19.8
Total	**120.1**	**137.0**

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

5. OTHER OPERATING INCOME / EXPENSES

A. Other operating income

	2018 $'000	2017 $'000
Governmental grants and benefits[a]	1,903	2,383
Other	–	54
	1,903	**2,437**

(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 2018 and 2017 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

B. Other exceptional items

	2018 $'000	2017 $'000
Integration and transaction costs[1]	2,785	4,970
Legal and other expenses related to crisis management[2]	959	1,540
Net expenses (gain) in relation to the departure of the former CEO[3]	437	(1,242)
Legal expenses related to BAMES[4]	1,282	–
Other	82	144
	5,545	**5,412**

1 Costs related mainly to the automotive sale which was signed in July 2018 and completed in February 2019 and include mainly legal and other costs related to the transaction and the reorganization. (2017: related mainly to the GainSpan integration and restructuring.)

2 Costs related mainly to legal and advisory costs in association with the crisis management started in 2017 following the departure of former CEO and the ongoing FCA investigation.

3 Net expenses (gain) were affected by the reversal of unvested share based payment charges related to unvested options and RSUs issued to CEO's in the amount of $1.3m (2017: $2.5 million). For more details see also remuneration report.

4 Costs related to defending the Group position in BAMES case including the settlement fees of approximately $1 million – for more details see also note 29.

6. EXCEPTIONAL EXPENSES RELATED TO RESTRUCTURING

A. Restructuring plan

At the end of 2017, 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 adopted an 18 months restructuring plan including mainly actions to rationalise the Group's activities and our operating cost structure including:

1 Declared a number of our products and services portfolio "end of life" reduced the R&D and operations investment in maintaining products with low contributions. 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 income statement.

2 Reducing the number of R&D centres by 2019. We closed one expensive R&D centre in San Jose in 2017 and another one in Hamburg, Germany in 2018 and transferred the knowledge to lower-cost sites.

3 Adjusted the headcount of our sales and administrative teams in each region to align them with the actual group growth globally. Cost rationalisation monitoring will continue in 2019 and we expect that these measures will reduce again the cash operating expenses in 2019 by approximately $10 million over comparable costs in 2018 after we already achieved a reduction of $12.7 million in 2018 comparable costs in 2017.

6. EXCEPTIONAL EXPENSES RELATED TO RESTRUCTURING CONTINUED

B. Exceptional expenses related to restructuring

	2018 $'000	2017 $'000
Termination fees and other employees related expenses[1]	2,591	1,890
Accelerated amortisation of capitalised development assets related to restructuring[2]	1,182	6,218
Accelerated amortisation of acquired technology related to restructuring[2]	535	1,839
Provision for inventory items related to restructuring[3]	4,677	5,749
Provision for impairment of goodwill related to restructuring[2]	1,056	283
Other[4]	801	–
	10,842	**15,979**

1 Related mainly to the headcount reduction following the closing of the R&D centre in Germany and the reduction in the headcount at the IoT services. The amount was affected by the reversal of unvested share based payment charges related to unvested options and RSUs issued to these employees in the amount of $0.8m.

2 Non cash write-off of capitalised development assets, acquired technology and goodwill which recorded under restructuring costs following a classification of several products and services as "end of life" or for being abandon as part of the overall restructuring plan.

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

4 Including mainly consultancy costs related to restructuring and other costs related to closing of offices in Germany and in IoT services.

7. FINANCE INCOME

	2018 $'000	2017 $'000
Interest income from bank deposits	147	155
	147	**155**

8. FINANCE COSTS

	2018 $'000	2017 $'000
Non-cash expenses related to effective interest rate on government preferred loan	1,240	1,129
Interest expense on bank loans and overdrafts	3,118	2,329
Bank fees and other bank expenses	1,142	1,218
Loss from forward currency contracts	675	–
Exchange rate differences, net	377	2,592
	6,552	**7,268**

9. INCOME TAXES

A. Tax recognised in statement of comprehensive income

Current income tax:

	2018 $'000	2017 $'000
Current year taxes	1,429	1,437
Prior year taxes	(614)	1,239
Deferred taxes	(4,268)	(7,241)
Tax income	**(3,453)**	**(4,565)**

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

	2018 $'000	2017 $'000
Net loss / (gain) on actuarial gains and losses	–	46
Deferred tax charged to OCI	–	46

B. Income tax payables / receivables, net

	2018 $'000	2017 $'000
1 January	1,256	2,023
Current year taxes	1,429	1,437
Prior year taxes	(614)	1,239
Income tax received (paid)	(10)	(3,196)
Arising from acquisition	–	7
The effect of changes in foreign exchange	16	(254)
31 December	**2,077**	**1,256**

Income tax payable as of 31 December 2018 includes $1,955,000 provision for uncertain tax position. (2017: $1,661,000).

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% for 2018 and 19.25% for 2017, and the Group's total tax expense for the year:

	2018 $'000	2017 $'000
Loss before income tax from continuing operations	**(39,813)**	**(56,781)**
Tax credit computed at 19% (2017: 19.25%)	**7,564**	**10,930**
Tax adjustments arising from:		
Non-deductible expenses, net[1]	(1,329)	(1,374)
Tax benefits arising on tax credits	1,181	1,696
Effect of tax rates in foreign jurisdictions	855	794
Movements in unrecognised deferred tax asset[2]	(8,903)	(7,372)
Deferred tax recognized for previous years differences	1,777	970
Utilisation of previously unrecognised deferred tax losses	1,694	160
Tax for previous years	614	(1,239)
Tax income at the effective tax rate of 8.7% (2017: 8.0%)	**3,453**	**4,565**

1 Related mainly to share based payments.

2 Relates to losses in the Group's subsidiaries recorded in 2018 on which no deferred tax asset was recognised.

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

9. INCOME TAXES CONTINUED

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 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 1 January 2018	9,145	4,814	13,959
Translation adjustments	(704)	69	(635)
Tax income recognised in the statement of comprehensive income	6,378	(2,110)	4,268
	14,819	**2,773**	**17,592**

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

Temporary differences recognised in the statement of comprehensive income relate to depreciation and amortisation, inventory, accruals, warranty provision and doubtful debts.

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:

	2018 $'000	2017 $'000
Losses for which a deferred tax asset is recognised	63,130	36,553
Losses for which no deferred tax asset is recognised	35,771	37,456
	98,901	**74,009**

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 2018 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.

U.S. Tax Reform

The Tax Cuts and Jobs Act ("The Act") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. Effective in 2018, The Act reduced the U.S. corporate statutory tax rate from 35% to 21%, allowed for immediate expensing of certain qualified capital property, and eliminated the net operating loss carryback but allowed for indefinite net operating loss carryforwards that can reduce up to 80% of taxable income. In addition, The Act imposed a one-time mandatory tax on previously deferred foreign earnings and created a new limitation on the deductibility of interest expense.

The US Treasury issued several proposed regulations supplementing The Act in 2018, including further guidance clarifying the calculation of the mandatory tax on previously unrepatriated earnings, interest expense limitations under Internal Revenue Code ("IRC") Section 163(j), application of the existing foreign tax credit rules, and expanding details for application of the base erosion tax on affiliate payments.

Accounting for the income tax effects of The Act requires significant judgments and estimates in the interpretation and calculation of the provisions of The Act. Due to the timing of the enactment and the complexity involved in applying the provisions of The Act, we made reasonable estimates of the effects of the Tax Act in our financial statements for the year ended December 31, 2017, as permitted under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which was also included in ASU No. 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118").

The remeasurement of the Company's U.S. deferred taxes due to the reduction in the U.S. federal corporate tax rate resulted in a reduction of deferred tax assets offset by an equal release of the Company's valuation allowance, resulting in no net income impact during the year ended December 31, 2017. The Transition Tax due with respect to the Company's foreign subsidiary was offset by the 2017 net operating losses, resulting in no impact to the overall tax provision. As we collected and prepared necessary data and interpreted additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we made adjustments, over the course of 2018, to the provisional amounts including refinements to deferred taxes. Our accounting for these items was completed in the fourth quarter of 2018, the end of the measurement period for purposes of SAB 118, and adjustments related to the provisional items were immaterial.

9. INCOME TAXES CONTINUED

Belgian Tax Reform

In December 2017, a large reform of the Belgian corporate income tax regime was agreed upon by the Belgian parliament. Part of the reform will be effective as of the current tax year (2018), with other measures mainly coming into force as of the tax year 2021.

The main item of the reform is a decrease in the general corporate income tax rate from 33.99% to 29.58% (as of tax year 2018) 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 restriction on Belgian corporate taxpayers on how much of their tax losses they carry 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 2018 was calculated based on the rate at which the losses and temporary differences are expected to reverse.

Israel tax assessment

In August 2018, culminating the first stage of a tax audit, the group affiliates Telit Wireless Solutions Ltd. and Telit Wireless Services Ltd. received tax assessments from the Israeli Tax Authorities for FY 2013 and FY 2013-2016 respectively. These assessments relate to the treatment of losses arising from a statutory reorganization performed in 2014 which were utilized to offset taxable income. The potential additional tax charge to the Group is approximately $3 million. The Group has appealed the assessment and considers, based on professional advice and the particular facts including, specifically, that the statutory reorganization was performed in accordance with the conditions set out in the Israeli Income Tax Ordinance, that it has strong arguments against the disallowance of the losses. Accordingly, no provision has been made for this amount.

10. EMPLOYEES' AND DIRECTORS' EMOLUMENTS

Employees' emoluments:

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

	Group		Company	
	2018	2017	2018	2017
Research and development	537	552	–	–
Sales, marketing and operation	349	384	10	10
General and administration	141	140	–	–
	1,027	1,076	10	10

Their aggregate remuneration comprised:

	Group Year ended 31 December		Company Year ended 31 December	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Wages and salaries	76,009	81,822	1,090	843
Social security costs	12,108	13,058	118	120
Defined benefit pension costs (see note 20)	752	744	–	–
Defined contribution pension costs	4,170	4,361	37	198
Total	93,039	99,985	1,245	1,161

Directors' emoluments

The directors received the following remuneration in respect of services rendered to the Group. Please refer to the table on pages 39 and 40 of the Annual Report:

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Remuneration	2,093	3,059
Gain from exercise of share options	6	7,877
Post-employment benefits	46	215
Total emoluments	**2,145**	**11,151**

The share based compensation cost attributable to the directors in 2018 is an income of $1,390,059 due to the reversal of the costs associated with the unvested options of the former CEO and former director, which expired. (2017: 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).

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

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Total emoluments[1]	1,019	1,301
Gain from exercise of share options	–	5,662
Post-employment benefits	3	188
	1,022	**7,151**

1 Fees to former CEO excluding payments for loss of office compensation – $0.3 for notice period and $1 million special payment arrangement.

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

(i) EBIT for the year is stated after charging

	2018 $'000	2017 $'000
Depreciation of owned fixed assets (note 14)	8,905	8,765
Amortisation of intangible assets (note 13):		
Amortisation of purchased customer list – included in selling and marketing expenses	1,323	1,754
Amortisation of acquired technology –		
Included in R&D expenses (note 13)	2,058	2,920
Included in exceptional expenses related to restructuring (note 6)	535	1,839
Amortisation of software – included mainly in R&D expenses	1,689	1,995
Amortisation of Internally generated development costs –		
Included in R&D expenses	17,176	18,157
Included in exceptional expenses related to restructuring (note 6)	1,182	6,218
Research and development expenditure	72,985	66,871
Costs of inventories recognised as an expense	274,882	229,938
Write-downs of inventories recognised as an expense	1,165	1,740

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

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

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 other exceptional items 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 other exceptional items 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 other exceptional 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 other exceptional 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	2018 $'000	2017 $'000
Operating loss – EBIT		(33,408)	(49,668)
Share-based payments	25	5,715	4,324
Exceptional expenses related to restructuring	6	10,842	15,979
Impairment of internally developed assets	13	10,238	8,414
Other exceptional items	5b	5,545	5,412
Amortisation – intangibles assets acquired	13	3,381	4,834
Adjusted EBIT		**2,313**	**(10,705)**
Depreciation and other amortisation[3]	13,14	27,770	28,757
Adjusted EBITDA		**30,083**	**18,052**
Capitalisation of internally generated development assets	13	(25,300)	(31,098)
Acquisition of tangible and intangible assets, net of proceeds from disposal of assets		(8,402)	(13,933)
Loss in cash		**(3,619)**	**(26,979)**
Loss before tax		**(39,813)**	**(56,781)**
Share-based payments	25	5,715	4,324
Exceptional expenses related to restructuring	6	10,842	15,979
Impairment of internally developed assets	13	10,238	8,414
Other exceptional items	5b	5,545	5,412
Amortisation – intangibles acquired	13	3,381	4,834
Adjusted loss before tax		**(4,092)**	**(17,818)**

3 Excluding amortisation on acquired intangibles.

	Note	2018 $'000	2017 $'000
Net loss for the year		(36,360)	(52,216)
Share-based payments	25	5,715	4,324
Exceptional expenses related to restructuring	6	10,842	15,979
Impairment of internally developed assets	13	10,238	8,414
Other exceptional items	5b	5,545	5,412
Amortisation of intangibles acquired	13	3,381	4,834
Deferred tax credit		(4,268)	(7,241)
Adjusted net loss for the year		**(4,907)**	**(20,494)**

(iii) Audit fee

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	626	394	626	394
The audit of the Company's subsidiaries pursuant to legislation:	466	416	–	–
Total audit fees	**(*)1,092**	**810**	**(*)626**	**394**
Fees payable to the Company's auditor and their associates for other services to the Group:	71	370	71	220
Other services relating to taxation	391	387	62	99
Total non-audit fees	**462**	**757**	**133**	**319**
Total fees	**1,554**	**1,567**	**759**	**713**

* This amount includes additional audit fee of $150,000 in respect of scope changes of 2017 audit. (company: $122,000)

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

	2018 $'000	2017 $'000
Loss for the year attributable to the owners of the Company	(36,360)	(52,216)
	No. of Shares	**No. of Shares**
Basic weighted average number of equity shares (1)	130,446,810	124,689,682
Diluted weighted average number of equity shares (2)	130,446,810	124,689,682
Basic and diluted loss per share (in US dollar cents)	(27.9)	(41.9)

12. EARNINGS PER SHARE CONTINUED

(1) Basic weighted average number of equity shares:

	2018 No. of Shares	2017 No. of Shares
Issued ordinary shares at 1 January	130,217,154	115,688,131
Effect of placing of shares (see note 19)	–	7,495,748
Effect of share options exercised	229,656	1,505,803
Basic weighted average number of equity shares at 31 December*	**130,446,810**	**124,689,682**

* EPS calculation includes shares exercised (per year end) for the RSU but not included in the shares issued and fully paid total as settlement took place in 2019 (see Note 19)

(2) Diluted weighted average number of equity shares:

	2018 No. of Shares	2017 No. of Shares
Basic weighted average number of equity shares	130,446,810	124,689,682
Effect of share options on issue	–	–
Diluted weighted average number of equity shares at 31 December	**130,446,810**	**124,689,682**

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.

	2018 $'000	2017 $'000
Loss for the year	(36,360)	(52,216)
Share-based payments	5,715	4,324
Exceptional expenses related to restructuring	10,842	15,979
Impairment of internally developed assets	10,238	8,414
Other exceptional items expenses[3]	5,545	5,412
Amortisation of intangibles acquired	3,381	4,834
Deferred tax credit	(4,268)	(7,241)
Adjusted loss for the year attributable to the equity shareholders	**(4,907)**	**(20,494)**
Adjusted basic and diluted loss per share (in USD cents)	**(3.8)**	**(16.4)**

13. INTANGIBLE ASSETS

GROUP	Software and licenses $'000	Internally generated development assets (A) $'000	Customer relationships $'000	Acquired technology $'000	Goodwill (B) $'000	Total $'000
	Intangible assets with finite life					
Cost						
1 January 2017	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)
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**
Net additions[1]	869	24,158	–	–	–	25,027
Disposals	(109)	(18,537)	–	–	–	(18,646)
Transfer	808	65	(670)	(525)	–	(322)
Translation adjustments	(720)	(5,326)	(143)	(290)	(128)	(6,607)
31 December 2018	**25,048**	**143,309**	**16,668**	**17,621**	**22,333**	**224,979**
Amortisation and accumulated impairment losses						
1 January 2017	(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)**
Charge for the year	(1,689)	(18,358)	–	–	–	(20,047)
Disposals	72	18,537	–	–	–	18,609
Impairment	–	(10,238)	–	(535)	(1,056)	(11,829)
Transfer	(834)	(48)	670	534	–	322
Charges for the year from intangible assets acquired	–	–	(1,323)	(2,058)	–	(3,381)
Translation adjustments	673	2,417	147	203	10	3,450
31 December 2018	**(20,743)**	**(75,973)**	**(13,871)**	**(14,708)**	**(2,672)**	**(127,967)**
Net book value						
31 December 2018	**4,305**	**67,336**	**2,797**	**2,913**	**19,661**	**97,012**
31 December 2017	5,235	74,666	4,116	5,584	20,835	110,436

1 Net of grant to receive. 2018: $1,142k. (2017: $682k)

13. INTANGIBLE ASSETS CONTINUED

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 2018		Internally generated development assets, net as at 31 December 2017		Change year over year	
	$'000	%	$'000	%	$'000	%
4G	47,948	71%	49,708	67%	(1,760)	(4%)
3G	6,619	10%	9,377	12%	(2,758)	(29%)
Other IoT Modules	8,115	12%	6,845	9%	1,270	19%
IoT Services	4,654	7%	8,736	12%	(4,082)	(46%)
31 December	**67,336**	**100%**	**74,666**	**100%**	**(7,330)**	**(10%)**

Internally generated development assets that completed the development phase, moved to mass production phase and which have started to be amortised, increased to 63% of the total internally generated development assets (2017: 47%).

	2018		2017	
	$'000	%	$'000	%
Net assets in development process (not amortised yet)	24,859	37%	39,909	53%
Net assets in amortisation phase	42,477	63%	34,757	47%
Total	**67,336**	**100%**	**74,666**	**100%**

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

31 December 2018

Technology	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 2018	
	$'000	%		$'000	%	$'000	%
4G	30,750	72%	3.4	17,198	70%	47,948	71%
3G	6,267	15%	2.6	352	1%	6,619	10%
Other IoT Modules	2,771	7%	4.2	5,344	21%	8,115	12%
IoT Services	2,689	6%	1.3	1,965	8%	4,654	7%
31 December 2018	**42,477**	**100%**	**3.2**	**24,859**	**100%**	**67,336**	**100%**

31 December 2017

Technology	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	
	$'000	%		$'000	%	$'000	%
4G	19,736	57%	3.8	29,972	75%	49,708	67%
3G	8,732	25%	3.3	645	2%	9,377	12%
Other IoT Modules	2,023	6%	3	4,822	12%	6,845	9%
IoT Services	4,266	12%	1.4	4,470	11%	8,736	12%
31 December 2017	**34,757**	**100%**	**3.4**	**39,909**	**100%**	**74,666**	**100%**

There are no capital commitments for intangible assets as at 31 December 2018 and 2017.

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.

The CGUs carrying amount for 2018 was calculated without the assets and liabilities of the automotive division that was sold for USD 105 million as of February 27, 2019.

The recoverable amounts 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. In line with the exclusion of the assets and liabilities of the automotive division from the CGUs carrying amount calculation, the recoverable amount of the CGUs was estimated excluding the automotive division future cash flows.

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

	2018	2017	Average revenues growth rate[1]	EBITDA margins[2]	Weighted Average Cost of Capital
CGU Group	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
IoT Services	6,016	6,016	16.2%	20%	18%
IoT Products	13,645	14,819	8.2%	14%	15%
	19,661	20,835			

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 2018, following the shutdown of the activity in Hamburg site the Group booked an impairment of the goodwill related to Stollman workforce in Hamburg site of $1.1 million. This amount is part of exceptional expenses related to restructuring, see note 5b.

In the end of 2017, the Group booked an impairment of the goodwill of $1.6 million, related to GainSpan workforce in the San-Jose site, following the shutdown on San-Jose site ($1.3 million) and related to group activity that was declared as "end of life" as part of restructuring program ($0.3 million).

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

13. INTANGIBLE ASSETS CONTINUED

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 10.2%, IoT Services 17%). The long-term 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 14% (IoT products) and 20% (IoT services) 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. Management used a lower growth rate than the prior year, but this includes some market outperformance. However, using a market growth rate does not indicate an impairment. Management expect that this growth rate will be achieved over the forecast period.

A reduction of the average revenue growth rate by more than 4% 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 $'000	Total $'000
COST			
1 January 2017	7,270	729	7,999
Additions	–	–	–
Translation adjustments	712	149	861
31 December 2017	7,982	878	8,860
Transfer	–	824	824
Translation adjustments	(423)	(115)	(538)
31 December 2018	**7,559**	**1,587**	**9,146**
AMORTISATION			
1 January 2017	(6,532)	(666)	(7,198)
Charge for the year	(772)	(63)	(835)
Disposal	–	2	2
Translation adjustments	(678)	(146)	(824)
31 December 2017	(7,982)	(873)	(8,855)
Charge for the year	–	(4)	(4)
Disposal	–	–	–
Transfer	–	(824)	(824)
Translation adjustments	423	115	538
31 December 2018	**(7,559)**	**(1,586)**	**(9,145)**
Net book value			
31 December 2018	**–**	**1**	**1**
31 December 2017	–	5	5

14. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and Building[2,3] $'000	Computers $'000	Office equipment $'000	Vehicles $'000	Leasehold Improvements $'000	Total $'000
COST						
1 January 2017	5,703	10,213	33,550	652	1,517	51,635
Net additions	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
Net additions[1]	–	984	6,175	76	203	7,438
Transfer	–	(670)	2,164	–	65	1,559
Disposals	–	(2,816)	(2,719)	(150)	(187)	(5,872)
Translation adjustments	(296)	(290)	(1,942)	–	(32)	(2,560)
31 December 2018	**6,246**	**9,009**	**47,665**	**333**	**1,733**	**64,986**
DEPRECIATION						
1 January 2017	(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)
Charge for the year	(150)	(1,089)	(7,384)	(59)	(223)	(8,905)
Transfer	(15)	55	(1,527)	–	(72)	(1,559)
Disposals	–	2,670	1,968	67	113	4,818
Translation adjustments	48	183	1,389	–	17	1,637
31 December 2018	**(1,081)**	**(6,817)**	**(32,859)**	**(83)**	**(1,045)**	**(41,885)**
Net book value						
31 December 2018	**5,165**	**2,192**	**14,806**	**250**	**688**	**23,101**
31 December 2017	5,578	3,165	16,682	316	804	26,545

1 Net of grant to receive. 2018: $854k. (2017: $77k)

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.

15. INVESTMENTS IN SUBSIDIARIES

COMPANY	Investments in subsidiaries $'000
1 January 2017	81,496
Additions[1]	5,017
Additions – subsidiaries' share-based payment charge[4]	3,529
1 January 2018	**90,042**
Additions[1]	2,175
Disposal[2]	(1,737)
Impairment[3]	(3,612)
Additions – subsidiaries' share-based payment charge[4]	5,131
31 December 2018	**91,999**

1 In December 2018 there was additional Investment in Telit Wireless Solutions GmbH.
During 2017 there was additional Investment in Telit Wireless solutions HK in the amount of $5 million and $17,000 investment in Telit Taiwan.

2 During 2018 the Company sold the investment in Telit Automotive Solutions S.a.r.l. to Telit Automotive Solutions NV, for an amount of $2.7 million, as part of the reorganization of the automotive business.

3 During 2018 the company recorded an impairment of $1.5 million in respect of Dai Telecom Holdings (2000) Ltd. and $2.1 million in respect of GlobalConect Ltd investment.

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

Details of the subsidiary undertakings of the Company at 31 December 2018 are as follows:

Name of company	Country of incorporation and principal place of business	Registered office	Principal activity in 2018
Telit Automotive Solutions S.a.r.l.[2,4]	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	5425 Page Road, Suite 120 Durham, NC 27703	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 Ltd[1] ("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

Name of company	Country of incorporation and principal place of business	Registered office	Principal activity in 2018
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[1,4] (0.88 % is indirectly held)	Belgium	Interleuvenlaan 80 3001 Leuven, Belgium	Development and intra-group sale of m2m wireless products
Telit IoT Platforms, LLC	United States	5300 Broken Sound Blvd. Suite 150 Boca Raton, FL 33487 USA	Development and distribution of m2m wireless services; and intra-Group services
SecureWISE LLC	United States	5300 Broken Sound Blvd. Suite 150 Boca Raton, FL 33487 USA	NOT ACTIVE
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[2]	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.

4 The invested was divested with automotive deal in February 2019 – see note 29 for subsequent event.

For the year ended 31 December 2018

16. INVENTORIES

	Group	
	2018 $'000	2017 $'000
Finished goods	14,649	16,939
Raw materials and work in progress	12,538	6,890
	27,187	**23,829**

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 $4,550,000 (2017: $8,433,000). See note 6 for more detailed regarding inventory provision as part of restructuring plan.

17. TRADE RECEIVABLES AND OTHER ASSETS

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Within current assets:				
Trade receivables[1]	99,550	100,410	4,233	3,251
Income tax receivables (see note 9)	759	934	–	–
Other current assets[2]	15,531	15,968	206	787
Due from Group undertakings (see note 27)	–	–	57,029	61,737
	115,840	**117,312**	**61,468**	**65,775**
Within non-current assets:				
Due from Group undertakings[3]	–	–	53,803	22,717
Other long-term assets	1,456	1,909	192	209
	1,456	**1,909**	**53,995**	**22,926**

1 The average credit period on trade receivables in 2018 was 73 days (2017: 83 days). No interest is charged on trade receivables unless previously agreed with the customer. The Group has provided against receivables based on expected credit losses (ECL) model. The Group applied simplified approach in calculation ECLs. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2 Included within other current assets mainly prepaid expenses, supplier rebates and advance payments to suppliers of $7.8 million (2017: $7.8 million), VAT and other tax authorities $2.5 million (2017: $2.3 million), government grant to receive of $5.2 million (2017: $5.4 million) and remaining other receivables.

Included in the Group's trade debtors balance are debtors with a carrying amount of $20,623,000 (2017: $16,284,000) which are past due at the reporting date. The Group recorded a provision for expected credit losses of $3,003,000 based on ECL provision matrix using the expected credit loss rate between 0.02% to 8%.

The average credit period of these receivables is 91 days (2017: 89 days).

	2018 $'000	2017 $'000
Aging of past due trade debtors		
1-30 days	15,194	13,297
30-60 days	2,567	1,278
60-90 days	307	209
Above 90 days	2,555	1,500
	20,623	**16,284**

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 expected credit losses, an analysis of which is as follows:

	2018 $'000	2017* $'000
At 1 January	2,727	1,093
Increase in allowance for the year	318	1,715
Amounts written off	–	(108)
Translation adjustments	(42)	27
At 31 December	**3,003**	**2,727**

* Calculated based on provisions of IAS 39 model (incurred loss model).

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.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The company applied the same expected credit loss rates as the group to its receivables which resulted in an immaterial expected credit loss allowance.

17. TRADE RECEIVABLES AND OTHER ASSETS CONTINUED

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

COMPANY	Loans to subsidiaries $'000
1 January 2017	17,843
Additions[1]	3,000
Translation adjustments	1,874
1 January 2018	**22,717**
Additions[1]	35,665
Repayment[2]	(3,975)
Impairment[3]	(493)
Translation adjustments	(111)
31 December 2018	**53,803**

1 During 2018 the Company increased the Loan to Telit Automotive Solutions NV.
During 2017 the Company increased the Loan to Telit Wireless Solutions Inc.

2 During 2018 there was a repayment of the Loan from Telit Wireless Solutions Inc in the amount of $3 million. repayment The loan from Telit Automotive solutions SARL, in the amount of $1 million, was repaid by assigning it to Telit Automotive Solutions NV.

3 During 2018 the Company recorded an impairment related to the loan to Dai Telecom Holdings (2000) LTD, which represents the lifetime credit loss, as Dai Telecom Holdings (2000) LTD is non-trading. In respect of other balances, considering the probability of default and loss given default, expected credit loss was not material.

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

All loans are non-current as of 31 December 2018 and 2017.

18. CASH

The Group's cash resources are as follows:

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deposits – restricted cash	345	393	–	–
Cash and cash equivalents	35,006	41,908	6,419	11,568
Total	**35,351**	**42,301**	**6,419**	**11,568**

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Sterling	372	272	372	272
US dollar	18,180	35,388	358	10,639
Euro	12,461	3,912	5,689	657
KRW	2,027	1,368	–	–
Brazilian Real	261	152	–	–
HKD	73	177	–	–
ILS	997	339	–	–
Other	980	693	–	–
Total	**35,351**	**42,301**	**6,419**	**11,568**

19. ALLOTTED SHARE CAPITAL

COMPANY AND GROUP	2018 $'000	2017 $'000
Allotted and issued:		
190,612 ordinary shares of 1 penny each (2017: 474,137).	–	–
Allotted, issued and fully paid:		
130,218,200 ordinary shares of 1 penny each (2017: 130,217,154 ordinary shares of 1 penny each).	2,165	2,165

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

During 2018 the Company issued:

- No ordinary shares issued as a result of exercises of options and RSUs by employees (2017: 1,898,065)
- 500,000 ordinary shares were allotted and issued to a broker in October 2018. 500,000 and 400,000 ordinary shares were allotted and issued to a broker in May and August 2017, 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 2018, the balance held by the broker was 190,612 ordinary shares.

Share options

The number of outstanding options as at 31 December 2018 and at the date of this report was 12,933,958 and 10,146,329 equal to 9.9% and 7.8% respectively, of the outstanding share capital of the Company (9.0% and 7.2%, respectively of the outstanding share capital of the Company, on a fully diluted basis).

Share premium account

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

Translation reserve

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

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

No dividend was paid in 2018.

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

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 $72,000 (2017: $52,000) and the charge to the statement of comprehensive income in the year is an income of $20,000 (2017: $15,000 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.

D. The Group has liability for severance pay for Germany resident employees in the amount of $456,000 (2017: $489,000) and for Belgium and France resident employees of $184,000 (2017: $183,000). This liability was divested as part of the disposal of automotive division in February 2019, please refer to Note 29.

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	2018 $'000	2017 $'000
Interest cost	122	107
Current service costs	641	637
	763	**744**

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:

	2018 $'000	2017 $'000
Present value of defined benefit scheme obligation		
1 January	5,176	4,281
Current service costs and interest	763	744
Benefits paid by the Company	(342)	(208)
Actuarial gains on plan liabilities – experience	(68)	(103)
Actuarial gains on plan liabilities – financial assumptions	(223)	–
Allocated to short-term liability	–	(126)
The effect of changes in foreign exchange	(242)	588
	5,064	5,176
Present value of defined benefit scheme asset (APAC)	(3,005)	(2,628)
31 December	**2,059**	**2,548**

	2018 $'000	2017 $'000
Present value of defined benefit scheme asset (APAC)		
1 January	2,628	1,822
Contributions by employer	791	619
Return on plan assets	61	38
Maintenance fee	(19)	(14)
Benefit paid	(324)	(100)
The effect of changes in foreign exchange	(132)	263
31 December	**3,005**	**2,628**

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

	2018 $'000	2017 $'000
Government bonds and corporate bonds	1,852	1,324
Loans	1,105	925
Saving deposit	27	56
Other investments	21	323
Total defined benefit scheme asset	**3,005**	**2,628**

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

	2018	2017
Discount rate (Italy / APAC)	1.13% / 2.62%	0.88% / 3.14%
Expected salary increase rate (Italy)	2.63%	2.63%
Expected salary increase rate including inflation (APAC)	3.00%	4.00%
Inflation (Italy)	1.50%	1.50%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled $68,782 (2017: $51,120) and the expected contributions to be paid in 2019 total $277,699.

21. CURRENT LIABILITIES

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Short-term bank loans	24,442	22,112	–	–
Current maturities of long-term loans	20,796	8,144	16,615	2,508
Total short-term borrowing from banks	45,238	30,256	16,615	2,508
Trade creditors (i)	120,824	104,012	3,219	2,999
Due to Group undertakings		–	64,877	33,309
Provisions (see also note 24)	2,254	708	–	–
Income tax payables (see also note 9)	2,836	2,190	–	–
Contract liabilities (deferred income)	3,542	1,769	–	–
Accruals and other current liabilities (ii)	28,123	26,415	3,412	1,858
Total current liabilities	**202,817**	**165,350**	**88,123**	**40,674**

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 2018 was 126 days (2017: 137 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 $13.2 million (2017: $14.3 million) and accrued expenses of $14 million (2017: $10.8 million) of which $2.4 million related to restructuring plan (2017: $2.7). Also includes $0.9 million for VAT and other tax authorities (2017: $1.1 million).

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.

On January 2, 2019, the court entered an Amended Scheduling Order for the case going forward. Telit has produced supplemental core technical documents and production of sales figures for the accused products, and Blackbird has provided infringement contentions. Telit's invalidity contentions are due April 12, 2019.

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 a 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. 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 defence 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 favour of Telit Ltd. in case the counterclaim is rejected. The court ruled in favour 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 and preliminary hearing is set to May 6, 2019.

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. The Group is currently involved in various tax assessment investigations in Italy. Should a case be brought by the Tax Administration in any of these, there could be a possible tax liability. However, given the stage of these investigations, it is not possible to make a reliable estimate of any potential liability at present.

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Operating leases which expire:				
Within one year	3,344	3,887	478	952
In the second to fifth years inclusive	9,419	8,125	1,414	1,055
Above five years	163	584	–	–
	12,926	12,596	1,892	2,007
Minimum lease payments under operating leases charged to the statement of comprehensive income for the year	4,592	4,367	1,682	1,170

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 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.

Following the sale of the automotive in 27 February 2019, Telit has paid off all previous credit facilities from HSBC Bank plc and its affiliates and Bank Hapoalim B.M. and the two banks agreed to release all the pledges and guarantees.

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 $34.5 million (2017: $37.9 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 (2017: $17.1 million) to certain suppliers of the Group to sustain credit lines granted by the suppliers to Group companies in respect of purchases actually made.

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	Tax (b) $'000	Legal (c) $'000	Other (d) $'000	Total $'000
Balance at 1 January 2018	220	488	–	923	1,631
Utilized in the year	(187)	–	–	–	(187)
Provided in the year	960	–	980	501	2,441
Release in the year	(188)	–	–	–	(188)
Exchange differences	(3)	(22)	6	(51)	(70)
Balance at 31 December 2018	**802**	**466**	**986**	**1,373**	**3,627**
Classified as:					
Current liabilities	802	466	986	–	2,254
Non-current liabilities	–	–	–	1,373	1,373
	802	**466**	**986**	**1,373**	**3,627**

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.

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 2018 we received several warranty claims which led us to change our provision method to be from a general one, covering general warranty risks to an accrual on a case-by-case basis, where a provision is accrued when a warrant claim or negotiations reach an advanced stage.

b. In December 2013 and November 2014 Telit EMEA received four VAT assessments from the Italian tax authorities in the total amount of approximately €16.6 million including interest and penalties (approximately $18.6 million), in relation to tax years 2004, 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 January 2015 (with respect to 2004) and 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.

24. PROVISIONS CONTINUED

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 and in March 2018 these were rejected. In June 2018, Telit filed an appeal with the Regional Tax Court to appeal this decision, and in July 2018, the Regional Tax Court of Trieste suspended the payment of the amounts due, on the basis of the first level decision. In September 2018, the Italian Revenue Agency served Telit with payment notices for a total of approximately €4.2 million. Since a suspension was granted by the Regional Tax Court, the requested amounts were not due. A hearing on the merits of the case was held in the Regional Tax Court in November 2018. Since the decision on the appeal with respect to the penalty deed should not deviate from the merits of the cases for 2005, 2006, 2007, the Regional Tax Court has decided to suspend litigation concerning the penalty deed until the Italian Supreme Court renders its decision with respect to the merits of the VAT case.

c. Between 2007 and 2010, the Company and its Italian subsidiaries were parties to several agreements with Bartolini After Market Electronic Services Srl. ("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 intended to file a criminal complaint against several people including Mr. Cats, subject to a preliminary hearing which had been scheduled for 25 May 2018. In July 2018, Telit was informed that the administrators to BAMES had taken steps to bring a civil claim against Telit – a civil liable entity – regarding its involvement with BAMES.

   In March 2019, Telit reached a settlement agreement approved by the court according to which it will pay, without any admission of liability and against a waiver of all civil claims against Telit in this respect, an amount of €840,000 plus approximately €21,000 of legal costs. This agreement has been entered into by Telit in order to bring certainty and closure to the matter between the Group and the administrators of BAMES. The settlement fees was paid in April 2019.

d. 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. Since 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.

In 2018 and 2017 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
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
16/07/18	4,715,000	1.71		25% on 16/07/19 25% on 16/07/20 25% on 16/07/21 25% on 16/07/22	16/07/23
20/09/18	20,000	1.83		25% on 20/03/19 25% on 20/03/20 25% on 20/03/21 25% on 20/03/22	20/09/23

* 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 2018 and 2017 the Company granted Restricted Stock Units (RSUs) to employees of the Company and its subsidiaries, as follows:

Date of grant	Amount granted	Vesting schedule
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
04/05/18	32,000	25% on 01/01/19 25% on 01/01/20 25% on 01/01/21 25% on 01/01/22
16/07/18	70,000***	25% on 16/07/19 25% on 16/07/20 25% on 16/07/21 25% on 16/07/22
20/09/18	48,000	25% on 20/03/19 25% on 20/03/20 25% on 20/03/21 25% on 20/03/22

** 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.

*** 40,000 (out of the 70,000) of the RSUs shall vest as follows: 25% are vested upon Grant; 25% shall vest 6 months from the grant date; 25% shall vest 15 months from the Grant date and 25% shall vest 24 months from the Grant date.

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

	Number		Weighted average exercise price (pence)	
	2018	2017	2018	2017
Outstanding at beginning of year	10,109,042	13,258,314	2.08	1.88
Granted during the year	4,735,000	2,595,993	1.71	1.84
Exercised during the year	–	(2,689,050)	–	1.51
Cancelled due to cashless exercise during the year	–	(1,603,347)	–	1.48
Forfeited during the year	(4,533,084)	(1,452,868)	1.91	2.27
Outstanding at year end	**10,310,958**	**10,109,042**	**1.95**	**2.08**
Exercisable at year end	**4,595,916**	**2,795,194**	**1.98**	**2.05**

The options outstanding at 31 December 2018 have an exercise price in the range of £1.71 to £3.2750 (2017: £1.78 to £3.2750) and a weighted average contractual life of 2.18 years (2017: 1.68 years).

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

	Number	
	2018	2017
Outstanding at beginning of year	3,854,000	1,735,000
Granted during the year	150,000	2,578,000
Exercised during the year	(778,500)	(252,000)
Forfeited during the year	(602,500)	(207,000)
Outstanding at year end	**2,623,000**	**3,854,000**
Exercisable at year end	**–**	**–**

The RSU's outstanding at 31 December 2018 have an exercise price of 1 pence and a weighted average contractual life of 2.07 years (2017: 3.06 years).

The Group recognised a total expense of $3,659,000 in respect of equity settled share-based payment transactions for the year ended 31 December 2018 (2017: $1,805,000). Of this amount, an income of $1,472,000 is attributed to the Company (2017: expense of $1,724,000). This includes reversal of unvested options charge relating to the former CEO of the company and other employees made redundant as part of restructuring ($2,056,000).

The fair value of services received in return for share-based options is measured by reference to the fair value of the share-based options granted. The estimate of the fair value of the services received is measured using the Black-Scholes pricing model except for the grant dated 16 September, 2014, which is measured using the Monte Carlo pricing model, as only this grant has market performance conditions associated with it.

In 2016 the Company changed the valuation model from Black-Sholes 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)
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
05 May, 2018 RSU's	1.619	0	56	5	1.09	0	1.31
16 July, 2018 RSU's	1.71	0	56	5	1.03	0	1.41
16 July, 2018	1.71	1.71	56	5	1.03	0	0.57
20 September, 2018	1.60	1.83	56	5	1.20	0	0.48
20 September, 2018 RSU's	1.60	0	56	5	1.20	0	1.31

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 are 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	
	2018 $ '000	2017 $'000	2018 $'000	2017 $'000
Secured – at amortised cost				
Current maturities of long-term loans	9,627	8,144	5,446	2,508
Other long-term loans	35,261	42,203	11,169	16,664
Total	**44,888**	**50,347**	**16,615**	**19,172**
Unsecured – at amortised cost				
Short-term bank loans and other borrowings	24,442	22,112	–	–
Due to Group Undertakings	–	–	–	–
Total	**24,442**	**22,112**	**–**	**–**
Disclosed in the financial statements as:				
Current borrowings	45,238	30,256	16,615	2,508
Non-current borrowings	24,092	42,203	–	16,664
Total	**69,330**	**72,459**	**16,615**	**19,172**

	Group			Company
	2018 $ '000	2017 $'000	2018 $'000	2017 $'000
Borrowings breakdown				
Working capital borrowing[1]	24,442	22,112	–	–
Long-term loan[2]	20,033	23,351	16,615	19,172
Governmental loan[3]	22,862	24,657	–	–
Mortgage loan[4]	1,993	2,339	–	–
Total	**69,330**	**72,459**	**16,615**	**19,172**

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 2.20% to 3.70%.

2 Representing long-term loans from HSBC in the amount of $16.6 million with interest at a rate of LIBOR plus 2.95% and is being repaid in 7 half year instalments that commenced in October 2018. In December 2018 the group failed to meet the EBIT covenant from HSBC and therefore presented the full amount of the loan in current liabilities. Following the automotive transaction completion, this loan was fully repaid in February 2019. Long-term loans from banks in Italy of $3.4 million with an interest rate of Euribor 6 months plus + 5.50% and is repayable in 6 semi-annual instalments that will commence in December 2020.

3 Representing preferential long-term loans (i) for $19 million with fixed-rate of 0.5% and is repayable in 14 semi-annual instalments that 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 $3.9 million with a fixed-rate of 0.80% and is repayable in 16 semi-annual instalments that will commenced in December 2019, supported by the Ministry of Trade and Commerce in Italy, provided in connection with the Group's business development program in Italy. The loans are initially recognised at fair value and subsequently measured at amortised cost.

4 Representing a preferential rate loan of $2.0 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 over 15 years in 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 2018	Cash flows	Reclassification[1]	Foreign exchange movement	Other	31 December 2018
Short-term borrowings from banks	22,112	6,895	–	(685)	(3,880)	24,442
Long-term loans including current maturities	50,347	(4,710)	1,620	(2,369)	–	44,888
Total liabilities from financing activities	**72,459**	**2,185**	**1,620**	**(3,054)**	**(3,880)**	**69,330**

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 Group manages its foreign currency risk by using the foreign currency forward contracts for operational transactions in Euro that are expected to occur within a maximum 12-month period. During 2018 the Group entered into forward contract for 1-3 months of its expected foreign currency transactions in Euro. The Group recognised a loss of $675,000 from these transactions in 2018.

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
US Dollar	37,177	57,330	38,536	33,463
Euro	8,158	2,768	641	634
ILS	3,152	318	1,350	1,733
Other	245	435	46	83

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	
	2018 $'000	2017 $'000
Impact on profit or loss of a 10% decrease	816	2,494
Impact on profit or loss of a 10% increase	(816)	(2,494)

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 analysis 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 (2017: $761,000); 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. Allowance for expected credit losses is determined using simplified approach. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For further details please see Note 17.

27. FINANCIAL RISK MANAGEMENT CONTINUED

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

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

Maximum credit risk:

	Group		Company	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Group				
Cash and cash equivalents	35,006	41,908	6,419	11,568
Deposits – restricted cash	345	393	–	–
Trade receivables	99,550	100,410	4,233	3,251
Due from Group undertakings	–	–	57,029	61,737
Other long-term asset	1,456	1,909	192	209
Loan (or investment in) to subsidiaries	–	–	53,803	22,717
Guarantee provided to banks on subsidiary's borrowings	–	–	34,474	37,908

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 2018 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

	2018			2017		
	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	–	120,824	–	–	104,012	–
Other current liabilities	–	31,665	–	–	28,184	–
Fixed rate	5.63%	3,909	18,954	5.89%	4,752	19,905
Variable rate	4.38%	41,329	5,138	3.85%	25,504	22,298

Company

	2018			2017		
	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	–	3,219	–	–	2,999	–
Other current liabilities	–	3,412	–	–	1,858	–
Variable rate	5.45%	16,615	–	4.40%	2,508	16,664
Due to group undertakings	–	64,877	–	–	33,309	–
Guarantees	–	–	34,474	–	–	37,908

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 are 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 64.

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	
	2018 $'000	2017 $'000
Cash and cash equivalent	35,006	41,908
Restricted cash deposits	345	393
Total cash	**35,351**	**42,301**
Current borrowings	(45,238)	(30,256)
Non-current borrowing	(24,092)	(42,203)
Total borrowings	**(69,330)**	**(72,459)**
Net debt	**(33,979)**	**(30,158)**
Shareholders' equity	86,486	124,543
Net debt to equity ratio	(39.30%)	(24.21%)

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

Fair value hierarchy

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

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

As of 31 December 2018, 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 2017 and 2018 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) **Trade receivable** – See note 17.

(b) **Trade payable** – See note 21.

(c) **Intercompany transactions:**

	2018 $'000	2017 $'000
Royalties (i)	8,429	12,669
Revenues from sale of products and services	6,886	5,956
Cost of sales	(11,298)	(5,387)
Research and Development (ii)	(453)	(381)
Selling and marketing (iii)	(4,974)	(5,324)
General and Administrative (ii)	(5,239)	(3,309)
Other expenses (iv)	(1,492)	(838)
Interest income	1,985	1,116
Guarantee fees	814	867

(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.

(iv) Other expenses includes profit of $1.2m from sale of investment, $2.2m loss from impairment of investment (see note 15).

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 36 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.

29. SUBSEQUENT EVENTS

a. **Automotive deal** – On 13 July 2018, Telit Communications PLC agreed to sell its automotive business to TUS International Limited ("TUS"). On 27 February 2019 the sale was completed for a total consideration of $105.0 million. The company has received $67.5 million in cash, including $1 million on account of the cash and working capital position of the disposed business, and has granted TUS a short-term vendor loan of $38.5m ("Vendor Loan").

TUS repaid this vendor loan in full on 15 April 2019.

The transaction required a reorganisation of the automotive division and within the Group and transfer of the IP, assets and employees who supported the automotive business in R&D and sales teams in several countries, this reorganization has been substantially completed in January 2019.

As of 31 December 2018, the net book value of the net assets, excluding working capital items, of the disposed business units is approximately $42 million. This includes Intangible assets of approximately $34 million. The net working capital items will be finally determined in May 2019 and will be added to the net consideration.

The capital gain before tax is expected to be approximately $55m and will be recorded in the financial statement of first half of 2019.

b. **BAMES settlement** – 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 2019, Telit reached a settlement agreement approved by the court according to which it will pay, without any admission of liability and against a waiver of all civil claims against Telit in respect, an amount of €840,000 plus approximately €21,000 of legal costs. This agreement has been entered into by Telit in order to bring certainty and closure to the matter between the Group and the administrators of BAMES. The settlement fees were paid in April 2019.

For more details see note 24c.

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.

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