

The Telit logo features the word "Telit" in a bold, black, sans-serif font. A small yellow diagonal line is positioned above the letter 'i'.

Telit

2019 Annual Report

The background of the cover is a cityscape at dusk or dawn, with a warm orange glow from the sun setting behind the buildings. In the foreground, a complex multi-level highway interchange is visible, with light trails from cars. Overlaid on the entire scene is a network of white, glowing lines and nodes, representing a global communication or data network.

Connecting the world from the **inside out**

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, IoT platforms and virtual cellular IoT operator, empowering 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 2019, the Group employed 850 people worldwide.

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Chairman’s statement



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Chief Executive Officer’s statement



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Finance Director’s statement



55-109

Financial statements



HIGHLIGHTS

FINANCIAL HIGHLIGHTS¹

\$382.8m +8.3%

Group revenues
(2018: \$353.4 million) excluding automotive business revenues (sold in February 2019)

\$392.5m

Total Group revenues including two months' contribution from the automotive business (2018: \$427.5 million including full year revenue from automotive business)

\$41.0m +20.2%

IoT Cloud and Connectivity revenues
(2018: \$34.1 million) driven by strong performance of both the connectivity and the IoT platforms business

\$16.9m

Adjusted EBIT
(2018: \$2.3 million)

\$63.6m

Operating profit EBIT
(2018: loss \$33.4 million) includes \$54.5 million related to the profit on disposal from the sale of the automotive business²

\$13.2m

Adjusted profit before tax
(2018: loss \$4.1 million)

12.5¢

Adjusted earnings per share
(2018 loss per share of 3.8 cents)

36.0¢

Basic earnings per share
(2018: loss per share of 27.9 cents)

\$11.7m

Profit in cash³
(2018: loss \$3.6 million) substantial improvement of \$15.3 million in 2019 reflecting the focus on cash generation

\$38.2m +26.9%

Adjusted EBITDA
(2018: \$30.1 million), with \$15.3 million of R&D capitalisation (2018: \$25.3 million)

\$59.9m

Profit before tax
(2018: loss \$39.8 million)

\$48.2m

Net cash at 31 December 2019
(31 December 2018: Net debt of \$34.0 million)

\$34.6m

Cash flow generated from operating activities before movement in working capital (2018: \$14.8 million)

¹ For the definition of 'Adjusted' figures and reconciliation from IFRS financial results to adjusted financial results please refer to Note 10 to the attached financial statements.

² Please refer to Note 4C 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 10.

OPERATIONAL HIGHLIGHTS

- Successful completion of the sale of the automotive business, including finalisation of the working capital adjustment
- Implementation of cost optimisation plan with full effect to be realised in 2020
- Execution of first live 5G testing for industrial grade 5G product
- Further investment in OneEdge, integrated hardware and services offering designed to enable enterprises to manage IoT integration and scalability
- Introduction of new Low Power Wide Area (LPWA) cellular modules based on Qualcomm® 9205, ME910G1 and ME310G1
- Extension of SimWISE, embedded sim technology into Telit's 2G, LTE-M and NB-IoT modules
- New production agreement with a tier 1 contract manufacturer in Vietnam with mass production expected to start in the second quarter of 2020

GLOBAL FOOTPRINT



20+
Years

Experience in IoT



2G-5G
diversified
module portfolio



850

Employees
Worldwide



20+
Sales offices
Covering 80
countries around
the world



5
R&D Centres



4
Manufacturing
Sites (EMS)

TELIT AND THE INTERNET OF THINGS

The Group sells its products and services directly, and via 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 manufacturers (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 2019, the Group employed 850 people worldwide.

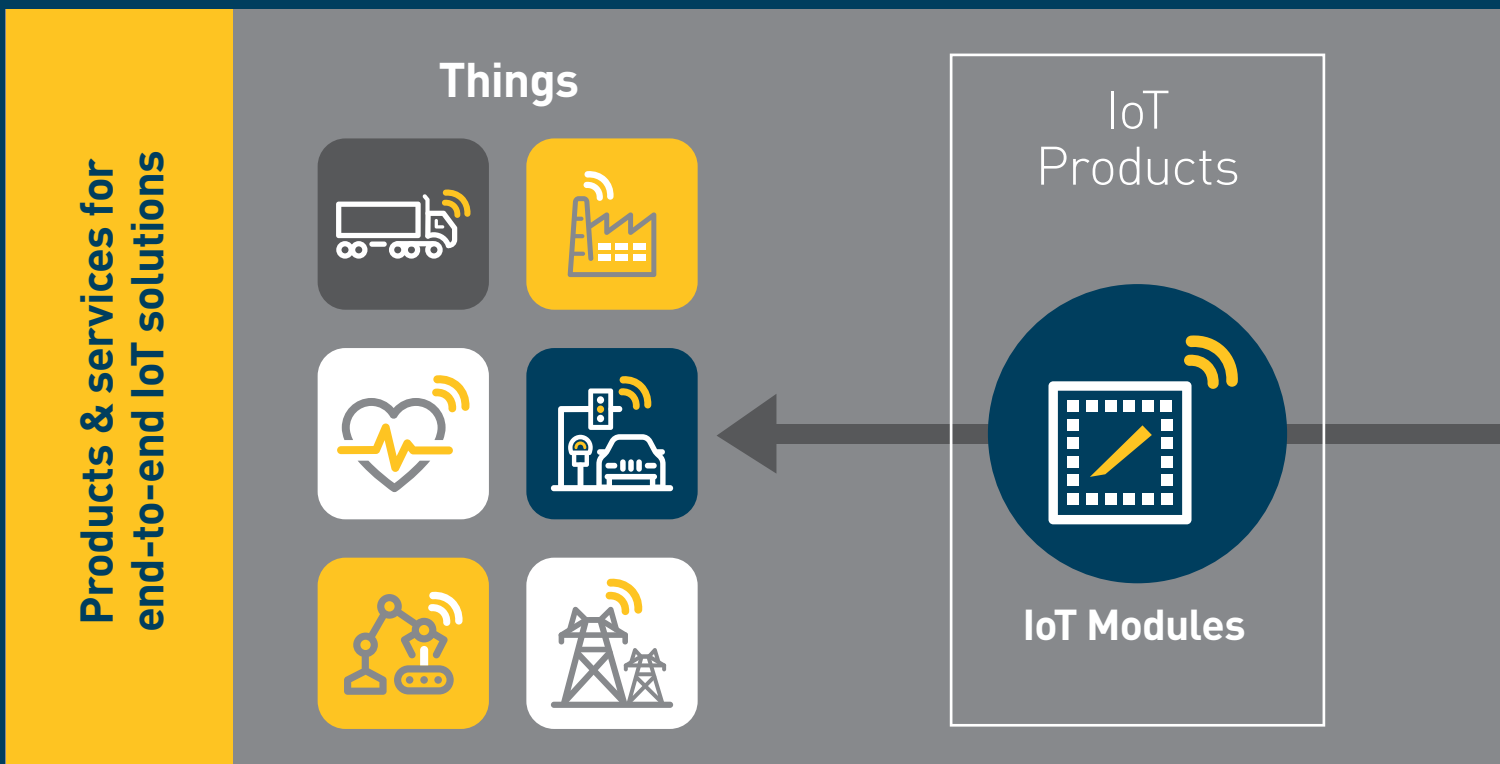
IoT

Following years of investment by leading technology firms IoT has reached the same stage of commercialisation as traditional IT. Across industry surveys commissioned by both corporates and research firms, CIOs and CTOs from all sectors have an increasingly bullish view of IoT. This is however, still tempered by caution, particularly regarding cybersecurity and complexity in scaling deployments.

As this common ground with IT grows, a few key concepts must be adapted, so that the need for critical solutions is positioned centre stage across the entire technology industry. In traditional IT, which evolved from a centralised architecture, the core system at IT headquarters or the cloud is "mile marker zero," and the edge of the operating network is the "last mile."

Telit believes the growth and development in IoT has not yet reached its full potential due to investors and the broader industry forgoing IoT in favour of more traditional IT archetypes. With the aim of starting an industry dialogue, Telit in 2019 introduced its argument that IoT is, and needs to be considered as, the First Mile of an information system architecture.

It is in this First Mile of IoT™ that challenges such as cybersecurity, single point of failure and scaling complexity have caused information systems – large and small – to fail. It is, therefore, in the First Mile that solutions must be delivered to ensure there are robust systems across the entire information chain – from the sensor at the very edge to the corporate servers.



Simplifying digital transformation

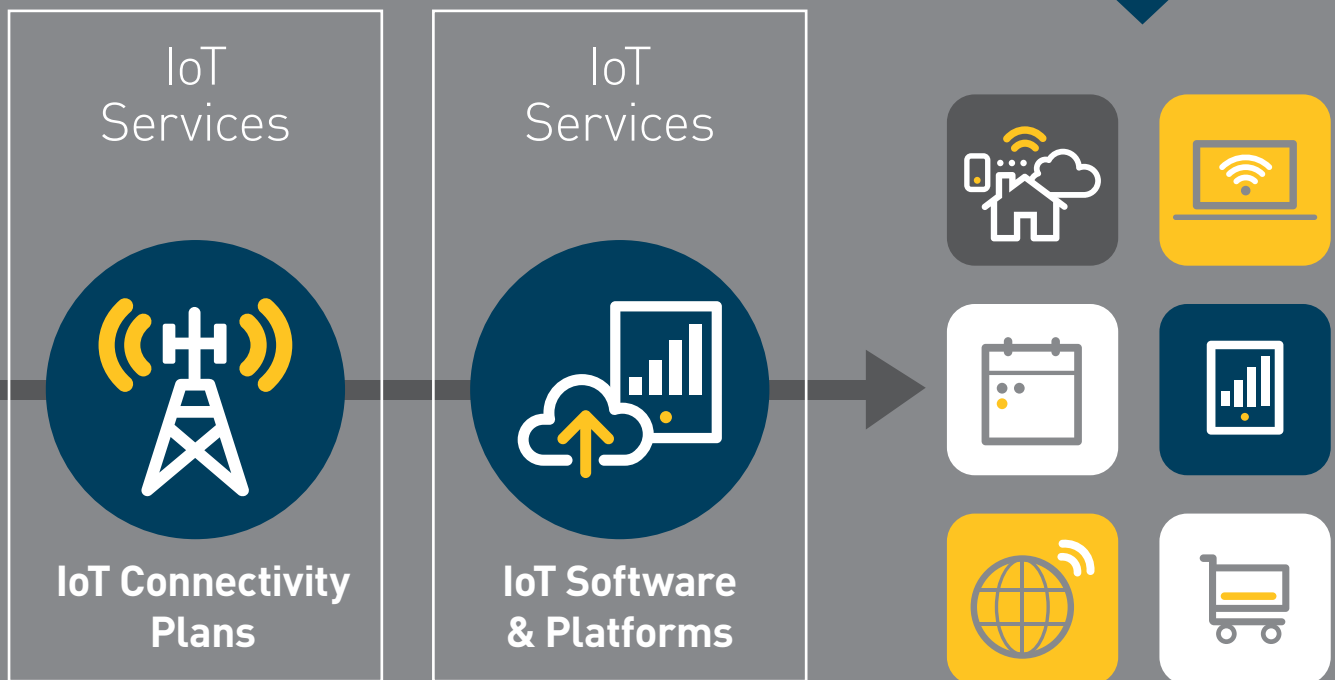
Telit Communications PLC, together with its subsidiaries (the “Group”, “Telit”) is a global leader in Internet of Things (IoT) enablement. The Group has an extensive portfolio of IoT products and services including wireless connectivity modules (from 2G to 5G technologies), Global Navigation Satellite System (GNSS) modules, short-range wireless modules including low power Wi-Fi and Bluetooth, IoT platforms, virtual cellular IoT operator, all of which enable hundreds of millions of connected “things”.

To address this need, Telit has realigned its corporate assets in hardware, software, platforms and connectivity to elevate the edge, the First Mile of IoT, with products that remain individually competitive in terms of quality, features and innovation. The Telit portfolio strategy has been adjusted to span two critical solution dimensions “Connect and Manage”. When bundled into edge solutions, “Connect” plus “Manage” offerings become unique in the market, seamlessly integrating Telit’s broad range of industrial-grade modules with native security, ease of device management at scale, embedded SIM and multi-carrier connectivity, among others.

At the centre of our First Mile strategy is Telit’s OneEdge®, a unique and compelling offer in the IoT/IT edge space that has won five awards¹ from prestigious organisations, including research firms VDC and Compass Intelligence, since being announced in February 2019. OneEdge is ideal for IoT deployments based on low-power cellular technology, the space in which IoT projects have been hindered the most due to deployment complexity and security risks.

The strategy for Telit’s high-speed class of products remains focused on evolution and innovation of Gigabit LTE and 5G products. These products enable new generations of enterprise-class, all-cellular routers, gateways and corporate network appliances, including special efforts starting towards the vibrant space of private LTE (pLTE) and private 5G. Telit’s LM960A18 pioneering Gigabit LTE data card, announced in February 2018, has achieved de facto standard status for its class of device, winning five awards including the prestigious Mobile Breakthrough Award for LTE Solution of the Year 2019.²

1 Compass Intelligence IoT Innovator Awards – Winner of the IoT Innovator: IoT Chipset Technologies; VDC Research Embeddy Awards – Winner of Gold; IoT Evolution – Winner of the IoT Product of the Year Awards; Computing Technology Product Awards – Winner of the IoT Product of the Year; IoT Evolution World – IoT Edge Computing Excellence Award.
 2 <https://mobilebreakthroughawards.com/2019-winners/>



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

OUR BUSINESS MODEL

Telit develops, markets and sells cellular, Global Navigation Satellite System (GNSS) modules, 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. The Group's connectivity business offers custom mobile data plans and roaming solutions for IoT business models with no hidden fees and no extra roaming charges.

The Group operates in a highly competitive market, requiring constant innovation, quality customer service and a wide portfolio range. In order to increase value to its customers, Telit integrated its offerings into one solution, allowing its customers to easily connect and manage their IoT devices, reduce costs and shorten time-to-market. Telit is committed to investment in research and development with the aim of delivering new or improved cutting edge IoT products and capabilities to its customers.

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

Market position and competitive advantage

With extensive R&D experience, gained from its highly-skilled base of employees with extensive combined experience, Telit has several differentiators that elevate its market position and competitive advantage including:

- **Flexibility:** Telit offers cross-technology products and services that facilitate connection of stand-alone devices and connect it to the IoT and to business apps. Our offering provides customers the flexibility of sourcing any service or product and any combination thereof.

Telit modules are designed as a 'family' concept: all modules in a specific family have the same form factor and software compatibility, while providing different functionalities and technology to meet the requirements of different vertical application segments and regional configurations. They also enable our customers to upgrade their products to more advanced technologies with minimum efforts. The costs that solution architects and their enterprise customers face as they implement IoT is substantial: all modules in a 'family' are compatible, 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 delivered in excess of 20 million modules in 2019, with a robust supply chain that includes strong relationships with suppliers, high skilled manufacturing partners and full control of capacity. This supply chain helps Telit to easily scale up production capacity and the number of customers we can serve. Our IoT services includes solutions for an extensive set of application types and different deployment scales with products and services to cover from a few, to millions of units.
- **Innovation:** Telit continues to introduce innovative solutions to connect 'things' to the IoT. New solutions includes the introduction of combo devices or different hardware products bundles as well as hardware and services bundles. One of Telit's recent investments led to the successful development of 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.

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.

- **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.
- **Presence:** Telit has a presence in the Americas, EMEA and APAC with more than 179 employees in the Americas, more than 399 employees in EMEA and more than 272 employees in APAC. This global presence helps Telit to support its customers in each region, whether it is a local business or a global organisation which requires support in different regions. In each of these regions, Telit has R&D, sales, marketing, operational and corporate functions that allow smooth and efficient communication with customers.



SPECIALISMS:
Vending POS
Retail

LOCATION:
Israel

OBJECTIVES

Nayax looked to ensure improved data communication and an affordable 4G and CAT-M technology.

In addition, they wanted to give their business customers up-to-the-minute info on stock, and serve vendor ads to consumers to drive sales.



WHAT TELIT DID

Nayax selected the Telit's ME910 module for operation on efficient CAT-M networks. This module is suitable for industries that demand lower costs, increased security and extended product lifecycles.

Telit data plans allow rapid international expansion for Nayax under one data plan contract with simple pricing and robust data cost controls.



Integrating the Telit ME910 in our cashless payment solutions enables us to provide enhanced communication features for our customers. Telit ensures our customers receive the necessary data for operating their businesses, improving productivity at every stage of the process.”

KEREN SHARIR
CMO, Nayax

RESULTS

- As consumers expect faster and faster payment experiences, Nayax delivers with its new 4G-based POS technologies. Nayax consumers may pay with credit, debit, EMV chip card, contactless, mobile wallets, or QR codes.
- Nayax created marketing and sales opportunities that can bring great consumer engagement for improved up sale and increased revenue.

CHAIRMAN'S STATEMENT



“2019 was a good year for the Group, in which we delivered a strong financial and operational performance.”

Simon Duffy
Chairman

I am delighted to report on behalf of Telit's Board of Directors that 2019 was a good year for the Group, in which we delivered a strong financial and operational performance. Telit's management is continuing to optimise the Group's strategy and to pursue further cost reductions. We are confident that we can create long-term value by exploiting the numerous opportunities we face as a global leader in the IoT market.

In February 2019, Telit completed the sale of its automotive business for \$105 million subject to working capital adjustments. The sale has provided the Group with the financial flexibility to accelerate the integration of its IoT products and services businesses. Following the sale, the Group is now focused solely on the industrial IoT market, the main driver of digital transformation for enterprises. Telit is committed to maintaining and growing its leading position in the IoT products market, increasing the value and differentiation of its products by leveraging the combination of modules and IoT services and ensuring the better utilisation of its sales force.

Telit's end-to-end model allows connected devices to become more efficient and user friendly, with software playing a key role in simplifying an enterprise's approach to IoT. This integrated business model enables Telit to leverage its combined offering of modules, connectivity and IoT platform and portal.

Return of Capital

Following the sale of the automotive business and subsequent repayment of most of the Company's borrowings and reflecting the strong financial performance of the business during the year, at 31 December 2019 the Company had net cash of \$48.2 million. While seasonal fluctuations mean the cash position can vary materially during the course of the year, the Board nevertheless is considering the possibility of returning cash to shareholders if market circumstances mean that it is prudent to do so. To give the Board flexibility in this regard, the Board proposes to seek approval at the forthcoming Annual General Meeting to be given authority to make market purchases of the Company's shares for up to 10% of the outstanding shares or up to \$20 million. Subject to any unforeseen material events, and in particular to the potential impact Covid-19 may have on Telit's business, the Board intends and expects to execute the repurchase programme during the balance of 2020. Further details will be announced in due course.

Board

In May 2019, Paolo Dal Pino and I were appointed as the Group's Chief Executive Officer and Chairman respectively. At the AGM in June 2019, one director was not re-elected to the Board and in July another director resigned after moving to Australia. Following these changes, we strengthened the Board with two new appointments. In August 2019 Marco Patuano was appointed as an independent non-executive director and chairman of the Audit Committee and in October 2019 Anthony Dixon was appointed as an independent non-executive director. Additionally, Gil Sharon assumed the role of senior independent non-executive director in August 2019. The Board now comprises five independent non-executive directors (including the chairman) and two executive directors.

I am confident the Board as currently constituted has the skills and experience to strengthen further Telit's corporate governance and to reinforce its leading position in the global industrial IoT market.

FCA Investigation

In December 2018, we informed shareholders that the FCA had expanded the scope of the investigation originally announced on 27 March 2018. The expanded scope is focused on the accuracy of both Telit's trading update of 25 April 2017 and the reasons given for the placing 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 with the objective of bringing this matter to a conclusion as swiftly as possible.

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

People

A summary of the breakdown of gender diversity across the Company as of 31 December 2019, is as follows:

	Female	Male
Board (including executive directors)	–	7
Management	1	7
All other employees	202	638

Most importantly, on behalf of both the Board and our shareholders, I would like to thank all our employees and managers worldwide for the commitment and dedication they have continually demonstrated throughout the year. Their efforts, particularly in a time of significant change for the Company, are reflected in Telit's strong performance in 2019 and in our confident outlook for the future, despite current market uncertainties.

Simon Duffy
Chairman

17 March 2020

TrapMe®

SPECIALISMS:
Connected Product
Retail

LOCATION:
Copenhagen, DK

OBJECTIVES

TrapMe wished to create an innovative non-toxic, cellular connected rodent trap on the market. Communicating "Catch" or "False alarm" messages to a cloud portal.

Designed to be sold to large pest control companies to reduce servicing costs for their networks of traps.



WHAT TELIT DID

Telit end-to-end IoT offering of module, connectivity solution, and platform instrumental in achieving quickly launched and well-supported connected product. History of supplying quality products to design house CB Svendsen in the past.



RESULTS

- Significantly reduced costs due to less frequent service visits.
- simWISE module with SIM capabilities enables small BOM and tiny, water-proof design of device.
- Telit platform pushes data to TrapMe app, and enables availability for integration into cloud systems like Azure and SAP HANA.



Telit simWISE™

CHIEF EXECUTIVE OFFICER'S STATEMENT



“Telit is a key player in the industrial IoT market and has already become a leading end-to-end IoT provider enabling enterprises to successfully execute their digital transformation.”

Paolo Dal Pino
Chief Executive Officer

Overview

I am pleased to report that in 2019 Telit made great progress towards our strategy of:

- refocusing the business on industrial IoT products and solutions;
- investing further in OneEdge, our integrated hardware and services offering, which was launched this year;
- appointment of new contract manufacturer outside China to increase scalability and reduce operational risks;
- optimising our structure to be more focused on growth, improved profitability and cash generation;
- delivering healthy growth with double digit revenue growth for IoT services.

For the full year 2019, we reported significant progress in the Group's financial performance, with revenue and profitability growing across segments.

We saw a slight improvement in our overall gross margin, which was an important objective, growing to 32.9% in 2019 compared to 2018 (32.6%). Whilst this improvement is mainly due to the automotive sale, we are focussed on improving this further. Following the move to a profit in cash in the second half of 2018, we saw further improvement in the profit in cash in 2019, from a loss for the full year 2018 of \$3.6 million to a profit of \$11.7 million.

Since I took on the role of CEO, I further aligned the management team to the fundamentals of our core business. This included optimisation of our operational structure, better integration of our products and services, reshaping our go-to-market strategy and a focus on improved profitability and cash generation.

Our renewed emphasis on the core business of industrial IoT products and services was the main reason for the disposal of the automotive division. The transaction closed at the end of February 2019 and is an important milestone in executing our strategy. It frees up considerable internal resources, provides significant cash inflow and the financial flexibility to accelerate the integration of our hardware products and IoT services and provides additional financial resources to expand our supply chain and direct purchasing plans.

Strategy

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

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

We believe in end-to-end solutions: connected devices must become more efficient and user friendly, with software playing a key role in simplifying an enterprise's approach to IoT. Our 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 have identified the industrial IoT market as 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 public and private enterprises globally, in which everything becomes connected, presents a significant opportunity to us. Enterprises are increasingly realising the benefits of collecting the right information, and processing it into actionable data that can be transmitted and acted upon. Efficient and intelligent data processing allows companies to solve both legacy issues and ones they may not have thought of before.

Telit 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 applications being developed. Our products provide a significant reduction in time-to-market and total cost of ownership for customers.

The Group markets its IoT products to a broad range of market segments including asset tracking, health care, security, telematics, point of sale, wearables, telemetry, industry, energy and smart metering. In order to cater to such diverse industries, Telit continues to develop a wide range of cellular products from low bandwidth 2G and NB-IoT to high category LTE and 5G modules.

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 experts, mapping and contracting separately with multiple global MNOs. The Group continues to invest in and develop its IoT connectivity business, which covers all customer connectivity needs and provides a recurring revenue stream for Telit. We expect an increase in the number of customers adding connectivity services with the integration of SimWISE into more of our products.

IoT Platform services. Telit's IoT platform is an industrial grade suite of software that provides device management, connectivity 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 / Industrial IoT (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 as well as tying in 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. We expect to increase the attach rate of services sold to our product's customer with our OneEdge solutions.

These three components allow Telit to enable 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

In February 2019 we completed the sale of our automotive business, including finalising the working capital adjustment upon completion and as previously described. Following the closing of the sale, Telit's financial debts mainly consists of governmental loans provided to the Group's Italian subsidiary.

The disposal of the automotive business saw the Group's subsidiary in Belgium and its wholly owned subsidiary in France, being sold, together with three newly subsidiaries incorporated in Germany, Israel and Korea as part of the reorganisation. The automotive business represented approximately 17% of Telit's revenue in 2018. For further information see Note 4C.

In 2019, we also continued our reorganisation and optimisation programme in order to stabilise our gross margin and improve overall profitability and cash generation. Our achievements in this regard include:

- We further focused on our 4G portfolio, including low CAT as well as high CAT, including a 5G development programme to complete the high CAT portfolio. Our first 5G product which will address the demand for high bandwidth products including applications like gateway and routers is expected to be certified in the first quarter of 2020.
- Our IoT connectivity business continued to grow and improved profitability highlighting the growing demand for dedicated IoT connectivity services, and the scalability achieved in this business. The Group continues to develop more flexible and cost-effective solutions including investment in MVNO licence and core network as well as further investment in IoT modules with iSIM. These investments will allow us to bring to market in 2020, new connectivity solutions which will enable us to better compete on global projects with large scale.
- We completed the reorganisation of our non-cellular business and closed R&D centres in high cost areas transferring the knowledge to lower-cost sites such as India, Italy and Korea.

- The integration of the hardware and services businesses is progressing well: the launch of OneEdge in 2019 has been a success, winning five awards to date.
- We signed an agreement with a tier 1 contract manufacturer in Vietnam in order to reduce supply chain risks and increase the overall competitiveness of our product cost.

We are pleased to see the benefits of our cost saving initiatives coming through in 2019 and future years.

R&D and investment

We continue to invest across our range of products and services, including the development of our software suite – "oneEDGE" – which enables solutions for a new generation of Telit 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, security 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 include not only the development of each of the solutions mentioned above 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 up time to market by simplifying deployment.

Impact of Covid-19 coronavirus

Telit's supply chain includes several contract manufacturers that support its production requirements. One of the Group's suppliers in China resumed partial operations in early February 2020, following the government mandated extended closure for the Chinese New Year holiday period. The remainder of the Group's suppliers restarted production fully during February 2020. Consequently, the Group is currently facing minimal impact to its production plan but will continue to work with its suppliers and customers closely to avoid any disruption.

Demand from customers is in line with expectation at this stage, but we cannot estimate how long the crisis around the Covid-19 will last and the impact on the market, which could also affect future demand from customers.

Due to the ongoing Covid-19 situation, Telit has asked some of its employees work from home as a safety precaution. In the last 2 years, Telit already certified core business operations under the international standards of ISO 22301 and ISO 27001. As part of the implementation of these standards, we created and adjusted technological solutions to support seamless business operations and allow business as usual. Telit continuously invests in its business processes and guidelines to minimise risks and maintain service levels for our customers. To that end, Telit maintains a robust remote access network architecture to support our staff for remote working. Telit confirms that these processes worked as intended verifying our infrastructure and business continuity standards.

Outlook

The IoT market remains fast growing and dynamic and Telit remains well positioned to capitalise on growth opportunities in this market. The Board is fully committed to delivering value and growth for the business as a leading enabler in the industrial IoT space.

Building on the progress made over the last two years, and subject to the wider market disruptions cause by Covid-19, we are confident that our operational and financial performance in 2020 will continue to improve and we will be well positioned to deliver another year of growing profit and cash. We are clearly mindful of risks to our business, including those related to COVID-19 that might affect us in the short term, but our business will benefit both from the addition of OneEdge and from new offerings within the cloud & connectivity business. In view of this, and seeing the benefits of the hard work of recent years, the Board is confident in the Group's prospects for the future.

Paolo Dal Pino
Chief Executive Officer
17 March 2020

FINANCE DIRECTOR'S STATEMENT



“In 2019 we successfully improved the Group's overall profitability and efficiency while maintaining our future potential development and growth.”

Yariv Dafna
Finance Director & President

I am pleased to report that in 2019 Telit achieved significant improvement in its financial results based on revenue growth, a reduction in operating costs and the sale of the automotive business. In 2019 we improved the Group's overall profitability and efficiency while maintaining our future potential development and growth.

Financial results

	2019 \$m	2018 \$m	Change \$m	Change %
Revenues	392.5	427.5	(35.0)	(8.2%)
Gross profit	129.3	139.2	(9.9)	(7.1%)
Gross margin	32.9%	32.6%		
Other operating incomes	3.4	1.9	1.5	78.9%
Research and development expenses	(46.7)	(73.0)	(26.3)	(36.0%)
Selling and marketing expenses	(48.2)	(59.1)	(10.9)	(18.4%)
General and administrative expenses	(25.9)	(26.0)	(0.1)	(0.4%)
Exceptional expenses related to restructuring	(1.0)	(10.8)	(9.8)	(90.7%)
Other exceptional items	52.7	(5.5)	58.2	
Adjusted EBITDA	38.2	30.1	8.1	26.9%
Profit / (loss) in cash	11.7	(3.6)	15.3	
Operating income / (expense) (EBIT)	63.6	(33.4)	97.0	
Adjusted EBIT	16.9	2.3	14.6	634.8%
Profit / (loss) before tax	59.9	(39.8)	99.7	
Adjusted Profit / (loss) before tax	13.2	(4.1)	17.2	
Basic earnings / (loss) per share (cents)	36.0	(27.9)		
Diluted earnings / (loss) per share (cents)	35.7	(27.9)		
Adjusted basic earnings / (loss) per share (cents)	12.5	(3.8)		
Adjusted diluted earnings / (loss) per share (cents)	12.4	(3.8)		

Adjusted EBIT is defined as Earnings Before Interest, Tax, share based payment expenses, amortisation of acquired intangibles, impairment of internally generated development assets, other exceptional items, exceptional expenses related to restructuring and the profit on disposal of the automotive business. Adjusted EBITDA is defined as Adjusted EBIT plus depreciation and other amortisation. Profit/loss in cash is defined as Adjusted EBITDA less capitalisation of internally generated development assets less acquisition of tangible and intangible assets net of proceeds from disposal of assets, less lease payments. Adjusted Profit / (Loss) before tax is defined as profit / (loss) before tax plus share based payment expenses, amortisation of acquired intangibles, other exceptional items, exceptional expenses related to restructuring, impairment of internally generated assets, and the profit on disposal of the automotive business.

Reconciliation between operational and adjusted operational results

	2019 reported \$m	Exceptional items \$m	Impairment of internally generated assets \$m	Share based payment expenses \$m	Amortisation of intangible acquired \$m	2019 adjusted \$m
Revenues	392.5	–	–	–	–	392.5
Gross profit	129.3	–	–	–	–	129.3
Gross margin	32.9%					32.9%
Other operating income	3.4	–	–	–	–	3.4
Research and development expenses	(46.7)	–	1.3	0.6	1.1	(43.7)
Selling and marketing expenses	(48.2)	–	–	0.6	0.9	(46.7)
General and administrative expenses	(25.9)	–	–	0.8	–	(25.1)
Exceptional items	51.7	(51.7)	–	(0.3)	–	(0.3)
Operating income (EBIT)	63.6	(51.7)	1.3	1.7	2.0	16.9
Profit before tax	59.9	(51.7)	1.3	1.7	2.0	13.2

Revenues

Group revenues, excluding the automotive business sold in February 2019, increased by 8.3% to \$382.8 million (2018: \$353.4 million), of which cloud and connectivity revenues were \$41.0 million (2018: \$34.1 million), an increase of 20.2%.

IoT products – revenue growth was driven by double digit growth in the Americas and APAC, while EMEA saw a smaller increase in revenue. We are well positioned to improve revenue growth in EMEA compared with the last few years based on the growing demand for LTE products in this region.

IoT services – The 20.2% increase in Cloud and connectivity revenues is encouraging, and we believe this trend will continue in the coming years. In the IoT connectivity business, we enjoyed another year of fast growth boosted by a strong performance in the US. We also saw faster than expected for revenue growth from IoT Platforms, resulting from the ramp up of certain projects and growth of several running projects.

Telit's activities in the IoT services business unit have grown in recent years and, although revenue results from this business unit still comprise about 10% of the Group's revenue, it contributed more than 19.3% of the gross profit and represents an important growth engine for the future.

	2019 \$m	2018 \$m	Change
Americas ¹	194.1	176.1	10.2%
EMEA ²	114.2	112.8	1.2%
APAC ³	74.5	64.5	15.5%
Total	382.8	353.4	8.3%
Automotive ⁴	9.7	74.1	(86.9%)

1 Americas – remains our biggest region with revenues growing in line with our expectation. The overall demand for LTE products continued to grow, driven by additional certifications of our CAT-1 and CAT-M1 products and the major US carriers plans to focus exclusively on LTE. We believe Telit is in a good position to continue to grow revenue in this market at a higher rate than the overall growth of the Group.

2 EMEA – revenues increased slightly and below our expectations. EMEA continues to be impacted by cellular technology stagnation but we have started to see growing low category LTE deployment ramping up and we expect this to improve growth in this region.

3 APAC – revenues increased significantly and slightly above our expectation mainly as a result of a faster deployment of several projects in the region.

4 Automotive – In 2019 reflect from 1 January to 27 February 2019.

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

2019	IoT Products \$m	Cloud & Connectivity services \$m	Consolidated \$m
Revenue			
External sales:	351.5	41.0	392.5
Result			
Gross profit	104.3	25.0	129.3
Gross margin	29.7%	60.9%	32.9%
Segment EBIT	27.2	0.6	27.8
	7.7%	1.4%	
Unallocated expenses ¹			(18.7)
Capital Gain (automotive disposal)			54.5
Operating profit			63.6

FINANCE DIRECTOR'S STATEMENT CONTINUED

2018	IoT Products \$m	Cloud & Connectivity services \$m	Consolidated \$m
Revenue			
External sales:	393.4	34.1	427.5
Result			
Gross profit	118.5	20.7	139.2
Gross margin	30.1%	60.6%	32.6%
Segment EBIT	7.4	(13.9)	(6.5)
	1.9%	(40.8%)	
Unallocated expenses ¹			(26.9)
Operating loss			(33.4)

¹ Unallocated expenses principally including general and administrative expenses such as directors' compensation, salaries of certain senior executives, professional fees and other expenses which cannot be directly allocated to one of the segments.

Gross profit and gross margin

Gross profit was \$129.3 million (2018: \$139.2 million), a decline of 7.1%, due to the decline in revenue related to the automotive business. Excluding the automotive business, gross profit increased by 3.0%.

The Group's gross margin improved slightly to 32.9% (2018: 32.6%). The improvement from 2018 was below our expectations caused by an increase in the cost of goods sold due to shortage of certain components which contributed to extra costs, and by an additional write off of inventory, following the discontinuation of a product line. Whilst we are expecting LTE product margins to further improve and cloud and connectivity to grow faster and thereby improve the overall margin, we expect the future gross margins to remain in the low thirties.

Operating expenses

- Gross R&D expenses as follows:

	2019 \$m	2018 \$m
Gross research & development expenses¹	50.5	70.9
Less – capitalisation ²	(15.3)	(25.3)
Add – amortisation	10.2	17.2
Add – impairment	1.3	10.2
Research and development, net	46.7	73.0

¹ Gross research and development expenses declined by \$20.4 million mainly due to the reduction of R&D resources that supported the automotive business that left at the completion date (approximately 50% of the saving) and the remainder is due to the impact of the implementation of our cost reduction plan.

² The amount capitalised in respect of internally generated development assets decreased by 39.5%. As a percentage of gross R&D expenses, it decreased from 35.7% in 2018 to 30.3% in 2019. The amount capitalised declined mainly due to the automotive divestment which had a higher capitalisation rate for the automotive products. The capitalisation amounts in 2019 related mainly to the development of high category LTE products (including 5G) and to a new family of CAT-M1 and NB-IoT and the development of SimWISE and OneEDGE.

- Selling and marketing expenses decreased by 18.5% to \$48.2 million (2018: \$59.1 million). The decrease derived from the divestment of the automotive business (approximately 40% of the saving) and the realisation of our cost saving plan.
- General and administrative expenses decreased slightly to \$25.9 million (2018: \$26.0 million).
- Exceptional expenses related to restructuring:

Following the review of the Group's activities, a restructuring plan was adopted in late 2017, implemented in 2018 and has been substantially completed in 2019 explaining the decrease in exceptional expenses related to restructuring from \$10.8 million in 2018 to \$1.0 million in 2019. In 2019 the costs related mainly to the closure of a R&D centre in the US and moving of the knowledge and activities to a lower cost centre.

• Other exceptional items:

	2019 \$m	2018 \$m
Integration and transaction costs ¹	1.0	2.8
Legal and other expenses related to FCA investigation and related matters ²	0.7	0.9
Legal expenses related to BAMES ³	0.1	1.3
Other	(0.1)	0.5
Sub-total	1.7	5.5
Profit on disposal automotive business ⁴	(54.5)	–
Total	(52.8)	5.5

¹ Mainly legal and other costs related to the automotive reorganisation and sale which was signed in 2018 and completed in February 2019.

² Costs related mainly to the ongoing FCA investigation and related matters the circumstances giving rise to which began in 2017.

³ Costs related to defending the Group's position in the BAMES case (in 2018, including the settlement fees of approximately \$1 million).

⁴ Profit on disposal of the automotive businesses, see Note 4

Finance costs, net

	2019 \$m	2018 \$m
Non-cash expenses related to effective rate interest on preferred loan	1.1	1.2
Interest expense on bank loans and overdrafts ¹	0.8	3.1
Bank fees and other bank expenses	1.1	1.2
Exchange rate differences, net	0.8	0.4
Loss from forward currency contracts ²	0.4	0.6
Interest related to IFRS16 liabilities ³	0.8	–
Interest income	(1.2)	(0.1)
Total	3.8	6.4

¹ Interest expenses related to loans and overdrafts decreased by \$2.3 million, due to repayment of HSBC and BHI loans in February 2019.

² 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.

³ The Company implemented the new standard from 2019, according to IFRS 16, the finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. See Note 22



In 2019 profit in cash was \$11.7 million, a significant improvement over the \$3.6 million loss in cash of 2018.

Profitability

We measure our profitability based on adjusted figures to eliminate exceptional items and share based payment charges. The adjusted EBIT and PBT exclude:

- a share-based payment charge of \$1.7 million (2018: \$5.7 million);
- restructuring costs of \$1.0 million (2018: \$10.8 million);
- capital gain of \$54.5 million related to the sale of the automotive business;
- other exceptional expenses of \$1.7 million (2018: \$5.5 million);
- impairment of capitalised development assets of \$1.3 million (2018: \$10.2 million); and
- amortisation of acquired intangible assets of \$2.0 million (2018: \$3.4 million).

The profit in cash is defined as Adjusted EBITDA less R&D capitalisation less capital expenditures net of proceeds on disposal. In 2019 profit in cash was \$11.7 million, a significant improvement over the \$3.6 million loss in cash of 2018.

Adjusted EBIT was \$16.9 million (2018: \$2.3 million). The operating profit was \$63.6 million (2018: loss of \$33.4 million). Excluding the profit on disposal automotive business, the improvement in operating profit was \$42.5 million mainly driven by the decrease of \$37.3 million in the operating expenses.

Adjusted EBITDA increased to \$38.2 million (2018: \$30.1 million) – considering similar level of R&D capitalisation, the improvement in adjusted EBITDA would be \$18.1 million.

Adjusted profit before tax increased to \$13.2 million (2018: loss of \$4.1 million). Net profit for the year was \$47.4 million (2018: loss of \$36.4 million). Adjusted net profit for the year was \$16.4 million (2018: loss of \$4.9 million).

Adjusted basic earnings per share were 12.5 cents and diluted earnings per share were 12.4 cents (2018: loss per share 3.8 cents). Basic earnings per share were 36.0 cents and diluted earnings per share were 35.7 cents (2018: basic and diluted loss per share was 27.9 cents).

Net cash (debt) and cash flow

The net cash (debt) was comprised as the following:

	2019 \$m	2018 \$m
Cash and cash equivalent and deposits	81.9	35.3
Less – working capital borrowing	(3.9)	(39.2)
Less – preferred and governmental loans	(28.0)	(28.1)
Less – Mortgage loan	(1.8)	(2.0)
Net Cash (Debt)	48.2	(34.0)

Following the improvement in the overall financial performance, cash flow provided from operating activities before movements in working capital was \$34.6 million (2018: \$14.8 million). The total cash provided from operating activities was \$14.0 million (2018: \$25.8 million), reflecting increased working capital employed in the TSA and for the set-up of the new manufacturing site, the impact of direct purchasing of materials which will contribute to improvement in gross margin.

Cash flow provided from investing activity was \$73.4 million (2018: cash used \$33.7 million). The positive cash flow is due to the cash received from the divestment of the automotive business in 2019, offset by the capital and capitalised development expenditure.

Cash flow used in financing activity was \$39.6 million (2018: cash from \$2.2 million). This is mainly related to the repayment of the HSBC and Bank Hapoalim loans in February 2019, utilising the funds received from the sale of the automotive business.

Internally generated development assets, net

As at 31 December 2019, the net amount of internally generated development assets decreased by \$30.3 million to \$37.0 million (2018: \$67.3 million). The split of the net assets by technology is as follows:

Technology	Internally generated development assets, net as at 31 December 2019		Internally generated development assets, net as at 31 December 2018		Change* year over year	
	\$m	%	\$m	%	\$m	%
LTE (4G & 5G)	25.1	68%	47.9	71%	(22.8)	(48%)
3G	0.4	1%	6.6	10%	(6.2)	(94%)
Other IoT Modules	8.5	23%	8.1	12%	0.4	5%
IoT Services	3.0	8%	4.7	7%	(1.7)	(36%)
31 December	37.0	100%	67.3	100%	(30.3)	(45%)

* during 2019, we divested as part of the automotive sale approximately \$33.1 million of capitalised R&D assets

	2019		2018	
	\$m	%	\$m	%
Net assets in development process (not amortised yet)	12.9	35%	24.8	37%
Net assets in amortisation phase	24.1	65%	42.5	63%
Total	37.0	100%	67.3	100%

The net assets that are in the development phase, before being amortised, are 35% of the total R&D assets (2018: 37%) and consist of the following products:

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 2019	
	\$m	%		\$m	%	\$m	%
LTE (4G & 5G)	16.6	69%	3.7	8.5	67%	25.1	68%
3G	0.1	0%	3.2	0.3	2%	0.4	1%
Other IoT Modules	4.5	19%	3.8	4.0	31%	8.5	23%
IoT Services	3.0	12%	1.4	0.0	0%	3.0	8%
31 December 2019	24.2	100%	3.1	12.8	100%	37.0	100%

Total equity

The increase in net shareholders' equity from \$86.5 million as at 31 December 2018 to \$134.3 million as at 31 December 2019 is mainly attributed to the improved net profit that include in 2019 a substantial profit on disposal from the sale of the automotive business.

KEY INDICATORS

The Board and management have several indicators to measure Telit's financial and operational performance. Among all indicators which management defines, the following are the key indicators used to measure growth and profitability.

Revenues

\$392.5m

(\$382.8 excluding automotive)

2019

\$427.5m

(\$353.4 excluding automotive)

2018

Products Revenues

\$351.5m

(\$341.8 excluding automotive)

2019

\$393.4m

(\$319.3 excluding automotive)

2018

Cloud & Connectivity Revenues

\$41.0m

2019

\$34.1m

2018

Gross Profit

\$129.3m

2019

\$139.2m

2018

Adjusted EBITDA

\$38.2m

2019

\$30.1m

2018

Profit (loss) in cash⁶

\$11.7m

2019

(\$3.6m)

2018

Yariv Dafna

Finance Director & President

17 March 2020

⁶ 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 10.

PRINCIPAL RISKS AND UNCERTAINTIES



The Board has overall responsibility for risk management and internal controls and is fully supported by the Audit Committee.

Telit has a risk management process to identify, assess and monitor the principal risks that we face as a business. 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
- the monthly review of key performance indicators and regular service of performance against budget
- an 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 26 of the financial statements.

Market growth

Telit's future success is dependent, among others, 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 that 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, will negatively affect our future performance.

Telit is well positioned to detect any change within the IoT market. Accordingly, the management team reviews the strategy and long-term product development plans to test whether Telit is developing the technology that will meet the future needs of the industry. During 2019, Telit's management continued its 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 sellers.

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 may therefore 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 the family concept and the compatibility through our different products, unique features like SimWISE and OneEDGE expanding into connectivity services and creating a differentiator in our offering to customers. We continually review our trading channels and customer relationships. More specifically, our IoT services not only provide additional streams of revenue but also help 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 business in February 2019, Telit repaid all its previous credit facilities from HSBC and Bank Hapoalim. Since then, Telit has relied on its cash balance to finance its working capital needs and a new working capital facility with a bank in Italy. The Group will continue seeking to rebuild commercial credit facilities in order to free more 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. In case Telit will use its cash balance for corporate matters and such finance will not be available, there is a risk that lack of sufficient cash as a 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 Telit 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 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. In addition, Telit continuously invests in developing more products and services in order to mitigate product 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 and partners. 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 21 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 Telit's 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 several manufacturing partners to provide backup manufacturing in the event of inability to manufacture via Telit's primary partner. One of them was appointed recently and is expected to ramp up in Q2 2020 while an old one will be phasing out by the end of 2020.

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 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 Board is fully aware of 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 officially left the European Union in January 2020, creating significant uncertainty. This uncertainty has yet to recede as political negotiations between the UK and EU have yet to reach a conclusion and the future arrangements, timeframes and economic landscape remain unclear.

Management receives regular reports on Brexit and closely monitors the changing economic situation in the UK. The Group has a small proportion of sales from and in the UK and a 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.

Covid-19 Coronavirus

Telit supply chain includes several contract manufacturers that support its production requirements. One of the Group's suppliers in China resumed partial operations in early February 2020, following the government mandated extended closure for the Chinese New Year holiday period. The remainder of the Group's suppliers restarted production fully during February 2020. Consequently, the Group is currently facing minimal impact on its production plan but will continue to work with its suppliers and customers closely to avoid any disruption.

Due to the ongoing Covid-19 situation, Telit has asked some of its employees to work from home as a safety precaution. In the last 2 years, Telit already certified core business operations under the international standards of ISO 22301 and ISO 27001. As part of the implementation of these standards, we created and adjusted technological solutions to support seamless business operations and allow business as usual. Telit continuously invests in its business processes and guidelines to minimise risks and maintain service levels for our customers. To that end, Telit maintains a robust remote access network architecture to support our staff for remote working.

We are taking actions in order to be ready if the coronavirus will last longer and in case the impact on the market will affect future demand from customers.

CORPORATE SOCIAL RESPONSIBILITY



“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.”

Yariv Dafna
Finance Director & President

As Telit continues to develop and provide ever-better technologies and services in the Internet of Things sector, to a world-wide customer base, it also believes that it has a social responsibility to ensure that its business dealings are ethical. Telit works to promote a marketplace that does not tolerate social abuses or unethical business.

Human resources

Our employees are at the heart of our business and we recognise that our employees play a part in the delivery of our goals. During 2019 we have structured our HR organisation globally in a more employee oriented manner. 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 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 & President
17 March 2020



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



SIMON PATRICK DUFFY
INDEPENDENT NON-EXECUTIVE
CHAIRMAN OF THE BOARD, AGED 70
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, Modern Times Group AB and Nordic Entertainment AB. His executive roles have included: Executive Chairman of Tradus Plc; Executive Vice Chairman of Virgin Media Group; CFO of Orange SA; Chief Executive of End2End Holdings AS; Deputy Chairman and Chief Executive WorldOnline International BV; and Deputy Chairman and Group Finance Director at Thorn EMI Plc.



PAOLO DAL PINO
CHIEF EXECUTIVE OFFICER, AGED 57
JOINED SEPTEMBER 2018

Mr. Dal Pino has held a number of executive, operational and financial roles across a range of multinational businesses. He currently is a 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 46
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 for 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 Le Zion, Israel), an MBA from Tel-Aviv University and he is a Certified Public Accountant.



GIL SHARON

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION COMMITTEE, AGED 56
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, from 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 organisations. 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.



HARALD RÖSCH

INDEPENDENT NON-EXECUTIVE DIRECTOR, AGED 51
JOINED OCTOBER 2018

Mr. Rösch has been 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.

BOARD OF DIRECTORS CONTINUED



MARCO PATUANO
INDEPENDENT NON-EXECUTIVE
DIRECTOR, CHAIRMAN OF THE
AUDIT COMMITTEE, AGED 55
JOINED AUGUST 2019

Mr. Patuano held a number of positions in the Telecom industry including Group CFO, Group COO and CEO of Telecom Italia. Between 2013 and 2016 he has been a Board Member of the GSMA where he acted as Chairman of the GSMA Regulatory Group and member of the GSMA Strategy Group. Until 2016 he has also been a board member of the telecom Italia Foundation, of the Bocconi University Foundation, of the European Institute for Oncology, and he cooperated with several universities in Italy and United States, publishing articles on the evolution of the telecommunications business model. Between 2017-2019 he was CEO of Edizione, the industrial holding of the Benetton family. Since 2017 he is a Board member of AC Milan SpA. From July 2018 he has been Chairman of the Board of Cellnex Telecom S.A. Mr. Patuano holds a degree in Finance and Business from the Bocconi University in Milan, and he completed his studies with several post academic courses in the EU and USA.



ANTHONY DIXON
INDEPENDENT NON-EXECUTIVE
DIRECTOR, AGED 56
JOINED OCTOBER 2019

Mr. Dixon was the General Counsel and Company Secretary of FTSE 250 technology company Pace plc between 1997 and 2016. A member of the Executive Committee, he oversaw all of Pace Group's material international corporate acquisitions, was responsible for Pace's IPR licensing and patent portfolio and was a board officer of all the Group's material international subsidiaries. He was Chairman of the IPR Module of the Geneva based Digital Video Broadcasting (DVB) Project between 2002-2016 and corporate member representative to the Audio-Visual Anti-Piracy Alliance (formerly AEPOC) 2000-2016. Mr. Dixon trained as a lawyer with global law firm Ashurst and following qualification as a solicitor specialised in M&A, private equity and corporate finance for a six-year period. During this time, he was seconded to the London Stock Exchange as a Regulatory Adviser (1992-1994) before moving in-house as Group Commercial Solicitor at Yorkshire Water plc. He currently is a board member or trustee of a number of charitable bodies local to his home City of York, England. Mr. Dixon has an MA degree in Law from Cambridge University (Emmanuel College).

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE



“The Board remains committed to enhancing the Company’s governance and to developing a culture of openness, constructive challenge and support.”

Simon Duffy
Chairman

The Board recognises the importance of corporate governance and its contribution to promoting the mid-long-term success of the Company. The Board determines the Company’s strategy and overall commercial objectives, ensuring that our Group is managed effectively for the mid-long-term benefit of our shareholders. The Company’s governance is kept under review and enhancements are made where applicable.

The Board remains committed to enhancing the Company’s governance and to developing a culture of openness, constructive challenge and support.

As disclosed in last year’s annual report, the Company decided it should follow the principles of the QCA Corporate Governance Code. The principal means of communicating our application of the QCA Code (and, if applicable, of explaining where we do not comply), are this Annual Report and our website (www.telit.com). Due principally to the overhaul of the Board’s composition, there were certain provisions of the QCA Code with which the Company did not fully comply during 2019. These included an evaluation of the Board’s performance, which was completed in Q1 2020. Following actions taken in 2019, the roles of Chairman and Chief Executive Officer have been separated and a majority of directors – five out of seven – are now independent.

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 principles, 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.



Effective communication with shareholders on strategy and governance is an important part of the Board's responsibilities.

Deliver growth

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

The Group's business model and strategy are set out on page 4. We believe the model and strategy promote long term value for our shareholders, as demonstrated by (i) our financial performance set out on page 1, (ii) our end-to-end capabilities in this industry, set out on page 4, and (iii) our market position and competitive advantage, also set out on page 4. We are clear in our understanding of the risks the Group faces and have risk management processes in place to mitigate them (see pages 17-20).

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

Effective communication with shareholders on strategy and governance is an important part of the Board's responsibilities. On behalf of the Board, the Group's Investor Relations Manager is in charged 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 and Finance Director meet regularly with investors and analysts via investor roadshows and participation in conferences. They also maintain a dialogue with investors and analysts outside such structured events.

The Board uses the AGM to encourage communication with private shareholders and to engage with shareholders to understand and address any issues.

The Senior Independent Non-Executive Director makes himself available to shareholders if they have concerns which contact through the normal channels of Chairman, CEO 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 the key role they play 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 are appropriate to their needs and continuously assesses how it can bolster its operations and business to better serve its customers. Throughout the customer relationship life-cycle, different Telit departments, including sales, product marketing and customer support, engage with customers at varying stages 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) and supply chain performance in near real-time. 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 39-40). 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 currently have an internal audit function, in 2019 the Board engaged Grant Thornton to perform a risk analysis, which formed the basis of a risk management plan adopted by the audit committee during the year.

A summary of the principal risks and uncertainties facing the Group, as well as mitigating actions, are set out on pages 17-20 (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 two executive directors, the Chief Executive Officer and the Finance Director, and five independent non-executive directors, including the Chairman and the senior independent 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 below.

The Composition of the Board

As detailed above, the composition of the Board altered substantially during the course of the past two years. 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 now constituted, the Board has a majority of independent non-executive directors with diverse industry and jurisdictional expertise and 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).

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 2019.

	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
Paolo Dal Pino	15	14	-	-	-	-	1	1	1	-	-	-
Yariv Dafna	15	15	-	-	-	-	1	1	-	-	-	-
Simon Duffy	15	15	4	4	-	-	2	2	-	-	1	1
Suvi Linden	4	4	-	-	4	4	-	-	1	1	1	1
Gil Sharon	15	13	4	4	6	6	-	-	1	1	-	-
Adam Power	5	4	-	-	6	6	-	-	1	1	1	1
Harald Rösch	15	12	4	4	1	-	-	-	-	-	-	-
Marco Patuano	5	4	-	-	-	-	-	-	-	-	-	-
Anthony Dixon	1	1	-	-	-	-	-	-	-	-	-	-

In addition, the Board adopted one resolution and Remuneration Committee adopted two 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, all directors stand for re-election by the shareholders in the AGM.

Board appointments are conducted in a formal, rigorous and transparent manner by the entire Board.

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

In view of the issues the Company has faced since 2017, it has deemed it appropriate to consult with shareholders on the appointment of non-executive directors to the Board.

It is confident that its current appointments provide an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. Furthermore, as a Group, the directors have a combined experience in a wide range of jurisdictions and marketplaces, 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, Chief Executive Officer

See page 22 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 a Chief Executive Officer of Telit. These positions have included listed companies, which provides Mr. Dal Pino with an important understanding of the expectations placed on such 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 businesses, Mr. Dal Pino is well-qualified 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 22 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 Chief Operations Officer. His comprehensive view and understanding of Telit and its business, 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, Independent Non-Executive Chairman of the Board

See page 22 for information regarding Mr. Duffy.

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

Earlier in his career he served as CEO and CFO of several listed telecommunications and media companies and brings substantial commercial, operational and financial expertise to Telit's Board.

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

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

See page 23 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.

Marco Patuano, Independent Non-Executive Director, Chairman of the Audit Committee

See page 24 for information regarding Mr. Patuano.

Mr. Patuano has held a number of senior positions in major Italian corporations, including Group CFO, Group COO and CEO of Telecom Italia. He is chairman of the GSMA group and is involved in several academic articles in the Telcom field. Mr. Patuano holds a degree in Finance and Business from the Bocconi University, Milan, and he completed his studies with several post academic courses in the EU and in the USA. Mr. Patuano is therefore able to provide guidance and an outside perspective to the board and the Audit Committee on industry practice and strategy.

Harald Rösch, Independent Non-Executive Director

See page 23 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.

Anthony Dixon, Independent Non-Executive Director

See page 24 for information regarding Mr. Dixon.

Mr. Dixon was the General Counsel and Company Secretary of FTSE 250 technology company Pace plc between 1997 and 2016. Mr. Dixon worked in both private law firms and in the London Stock Exchange as a Regulatory Adviser. As such Mr. Dixon provides valuable expertise to the Company with respect to all regulatory and corporate matters as a Board member.

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

The directors have access to the General Counsel & Company Secretary and to the Company's compliance officer, who provide regular updates and advice 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.

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

Following the recent changes to its composition, the Board initiated a formal evaluation of its own performance in Q4 2019. The evaluation based on a self-assessment questionnaire was completed in Q1 2020 and confirms that the members of the Board collectively function in an efficient and productive manner. The summarised results of this assessment is considered by the Board from time to time, and where improvement is required, appropriate actions are agreed on. In addition, 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.

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.

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 ensure the ethical sourcing of materials and to detect and prevent bribery, corruption and modern slavery. In addition, the Company recognises it has a duty to conduct its business with concern for its impact on the environment.

The Company complies with Market Abuse Regulation (EU) No 596/2014 and operates a closed period of 30 calendar days before the announcement of an interim financial report or year-end report. In addition, to further limit the risk of insider dealing, a PDMR Trading Committee comprising at least one of the Chairman or Senior Independent Non-Executive Director, plus a representative from each of the legal and finance departments, must approve all dealings by PDMRs.

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

As Chairman, I am responsible for running the business of the Board and ensuring both appropriate strategic focus and direction and the application of good corporate governance.

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.

To ensure that it remains the decision-making body for matters that have significant strategic, financial or reputational implications or consequences for the Company, the Board has adopted a schedule of matters reserved for decision by it or by one of its duly authorised committees. These include, inter alia, approval of the annual report, adoption of budgets, material financial commitments and any M&A activity

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.

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 <https://www.telit.com/about/investor-relations/aim-rule-26/>.

Executive directors are not members of the Audit or Remuneration 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 2019, the Audit Committee comprised Marco Patuano (Chairman), Gil Sharon and Harald Rösch, who are all independent non-executive directors. The Finance Director, VP Finance, 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 interim and annual financial statements, for reviewing reports from the external auditors on the scope and outcome

of the annual audit, for oversight of the implementation of and compliance with the Group's policies, and for ensuring the effectiveness of the Group's systems of financial and operational control. 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 2019, the Remuneration Committee comprised Gil Sharon (Chairman), Harald Rösch and Marco Patuano, 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 2019, the Nomination Committee, comprised Simon Duffy (Chairman), Paolo Dal Pino, Gil Sharon and Harald Rösch. 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 2019, the PDMR Trading Committee comprised Simon Duffy, Paolo dal Pino (Chair of the committee), Yariv Dafna (or the Company's VP Finance) 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 2019, the Investigation Committee comprised Simon Duffy (Chairman), Paolo Dal Pino, Gil Sharon and Yariv Dafna. 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 26.

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

The Board receives regular updates on the views of shareholders through briefings and reports from the Chief Executive Officer, the Finance Director and the Company's broker. In addition, analysts' notes and brokers' briefings are reviewed to understand the external view of the Group and the Board welcomes considered enquiries from shareholders and other stakeholders at any time.

The Company's AGM

The 2019 AGM was held on 6 June 2019, 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, 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 is planned to be held on 14 May 2020 (this may be subject to change as a result of COVID-19: coronavirus), full details will be included in the Notice of Meeting.

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders we consider in this regard are our employees, our shareholders and investors, and of course our customers and suppliers. Our Board recognises the significance of a strong relationship with our stakeholders assisting us to deliver our strategy in line with our mid-long term values, and operate the business in a sustainable way.

a. Employees

We employ 850 employees globally, across 24 subsidiaries. We are faithful in our employees and are aware of the importance in providing them tools, enabling them to be part of the system expressing thoughts and needs.

While in the past few years, the Company had some informal employee-manager open discussions, including in some cases the executive directors involved, we are currently in the early stage of a process to evaluate our employee's satisfaction with the Company and future looking steps to be taken for the benefit of both parties.

Our current Board is updated and will review any such processes seeking for ongoing improvement programs.

In the coming year our management and Executive Directors will participate in some informal networking opportunities and round table meetings with employees, and the Board will be presented with more ideas and suggestions from our employees on ways to intensify our employee's satisfaction.

b. Customers and Suppliers

Our Customers and suppliers are a key factor in our operation as a company and we constantly discuss the ways in which we can most efficiently communicate with them to achieve our mutual goals.

Our management along with our operations team are constantly working to enhance our supply chain and identifying additional suppliers around the globe – such that alternative options are in place.

We continue to enhance how we engage with our customers and suppliers, enabling new technology, new communications and more friendly and secure solutions. Our senior sales team keeps looking for creative measures for how to maintain and satisfy our customers, while keeping our Board updated on such steps.

Our operations team has presented to the Board the new structure and purposed plans for the coming year, along with the new contract manufacturer in Vietnam, enabling higher production and improved options.

c. Shareholders and Investors

As our shareholders and investors play a central role in our business, we do our best to better understand their values, goals and culture in order to better communicate with them.

We hold a regular AGM each year, where investors have the opportunity to discuss material matters, ask questions and meet members of the Board and the senior management of the Company. Minutes of such meetings are later discussed by the Board to evaluate and take actions on matters raised as appropriate.

We manage investor roadshows and seminars in different locations globally, where our executive directors and managers discuss and provide updates on the ongoing and future business.

We keep engaged with analysts, obtaining investor and market analysis, enabling us to provide our existing and potential new investors as well as our Board members with potential required information.

The Board constantly reviews and considers how to maximise shareholder returns, in various ways and while considering the Company's best interests.

The year ahead

Over the coming year, the Board will continue to seek ways to strengthen the Company's governance. This will include refreshing, as needed, the matters reserved for the Board, reviewing our risk management and internal control systems, and conducting a formal evaluation of the Board's performance and that of its committees.

Simon Duffy

Chairman

17 March 2020

REPORT ON DIRECTORS' REMUNERATION



“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.”

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 2019. I took over the role on 12 October 2018 and this is my second report as Chair of the Committee.

The Committee was reconstituted during 2019 and now comprises Harald Rösch, Marco Patuano and myself. Acting on behalf of shareholders, we 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 May 2019 Paolo Dal Pino was appointed Chief Executive Officer and Simon Duffy was elected Chairman of the Board. At the AGM in June 2019, Suvi Linden was not re-elected and stepped down from the Board. In July 2019 Adam Power resigned from the board following personal relocation to Australia. In August 2019 Marco Patuano joined as independent non-executive director and in October 2019 Anthony Dixon joined as independent non-executive director.

It is the Committee’s intention to continue to look at aspects of the Company’s remuneration practices in 2020 to ensure alignment with the strategy for the business.

The year ahead

The terms of reference of the Remuneration Committee can be found on the Telit website at <https://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
17 March 2020

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), Harald Rösch and Marco Patuano. During 2019, the committee comprised Suvi Linden (who stepped down from the Board in June 2019) Adam Power (who stepped down from the Board in July 2019).

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 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.

In 2019, the current Committee, reviewed the effectiveness and relevance of the variable remuneration elements of the Chief Executive Officer and Finance Director and set bonus schemes as detailed below.

Chief Executive Officer

Paolo Dal Pino was appointed Executive Chairman in September 2018, and in May 2019, he was appointed Chief Executive Officer.

In 2019, the Remuneration Committee accepted Paolo Dal Pino's request to maintain his base salary at the level he received as Chairman fee and therefore approved a performance based variable compensation based on the following performance criteria:

- The entire incentive bonus is dependent on the Adjusted EBITDA as approved in the Company budget for 2019 (The actual adjusted EBITDA will be also adjusted to reflect higher or lower level of R&D capitalisation against the amount in the approved budget)
- 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

For the year 2020, the Remuneration Committee after updating the base salary to a standard market level has approved a lower performance based variable compensation based on the following performance criteria:

- The entire incentive bonus is dependent on the Adjusted EBITDA as approved in the Company budget for 2020 (The actual adjusted EBITDA will be also adjusted to reflect higher or lower level of R&D capitalisation against the amount in the approved budget)
- The bonus for achieving in full the Adjusted EBITDA target will be US\$600,000
- The bonus scheme allows a lower bonus in case of a lower EBITDA but if the EBITDA will be at a lower level than 78.1% 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 US\$750,000

Finance Director

For the year 2019, the Remuneration Committee approved a performance based variable compensation according to the following performance criteria:

- 40% of the bonus is based on achieving the adjusted EBITDA (linked to the CEO performance plan)
- 20% of the bonus is based on 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
- The bonus for achieving in full the targets will be ILS 540,000 (approximately US\$150,000)

For the year 2020, the Remuneration Committee has approved a performance based variable compensation according to the following performance criteria

- 50% of the bonus is based on achieving the adjusted EBITDA (linked to the CEO performance plan)
- 15% of the bonus is based on achieving the revenue budget
- 20% of the bonus is based on meeting the cash OPEX target, on or below budget
- 15% of the bonus – board discretion
- The bonus for achieving in full the targets will be ILS 810,000 (approximately US\$210,000)

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.

Base Salary and Benefits Chief Executive Officer

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 remained unchanged at \$250,000 per year. In February 2020 the Committee resolved to amend the gross compensation from \$250,000 base salary plus \$1,000,000 variable compensation to a more standard package of \$600,000 base salary plus \$600,000 variable compensation, effective 1 January 2020.

Finance Director

Yariv Dafna's fixed base compensation as of 1 January 2019 is ILS 1,080,000 (c. \$304,000 at the average ILS-USD exchange rate in 2019). The variable compensation in 2019 was 50% of the fixed compensation (reduced in 2019 from 75% in 2018). As from 1 January 2020, the variable compensation will increase back to 75% of the fixed compensation.

Directors' remuneration table (audited)

The single figure of total remuneration in respect of the year ended 31 December 2019 and paid to each director who held office during the year was as follows:

	Salary and fees \$'000	Benefit in kind \$'000	Bonus \$'000	Post- employment benefits \$'000	Total 2019 \$'000
Executive directors					
Paolo Dal Pino	250	–	1,000	–	1,250
Yariv Dafna ^{1,2}	377	23	513	46	959
Non-executive directors					
Simon Duffy	129	–	–	–	129
Gil Sharon	61	–	–	–	61
Harald Rösch	45	–	–	–	45
Marco Patuano ³	19	–	–	–	19
Anthony Dixon ³	8	–	–	–	8
Suvi Linden ⁴	18	–	–	–	18
Adam Power ⁴	23	–	–	–	23
Total – 2019	930	23	1,513	46	2,512

¹ 2019 Salary includes \$22,000 payment of unused vacation days. Benefit in kind is composed mainly usage of company car and regular social benefits.

² In May 2018 the Committee resolved to grant success related bonuses to be paid upon completion of the automotive sale. According to this Mr. Dafna received a special bonus for this transaction in the amount of \$400,000 while the remaining reflects the regular bonus schemes.

³ From date of appointment.

⁴ From the date of resignation.

Payments to past directors

During the year ending 31 December 2019, 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 \$53,000 (2018: \$125,000). The advisors were retained to defend Mr. Cats in criminal proceedings arising from the BAMES case, for further details see note 23. In addition, the Company paid legal fees on behalf of Yosi Fait in the amount of \$87,000 (2018: \$16,000). The Company received refunds for the majority of these amounts from its D&O insurance.

REMUNERATION GOVERNANCE CONTINUED

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 reflects his remuneration until 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 includes only the regular bonus and excludes 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 stepped down in October 2018.

Details of directors' share options and RSUs as at 31 December 2019 are provided below.

Executive directors	Grant date	Number	Exercise price (pence)	Exercised	Vested	Unvested
Paolo Del Pino	1 July 2019 ⁴	2,000,000	1.61	-	-	2,000,000
Yariv Dafna	3 August 2015 ¹	166,666	217	-	166,666	-
	4 October 2017 ²	80,000	183	-	40,000	40,000
	4 October 2017 ²	6,000	1	-	-	6,000
	16 July 2018 ³	300,000	171	-	75,000	225,000
	1 July 2019 ⁴	400,000	1.61	-	-	400,000
Total		2,952,666			281,666	2,671,000

1 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.

2 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.

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

4 The options will vest on the third anniversary of the date of grant, subject to attainment of share price growth targets. All the options will vest if the share price has grown by 50% or more. There will be partial vesting where the share price growth is between 30% and 50% and no options will vest where the share price growth is below 30%. Unexercised Options expire on the 5th anniversary of the grant date. Accelerated vesting of the Options may apply on attainment of share price targets on a change of control.

The share-based compensation cost attributable to the directors in 2019 is \$211,801 (2018: an income of \$1,390,059 due to the reversal of the costs associated with the expiration of unvested options of the former CEO, Yosi Fait and former executive director, Enrico Testa).

In 2019 there was no exercise of share options by directors (2018: The aggregate amount of gains made by former directors on the exercise of share options was \$6,442).

REMUNERATION GOVERNANCE CONTINUED

Directors' Interests in Shares balance

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

	At 31 December 2019		At 31 December 2018	
	Number of ordinary shares	Percentage of ordinary share capital	Number of ordinary shares	Percentage of ordinary share capital
Directors				
Paolo Dal Pino	540,000	0.41%	540,000	0.41%
Yariv Dafna ¹	86,000	0.06%	58,000	0.04%
Simon Duffy	11,657	0.009%	11,657	0.009%
Gil Sharon	–	–	–	–
Harald Rösch	250,000	0.19%	–	–
Marco Patuano ²	–	–	–	–
Anthony Dixon ²	–	–	–	–

¹ During 2019 28,000 RSU's vested (2018: 3,000).

² Was not a director in 2018.

The highest and lowest closing prices of the Company's shares on AIM during 2019 were 190 pence (2 May 2019) and 116.6 pence (21 February 2019). The Company's share price on the close of trading on 31 December 2019 was 157.4 pence.

By order of the Remuneration Committee

Gil Sharon

Chairman of the Remuneration Committee

17 March 2020

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.

On behalf of the Board, I am pleased to present the Audit Committee's report for the year to 31 December 2019. This is my first report as Chair of the Audit Committee since I took over the role in September 2019.

Membership

The membership of the Audit Committee has been reconstituted and now comprises Gil Sharon, Harald Rösch and myself as Chair.

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 <https://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 2019 financial year

During the year, the Audit Committee met four times. It reviewed the 2018 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 in September 2019. These statements reported encouraging financial results which reflect the impact of the return to revenue growth and the cost cutting plan.

The Board engaged Grant Thornton ("GT") 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

The Committee also engaged GT 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 was presented to the Committee in April 2019 and the committee asked for additional reports to be addressed by GT as part of the 2019 internal audit plan. At the date of this report, the Audit Committee received and reviewed three reports relating to the following matters:

- Information Security.
- Sales forecasts and sales operations.
- Entity Level Control.

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 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.

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 2019 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 21.

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

In September 2019, following a competitive tender process led by the audit committee, the Company appointed Mazars LLP as the Company's auditor, replacing the Company's previous auditor, Ernst & Young LLP ("EY"). Mazars were the Company's auditor for the financial year ended 31 December 2019.

There are no contractual obligations that restrict the Company's current choice of external auditor. Fees paid to the auditor for audit, audit-related and other services are analysed in the notes to the consolidated financial statements. The Audit Committee takes account of the nature and level of all non-audit services provided by the external auditor in the annual review of its independence. It concluded that the external auditor can correctly be described as independent.

The 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.

Marco Patuano

Chairman of the Audit Committee

17 March 2020

The directors present their annual report and the financial statements of the Group for the year ended 31 December 2019.

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 10-15 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.

Financial risk management

The financial risk management objectives and policies of the Group and the exposure of the Group to financial risks are disclosed within note 26 to the financial statements.

Research and development

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

Donations

The Group made \$28,000 in charitable donations during the year ended 31 December 2019 (2018: \$21,000).

Significant shareholders, as at 31 December 2019

Run Liang Tai Management Limited
Oozi Cats
Richard Griffiths
Ibex Investors LLC
Davide Renato Ugo Serra
Brandes Investment Partners L.P
Discovery Key Investment

Dividends

The Board is not proposing to pay a regular 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 buyback, being mindful of the investment requirements of the Group.

Number of ordinary shares	Percentage of ordinary share capital
18,137,230	13.67%
17,184,437	12.95%
6,287,588	4.74%
8,946,843	6.74%
9,187,460	6.92%
7,831,701	5.90%
4,333,169	3.27%

Directors

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

Simon Duffy

Paolo Dal Pino

Yariv Dafna

Gil Sharon

Harald Rösch

Suvi Linden

(stepped down on 6 June 2019)

Adam Power

(stepped down on 1 July 2019)

Marco Patuano

(appointed on 28 August 2019)

Anthony Dixon

(appointed on 29 October 2019)

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.

Employees are recruited and supported in their roles regardless of age, gender, nationality, culture or other personal matters. We strive to enable disability access and career support.

We consult with our employees, when possible, on certain matters and maintain well-developed communications and consultation programmes with all employees. We are committed to complying with the applicable employment laws and regulations in the jurisdictions in which we operate.

Additional information on how the Board engages employees and other stake holders can be found on page 31, regarding section 172.

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 re-appointment of Mazars LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Subsequent events and Future developments

Please see the Chief Executive officer's Statement on pages 8 to 9 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 & President

17 March 2020

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.

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

We have audited the financial statements of Telit Communications PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise:

Group

- Consolidated statement of comprehensive income;
- Consolidated statement of financial position;
- Consolidated statement of cash flows;
- Consolidated statement of changes in equity; and
- Notes to the financial statements, including a summary of significant accounting policies.

Parent Company

- Company statement of financial position;
- Company statement of cash flows;
- Company statement of changes in equity; and
- Notes 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 the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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. We are independent of the 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.

The impact of uncertainties due to both the COVID-19 coronavirus and the United Kingdom exiting the European Union on our audit

The Directors' view on the impacts of the COVID-19 coronavirus and Brexit is disclosed on page 20.

The full impact following the recent emergence of the global coronavirus is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Group and Parent Company's trade, customers, suppliers and the wider economy.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Group and Parent Company's trade, customers, suppliers and the wider economy.

We considered the impacts of COVID-19 coronavirus and Brexit on the Group and Parent Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Group's and Parent Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible implications for the company and this is particularly the case in relation to both COVID-19 coronavirus and Brexit.

Conclusions relating to going concern

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.

We have nothing to reporting in this regard.



Overview of our approach

Materiality

- Overall Group materiality was set at US\$1.83m which represents 5% of Group adjusted EBITDA (after deducting share-based compensation).

Scope

- We identified four components which, in our view, required a full scope audit based on their size or risk. A further five components were identified for specific scope audit procedures in relation to specific balances and/or transactions where we consider the risk of material misstatement to be higher.
- For the remaining 21 components of the Group we have performed analytical procedures appropriate to respond to the risk of material misstatement.
- The Group consolidation, financial statement disclosures and a number of complex items (including share-based payments, impairment of goodwill and impairment of development assets) prepared by the head office finance function, were audited by the Group engagement team.
- The Group engagement team visited two significant component audit teams (being the US and Italy) covering all of the full scope audits, and held conference calls with the component auditors of all specific scope entities to discuss the audit approach and findings with those local teams. For those component audit teams not visited we maintained regular contact with the local team and evaluated the outcome of their audit work.

Key audit matters

- We identified the following key audit matters:
 - Revenue recognition;
 - Capitalisation and impairment of development costs;
 - Impairment of goodwill and intangible assets; and
 - Transfer pricing.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) we identified, including 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.

Key audit matter

Revenue recognition

Refer to the Audit Committee Report (page 39-40); Accounting Policies (page 62-73); and Note 2 of the Consolidated Financial Statements (page 74)

The Group recognises revenue from Internet of Things (IoT) products in accordance with the Incoterms agreed with customers and from IoT services (IoT connectivity and IoT platform) based on usage. There is some seasonality in the business with significant revenue generated in the final quarter of the year, in addition to management incentives based on profitability, and market pressure to achieve growth and profitability targets. In the current year the financial performance of the Group has been positive, and we consider there is a heightened cut off risk to inappropriately shift the timing of revenue recognition, either to achieve higher profits in the current year or to move some of that profit into future years to protect future targets and incentive payments.

Key figures

\$351.6m

Product Revenue
(2018: \$393.4m)

\$40.9m

Services Revenue
(2018: \$34.1m)

\$392.5m

Total Revenue (2018:
\$427.5m)

Audit coverage

We performed procedures over this risk area in the following locations:

Full Audit	4
Specific Scope	1

This covered the following percentage of Revenue:

Full Audit	63%
Specific Scope	24%

How our audit responded to the key audit matter

- We performed testing over revenue at each of the full scope components and at specific scope components where revenue was included as part of the scope. At each location, the following testing was performed:
 - We reviewed the design and implementation of key controls to validate revenue recognition, and ensured alignment with Group accounting policies.
 - We tested the key information technology application controls over the revenue process.
 - We performed a review of contracts, terms and conditions with a selection of the largest customers and distributors, to ensure the revenue recognition methodology and terms and conditions set out within these contracts were in line with accounting standard IFRS 15. In particular we reviewed the Transitional Services Agreement with Titan to ensure that the terms of the agreement supported the view that the Group is acting as an agent in accordance with IFRS15, and that recognition of revenue on a net basis is therefore appropriate.
 - We performed substantive analytical procedures covering both product and services revenue. Where possible this included using a three-way correlation between revenue, accounts receivables and cash. Where this was not possible, we performed substantive tests of detail to ensure we obtained sufficient appropriate audit evidence supporting the revenue recognised.
 - We performed cut-off procedures, taking a sample of items recorded before and after the year end and checking to supporting documentation to determine whether revenue was recognised in the correct accounting period.
- We reviewed the relevant disclosures in the annual report and financial statements in accordance with the requirements of the IFRSs.

Key observations

We are satisfied that the revenue recognised for the year ended 31 December 2019 along with the related disclosures in the financial statements are appropriate.

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

Key audit matters continued

Key audit matter	How our audit responded to the key audit matter																						
<p>Capitalisation and impairment of development costs</p> <p>Refer to the Audit Committee Report (page 39-40); Accounting Policies (page 62-73); and Note 12 of the Consolidated Financial Statements (page 85-88)</p> <p>The capitalisation of costs associated with the development of the Group's products, involves significant management judgement. There is a risk that costs are capitalised inappropriately in order to meet market expectations and internal targets.</p> <p>There is also a risk that capitalised development assets (including assets being amortised and assets still in development) are impaired and that this impairment is not recognised in the financial statements.</p>	<ul style="list-style-type: none"> We gained an understanding of the Group's process (and key controls) for research and development costs and their capitalisation. This included gaining an understanding of the Group's payroll and purchasing systems. For all full scope components and for specific scope components where research and development was in the scope of work, we performed the following at component level: <ul style="list-style-type: none"> We tested a sample of gross research and development costs to supporting documentation including timesheet records, invoices and purchase orders. For development costs that were recharged between Group entities (for example from a research and development centre to an intellectual property owner), we ensured that the costs were tested to supporting documentation in the originating entity and confirmed the recording / capitalisation in the ultimate entity. For research and development costs relating to developers' payroll, we inspected timesheet reports from the time tracker system. The integrity of this report was checked on a sample basis to ensure that the time charged to the project was allocated to the correct project code. The total number of hours per the time tracker system report was reconciled to the accounting system. We also assessed the average payroll cost per hour rate applied by management to calculate the capitalised cost and investigated anomalies (if any). 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. The Group engagement team performed the following procedures to address the risk of impairment: <ul style="list-style-type: none"> To assess impairment of development assets that are now in production, we compared the net book value for a sample of assets against the budgeted sales in respect of the selected assets. We checked the appropriateness of budgeted sales included in the budget against actual sales for January-February 2020. We also compared the top 25 customers' budgeted sales for the 2020 year against actual sales in 2019. We discussed the budgeting process and the rationales behind budgeted sales with management including understanding who the customers are, competition in the market for the relevant products and any factors which may affect anticipated sales. To assess impairment and consider the appropriateness of capitalisation (IAS 38) of development projects that were still under development, we reviewed a sample of cost documentation (summaries and supporting evidence), project feasibility reports and approvals (including obtaining an understanding of the feasibility and approval process). We also issued questionnaires to the technical managers responsible for the projects (which included enquiries regarding the current status of projects selected, issues and inefficiencies and the final completion of the project) and held discussions with heads of respective research and development centres where necessary. As it is common practice in the Group for development costs to be incurred in one entity and then recharged and capitalised in another Group entity, we tested the consolidation adjustments to ensure all mark-ups on recharged development costs were eliminated, including foreign currency translation adjustments and amortisation charges. We reviewed the relevant disclosures in the annual report and financial statements in accordance with the requirements of the IFRSs. 																						
<table border="0"> <tr> <td>Key figures</td> <td>Audit coverage</td> </tr> <tr> <td>\$37.0m</td> <td>We performed</td> </tr> <tr> <td>Net capitalised development costs (2018: \$67.3m)</td> <td>procedures over this risk area in the following locations:</td> </tr> <tr> <td></td> <td>Full Audit 4</td> </tr> <tr> <td></td> <td>Specific Scope 3</td> </tr> <tr> <td>\$15.3m</td> <td>This covered the following percentage of capitalised development costs in the year:</td> </tr> <tr> <td>Capitalised development costs in the year (2018: \$24.2m)</td> <td>Full Audit 39%</td> </tr> <tr> <td></td> <td>Specific Scope 56%</td> </tr> <tr> <td>\$1.3m</td> <td>This covered the following percentage of expensed development costs in the year:</td> </tr> <tr> <td>Impairment loss recorded in the year in respect of underperforming development assets (2018: \$10.2m)</td> <td>Full Audit 67%</td> </tr> <tr> <td></td> <td>Specific Scope 26%</td> </tr> </table>	Key figures	Audit coverage	\$37.0m	We performed	Net capitalised development costs (2018: \$67.3m)	procedures over this risk area in the following locations:		Full Audit 4		Specific Scope 3	\$15.3m	This covered the following percentage of capitalised development costs in the year:	Capitalised development costs in the year (2018: \$24.2m)	Full Audit 39%		Specific Scope 56%	\$1.3m	This covered the following percentage of expensed development costs in the year:	Impairment loss recorded in the year in respect of underperforming development assets (2018: \$10.2m)	Full Audit 67%		Specific Scope 26%	
Key figures	Audit coverage																						
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Impairment loss recorded in the year in respect of underperforming development assets (2018: \$10.2m)	Full Audit 67%																						
	Specific Scope 26%																						

Key observations

We are satisfied that the judgements applied, and impairment losses recorded for the year ended 31 December 2019 along with the related disclosures in the financial statements is appropriate.

Key audit matters continued

Key audit matter

Transfer pricing

Refer to the Audit Committee Report (page 39-40); Accounting Policies (page 62-73); and Note 8 of the Consolidated Financial Statements (page 78-81)

The Group operates in several jurisdictions, which creates complexities in the payment of and accounting for tax. The Group faces a risk that given the international nature of its operations, material tax exposures may not be provided or disclosed in the financial statements appropriately.

We consider there to be a risk in relation to transfer pricing given the number of jurisdictions in which the Group operates, it has complex transfer pricing arrangements which could be subject to scrutiny by various tax authorities.

Key figures

Transfer pricing is pervasive to the financial statements.

Audit coverage

We performed procedures over this risk area in all full audit locations (4) and performed procedures at Group level to address the risk across the Group.

How our audit responded to the key audit matter

- We reviewed and assessed the Group's transfer pricing policy.
- We engaged our taxation specialists and discussed with the Group Tax Director how the Group manages and controls tax risks across the various countries in which it operates, including understanding the transfer pricing supply chain and functional characterisation of each entity within the Group.
- Our taxation specialists reviewed the application of the transfer pricing policy across the Group to ensure they have been applied appropriately in line with third party benchmarking results.
- We reviewed the relevant disclosures in the annual report and financial statements in accordance with the requirements of the IFRSs.

Key observations

Based on our work, the judgements applied in respect of transfer pricing and the application of transfer pricing agreements within the Group were appropriate.

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

Key audit matters continued

Key audit matter	How our audit responded to the key audit matter
<p>Impairment of goodwill and intangible assets</p> <p>Refer to the Audit Committee Report (page 39-40); Accounting Policies (page 62-73); and Note 12 of the Consolidated Financial Statements (page 85-88)</p> <p>The Group is required to perform an annual impairment test on goodwill and unamortised intangible assets. In addition, it must perform an impairment test on other intangible assets when impairment indicators are present. The assessment of the Value In Use (VIU) of the Group's Cash Generating Units (CGU's) involves judgement about the future performance of the business and the appropriateness of key assumptions used.</p> <p>Consequently, there is a risk that if the judgements taken and assumptions used are inappropriate, the goodwill and intangible assets, may be impaired.</p>	<ul style="list-style-type: none"> • We reviewed the methodology applied by management including the identification of Cash Generating Units (CGUs) to ensure these were appropriate. • We reviewed and challenged the forecasts used by management, considering management's ability to achieve the forecasted figures based on historical performance, consistency with approved budgets for the Group, and considering sector performance. • With the assistance of our internal valuation experts, we assessed the discount rate and long-term growth rate used in the model. • We reviewed and challenged key areas of judgement in the model and performed sensitivity analysis on key assumptions. • We reviewed the relevant disclosures in the annual report and financial statements in accordance with the requirements of the IFRSs.

Key observations

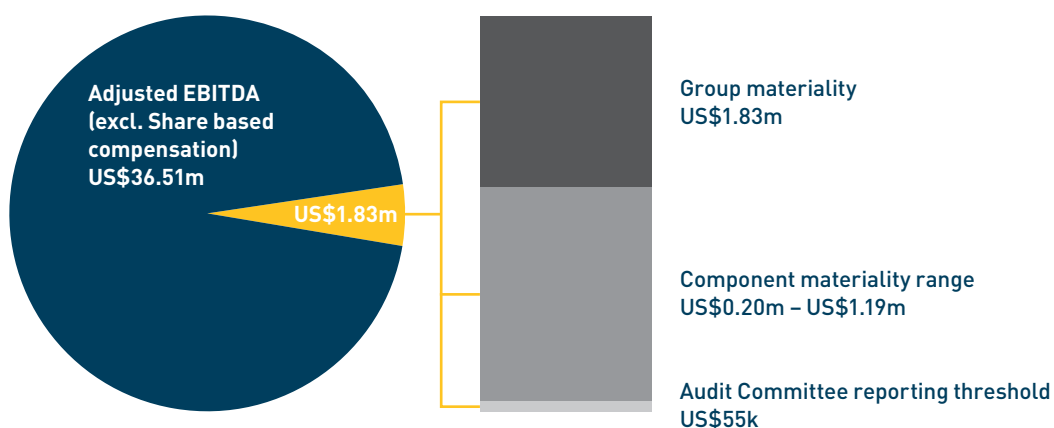
Based on our work, the judgements applied, assumptions used, and methodology applied in performing the impairment test on goodwill and unamortised intangible assets are appropriate. We are satisfied with the Group's assessment of impairment indicators in respect of other intangible assets and the considerations in respect of impairment where applicable. We consider management's conclusion that no impairment should be recognised in the year in respect of goodwill, unamortised intangible assets and other intangible assets (other than capitalised development assets) is appropriate.

Key figures	Audit coverage								
<p>\$18.1m</p> <p>Goodwill (2018: \$19.7m)</p>	<p>The entire goodwill balance was subject to full audit procedures by the Group audit team.</p>								
<p>\$8.9m</p> <p>Other intangible assets (other than capitalised development assets) (2018: \$10.0m)</p>	<p>In respect of other intangible assets, we performed procedures over this risk area in the following locations:</p>								
<p>\$37.0m</p> <p>Other intangible assets (capitalised development assets) (2018: \$67.3m)</p>	<table border="1"> <tr> <td>Full Audit</td> <td>3</td> </tr> <tr> <td>Specific Scope</td> <td>2</td> </tr> </table> <p>This covered the following percentage of other intangible assets (other than capitalised development assets):</p> <table border="1"> <tr> <td>Full Audit</td> <td>70%</td> </tr> <tr> <td>Specific Scope</td> <td>23%</td> </tr> </table>	Full Audit	3	Specific Scope	2	Full Audit	70%	Specific Scope	23%
Full Audit	3								
Specific Scope	2								
Full Audit	70%								
Specific Scope	23%								
<p>\$64.0m</p> <p>Total intangible assets (2018: \$97.0m)</p>									

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	US \$1.83m	GBP £157k
How we determined overall materiality	We calculated materiality at 5% of Adjusted EBITDA after deducting share-based compensation.	We calculated materiality at 1% of external revenues (GBP £15.75m).
	The calculation of this materiality is as follows:	
	Adjusted EBITDA	US \$38.20m
	Share based compensation	US \$1.69m
	Base for materiality	US \$36.51m
	Overall materiality (5%)	US \$1.83m
Rationale for benchmark applied	Adjusted EBITDA (as explained in note 10 of the financial statements) has been used as it is the primary measure of performance used by the Group. We have deducted sharebased compensation from Adjusted EBITDA as this is not considered to be an exceptional item.	The Parent Company is both a holding and trading entity. External revenue is considered the most appropriate basis of materiality for the Parent Company. We considered the use of Adjusted EBITDA and Profit Before Tax, however, they have fluctuated significantly around the breakeven point (from profit to loss) year on year and therefore are not considered to be a stable basis for materiality.



For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality based on the size, complexity and risk associated with the component relative to the Group as a whole.

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

Our application of materiality continued

As part of our audit we determined performance materiality being an amount set by us that is less than overall materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Based on our professional judgement, we determined performance materiality as follows:

	Group financial statements	Parent Company financial statements
Performance materiality	US \$1.01m	GBP £86k
How we determined performance materiality	55% of overall materiality. We set performance materiality at this level taking into account the significance of journal adjustments, the volume of transactions and the fact that it is a first-year audit.	55% of overall materiality. We set performance materiality at this level taking into account the significance of journal adjustments, the volume of transactions and the fact that it is a first-year audit.

We agreed with the Audit Committee that we would report to them all audit differences in excess of US \$55k for the Group and GBP £4k for the Parent Company, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

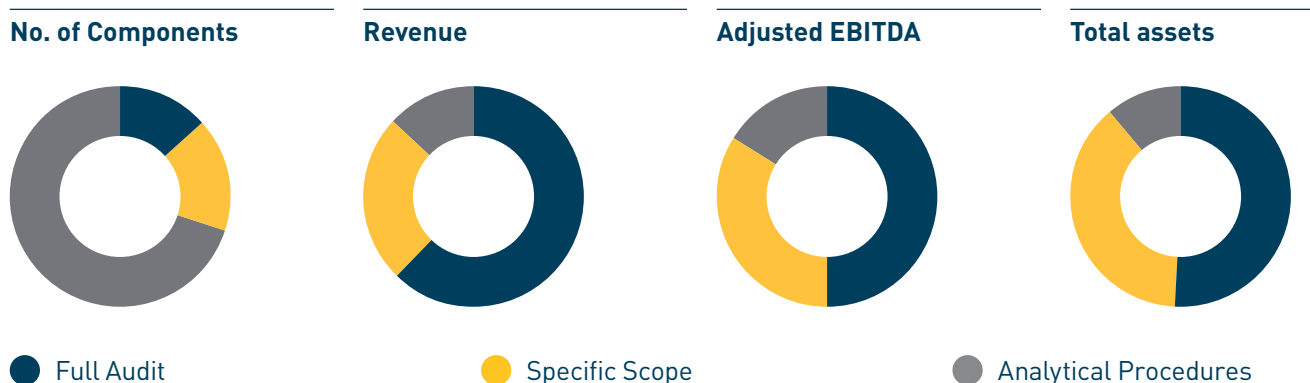
An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Group and Parent Company, the structure of the Group and the Parent Company and the industry in which it operates. We considered the risk of acts by the Company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006. We tailored the scope of our Group audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Parent Company and Group's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

The charts below illustrate an overview of the scope of our audit:



	No. of Components	Revenue	Adjusted EBITDA	Total assets
Full audit	4	63%	50%	51%
Specific scope	5	24%	34%	38%
Analytical procedures	21	13%	16%	11%

An overview of the scope of our audit continued

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

The Group's accounting processes is structured around local finance functions in each jurisdiction or region supported by a corporate finance team in Tel Aviv, Israel which provides accounting and technical support for the Group's operations. Each local finance function reports into the corporate finance team; our audit of the Group was therefore centred in Tel Aviv, where the Group engagement team were based for conducting the audit. The Senior Statutory Auditor visited Israel twice during the audit process.

Our Group audit scope included an audit of the Group and Parent Company financial statements of Telit Communications PLC.

Based on our risk assessment, we focused on four significant entities (Telit Communications SpA, Telit Wireless Solutions, Inc., Telit IoT Platforms, LLC and Telit Communications PLC) within the Group which were subject to a full scope audit. The audit of Telit Communications PLC was conducted directly by the Group engagement team with the other three entities being conducted by component audit teams.

The engagement partner or a senior member of the Group engagement team visited and met with the engagement teams of the three entities that were subject to full scope audit conducted by component audit teams. During these visits, we reviewed detailed component auditor working papers. We also reviewed all component reporting and for Telit Communications SpA, we attended the final closing meeting with local management.

Based on our risk assessment, five other entities (Telit Communications Cyprus Limited, Telit Technologies (Cyprus) Limited, Telit Wireless Solutions Co Limited, Telit Wireless Solutions Hong Kong Limited and Telit Communications India Private Limited) were subject to specific audit procedures on specific accounts and/or disclosures where they represented a significant or material amount or based on our assessment of the risks of material misstatement in respect of each of these entities. We reviewed the component reporting for each of the entities subject to specific audit procedures and reviewed remotely the detailed working papers of Telit Wireless Solutions Hong Kong Limited. We attended key meetings (including year-end clearance meetings) with component management for three of the components subject to specific audit procedures (Telit Communications Cyprus Limited, Telit Wireless Solutions Co Limited and Telit Wireless Solutions Hong Kong Limited).

In addition, we issued detailed Group audit instructions to all component audit teams and all component audit teams were represented during a centralised planning meeting led by the Group engagement team. The purpose of this planning meeting was to ensure the component auditors had adequate knowledge of the Group's business, organisational and operational structure, significant risks and the planned audit approach as well as to instil a culture of open and clear lines of communication between the component audit teams and the Group engagement team.

For the remaining 21 entities, we performed analytical procedures to respond to any potential risks of material misstatement to the Group financial statements.

Certain account balances were audited centrally by the Group engagement team, including but not limited to, impairment of development assets, share based compensation and goodwill impairment. At the Parent Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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 the 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 43, 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's and the 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 the audit 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.

Claire Larquetoux

(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London
E1W 1DD
United Kingdom

17 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Revenue	2,3	392,537	427,483
Cost of sales		(263,277)	(288,310)
Gross profit		129,260	139,173
Other operating income	4A	3,399	1,903
Research and development expenses		(46,687)	(72,985)
Selling and marketing expenses		(48,194)	(59,139)
General and administrative expenses		(25,849)	(25,973)
Exceptional expenses related to restructuring	5B	(1,051)	(10,842)
Profit on disposal automotive business	4C	54,472	-
Other exceptional items	4B	(1,728)	(5,545)
Operating profit (loss)		63,622	(33,408)
Operating profit (loss)		63,622	(33,408)
Profit on disposal automotive business		(54,472)	-
Exceptional expenses related to restructuring		1,051	10,842
Other exceptional items		1,728	5,545
Share based payment charges		1,688	5,715
Impairment of internally generated development assets		1,316	10,238
Amortisation of intangible assets acquired		1,996	3,381
Adjusted EBIT (*)		16,929	2,313
Finance income	6	1,212	147
Finance costs	7	(4,965)	(6,552)
Profit (loss) before income taxes		59,869	(39,813)
Tax (expense) credit	8	(12,469)	3,453
Net profit (loss)		47,400	(36,360)

* 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, amortisation of intangible assets acquired and in 2019, the profit on disposal of the automotive business. 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONTINUED

For the year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Net Profit (loss)		47,400	(36,360)
Other comprehensive loss			
<u>Items to be reclassified in subsequent periods to profit and loss:</u>			
Foreign currency translation differences		(1,021)	(5,352)
<u>Items not to be reclassified in subsequent periods to profit and loss:</u>			
Remeasurement loss on defined benefit plan, net of tax		(49)	(4)
Total other comprehensive loss		(1,070)	(5,356)
Total comprehensive income (loss) for the year		46,330	(41,716)
Basic earnings (loss) per share (in USD cents)	11	36.0	(27.9)
Diluted earnings (loss) per share (in USD cents)	11	35.7	(27.9)
Basic weighted average number of equity shares	11	131,507,097	130,446,810
Diluted weighted average number of equity shares	11	132,674,790	130,446,810

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
ASSETS					
Non-current assets					
Intangible assets	12	64,052	97,012	–	1
Property, plant and equipment	13	27,153	23,101	49	4
Investments in subsidiaries	14	–	–	80,802	91,999
Other long-term assets	16	1,179	1,456	7,989	53,995
Deferred tax asset	8D	2,507	19,043	–	2,598
		94,891	140,612	88,840	148,597
Current assets					
Inventories	15	14,966	27,187	499	365
Trade receivables	16	83,351	99,550	5,757	4,233
Other trade receivables	16	23,309	–	–	–
Income tax receivables	16	1,494	759	–	–
Other current assets	16	15,332	15,531	46,503	57,235
Deposits – restricted cash	17	646	345	–	–
Cash and cash equivalents	17	81,304	35,006	24,507	6,419
		220,402	178,378	77,266	68,252
Total assets		315,293	318,990	166,106	216,849
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' funds					
Share capital	18	2,176	2,165	2,176	2,165
Share premium account	18	49,935	49,778	49,935	49,778
Other reserve	18	(2,746)	(2,727)	31,046	29,669
Translation reserve	18	(19,070)	(18,049)	(4,545)	(4,938)
Retained earnings ¹	18	104,054	55,319	64,917	52,052
Total equity		134,349	86,486	143,529	128,726
Non-current liabilities					
Long term borrowings	25	23,999	24,092	–	–
Post-employment benefits	19	2,230	2,771	–	–
Deferred tax liabilities	8D	626	1,451	–	–
Long term lease liabilities	22b	6,326	–	27	–
Provisions	23	1,952	1,373	103	–
		35,133	29,687	130	–
Current liabilities					
Short-term borrowings	25,20	9,782	45,238	–	16,615
Trade payables	20	95,887	120,824	2,359	3,219
Provisions	23	1,239	2,254	–	–
Income tax payables	20	2,893	2,836	–	–
Short term lease liabilities	22b	3,848	–	24	–
Accruals and other current liabilities	20	32,162	31,665	20,064	68,289
		145,811	202,817	22,447	88,123
Total equity and liabilities		315,293	318,990	166,106	216,849

The financial statements on pages 55 to 109 were approved by the board and authorised for issuance on 17 March 2020 and are signed on its behalf by: Paolo Dal Pino, Chief Executive Officer.

Company number: 05300693

1 Retained earnings for the Company includes a profit for the year which amounted to \$12,775,000 (2018: loss \$6,106,000).

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
CASH FLOWS – OPERATING ACTIVITIES					
Profit / (Loss) for the year		47,400	(36,360)	12,775	(6,106)
Adjustments for:					
Depreciation of property, plant and equipment	13	9,546	8,905	40	8
Amortisation of intangible assets	12	13,720	23,428	1	4
Impairment of intangible assets	12	1,316	11,829	-	-
Profit on disposal of the automotive business	4C	(54,472)	-	(17,700)	(1,171)
Impairment of investments in subsidiaries	14	-	-	-	2,171
Impairment of loans to subsidiaries	16	-	-	-	493
(Gain) Loss on sale of property, plant and equipment	13	(238)	294	-	-
Increase in provision for post-employment benefits	19	231	(362)	-	-
Change in long term provisions, net		(362)	501	122	5
Finance costs, net		3,523	6,405	(1,463)	(2,028)
Tax income / (expense)	8	12,469	(3,453)	2,728	(883)
Share-based payment charge, net	24	1,467	3,659	90	1,472
Operating cash flows before movements in working capital:		34,600	14,846	(3,407)	(8,979)
Increase in trade and other receivables		(13,702)	(326)	(1,411)	(1,146)
Decrease / (Increase) in other current assets		(453)	2,007	14,517	1,936
Decrease / (Increase) in inventories		11,426	(4,238)	(111)	264
(Decrease) / Increase in trade payables		(17,211)	16,744	(840)	309
(Decrease) / Increase in other current liabilities		2,416	481	(37,598)	4,057
Cash from operations		17,076	29,514	(28,850)	(3,559)
Income tax paid	8	(2,068)	(10)	-	-
Interest received	6	1,212	142	181	33
Interest paid		(2,247)	(3,880)	(231)	(1,221)
Net cash from / (used in) operating activities		13,973	25,766	(28,900)	(4,747)
CASH FLOWS – INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	13	(4,642)	(8,296)	-	-
Acquisition of intangible assets	12	(2,824)	(869)	-	-
Proceeds from sale of property, plant and equipment		199	762	-	-
Capitalised development expenditure	12	(15,289)	(25,300)	-	-
Proceeds from sale of subsidiary, net of cash deal costs	4C	96,292	-	23,156	-
Repayment of loans from subsidiaries	16	-	-	40,026	3,000
(Increase) / Decrease in restricted cash deposits	17	(311)	28	-	-
Net cash from / (used in) investing activities		73,425	(33,675)	63,182	3,000

STATEMENT OF CASH FLOWS CONTINUED

For the year ended 31 December 2019

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
CASH FLOWS – FINANCING ACTIVITIES					
Proceeds from exercise of share options		168	–	168	–
Short-term borrowings, net	26	(20,682)	6,895	–	–
Repayment of lease liabilities		(3,924)	–	(37)	–
Proceeds from long term borrowings	26	7,047	4,616	–	–
Repayment of long term borrowings	26	(22,218)	(9,326)	(17,334)	(2,857)
Net cash from / (used in) financing activities		(39,609)	2,185	(17,203)	(2,857)
Increase / (decrease) in cash and cash equivalents		47,789	(5,724)	17,079	(4,604)
Cash and cash equivalents – balance at beginning of year		35,006	41,908	6,419	11,568
Effect of exchange rate differences		(1,491)	(1,178)	1,009	(545)
Cash and cash equivalents – balance at end of year	17	81,304	35,006	24,507	6,419

1 amount paid in cash in the period in respect of exceptional items was \$2.0 million (2018: \$5.3 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Year ended 31 December 2019

	Share capital \$'000	Share premium account \$'000	Other reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 January 2019	2,165	49,778	(2,727)	(18,049)	55,319	86,486
Issue of shares	11	157	-	-	-	168
Total comprehensive income / (loss) for the year						
Net profit for the year	-	-	-	-	47,400	47,400
Total other comprehensive income	-	-	-	(1,021)	(49)	(1,070)
Total comprehensive income / (loss) for the year	-	-	-	(1,021)	47,351	46,330
Outgoing units	-	-	(19)	-	(83)	(102)
Transactions with owners:						
Share-based payment charge	-	-	-	-	1,467	1,467
Balance at 31 December 2019	2,176	49,935	(2,746)	(19,070)	104,054	134,349

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						
Net loss for the year	-	-	-	-	(36,360)	(36,360)
Total other comprehensive income	-	-	-	(5,352)	(4)	(5,356)
Total comprehensive income / (loss) for the year	-	-	-	(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

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Year ended 31 December 2019

	Share capital \$'000	Share premium account \$'000	Other reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 January 2019	2,165	49,778	29,669	(4,938)	52,052	128,726
Issue of shares	11	157	-	-	-	168
Total comprehensive income for the year						
Net profit for the year	-	-	-	-	12,775	12,775
Other comprehensive income	-	-	-	393	-	393
Total comprehensive income for the year	-	-	-	393	12,775	13,168
Transactions with owners						
Share-based payment charge	-	-	-	-	90	90
Share-based payments to subsidiaries	-	-	1,377	-	-	1,377
Total transactions with owners	-	-	1,377	-	90	1,467
Balance at 31 December 2019	2,176	49,935	31,046	(4,545)	64,917	143,529

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						
Net loss for the year	-	-	-	-	(6,106)	(6,106)
Other comprehensive income	-	-	-	(4,029)	-	(4,029)
Total comprehensive income / (loss) for the year	-	-	-	(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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, IoT platforms and virtual cellular IoT operator, empowering hundreds of millions of connected 'things'.

The Group sells its products and services to thousands of customers directly and through a network of distributors 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) modules, 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 of new standards and interpretations adopted in the year as disclosed in Note 1 (y).

(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 are discussed in finance director report on pages 10 to 15. The Groups cash flows, liquidity position and borrowing facilities are set out in the Finance Director's statement on pages 10 to 15 and in notes 17, 25 and 26 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.

At the year end, the Group has long-term preferential rate loans supported by the Ministry of Trade and Commerce in Italy. Further information is provided in Note 25.

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 2020 and its medium-term plans, including the new risk related to the Covid-19 Virus. The Directors are mindful that the Group operates in the IoT sector which remains a rapidly growing industry subject to ongoing change in the 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 and accordingly, 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 United States (U.S.) dollars, which differs from the functional currency of the Company and some subsidiaries that are not located in the US 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; 2) revenues in US dollars, or linked to US dollars, comprise the biggest share of the Group's overall revenues; and 3) significant part of the operating expenses (OpEx) are in US dollars, or linked to the US dollar.

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, unless exchange rates fluctuate significantly during that 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.

(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 2019 and 31 December 2018. 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. The results of subsidiaries disposed of during the year are included in the consolidated statement of comprehensive income until the point that control transfers. All intra-group transactions and balances between the Group's companies are eliminated on consolidation.

(e) Cash and cash equivalents

The Company considers all highly liquid securities with original maturities of three months or less when acquired to be cash equivalents.

(f) Trade receivables

Trade receivables classified as current assets are recognised at the transaction price less impairment based on the simplified Expected 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, direct 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 realisable 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

1. ACCOUNTING POLICIES CONTINUED

(h) Investments

Investments in subsidiaries are stated at cost less impairment. The Company's investments 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 less government grants.

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 and production equipment	7-17
Computers	3
Vehicles	4-7
Leasehold improvements	Shorter of lease term and 7-10

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.

(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
Cloud & Connectivity	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; and
- 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 the 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 a subsidiary where control is not lost any goodwill attributable would be recognised against the non-controlling interest in equity.

(l) Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs to sell or 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 the 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 in the statement of comprehensive income.

(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 excluded from the adjusted measures) are described in further detail in notes 4 and 5.

(n) Income taxes

The current tax charge 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 or substantively 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 utilised.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

1. ACCOUNTING POLICIES CONTINUED

(n) Income taxes continued

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

Deferred tax is calculated at the tax rates enacted or substantively 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 are initially recognised at their fair value and are subsequently measured at amortised 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 other comprehensive income in the period in which they occur. Re-measurements 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; or
- 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; and
- 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;
- 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 is 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

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.

IoT Services

Revenue from Cloud and Connectivity, 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 over time based on the progress of the project which is determined by surveys of work performed.

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).

Customer 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 liabilities using the expected value method to reflect the estimated discounts that will be provided in the following period.

Royalty income (Parent Company)

Revenue from royalties is recognised when the underlying sale occurs.

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 the 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.

Transition services agreement

Under a transitional service agreement ("TSA") signed at the time of the sale of the automotive business, the Group provides services to Titan (the buyer) including, inter alia, IT and operational support including the purchase of goods produced by a third party contract manufacturer on Titan's behalf. The Group does not have control over the goods before they are transferred to the customer. The Group is acting as an agent and the service fee received from Titan is recognised on a monthly basis as other operating income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

1. ACCOUNTING POLICIES CONTINUED

(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 the rebates 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 rebates earned but not yet received being included within other current assets in the Statement of financial position.

(s) 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.

(t) 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 capitalised as development costs are deducted from the carrying amount of the asset.

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

(u) 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, and 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 other comprehensive income, 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.

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 rate (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 include trade receivables, and loans to subsidiaries in the 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 2019 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 7 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 rate method, with interest expense recognised on an effective yield basis. The effective interest rate 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.

(v) 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 comprehensive income 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 the subsidiary undertaking. The subsidiary, in turn, recognises the IFRS 2 cost in its statement of comprehensive income 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.

For the year ended 31 December 2019

1. ACCOUNTING POLICIES CONTINUED

(w) 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.

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 based on a warranty claim or when negotiations reach an advanced stage. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

(x) 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 the stage of completion of the transaction, which is determined by surveys of work performed.

Exceptional expenses

Exceptional items are presented separately in the statement of comprehensive income, in order to allow for a comparable analysis of the underlying performance of the Group. 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, related assets identified, a detailed estimate of the associated costs has been determined and the employees affected have been notified. See also Note 5.

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 utilise 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 goods and services.

Changing the assumptions selected by management could significantly affect the Group's results. See also Note 8.

Classification of discontinued operation

According to IFRS 5.32, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and:

- Represents either a separate major line of business or a geographical area of operations;
- It is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- It is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

Management concluded that the sale of the automotive business does not meet the definition to be accounted for as a discontinued operation. This is on the basis that the automotive business does not represent a separate component of the Group.

Upon the decision taken by management to dispose of the automotive business, the Group performed a significant carve-out for the assets to be disposed of. Prior to this decision being taken, none-of the business activities results were reviewed regularly by the Group's Chief Operating Officer, as a separate operating segment, nor was any financial information made available for review. Accordingly, management did not operate and review the assets and activities carried out as the automotive business as a separate cash-generating unit. The consolidated financial statements do not therefore present the disposal of the automotive business as a discontinued operation, however for transparency purposes the revenue note (Note 2) and the segmental analysis note (Note 3) provide revenue information relating to the automotive business for the period from the beginning of the financial year to disposal in February 2019.

IFRS 16 Leases

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain that they will exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

IFRIC 23 – Uncertainty over Income Tax Treatments

The Group makes entity-level assessments of its uncertain tax positions. For this purpose, the Group assumes that a taxation authority will examine the position with full knowledge of all relevant information. Where the Group concludes that it is not probable (does not meet the more likely than not standard) that a taxation authority will accept an uncertain tax treatment, a provision for the effect of this uncertainty is reflected in its accounting tax position. The Group reassesses each position and the relevant facts and circumstances on a yearly basis.

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 and 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 or loss and/or cash flows. See also Note 23.

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 4A and 7. 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.

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 24.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

1. ACCOUNTING POLICIES CONTINUED

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

Key sources of estimation uncertainty continued

Amortisation of internally generated development assets

Amortisation of internally generated development assets 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 12.

Recoverability of internally developed intangible assets

Capitalisation 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 capitalised. This requires management to estimate anticipated revenues and profits from the related products to which such development costs relate. See also Note 12.

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 goods and services;
- 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 estimated results. See also Note 12.

(y) Changes in accounting policies

IFRS 16 – leases

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 in which the lessee recognises assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group has applied the modified retrospective approach and measures 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 are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group elected 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 has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

The Group applied 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. Refer to Note 22 & 13.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, “Uncertainty over Income Tax Treatments” (“the Interpretation”). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, “Income Taxes”, in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The Interpretation has been initially applied in these financial statements. The initial application of the Interpretation did not have a material effect on the Company’s financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

The 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 does not expect these interpretations and amendments to have a material impact on the results or financial position of the Company or the Group in future periods:

- Amendments to IAS 1 and IAS 8: Definition of Material. In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material is not expected to have a significant impact on the Group (Effective for accounting periods beginning on or after 1 January 2020).
- Amendments to IFRS 3: Definition of a Business. In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition (Effective for accounting periods beginning on or after 1 January 2020).
- Consolidated financial statements. Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*: Interest Rate Benchmark Reform (Effective for accounting periods beginning on or after 1 January 2020).
- Revised Conceptual Framework for Financial Reporting: The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: increasing the prominence of stewardship in the objective of financial reporting, reinstating prudence as a component of neutrality, defining a reporting entity, which may be a legal entity, or a portion of an entity, revising the definitions of an asset and a liability, removing the probability threshold for recognition and adding guidance on derecognition, adding guidance on different measurement basis, and stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards (Effective for accounting periods beginning on or after 1 January 2020).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. REVENUE

	Group	
	2019 \$'000	2018 \$'000
Sales of IoT products – industrial	341,128	317,419
Sales of IoT products – automotive	9,771	74,058
Sales of Connectivity and IoT platforms services	40,948	34,074
Sales of licences and other revenue	690	1,932
	392,537	427,483

For the geographical split of revenue, please refer to Note 3.

3. 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 Officer.

Segment performance is evaluated based on operating profit or loss.

The Group's activities in the Cloud & Connectivity 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 Officer focuses more and more on Cloud & Connectivity 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 Products and Cloud & Connectivity. The Group is active in three geographical regions: Americas, EMEA and APAC and these two business lines are active in all geographic regions.

Segmental information for each business line is presented below:

	IoT Products \$'000	Cloud & Connectivity services \$'000	Consolidated \$'000
2019			
Revenue			
External sales:	351,589	40,948	392,537
Result			
Gross profit	104,319	24,941	129,260
Gross margin	29.7%	60.9%	32.9%
Impairment of internally generated development costs	(1,316)	–	(1,316)
Segment EBIT	27,211	583	27,794
	7.7%	1.4%	
Unallocated income ¹			35,828
Operating profit			63,622
Finance income			1,212
Finance costs			(4,965)
Profit before income taxes			59,869
Tax expense			12,469
Profit for the period			47,400

¹ Unallocated income (expenses) principally including general and administrative expenses and other expenses which cannot be directly allocated to one of the segments.

² There are no revenues from transactions with other segments.

	IoT Products \$'000	Cloud & Connectivity services \$'000	Consolidated \$'000
2018			
Revenue			
External sales:	393,409	34,074	427,483
Result			
Gross profit	118,526	20,647	139,173
Gross margin	30.1%	60.6%	32.6%
Impairment of goodwill	(1,056)	-	(1,056)
Impairment of internally generated development costs	(7,876)	(2,362)	(10,238)
Segment EBIT	7,405	(13,911)	(6,506)
	1.9%	(40.8%)	
Unallocated expenses ¹			(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)

1 Unallocated income (expenses) principally including general and administrative expenses 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:

	2019 \$m	% of total revenue	2018 \$m	% of total revenue	Change %
Americas	194.1	49.5%	176.1	41.2%	10.2%
EMEA	114.2	29.1%	112.1	26.2%	1.9%
APAC	74.5	19.0%	64.5	15.1%	15.5%
Total	382.8	97.5%	352.7	82.5%	8.5%
Automotive	9.7	2.5%	74.8	17.5%	(87.0%)
Total	392.5		427.5		

Non-current operating assets*:

	2019 \$m	2018 \$m
Americas	53.1	26.3
EMEA	22.2	74.2
APAC	15.9	19.6
Total	91.2	120.1

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

4. OTHER OPERATING INCOME / EXPENSES

A. Other operating income

	2019 \$'000	2018 \$'000
Governmental grants and benefits ¹	2,116	1,903
Other ²	1,283	–
	3,399	1,903

¹ 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 as all the conditions for qualification, which relate to the level of eligible expenditure incurred, have been satisfied.

² This represents income received under the Transitional service agreement ("TSA") with Titan group. For more details see Note 16.

B. Other exceptional items

	2019 \$'000	2018 \$'000
Integration and transaction costs ¹	1,015	2,785
Legal and other expenses related to crisis management ²	679	959
Net expenses in relation to the departure of the former CEO ³	–	437
Legal expenses related to BAMES ⁴	100	1,282
Other	(66)	82
	1,728	5,545

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 reorganisation.

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

³ Net expenses were affected by the reversal of unvested share based payment charges related to unvested options and RSUs issued to the CEO amounting to \$1.3m in 2018.

⁴ Costs related to defending the Group position in the BAMES case including the settlement fees of approximately \$1 million for which a provision was recorded in 2018 – for more details see also Note 23.

C. Profit on disposal automotive business

On 13 July 2018, Telit Communications PLC agreed to sell its automotive business (Automotive transaction) to TUS International Limited ("TUS") for a total consideration of \$105.0 million subject to working capital adjustments. On 27 February 2019 the sale was completed with a cash payment of \$67.5 million and a short-term vendor loan of \$38.5 million which was later repaid in full on 15 April 2019. The net amount received after the working capital adjustment was \$106.6 million.

As of 27 February 2019, the net book value of the net assets, including working capital items, of the disposed business units was \$44.0 million including intangible assets of \$34.7 million.

On 30 October 2019 Telit and TUS agreed on the final adjustment to the net consideration which resulted in a total adjustment of \$1.6 million that was added to the purchase price of \$105 million and resulted in a final profit on disposal before tax of \$54.5 million.

	2019 \$'000
Consideration receivable	106,576
Carrying amount of net assets sold ¹	(43,985)
Transaction cost	(8,119)
Profit on disposal before tax	54,472

¹ Carrying amount of net assets sold

	2019
	\$'000
Intangible assets, net	34,670
Property, plant and equipment	4,204
Deferred tax assets long term	5,254
Open accounts receivables	6,695
Cash & cash equivalents	2,166
Other assets	2,611
Total assets	55,600
Trade payables	8,153
Other Liabilities	3,462
Total Liabilities	11,615
Carrying amount of net assets sold	43,985

5. EXCEPTIONAL EXPENSES RELATED TO RESTRUCTURING

A. Restructuring plan

At the end of 2017, the directors 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, the Group adopted an 18 month restructuring plan to rationalise the Group's activities and the operating cost structure including:

- 1 Declared a number of the products and services portfolios "end of life" to reduce the R&D and operations investment in maintaining products with low contributions. In some cases, this led to the write-off of capitalised development assets and inventory (both finished goods and components). These write-offs were recorded under restructuring costs in the statement of comprehensive income.
- 2 Reducing the overall number of R&D centres. During the implementation of the plan three expensive R&D centres were closed in each year from 2017 to 2019 and the knowledge transferred to lower-cost sites.
- 3 Adjusted the headcount of the sales and administrative teams in each region to align them with the actual Group growth globally. Cost rationalisation continued in 2019 and the measures are expected to further reduce the cash operating expenses in 2020.

B. Exceptional expenses related to restructuring

	2019	2018
	\$'000	\$'000
Termination fees and other employee related expenses ¹	1,051	2,591
Accelerated amortisation of intangible assets related to restructuring ²	-	1,717
Provision for inventory items related to restructuring ³	-	4,677
Provision for impairment of goodwill related to restructuring ²	-	1,056
Other ⁴	-	801
	1,051	10,842

- 1 In 2019 this related mainly to the closure of an R&D centre in the USA. In 2018 this related mainly to the closing of the R&D centre in Germany and the reduction in the headcount at the IoT Platforms R&D centre.
- 2 Non-cash write-off of capitalised development assets, acquired technology and goodwill which were recorded under restructuring costs following a classification of several products and services as "end of life" or for being abandoned 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 This includes consultancy costs related to restructuring and other costs related to closing of offices in Germany and the reorganisation of the IoT Platforms business.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

6. FINANCE INCOME

	2019 \$'000	2018 \$'000
Interest income	1,212	147
	1,212	147

7. FINANCE COSTS

	2019 \$'000	2018 \$'000
Non-cash expenses related to effective interest rate on government preferred loan	1,069	1,240
Interest expense on bank loans and overdrafts	795	3,118
Bank fees and other bank expenses	1,074	1,142
Loss from forward currency contracts	378	675
Interest related to IFRS16 liabilities	829	-
Exchange rate differences, net	820	377
	4,965	6,552

8. INCOME TAXES

A. Tax recognised in statement of comprehensive income

Current income tax:

	2019 \$'000	2018 \$'000
Current year taxes	711	1,429
Prior year taxes	671	(614)
Deferred taxes	11,087	(4,268)
Tax expense / (income)	12,469	(3,453)

B. Income tax payables / receivables, net

	2019 \$'000	2018 \$'000
1 January	2,077	1,256
Current year taxes	711	1,429
Prior year taxes	671	(614)
Income tax received (paid)	(2,038)	(10)
The effect of changes in foreign exchange	(22)	16
31 December	1,399	2,077

Income tax payable as at 31 December 2019 includes a \$1.92 million provision for uncertain tax positions. (2018: \$1.96 million).

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 of 19% for 2019 and 2018, and the Group's total tax expense for the year:

	2019 \$'000	2018 \$'000
Profit (Loss) before income tax from continuing operations	59,869	(39,813)
Tax credit computed at 19%	(11,375)	7,564
Tax adjustments arising from:		
Non-deductible expenses, net	9,849	(1,329)
Tax benefits arising on tax credits	77	1,181
Effect of tax rates in foreign jurisdictions	414	855
Movements in unrecognised deferred tax asset	(12,024)	(8,903)
Deferred tax recognised for previous years differences	345	1,777
Utilisation of previously unrecognised deferred tax losses	983	1,694
Tax for previous years	(738)	614
Tax (expense) income at the effective tax rate of 21% (2018: 8.7%)	(12,469)	3,453

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

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 2018	9,145	4,814	13,959
Translation adjustments	(704)	69	(635)
Tax income recognised in profit or loss	6,378	(2,110)	4,268
At 1 January 2019	14,819	2,773	17,592
Translation adjustments	(88)	(88)	(176)
Resulting from disposal of subsidiaries	(5,284)	836	(4,448)
Tax income recognised in profit or loss	(9,444)	(1,643)	(11,087)
At 31 December 2019	3	1,878	1,881

	2019 \$'000	2018 \$'000
Deferred tax asset	2,507	19,043
Deferred tax liabilities	(626)	(1,451)
Net Deferred tax	1,881	17,592

The deferred tax assets and liabilities 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

8. INCOME TAXES CONTINUED

E. Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the finalisation 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 realisation or otherwise of recognised deferred tax assets.

As of 31 December 2019, the Group has a gross amount of \$72.0 million losses available for carry forward of which no deferred tax asset is recognised (2018: \$98.9 million gross losses; of which a deferred tax asset was recognised for \$63.0 million losses).

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 future tax charge could be affected by numerous factors, including but not limited to any tax reforms in jurisdictions where we have taxable presence, including any reforms which may arise from the UK's 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 22 December 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 carry back but allowed for indefinite net operating loss carry forwards 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 31 December 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 31 December 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.

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 was effective as of 2018, with other measures mainly coming into force as of the tax year 2021. The main item of the reform was 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). The Company's deferred tax asset and liability at 31 December 2018 were calculated based on the rate at which the losses and temporary differences are expected to reverse. The Company's Belgian subsidiary was divested in February 2019 as part of the Automotive Transaction (see Note 4 C).

Brazil Tax Infraction

In May 2019, Telit Brazil received an infraction notice from the Sao Paulo state tax authority regarding allegedly failure to collect and remit indirect taxes ICMS for the financial years 2016-2017 under the ICMS-ST substitution rule. Telit timely filed its defence arguments in the first level administrative process. In October 2019, the first-level Administrative Court ruled in favour of the state, as expected, and upheld the assessments made by the tax authority. Later that month, Telit Brazil filed an appeal to a second-level Administrative Court and is awaiting judgement. Where appropriate, decisions from Administrative Courts may be subject to review by a Court of Law. The total potential liability for this claim is approximately \$4.2m consisting of the underlying ICMS claim (approximately \$2.1m), interest (approximately \$432k) and penalties (approximately \$1.7m). Based on professional advice and the relevant facts, the Group believes, that it has strong arguments in favour of the tax treatment applied. Accordingly, no provision has been made for this claim.

Israel Tax Investigation

In December 2019, culminating the second 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 the 2013 financial year and the 2013-2016 financial years respectively. These assessments relate to the rate of amortisation of certain intangible assets and the treatment of the utilisation losses to offset taxable income. With respect to the amortisation of intangibles, the Group recognises that this is an uncertain tax position (UTP), and, as such, has provided for an adjustment of the rate of amortisation for the relevant tax years (see Note 9 above for total UTP provision). With respect to the utilisation of losses, the potential additional tax charge to the Group is approximately \$3 million. The Group has timely filed an appeal with the Tel Aviv Circuit Court, and considers, based on professional advice and the particular facts, that it has strong arguments against the disallowance of the losses. Accordingly, no provision has been made for this amount.

9. EMPLOYEES' AND DIRECTORS' EMOLUMENTS

Employees' emoluments:

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

	Group		Company	
	2019	2018	2019	2018
Research and development	438	537	–	–
Sales, marketing and operations	280	349	7	10
General and administration	132	141	–	–
Total	850	1,027	7	10

Their aggregate remuneration comprised:

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	62,704	76,009	811	1,090
Social security costs	9,767	12,108	99	118
Defined benefit pension costs (see Note 19)	829	752	–	–
Defined contribution pension costs	3,380	4,170	18	37
Total	76,680	93,039	928	1,245

Directors' emoluments

The directors received the following remuneration in respect of services rendered to the Group. Please refer to the table on pages 35 and 36 of the Annual Report:

	Year ended	Year ended
	31 December	31 December
	2019	2018
	\$'000	\$'000
Remuneration ¹	2,466	2,038
Gain from exercise of share options ²	–	6
Post-employment benefits	46	46
Total emoluments	2,512	2,090

¹ The share-based compensation cost attributable to the directors in 2019 was \$211,801 (in 2018, an income of \$1,390,059 was included due to the reversal of the costs associated with the expiration of unvested options of the former CEO, Yosi Fait and former executive director, Enrico Testa).

² In 2019, there was no exercise of share options by directors.

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

	Year ended	Year ended
	31 December	31 December
	2019	2018
	\$'000	\$'000
Total emoluments ¹	1,250	1,019
Post-employment benefits	–	3
Total	1,250	1,022

¹ In 2018, fees to the former CEO excludes the payment of \$1.3 million for loss of office compensation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

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

A. EBIT for the year is stated after charging

	2019 \$'000	2018 \$'000
Depreciation of owned fixed assets (Note 13)	9,546	8,905
Amortisation of intangible assets (Note 12):		
Amortisation of purchased customer list – included in selling and marketing expenses	926	1,323
Amortisation of acquired technology –		
Included in R&D expenses (Note 12)	1,070	2,058
Included in exceptional expenses related to restructuring (Note 5)	–	535
Amortisation of software – included mainly in R&D expenses	1,729	1,689
Amortisation of Internally generated development costs –		
Included in R&D expenses	9,994	17,176
Included in exceptional expenses related to restructuring (Note 5)	–	1,182
Research and development expenditure	46,687	72,985
Costs of inventories recognised as an expense	242,128	274,882
Write-downs of inventories recognised as an expense	5,993	1,165

B. Adjusted EBIT, Adjusted EBITDA, Adjusted profit / (loss) before tax, Adjusted net profit / (loss) for the year and Profit / (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 of internally generated development assets, other exceptional items, exceptional expenses and the profit on disposal of the automotive business;
- Adjusted EBITDA is defined as Adjusted EBIT plus depreciation and other amortisation;
- Profit/loss in cash is defined as Adjusted EBITDA less capitalisation of internally generated development assets less acquisition of tangible and intangible assets net of proceeds from disposal of assets, less lease payments.
- Adjusted Profit / (Loss) before tax is defined as Profit / (Loss) before tax plus share based payment expenses, amortisation of acquired intangibles, other exceptional items, exceptional expenses relating to restructuring, impairment of internally generated assets and the profit on disposal of the automotive business; and
- Adjusted net profit / (loss) for the year is defined as net profit / (loss) for the year plus share based payment expenses, amortisation of acquired intangibles, other exceptional items, exceptional expenses related to restructuring, impairment of internally developed assets and the profit on disposal of the automotive business 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, profit / (loss) in cash, Adjusted profit / (loss) before tax and Adjusted net profit / (loss) for the year are presented in addition to the reported results.

	Note	2019 \$'000	2018 \$'000
Operating profit (loss) – EBIT		63,622	(33,408)
Share-based payments	24	1,688	5,715
Exceptional expenses related to restructuring	5	1,051	10,842
Impairment of internally developed assets	12	1,316	10,238
Other exceptional items	4B	(52,744)	5,545
Amortisation – intangibles assets acquired	12	1,996	3,381
Adjusted EBIT		16,929	2,313
Depreciation and other amortisation ¹	12,13	21,270	27,770
Adjusted EBITDA		38,199	30,083
Capitalisation of internally generated development assets	12	(15,289)	(25,300)
IFRS 16 (Rental costs)		(3,897)	–
Acquisition of tangible and intangible assets, net of Proceeds from disposal of assets		(7,266)	(8,402)
Profit (loss) in cash		11,747	(3,619)
Profit (loss) before tax		59,869	(39,813)
Share-based payments	24	1,688	5,715
Exceptional expenses related to restructuring	5	1,051	10,842
Impairment of internally developed assets	12	1,316	10,238
Other exceptional items	4B	(52,744)	5,545
Amortisation of intangibles acquired	12	1,996	3,381
Adjusted profit (loss) before tax		13,176	(4,092)
Net profit (loss) for the year		47,400	(36,360)
Share-based payments	24	1,688	5,715
Exceptional expenses related to restructuring	5	1,051	10,842
Impairment of internally developed assets	12	1,316	10,238
Other exceptional items	4B	(52,744)	5,545
Amortisation of intangibles acquired	12	1,996	3,381
Deferred tax change		15,713	(4,268)
Adjusted net profit (loss) for the year		16,420	(4,907)

1 Excluding amortisation on acquired intangibles.

C. Audit fee

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	180	626	180	626
The audit of the Company's subsidiaries pursuant to legislation	37	466	–	–
Total audit fees	217	1,092*	180	626*
Fees payable to the Company's auditor and their associates for other services to the Group	–	71	–	71
Other services relating to taxation	–	391	–	62
Total non-audit fees	–	462	–	133
Total fees	217	1,554	180	759

* In 2018 this amount includes additional audit fee of \$150,000 in respect of scope changes of previous year audit.

In 2018, all audit work was carried out by affiliates of the Company's auditor. In 2019, Mazars LLP has been appointed to audit the Company's annual accounts but has not been appointed as auditor of all components. Audit fees in relation to components not audited by affiliates of Mazars LLP have not been disclosed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

11. EARNINGS PER SHARE

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

Basic earnings per share

	2019 \$'000	2018 \$'000
Profit (Loss) for the year attributable to the owners of the Company	47,400	(36,360)
	No. of Shares	No. of Shares
Basic weighted average number of equity shares (1)	131,507,097	130,446,810
Diluted weighted average number of equity shares (2)	132,674,790	130,446,810
	USD cents	USD cents
Basic earnings per share	36.0	(27.9)
Diluted earnings per share	35.7	(27.9)

(1) Basic weighted average number of equity shares:

	2019 No. of Shares	2018 No. of Shares
Issued ordinary shares at 1 January	131,000,679	130,217,154
Effect of share options exercised	506,418	229,656
Basic weighted average number of equity shares at 31 December*	131,507,097	130,446,810

* 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 18)

(2) Diluted weighted average number of equity shares:

	2019 No. of Shares	2018 No. of Shares
Basic weighted average number of equity shares	131,507,097	130,446,810
Effect of share options on issue	1,167,693	-
Diluted weighted average number of equity shares at 31 December	132,674,790	130,446,810

The average market value of the Company's shares for the 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.

	2019 \$'000	2018 \$'000
Profit / (loss) for the year	47,400	(36,360)
Share-based payments	1,688	5,715
Exceptional expenses related to restructuring	1,051	10,842
Impairment of internally developed assets	1,316	10,238
Other exceptional items expenses	(52,744)	5,545
Amortisation of intangibles acquired	1,996	3,381
Deferred tax change	15,713	(4,268)
Adjusted profit / (loss) for the year attributable to the equity shareholders	16,420	(4,907)
	USD cents	USD cents
Adjusted basic earnings / (loss) per share	12.5	(3.8)
Adjusted diluted earnings / (loss) per share	12.4	(3.8)

12. INTANGIBLE ASSETS

GROUP	Intangible assets with finite life					Total \$'000
	Software and licenses \$'000	Internally generated development assets (A) \$'000	Acquired customer relationships \$'000	Acquired technology \$'000	Goodwill (B) \$'000	
Cost						
1 January 2018	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)
Transfers	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
Net additions ¹	2,825	15,289	-	-	-	18,114
Disposals	(213)	(1,183)	-	(977)	-	(2,373)
Disposal of automotive	(1,031)	(63,480)	(2,037)	(4,711)	(976)	(72,235)
Translation adjustments	(267)	(848)	(39)	(64)	10	(1,208)
31 December 2019	26,362	93,087	14,592	11,869	21,367	167,277
Amortisation and accumulated impairment losses						
1 January 2018	(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)
Transfers	(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)
Charge for the year	(1,729)	(9,994)	-	-	-	(11,723)
Disposals	240	-	-	977	-	1,217
Impairment	-	(1,316)	-	-	-	(1,316)
Charges for the year from Intangible assets acquired	-	-	(926)	(1,070)	-	(1,996)
Translation adjustments	174	745	39	25	12	995
Disposal of automotive	960	30,454	2,037	4,711	(597)	37,565
31 December 2019	(21,098)	(56,084)	(12,721)	(10,065)	(3,257)	(103,225)
Net Book Value						
31 December 2019	5,264	37,003	1,871	1,804	18,110	64,052
31 December 2018	4,305	67,336	2,797	2,913	19,661	97,012

¹ Net of grant to receive in the amount of \$435,000. (2018: \$1,142,000)

² The circumstances that led to the recognition of the impairment loss related to lower than expected revenues for certain products within IoT products. The impairment loss represents the full carrying amount in respect of those assets, determined on the basis of their value in use.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

12. INTANGIBLE ASSETS CONTINUED

A. Capitalised development assets are related mainly to development of new IoT. Internally generated assets related to IoT products are amortised over 3 to 5 years and IoT Services over 3 years.

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

Technology	Internally generated development assets, net		Internally generated development assets, net		Change year over year	
	2019		2018			
	\$'000	%	\$'000	%	\$'000	%
LTE (4G & 5G)	25,109	68%	47,948	71%	(22,839)	(48%)
3G	372	1%	6,619	10%	(6,247)	(94%)
Other IoT Modules	8,557	23%	8,115	12%	442	5%
IoT Services	2,965	8%	4,654	7%	(1,689)	(36%)
31 December	37,003	100%	67,336	100%	(30,333)	(45%)

Internally generated development assets that completed the development phase, moved to mass production phase and which have started to be amortised, increased to 65% of the total internally generated development assets (2018: 63%).

	2019		2018	
	\$'000	%	\$'000	%
Net assets in development process (not amortised yet)	12,879	35%	24,859	37%
Net assets in mass production phase (being amortised)	24,124	65%	42,477	63%
Total	37,003	100%	67,336	100%

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

Technology	Net assets being amortised		Weighted average of remaining years to be amortised	Net assets in development phase (not amortised yet)		Internally generated development assets, net as at 31 December 2019	
	\$'000	%		\$'000	%	\$'000	%
LTE (4G & 5G)	16,652	69%	3.7	8,457	67%	25,109	68%
3G	53	0%	3.2	319	2%	372	1%
Other IoT Modules	4,468	19%	3.8	4,089	31%	8,557	23%
IoT Services	2,951	12%	1.4	14	0%	2,965	8%
31 December 2019	24,124	100%	3.1	12,879	100%	37,003	100%

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%

There are no capital commitments for intangible assets as at 31 December 2019 and 2018.

B. The Group tests annually for goodwill impairment, or more frequently if there are indications that they might be impaired. Management considers IoT products 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 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.

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

	2019	2018	Average revenue growth rate ¹	EBITDA margins ²	Weighted Average Cost of Capital
CGU Group	\$'000	\$'000	\$'000	\$'000	\$'000
Cloud & Connectivity	6,016	6,016	20.0%	33%	18%
IoT Products	12,095	13,645	10.0%	17%	15%
	18,111	19,661			

¹ Over a five-year period.

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

In 2019, no impairment of goodwill has been recorded (2018: an impairment of the goodwill related to the Stollmann workforce of \$1.1 million was recorded. This amount was part of exceptional expenses related to restructuring, see Note 5b).

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

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

Revenue

The management forecast mainly relies on external forecast 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 10.9%, Cloud & connectivity 16.8%). The long term growth rate applied for all CGU's was 3%.

Expected changes in operating costs

Changes in operating costs have been forecast based on the current and expected future infrastructure required to execute the assumed revenues.

EBITDA margins

EBITDA margins are expected to reach 17% (IoT products) and 33% (Cloud & connectivity) by the end of the five-year period covered by the forecasts.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

12. INTANGIBLE ASSETS CONTINUED

Sensitivity analysis

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

Cloud & Connectivity CGU is sensitive to the short term revenue growth rate. Management used a higher growth rate than the prior year, based on actual performance for 2019. However, using a lower growth rate does not indicate an impairment. Management expect that this growth rate will be achieved over the forecast period.

For IoT Products, a reduction of the average revenue growth rate by more than 2% rate would not result in an impairment of goodwill.

COMPANY	Trademark \$'000	Software \$'000	Total \$'000
COST			
1 January 2018	7,982	878	8,860
Transfers	-	824	824
Translation adjustments	(423)	(115)	(538)
31 December 2018	7,559	1,587	9,146
Translation adjustments	238	50	288
31 December 2019	7,797	1,637	9,434
AMORTISATION			
1 January 2018	(7,982)	(873)	(8,855)
Charge for the year	-	(4)	(4)
Transfers	-	(824)	(824)
Translation adjustments	423	115	538
31 December 2018	(7,559)	(1,586)	(9,145)
Charge for the year	-	(1)	(1)
Translation adjustments	(238)	(50)	(288)
31 December 2019	(7,797)	(1,637)	(9,434)
Net Book Value			
31 December 2019	-	-	-
31 December 2018	-	1	1

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and Building ² \$'000	Computers and IT equipment \$'000	Office equipment and production equipment \$'000	Vehicles \$'000	Leasehold Improvements \$'000	Right of use asset \$'000	Total \$'000
COST							
1 January 2018	6,542	11,801	43,987	407	1,684	-	64,421
Net additions ¹	-	984	6,175	76	203	-	7,438
Transfers	-	(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
Net additions ¹	-	960	3,660	-	22	716	5,358
Initial application of IFRS 16	-	-	-	-	-	12,651	12,651
Disposals	-	(304)	(5,123)	(80)	-	-	(5,507)
Disposal of automotive	-	(1,287)	(6,978)	-	(309)	-	(8,574)
Translation adjustments	(108)	(105)	(628)	-	(9)	(81)	(931)
31 December 2019	6,138	8,273	38,596	253	1,437	13,286	67,983
DEPRECIATION							
1 January 2018	(964)	(8,636)	(27,305)	(91)	(880)	-	(37,876)
Charge for the year	(150)	(1,089)	(7,384)	(59)	(223)	-	(8,905)
Transfers	(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)
Charge for the year	(157)	(850)	(4,759)	(48)	(177)	(3,555)	(9,546)
Disposals	-	153	5,356	36	-	-	5,545
Disposal of automotive	-	1,265	2,943	-	161	-	4,369
Translation adjustments	10	103	569	-	6	(1)	687
31 December 2019	(1,228)	(6,146)	(28,750)	(95)	(1,055)	(3,556)	(40,830)
Net book value							
31 December 2019	4,910	2,127	9,846	158	382	9,730	27,153
31 December 2018	5,165	2,192	14,806	250	688	-	23,101

1 Net of grant to receive of \$597,000. (2018: \$854,000)

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

14. INVESTMENTS IN SUBSIDIARIES

COMPANY	Investments in subsidiaries \$'000
1 January 2018	90,042
Additions ¹	2,175
Disposal ²	(1,737)
Impairment ³	(3,612)
Additions – subsidiaries' share-based payment charge ⁵	5,131
31 December 2018	91,999
Additions ⁶	310
Impairment ⁶	(310)
Disposal ⁴	(10,138)
Disposal – subsidiaries' share-based payment charge ⁵	(1,059)
31 December 2019	80,802

¹ In December 2018 there was additional Investment in Telit Wireless Solutions GmbH.

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 reorganisation 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 During 2019 the Company sold to "TUS" the investment in Telit Automotive Solutions NV, the profit on disposal before tax was \$17.7 million.

⁵ In 2019 the disposal reflects the reversal of prior year share-based payment charges where employees have left the business and the options have been cancelled. As of 2019, share-based payments are recharged to the Company's subsidiaries. For further information in respect of share-based payments see Note 24.

⁶ See Note 16.

Details of the subsidiary undertakings of the Company at 31 December 2019 are as follows:

Name of company	Country of incorporation and principal place of business	Registered office	Principal activity in 2019
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	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

Name of company	Country of incorporation and principal place of business	Registered office	Principal activity in 2019
GlobalConect Ltd ¹	Israel	10 Habarzel Street Tel Aviv 6971014 Israel	No trading activities
Telit Wireless Solutions (Pty) Ltd. ²	Republic of South Africa	Prism Office Park Building 1, Ruby Close, Fourways, Gauteng, 2121	Distribution of m2m wireless products
Telit Wireless Solutions Hong Kong Limited ¹	Hong Kong	Rm 8 17/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Kowloon, Hong Kong	Distribution of m2m wireless products and services and provide intra-Group services.
Telit Communications Cyprus Ltd. ²	Cyprus	Arch. Makarios III, Ave 3-7 6017, Larnaca, Cyprus	Intra-Group supply of m2m wireless products and services.
Telit Technologies (Cyprus) Ltd. ²	Cyprus	Arch. Makarios III, Ave 3-7 6017, Larnaca, Cyprus	Development of m2m wireless products and services.
Telit Wireless Solutions (Australia) Pty Limited ²	Australia	Tower 1, Level 2 495 Victoria Street Chatswood NSW 2067 Australia	Presales of m2m wireless products
Telit IoT Platforms, LLC ²	United States	5300 Broken Sound Blvd. Suite 150 Boca Raton, FL 33487 USA	Development and distribution of m2m wireless services; and intra-Group services.
SecureWISE LLC ²	United States	5300 Broken Sound Blvd. Suite 150 Boca Raton, FL 33487 USA	No trading activities
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, Taiwan	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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

15. INVENTORIES

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Finished goods	11,541	14,649	499	365
Raw materials and work in progress	3,425	12,538	-	-
	14,966	27,187	499	365

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 \$5.6 million (2018: \$4.6 million).

16. TRADE RECEIVABLES AND OTHER ASSETS

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Within current assets:				
Trade receivables ¹	83,351	99,550	5,757	4,233
Other trade receivables ²	23,309	-	-	-
Income tax receivables (see Note 8)	1,494	759	-	-
Other current assets ³	15,332	15,531	1,423	206
Due from Group undertakings (see Note 27)	-	-	45,080	57,029
	123,486	115,840	52,260	61,468
Within non-current assets:				
Due from Group undertakings ⁴	-	-	7,804	53,803
Other long term assets	1,179	1,456	185	192
	1,179	1,456	7,989	53,995

1 The average credit period on trade receivables in 2019 was 94 days (2018: 73 days). No interest is charged on trade receivables unless previously agreed with the customer. The Group has provided against receivables based on the expected credit losses (ECL) model. The Group applied the simplified approach in the calculation of 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 In connection with the sale of the automotive business to TUS, Telit agreed to provide certain transitional services, mainly for IT and production management services to Titan, pursuant to a transition service agreement (TSA). At 31 December 2019, the account receivable balance under the TSA was \$23.5 million (excluding advance payments of \$0.2 million), out of which \$1.2 million was overdue. After ongoing discussions with TUS and Titan, and after reducing the overdue amount, Telit agreed, in early 2020 to extend the TSA beyond February 2020 and amend the terms and conditions of the TSA to better secure the collection of the outstanding amounts, including obtaining a guarantee from TUS and its parent.

3 Current assets include prepaid expenses, supplier rebates and advance payments to suppliers of \$9.3 million (2018: \$7.8 million), VAT and amounts due from other tax authorities of \$2.0 million (2018: \$2.5 million), government grant to receive of \$3.3 million (2018: \$5.2 million) and other receivables.

Included in the Group's trade receivables balance, excluding Titan, are receivables with a carrying amount of \$27.2 million (2018: \$20.6 million) which are past due at the reporting date. The Group recorded a provision for expected credit losses of \$3.4 million (2018: \$3.0 million) based on the ECL provision matrix using an expected credit loss rate between 0.02% and 6%.

The average credit period of these receivables is 97 days (2018: 91 days).

	2019 \$'000	2018 \$'000
Aging of past due trade receivables		
1-30 days	17,530	15,194
30-60 days	4,822	2,567
60-90 days	1,179	307
Above 90 days	3,629	2,555
	27,160	20,623

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:

	2019 \$'000	2018 \$'000
At 1 January	3,003	2,727
Increase in allowance for the year	189	318
Amounts written off	37	-
Translation adjustments	(5)	(42)
At 31 December	3,224	3,003

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 activities is limited due to the customer base being large and unrelated, however 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.

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

COMPANY	Loans to subsidiaries \$'000
1 January 2018	22,717
Additions ¹	35,665
Repayments ²	(3,975)
Impairments ³	(493)
Translation adjustments	(111)
31 December 2018	53,803
Repayments ⁴	(45,930)
Transfer to investments ³	(310)
Reversal of impairment ³	310
Translation adjustments	(69)
31 December 2019	7,804

¹ During 2018 the Company increased the loan to Telit Automotive Solutions N.V.

² During 2018 there was a repayment of the loan from Telit Wireless Solutions Inc. of \$3 million and repayment of the loan from Telit Automotive Solutions S.a.r.l. of \$1 million, by assigning it to Telit Automotive Solutions N.V.

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, the expected credit loss was not material. During 2019 the Company has converted the loan to Dai Telecom Holdings (2000) Ltd. to investment and increased the impairment with the same amount, and the Company recognised debt forgiveness for interest accrued over the year.

⁴ During 2019 there was a repayment of the loans from Telit Automotive Solution N.V. of \$43.8 million and from Telit Wireless Solutions GmbH of \$2.1 million.

Interest on the Group's intercompany loans is at arm's length, with an interest rate ranging between Euribor 6 months plus 3% to daily Libor plus 4%. There are no fixed payment terms however no demand for repayment is expected within the next 12 months.

All loans are disclosed as non-current as of 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

17. CASH

The Group's cash resources are as follows:

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Deposits – restricted cash	646	345	–	–
Cash and cash equivalents	81,304	35,006	24,507	6,419
Total	81,950	35,351	24,507	6,419

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. Interest on cash balances is disclosed in Note 6.

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

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Pounds sterling	90	372	88	372
US dollar	69,297	18,180	20,815	358
Euro	7,946	12,461	3,604	5,689
Korean Won	1,170	2,027	–	–
Brazilian Real	394	261	–	–
Hong Kong Dollar	545	73	–	–
Israeli shekel	1,420	997	–	–
Other	1,088	980	–	–
Total	81,950	35,351	24,507	6,419

18. ALLOTTED SHARE CAPITAL AND RESERVES

COMPANY AND GROUP

Allotted:

336,107 ordinary shares of 1 penny each (2018: 190,612).

Allotted, issued and fully paid:

131,000,900 ordinary shares of 1 penny each (2018: 130,218,200 ordinary shares of 1 penny each).

	2019 \$'000	2018 \$'000
	–	–
	2,176	2,165

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

During 2019 the Company issued:

- 1,500,000 ordinary shares were allotted to a broker in March, August and September 2019 respectively (2018: 500,000) 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 2019, the balance held by the broker was 336,107 ordinary shares (2018:190,612).
- During 2019, 68,250 options were exercised by employees into ordinary shares (2018: 0).

Share options

The number of outstanding options as at 31 December 2019 and at the date of this report were 9,988,659 and 9,693,826 equal to 7.5% and 7.3% respectively, of the outstanding share capital of the Company (7.0% and 6.8%, respectively of the outstanding share capital of the Company, on a fully diluted basis).

Other Reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

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.

Dividend

No dividend was paid in 2019 or 2018.

Retained earnings

Retained earnings represent accumulated profits of the Group.

19. POST-EMPLOYMENT BENEFITS

A. Until 1 January 2007, employees of Telit's Italian subsidiaries received defined benefit pension arrangements under which employees were entitled to retirement benefits based on the accumulated contributions upon attainment of the retirement age or when leaving one of the Group's subsidiary companies. 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 Company 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 was 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 \$34,000 (2018: \$72,000) and the charge to the statement of comprehensive income in the year is an expense of \$38,000 (2018: \$20,000 income).

C. The Group sponsors a partially funded Defined Benefit Plan in Asia-Pacific ("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 employees resident in Germany in the amount of \$6,000 (2018: \$456,000) and for employees resident in Belgium and France in 2018 by \$184,000. These liabilities were divested as part of the disposal of the automotive division in February 2019, please refer to Note 4C.

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.

	2019 \$'000	2018 \$'000
Expense recognised in the statement of comprehensive income		
Interest cost	104	122
Current service costs	788	641
	892	763

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

19. POST-EMPLOYMENT BENEFITS CONTINUED

The amount included in the balance sheet arising from changes in the present value of the defined benefit scheme obligation for Telit Europe, Middle-East and Africa ("EMEA") and Telit APAC are set out below:

	2019 \$'000	2018 \$'000
Present value of defined benefit pension scheme obligation		
1 January	5,064	5,176
Current service costs and interest	892	763
Benefits paid by the Company	(386)	(342)
Actuarial gains on plan liabilities – experience	(50)	(68)
Actuarial gains on plan liabilities – financial assumptions	162	(223)
The effect of changes in foreign exchange	(144)	(242)
	5,538	5,064
Present value of defined benefit scheme asset (APAC)	(3,308)	(3,005)
31 December	2,230	2,059

	2019 \$'000	2018 \$'000
Fair value of defined benefit pension scheme asset (APAC)		
1 January	3,005	2,628
Contributions by employer	619	791
Return on plan assets	58	61
Maintenance fee	(9)	(19)
Benefit paid	(264)	(324)
The effect of changes in foreign exchange	(101)	(132)
31 December	3,308	3,005

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

	2019 \$'000	2018 \$'000
Government bonds and corporate bonds	1,480	1,852
Loans	1,041	1,105
Saving deposit	64	27
Other investments	723	21
Total defined benefit scheme asset	3,308	3,005

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

	2019	2018
Discount rate (Italy / APAC / India)	0.37% / 1.90% / 7.4%	1.13% / 2.62%
Expected salary increase rate (Italy / India)	2.4% / 8.0%	2.63%
Expected salary increase rate including inflation (APAC)	3.00%	3.00%
Inflation (Italy)	1.20%	1.50%

The experience adjustments arising on the plan liabilities at the balance sheet date, totalled \$64,834 (2018: \$68,782) and the expected contributions to be paid in 2020 total \$676,851.

Changes in key assumptions for financial impact of 2019 are as follow:

	+1.0% \$'000	-1.0% \$'000
Discount rate – increase/decrease of 1.0%	348	335

20. CURRENT LIABILITIES

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Short-term bank loans	3,934	24,442	-	-
Current maturities of long term loans	5,848	20,796	-	16,615
Total short-term borrowing from banks	9,782	45,238	-	16,615
Trade creditors ¹	95,887	120,824	2,359	3,219
Due to Group undertakings	-	-	15,392	64,877
Provisions (see also Note 23)	1,239	2,254	-	-
Income tax payables (see also Note 8)	2,893	2,836	-	-
Contract liabilities (deferred income)	2,799	3,542	-	-
Accruals and other current liabilities ²	29,363	28,123	4,672	3,412
Current maturities of lease liabilities (Note 22)	3,848	-	24	-
Total current liabilities	145,811	202,817	22,447	88,123

The directors consider that the carrying amount of short-term borrowings, trade payables and other current financial liabilities approximates to their fair value.

- 1 The average credit period on purchases of certain goods in 2019 was 130 days (2018: 126 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.
- 2 Accruals and other current liabilities includes current liabilities related to employees of \$10.2 million (2018: \$13.2 million) and accrued expenses of \$18.1 million (2018: \$14.0 million) of which \$0.7 million related to restructuring plans (2018: \$2.4 million). The amount also includes \$0.9 million for VAT and other amounts payable to tax authorities (2018: \$0.9 million).

21. CONTINGENT LIABILITIES

Legal proceedings

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

On 26 August 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 5 August 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 6 March 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 2 January 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. In January 2020 the parties signed a settlement agreement for an immaterial amount and the claim was dismissed.

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

On 30 January 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 8 December 2017. By order dated 22 March 2018, the Court granted Telit a motion to dismiss the KPN litigation, finding that the patent is directed to abstract subject matter. On 19 April 2018, KPN filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit concerning the Court's Final Judgment.

In January 2020 the parties reached a settlement agreement according to which Telit purchased a license until 31 December 2021 and the claim was dismissed. The cost of the license has no material impact on the Group's results.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

21. CONTINGENT LIABILITIES CONTINUED

3. On 24 May 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 arising from a distribution agreement entered into by Telit Ltd. and Ingeniorsfirman, in which Ingeniorsfirman ordered from Telit Ltd a total sum of ILS 583,290 (\$168,776).

On 1 January 2017, Ingeniorsfirman delivered a statement of defence and counterclaim in the Tel Aviv court against Telit 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 publicising and advertising the product in the local market. The amount claimed is ILS 420,000 (\$121,528).

On 7 March 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 reduced by a court of appeal in January 2018 to ILS 42,000.

As part of the preliminary proceedings stage, at a preliminary hearing took place in January 2020, the parties reached a settlement approved by the court according to which Telit Ltd. will receive certain immaterial amounts and the mutual claims will be dismissed.

4. The Group is currently involved in various tax assessments 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 – see more details regarding the tax assessment in Israel in Note 8.

22. LEASE LIABILITIES AND GUARANTEES

The Group leases various properties and equipment:

1. Land and buildings – the Company has entered into a number of property lease contracts for office facilities in jurisdictions throughout the world. Contracts may include property management fees, parking facilities and utility costs. Lease contracts in the U.S., Israel and Italy make up the majority of these costs.
2. Car Leases – for employees in Israel, Korea and Italy
3. Other – for example certain digital equipment, software, printers.

On adoption of IFRS 16 the Group recognised lease liabilities in relation to these leases which previously were classified as operating leases under IAS 17. See Note 13 for the related right of use assets.

A. Reconciliation of operating lease commitments and lease liabilities

	Land and buildings	Other	Total
	2019	2019	2019
	\$'000	\$'000	\$'000
IFRS16 Operating lease commitments disclosed as at 31 December 2018	12,926	1,892	14,818
Weighted average incremental borrowing rate as at 1 January 2019	5.5%	3.9%	5.4%
Discounted using the lessee's incremental borrowing rate at the date of initial application	11,688	1,075	12,763
Short-term leases not recognised as a liability	–	(109)	(109)
Low-value leases not recognised as a liability	(3)	–	(3)
Lease liability recognised as at 1 January 2019	11,685	966	12,651

Of which:

Current lease liabilities	3,121
Non-current lease liabilities	9,530
	12,651

B. Composition at 31 December 2019

	Group 2019 \$'000	Company 2019 \$'000
Lease liabilities	10,174	51
Less – current maturities	(3,848)	(24)
	6,326	27

C. Information on leases in which the Group is a lessee:

	Group 2019 \$'000	Company 2019 \$'000
Depreciation expense for right-of-use assets	3,555	37
Interest expense for lease liability	829	3
	4,384	40

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 consisted 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.

Following the sale of the automotive in February 2019, Telit has paid off all previous credit facilities from HSBC and BHI USA and the two banks released 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 subsidiaries. The guarantees are for a total amount of \$49.1 million (2018: \$34.5 million) but do not exceed the amount of current borrowings from these banks.

C. The Company provided guarantees, in the ordinary course of business, of up to \$17.0 million (2018: \$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.

23. PROVISIONS

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Company's management do not expect matters to be resolved within twelve months, the corresponding provision is included in non-current liabilities.

	Warranties (a) \$'000	Tax (b) \$'000	Legal (c) \$'000	Other (d) \$'000	Total \$'000
Balance at 1 January 2019	802	466	986	1,373	3,627
Utilised in the year	–	–	(970)	–	(970)
Provided in the year	–	9	–	602	611
Exchange differences	(20)	(18)	(16)	(23)	(77)
Balance at 31 December 2019	782	457	–	1,952	3,191
Classified as:					
Current liabilities	782	457	–	–	1,239
Non-current liabilities	–	–	–	1,952	1,952
	782	457	–	1,952	3,191

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

23. PROVISIONS CONTINUED

- 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, however the judgmental nature of these items means that future amounts settled may differ from those provided. During 2018 we changed our provision method from a general one, covering general warranty risks to an accrual on a case-by-case basis, where a provision is accrued when a warranty claim or dispute negotiations reach an advanced stage.

- b. Tax
- In December 2013 and November 2014 Telit EMEA received four VAT assessments from the Italian tax authorities for a 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. In May 2019, Telit EMEA decided to avail itself of the tax amnesty program launched in Italy at that time, and reached a resolution of the VAT assessments with the Italian tax authorities for the 2004-2007 tax years. Telit EMEA agreed to pay approximately €400,000 without any admission of liability to close this matter and to avoid associated costs and distractions from the Group's strategies and objectives.
 - 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 EMEA 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 EMEA with payment notices for a total of approximately €3.4 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 litigation proceedings concerning the merits of the VAT case have been settled through the tax amnesty program as described above, Telit EMEA filed with the Regional Tax Court of Trieste a request to schedule the hearing for the merits, and continues to vigorously defend its position with regard to the penalty deeds. A date for the hearing has not yet been scheduled.
- c. 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, 3 years after the mutual termination of the agreements between the parties. 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. In July 2018, Telit was informed that the administrators of BAMES had taken steps to bring a civil claim against Telit, regarding its involvement with BAMES.

In March 2019, Telit reached a settlement agreement approved by the court according to which, without any admission of liability and against a waiver of all civil claims against Telit in this respect, Telit paid in April 2019 an amount of €840,000 plus approximately €21,000 of legal costs (in total \$1,135,967). 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.

- 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 to 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.

24. SHARE-BASED PAYMENTS

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

In 2019 and 2018 the Company granted options and RSU's to employees of the Company and its subsidiaries, as follows:

Date of grant	Amount granted	Exercise price, original (GBP)	Vesting schedule	Expiration date
16/07/2018	4,715,000	1.71	25% on 16/07/2019 25% on 16/07/2020 25% on 16/07/2021 25% on 16/07/2022	16/07/2023
20/09/2018	20,000	1.83	25% on 20/03/2019 25% on 20/03/2020 25% on 20/03/2021 25% on 20/03/2022	20/09/2023
01/07/2019	2,400,000	1.61*	Vesting Terms**	01/07/2024

* Reference Share Price

** The options will vest on the third anniversary of the date of grant, subject to attainment of share price growth targets. All the options will vest if the share price has grown by 50% or more. There will be partial vesting where the share price growth is between 30% and 50% and no options will vest where the share price growth is below 30%. Unexercised Options expire on the 5th anniversary of the grant date.

In 2019 and 2018 the Company granted Restricted Stock Units (RSUs) to employees of the Company and its subsidiaries, as follows:

Date of grant	Amount granted	Vesting schedule
04/05/2018	32,000	25% on 01/01/2019 25% on 01/01/2020 25% on 01/01/2021 25% on 01/01/2022
16/07/2018	70,000*	25% on 16/07/2019 25% on 16/07/2020 25% on 16/07/2021 25% on 16/07/2022
20/09/2018	48,000	25% on 20/03/2019 25% on 20/03/2020 25% on 20/03/2021 25% on 20/03/2022
24/06/2019	946,000	**Vesting Term

* 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 RSUs will vest three years from the grant date, subject to share price performance conditions being met. Failure to achieve share price targets will reduce vesting by up to 50%. In addition, attainment of a defined share price target on the 18th month following the grant date, will trigger vesting of 40% of the RSUs. The vested RSUs are subject to a six-month holding period following the vesting date.

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

	Number		Weighted average exercise price (pence)	
	2019	2018	2019	2018
Outstanding at beginning of year	10,310,958	10,109,042	1.95	2.08
Granted during the year	2,400,000	4,735,000	1.61	1.71
Exercised during the year	(68,250)	-	-	-
Forfeited during the year	(4,523,549)	(4,533,084)	1.90	1.91
Outstanding at year end	8,119,159	10,310,958	1.85	1.95
Exercisable at year end	3,589,971	4,595,916	2.05	1.98

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

24. SHARE-BASED PAYMENTS CONTINUED

The options outstanding at 31 December 2019 have an exercise price in the range of £1.61 to £3.275 (2018: £1.71 to £3.275) and a weighted average contractual life of 2.79 years (2018: 2.18 years).

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

	Number	
	2019	2018
Outstanding at beginning of year	2,623,000	3,854,000
Granted during the year	946,000	150,000
Exercised during the year	(1,283,500)	(778,500)
Forfeited during the year	(416,000)	(602,500)
Outstanding at year end	1,869,500	2,623,000

The RSU's outstanding at 31 December 2019 have an exercise price of 1 pence and a weighted average contractual life of 2.10 years (2018: 2.07 years).

The Group recognised a total expense of \$1,467,000 in respect of equity settled share-based payment transactions for the year ended 31 December 2019 (2018: \$3,659,000). Of this amount, an expense of \$90,000 is attributed to the Company (2018: income of \$1,472,000), and the remaining share-based expenses are charged by the Company to its subsidiaries. The reversal of prior year share-based payment charges is reflected in the disposal of investments in subsidiaries.

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 grants dated June and July 2019 which is measured using the Monte Carlo pricing model, as only this grant has market performance conditions associated with it.

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

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)
05 May 2018 RSU's	1.619	-	-	5	-	-	1.31
16 July 2018 RSU's	1.71	-	-	5	-	-	1.41
16 July 2018	1.71	1.71	56	5	1.03	-	0.57
20 September 2018	1.60	1.83	56	5	1.20	-	0.48
20 September 2018 RSU's	1.60	-	-	5	-	-	1.31
24 June 2019 RSU's	1.61	-	-	5	-	-	1.62
1 July 2019	1.61	1.61	55	5	0.62	-	0.76

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

A charge to the statement of comprehensive income 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.

25. BORROWINGS

	Group		Company	
	2019 \$ '000	2018 \$'000	2019 \$'000	2018 \$'000
Secured – at amortised cost				
Current maturities of long-term loans	5,848	9,627	–	5,446
Other long-term loans	23,999	35,261	–	11,169
Total	29,847	44,888	–	16,615
Unsecured – at amortised cost				
Short-term borrowings	3,934	24,442	–	–
Disclosed in the financial statements as:				
Current borrowings	9,782	45,238	–	16,615
Non-current borrowings	23,999	24,092	–	–
Total	33,781	69,330	–	16,615

	Group		Company	
	2019 \$ '000	2018 \$'000	2019 \$'000	2018 \$'000
Borrowings breakdown				
Working capital borrowing ¹	3,934	24,442	–	–
Long term loans ²	3,352	20,033	–	16,615
Governmental loans ³	24,676	22,862	–	–
Mortgage loan ⁴	1,819	1,993	–	–
Total	33,781	69,330	–	16,615

1 Credit facilities used for working capital of up to €10.5 million bear average interest at a rate of 0.85%.

2 Long term loans from banks in Italy of \$3.4 million (2018: \$3.4 million) with an interest rate of Euribor 6 months plus 5.50%, repayable in 6 semi-annual instalments that will commence in December 2020. The 2018 balance includes also loans from HSBC in the amount of \$16.6 million with interest at a rate of LIBOR plus 2.95%. Following completion of the automotive transaction, the loans from HSBC were fully repaid in February 2019.

3 Representing preferential long term loans (i) of \$14.5 million with fixed-rate of 0.5% and repayable in 14 semi-annual instalments that commence in December 2016, supported by the Italian Ministry of Economic Development (MISE) to develop an innovative platform for the application of M2M technologies and, (ii) \$10.1 million with a fixed-rate of 0.80% and repayable in 16 semi-annual instalments that 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. These loans are initially recognised at fair value and subsequently measured at amortised cost.

4 Representing a preferential rate loan of €3.5 million received in 2011 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 30 semi-annual instalments that commenced in July 2012. The loan is initially recognised at fair value and subsequently measured at amortised cost.

The directors believe that the credit facilities as at year end will remain available to the Group for the foreseeable future and that therefore the Group will be able to continue to fund its operations from these credit facilities.

Maturities of the loan by years are as follows:

	Group 2019 \$ '000
Loans repayment excluding working capital facilities*	
2020 (current maturity)	6,844
2021	7,444
2022	7,544
2023	4,694
2024	1,777
2025 and thereafter	4,478
	25,937

* cash repayment before amortisation of benefit.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

26. 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 Officer 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 2019	Cash flows	Reclassification ¹	Foreign exchange movement	Other	31 December 2019
Short-term borrowings from banks	24,442	(20,682)	150	24	–	3,934
Long term loans including current maturities	44,888	(14,697)	(11)	(339)	6	29,847
Total liabilities from financing activities	69,330	(35,379)	139	(315)	6	33,781

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.

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 7), 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, it is estimated that the impact on the Group's operating profit 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 and 2019 the Group entered into forward contract for 1-3 months of its expected foreign currency transactions in Euro. The Group recognised a loss from these transactions of \$378,000 in 2019 and \$675,000 in 2018.

The carrying amount of the Group's monetary assets and liabilities at the reporting date, denominated in currencies different to the functional currencies of the entity in which such monetary assets and liabilities are held is as follows:

	Assets		Liabilities	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
US Dollars	70,083	37,177	5,380	38,536
Euros	6,670	8,158	968	641
Israeli Shekel	1,769	3,152	487	1,350
Other	221	245	35	46

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	
	2019 \$'000	2018 \$'000
Impact on profit or loss of a 10% decrease	7,187	816
Impact on profit or loss of a 10% increase	(7,187)	(816)

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 \$333,000 (2018: \$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 the 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 16.

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	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Group				
Cash and cash equivalents	81,304	35,006	24,507	6,419
Deposits – restricted cash	646	345	-	-
Trade receivables	83,351	99,550	5,757	4,233
Other trade receivables	23,309	-	-	-
Due from Group undertakings	-	-	45,080	57,029
Other long term asset	1,179	1,456	185	192
Loan (or investment in) to subsidiaries	-	-	7,804	53,803
Guarantee provided to banks on subsidiary's borrowings	-	-	49,091	34,474

Activities that give rise to credit risk and the associated maximum exposure include, but are 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 2019 where such guaranteed borrowings were not fully drawn at that date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

26. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk

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

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

Group	2019			2018		
	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	-	95,887	-	-	120,824	-
Other current liabilities	-	32,162	-	-	31,665	-
Lease liabilities	-	3,848	6,326	-	-	-
Fixed rate	5.36%	5,103	19,571	5.63%	3,909	18,954
Variable rate	3.00%	4,679	4,429	4.38%	41,329	5,138

Company	2019			2018		
	Weighted average effective interest rate %	Less than 1 year \$'000	More than 1 year \$'000	Weighted average effective interest rate %	Less than 1 year \$'000	More than 1 year \$'000
Trade payables	-	2,359	-	-	3,219	-
Other current liabilities	-	4,672	-	-	3,412	-
Lease liabilities	-	24	27	-	-	-
Variable rate	-	-	-	5.45%	16,615	-
Due to Group undertakings	-	15,392	-	-	64,877	-
Guarantees	-	-	49,091	-	-	34,474

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 receivables and other receivables; non-derivative liabilities include bank loans, trade payables, 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 25, 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 60.

Gearing Ratio

The Group defines debt as both long and short term borrowings as detailed in Note 25. 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	
	2019 \$'000	2018 \$'000
Cash and cash equivalents	81,304	35,006
Restricted cash deposits	646	345
Total cash	81,950	35,351
Current borrowings	(9,782)	(45,238)
Non-current borrowings	(23,999)	(24,092)
Total borrowings	(33,781)	(69,330)
Net cash (debt)	48,169	(33,979)
Shareholders' equity	134,349	86,486
Net cash (debt) to equity ratio	35.9%	(39.30%)

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

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 at 31 December 2019, the Company does not have any financial instruments at the Level 1, Level 2 or Level 3 categories.

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.

All fair value of long-term fixed-rate and variable-rate borrowings, are classified as level 2, and are evaluated by the Company based on market interest rates. As at 31 December 2018 and 2019 the carrying amounts of loans were not materially different from their calculated fair values.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

27. 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 or by way of off set, when applicable.

Related party transactions between the Company and its subsidiaries are summarised below:

(a) Trade receivables – See Note 16.

(b) Trade payables – See Note 20.

(c) Intercompany transactions:

	2019 \$'000	2018 \$'000
Royalties ¹	7,505	8,429
Revenues from sale of products and services	6,842	6,886
Cost of sales	(12,463)	(11,298)
Operating expenses ²	(8,536)	(10,666)
Other expenses ³	–	(1,492)
Interest income	2,396	1,985
Guarantee fees	818	814

¹ 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 as consideration for their use of the Company's trade name and trademarks.

² Services provided to the Company by related parties include operating expenses such as general and administrative support services, Sales support services and global marketing services that are provided to the Company in support of the Telit brand.

³ In 2018 Other expenses include a profit of \$1.2m from the sale of investments offset by a \$2.2m loss from impairment of investment (see Note 14)

In addition, the Company signed an agreement with certain subsidiaries for the 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 32 to 38. There are no outstanding balances as at the year end, apart from regular accrued salaries related to the year.

28. SUBSEQUENT EVENTS

- a. Telit's supply chain includes several contract manufacturers that support its production requirements. One of the Group's suppliers in China resumed partial operations in early February 2020, following the government mandated extended closure for the Chinese New Year holiday period. The remainder of the Group's suppliers restarted production fully during February 2020. Consequently, the Group is currently facing minimal impact to its production plan but will continue to work with its suppliers and customers closely to avoid any disruption.

Demand from customers is in line with expectation at this stage, but we cannot estimate how long the crisis around the Covid-19 will last and the impact on the market, which could also affect future demand from customers.

Due to the ongoing Covid-19 situation, Telit has asked some of its employees work from home as a safety precaution. In the last 2 years, Telit already certified core business operations under the international standards of ISO 22301 and ISO 27001. As part of the implementation of these standards, we created and adjusted technological solutions to support seamless business operations and allow business as usual. Telit continuously invests in its business processes and guidelines to minimise risks and maintain service levels for our customers. To that end, Telit maintains a robust remote access network architecture to support our staff for remote working. Telit confirms that these processes worked as intended verifying our infrastructure and business continuity standards.

- b. Claims filed by M2M Solutions LLC ("M2M") – In January 2020 the parties signed a settlement agreement for an immaterial amount and the claim was dismissed. See also Note 21.
- c. Claim filed by Koninklijke KPN N.V., ("KPN") – In January 2020 the parties reached a settlement agreement according to which Telit purchased a license until 31 December 2021 and the claim was dismissed. The cost of the license has no material impact on Group results. See also Note 21.
- d. Mutual claims between Telit Wireless Services Ltd. ("Telit Ltd.") and Ingeniorsfirman Sjöberg AB, a foreign Swedish Company ("Ingeniorsfirman") – As part of the preliminary hearing took place in January 2020, the parties reached a settlement approved by the court according to which Telit LTD will receive certain immaterial amounts and the mutual claims will be dismissed. See also Note 21.

GLOSSARY

For the year ended 31 December 2019

3GPP	3rd Generation Partnership Project, a collaboration between groups of telecommunications associations, known as the Organisational Partners. 3GPP standardisation 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 of Things, 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 organisations.
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 (MNO) to obtain bulk access to network services at wholesale rates, then sets retail prices independently.
PLC	A Programmable Logic Controller, or programmable controller is an industrial digital computer which has been ruggedised and adapted for the control of manufacturing processes.
Wi-Fi	A technology for wireless local area networking with devices based on the IEEE 802.11 standards. 802.11 is the "radio frequency" needed to transmit Wi-Fi.

COMPANY INFORMATION

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Paolo Dal Pino, Chief Executive Officer
Yariv Dafna, Finance Director & President
Gil Sharon, Senior Independent Non-Executive Director
Harald Rösch, Independent Non-Executive Director
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NOTES



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