



Press Release

31 March 2011

Telit Communications PLC

("Telit" or "the Company")

Preliminary Results for the year ended 31 December 2010

Revenues increase organically by 48%, net profit of \$8.4 million

Telit Communications PLC (AIM: TCM), a global leader in machine-to-machine (m2m) communications, announces its preliminary results for the year ended 31 December 2010.

Financial highlights

- Revenue increased by 48.2% to \$131.7 million (2009: \$88.8 million).
- Revenue in H2-2010 increased by 20.9% to \$72.1 million (H1-2010: \$59.6 million).
- Gross profit increased by 24.0% to \$52.9 million (2009: \$42.7 million)
- Operating profit for the year of \$6.6 million (2009: loss of \$3.0 million)
- Adjusted EBITDA¹ for the year of \$12.4 million (2009: \$5.8 million)
- Profit before tax of \$6.4 million (2009: loss of \$4.1 million)
- Profit for the year of \$8.4 million (2009: loss of \$4.2 million)
- Net debt down \$3.2 million to \$7.2 million (2009: \$10.4 million)

Operational highlights

- The transfer of the principal manufacturing facility to China was successfully completed in Q1 2010
- Continued successful expansion of the product portfolio, including the development of products to address the growing demand for energy efficient and wireless smart metering modules
- Strengthening of position in Eastern Europe with the opening of an office in St Petersburg, Russia
- Continued strong growth in the Americas region

¹ EBITDA is defined as earnings before interest, tax, depreciation and amortization and adjusted EBITDA is defined as EBITDA, excluding share based payments and other non recurring expenses and income.

- Telit launches world's first online technical support forum for m2m
- Complete the acquisition of Motorola m2m in 1 March 2011 - integration is progressing well and in line with management expectations.

Commenting on the results, Oozi Cats, Chief Executive, said: "2010 and the subsequent months have been very important for the development of Telit. Through 2010 itself, we achieved strong organic growth successfully capitalising on the returning growth in the m2m industry which is emerging from the economic downturn. Our rate of organic growth was higher than the relative increase in growth of the m2m market itself and our major competitors, which illustrates the quality of our product portfolio, our customer relationships and the strength of our sales and distribution network.

Our hard work over the past few years at building a market leading platform to capitalise on the exciting opportunities within the m2m market is paying off and we are encouraged by the fact that Telit has continued to increase its market share in 2010. With the aim of strengthening our strong market position, we completed the acquisition of Motorola m2m in March 2011. We are very excited about the opportunities this significant acquisition will deliver and the Board is confident that Telit is now even better placed to achieve its objective of becoming the leading provider of m2m solutions worldwide."

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Notes to editors

Telit is a global leader in the development and manufacture of wireless machine-to-machine (“m2m”) communication modules for a variety of applications. Through its 20 sales offices and more than 50 distribution channels, Telit covers more than 60 countries supporting about 1,000 customers with products in manufacture and about 2,000 customers which are in product design discussions or process.

It is the third largest supplier of m2m modules in the world with a market share of approximately 16%. In March 2011, Telit completed the strategically important acquisition of Motorola m2m for a consideration of \$22.5 million, which will further strengthen its strong competitive market position.

Telit is one of the few companies in the industry with full control over the underlying technologies in its products. It owns valuable patents and boasts strong in-house technology and research and development expertise.

Telit is listed on AIM (Ticker: TCM). www.telit.com

Brief introduction to the machine to machine (m2m) market

m2m technology establishes wireless communication between machines and the information centre of a business. Examples where this technology might be used include automated meter reading, fleet management, healthcare, industrial automation and tracking / logistics and many others.

The goal of m2m is to enable applications that allow businesses to increase productivity and competitiveness. It makes existing data available in real time, computers process the information, information becomes valuable and enables services for better planning, surveillance of processes, locating of people and things or remote control of machinery. At the heart of each m2m implementation is a communication module.

The international market for machine-to-machine (m2m) wireless communications was estimated to be worth \$842m in 2010 (Beecham Research). They expect it to grow at high-teens in the period 2009 – 2014 (Beecham Research) because the clear business benefits of the technology – increased productivity and efficiency – are making it almost compulsory. Businesses that historically were not interested in m2m wireless solutions are now looking to incorporate this technology in their business to ensure that any expansion and modernisation is done as efficiently and profitably as possible.

CHAIRMAN'S STATEMENT

I am pleased to be delivering another set of very good results. The m2m market has started to emerge from the economic downturn providing numerous commercial opportunities for Telit. Our very strong competitive position has allowed us to capitalise on this and we have again made good progress in expanding our market share.

Financial highlights

Revenue for the year increased by 48% to \$131.7m (2009: \$88.8 million). The second half of the year reported a stronger performance than the first half of the year with revenues up 20.9% to \$72.1 million compared to revenues of \$59.6 million in the first half. Over the twelve months, gross profit increased by 24.0% to \$52.9 million (2009: \$42.7 million).

The Company has remained committed to continued investment in its product portfolio, increasing Research & Development investment by \$2.5 million to \$17.6 million (13.4% of revenue). Similarly, the net spend on sales & marketing increased by \$1.8 million to \$17.3 million (13.1% of revenue). However, tight control has also ensured effective cost management which is reflected in the decrease in General & Administrative expenses as a percentage of revenues to \$12.5 million (9.5%) compared to \$11.3 million in 2009 (12.8%).

Operating profit increased significantly from a \$3.0m loss in 2009 to a profit of \$6.6 million this year. Finally, Adjusted EBITDA increased to \$12.4 million which reflects an EBITDA margin of 9.4% (2009: \$5.8 million, 6.6%).

Earnings per share

Net earnings per share for the year were 11 cents compared to a loss of 10 cents per share in 2009.

Dividend

The Company is not proposing to pay a dividend in respect of the period (2009: \$ nil).

People

The results are a reflection of the excellent team we are proud to have at Telit. Despite the economic crisis, the management decided to retain its workforce conscious that our skilled staff would ultimately be the basis of Telit's success. We believe that the strong performance through 2010 vindicates that decision. I would like to thank all of them for their hard work and to welcome the employees of Motorola m2m into the Telit family.

Acquisition of Motorola m2m

Post the financial year-end, we completed the acquisition of Motorola m2m, funded by an issue of equity to new and existing shareholders. In the four weeks since completion, we have started to integrate this business into Telit and I am pleased to report that the integration is progressing in line with management expectations. There is further detail on this land-mark transaction in the financial and operational review, but suffice to say that the Board is confident that this acquisition will further strengthen Telit's competitive position, ensuring it is very well placed to capitalise on the growing m2m market.

Outlook

The outlook for the rest of 2011 and the future looks very positive for the m2m industry as a whole and for Telit in particular. Our marketplace has returned to the robust growth rate it experienced before the economic downturn.

While we are very conscious that we operate in a competitive market place, we are well positioned to take advantage of the opportunities ahead and believe that the acquisition of Motorola m2m will help to further improve our strong position within our industry. Looking forward, we will continue to seek expansion opportunities through new technologies or by gaining access to new territories and new market segments.

We look to 2011 and beyond with excitement, as we continue to gain market share and strive to constantly improve our profitability while continuing to provide the market with first rate products and services.

Enrico Testa
Chairman

FINANCIAL AND OPERATIONAL REVIEW

2010 was a year of recovery for the global economy generally, and the m2m market was no exception. With this market backdrop, we continued to focus on organic revenue growth which we managed to increase by 48.2% over the prior year. At the same time, management have also looked to manage costs as effectively as possible.

Part of this process was transferring the manufacturing of our products to China. This process was completed by the end of Q1 2010 and ensured that we could continue to supply our market leading products at competitive prices. We believe that this helped protect our market position and also contributed towards our very strong performance this year.

The transfer of manufacturing to China increased the amount of materials purchased in USD. This was a factor the Board took into account before deciding to change the reporting currency from the Euro to the USD, which started on 1 January 2010. The change in the reporting currency better enables the Company to measure and manage its operations across the globe. The management monitors the currency risk on a regular basis and will take any necessary actions to mitigate potential currency exposure risk.

Financial review

The split of revenue on a geographical basis for the years ended 31 December 2010 and 2009 is outlined below:

	2010 US\$ (m)	% of Total Revenue	2009 US\$ (m)	% of Total Revenue
EMEA	79.0	60.0%	53.5	60.3%
APAC	18.7	14.2%	21.0	23.7%
AMERICAS	34.0	25.8%	14.3	16.0%
Total	131.7	100%	88.8	100%

Telit's operations are based in multiple locations, and involve multiple currencies: 38% of Telit's revenues in the period ended 31 December 2010 were generated in Euros (40% in 2009), with the remaining generated in, or linked to US dollars and other currencies. A substantial part of the Group's purchased materials cost was, and is expected to continue to be, denominated in US dollars although labour costs will continue to be denominated in multiple currencies. This provides the group with a natural hedge against potential currency fluctuations.

EMEA

During 2010, we reached a major sales milestone with the delivery of our two-millionth GE864 module. When this was first launched, it was the first of its kind with a connector-less Ball Grid Array mounting concept, reducing costs and providing better performance. This particular range of product is generally used in large-volume applications in the telemetry and telematics industries, although Telit has developed a more robust version which is used in the automotive industry.

The automotive industry is one of the sectors offering interesting growth opportunities for Telit. We recently won the contract to equip the new Audi A8 with a broadband communications module. Our module will allow passengers broadband mobile internet access as standard. Our module facilitates a wide number of online services including searching the internet, using the satellite maps on Google Earth or downloading new destinations for the GPS system, and checking the latest news headlines and travel information.

The management has identified an increasing number of commercial opportunities in Eastern Europe in areas including fleet management, automated vehicle location, the tracking of goods and various security applications. Consequently, this year we opened an office in St Petersburg, Russia, while maintaining the existing indirect distribution channels in the region.

APAC

Telit has established a very strong market presence in the APAC region of the m2m market and through 2010 delivered a strong performance across many of the countries in the region and in China in particular. We also retained our market dominance in Korea, where we have been the leading m2m supplier since 2006. An example of our strong position in Korea is the recent contract we were awarded by the Korean Meteorological Administration (KMA). Our industry leading product, the BCM-855, plays a role with the KMA's Ubiquitous-Automatic Weather Station (u-AWS) enhancement Project which is looking to improve the accuracy in forecasting the weather.

This strong regional demand for m2m modules has been driven by a number of growing sectors including healthcare, smart grid and public wireless communications. Telit continually develops market-leading products to meet new and evolving customer demands. For example, last year Telit launched the GL865-DUAL, the smallest and one of the most energy efficient modules of its type in the world. These qualities, combined with its competitively priced unit cost, make it perfect for mobile applications and we anticipate it being a very successful product for us.

Americas

Telit first entered North America in 2006 and Latin America in 2008. Over the past few years, our presence in this important region has grown dramatically. We continued this rate of growth through 2010. Our success last year was made possible by strong growth in a number of core markets including commercial vehicle telematics and pay-as-you-drive (PAYD, a type of automobile insurance whereby the costs of motor insurance are dependent upon type of vehicle used, measured against time, distance and place). We also saw significant growth in point of sale opportunities and had some early successes in the medical devices market.

Part of our growth in this region can be attributed to two recent trends: the growth in cashless payment systems and the increasing pressure on local government budgets due to the economic slowdown. For many municipalities facing the effects of lower tax revenues, installing existing parking meters with devices that accept electronic payment such as smart cards or credit cards has become a convenient way to increase revenue without lengthy legislative approval processes. For consumers, electronic payment can increase its convenience because they do not need to look for change to “feed the meter.”

Looking forward, we believe that electronic payment systems are a very promising and exciting area for m2m technology. The increasing popularity of vending machines which sell or supply everything from fizzy drinks to DVDs is an effective way for retailers to improve efficiency and profitability by reducing their cost of sale. In the future, we expect to see more point of sale systems that will incorporate cellular or other wireless technologies, such as near field communications. We will continue to invest in our product portfolio in this area to ensure we capitalise accordingly as these technologies become mass market.

In Brazil, we had another very productive year, participating in almost every new project being developed. This success was due to several factors. We benefit from having a local presence in the region, we have a local manufacturing supplier in the country and we have established very strong relationships with all our customers. We have built a particularly strong brand in Brazil and are confident that this will enable us to capitalise on its burgeoning economic growth. There are also some regulatory opportunities in Brazil, which we are confident of being able to benefit from. The authorities recently introduced the Automotive Law which requires the installation of an anti-robbery device in each new vehicle manufactured. We forecast that this law could potentially lead to a demand of 5 million devices each year in the Brazilian market.

Technology & products

One of the reasons why Telit enjoys its strong competitive position is its continuing commitment to R&D. Telit offers communications modules for various wireless technologies: it develops, produces and markets modules for GSM/GPRS, UMTS/HSPA, CDMA and Short-Range RF m2m modules. We continue to develop products which lead the market with regard to energy efficiency or size. As well as launching the smallest GSM / GPRS module in the world, we also produce the smallest penta band HSPA+ module in the world. This module can be used in any 3G network across the globe and this gives us strong a differentiation from many of our competitors' products which can only work in particular regions. Depending on the application, even minimal improvements in size can make a significant difference in terms of usability and cost. Being able to build ultra compact modules underlines Telit's position at the front of technological innovation and development.

End user market trends

Currently, a large number of companies across various industries are either launching applications for the m2m market for the first time, or increasing their current usage of m2m products. This growth in the market increases the demands and expectations for the products themselves – m2m modules are no longer just commodity products but are becoming part of complex solutions to help address business problems. Telit has the business platform and infrastructure to meet this increasing demand by delivering the cutting-edge technology and follow-up customer support demanded by m2m users.

Telit is solely focused on developing and supplying m2m modules. We have established a strong brand in the market through excellent customer support – we work with the customer through the development and manufacture of products, help with achieving the necessary certification and then work with them through the launch of the product itself. Telit recently launched an online technical support forum that connects the global Telit developer community both with each other and with our global support teams.

Further detail on the acquisition of Motorola m2m

On 1 March 2011, Telit completed the acquisition of Motorola m2m from Motorola Israel Ltd., a subsidiary of Motorola Solutions, Inc., for a consideration of \$22.5 million. A detailed description of the transaction was provided to our shareholders in the circular, which was posted on 28 January 2011, ahead of the shareholders meeting that took place on 16 February 2011.

Motorola m2m specialises in the design, development, integration, evaluation and deployment of m2m applications worldwide and offers a variety of m2m modules for wireless technologies such

as GSM/GPRS, CDMA and WCDMA. It has more than 100 customers and distributors globally, and has developed partnerships with telecommunications carriers throughout the world. Motorola m2m's headquarters are in Tel-Aviv, Israel, while manufacturing of its products is undertaken in Israel, China and Brazil.

Based on Telit's revenues for the year ended 31 December 2010 and information provided to the Directors by Motorola, the combined business would have had consolidated pro forma unaudited revenues of approximately \$182 million in 2010. Based on independent market forecasts, it is estimated that the combined business therefore would have had pro forma market share of approximately 20% for the year ended 31 December 2010. The Directors believe that the acquisition will enhance Company earnings per share in the first year of ownership (excluding amortisation of Group's intangibles acquired).

Cash

The net debt position at the end of 2010 improved to \$7.2 million (2009: net debt of \$10.4 million), and an improvement of \$0.6 million on the estimated net debt which was stated in the 20 January 2011 trading update.

Outlook

The outlook for the rest of 2011 and the future looks very positive for the m2m industry as a whole and for Telit in particular. While our marketplace has returned to the robust growth rate it experienced before the economic downturn, competition has remained strong. We believe we are well positioned to take advantage of the opportunities ahead and believe that the acquisition of Motorola m2m will strengthen our strong position within our industry and we look forward to continued business expansion. We are constantly seeking further expansion opportunities through new technologies or by gaining access to new territories and new market segments.

Telit's management will focus on providing the customers of the acquired Motorola m2m business with the same excellent support, technical and otherwise, that our own customers have come to expect of Telit, and intend to maintain Motorola m2m's product line to minimise the disruption to the business of the acquired customers.

Telit will continue to take advantage of the considerable opportunities arising in this growing global market. I look forward to providing further news of the Group's progress over the coming months.

Oozi Cats, Chief Executive Officer

Yariv Dafna, Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
Revenue	131,678	88,838
Cost of sales	<u>(78,754)</u>	<u>(46,157)</u>
Gross profit	52,924	42,681
Other income	1,942	68
Research and development expenses	(17,606)	(15,140)
Selling and marketing expenses	(17,300)	(15,517)
General and administrative expenses	(12,500)	(11,293)
Other expenses	<u>(904)</u>	<u>(3,832)</u>
Operating profit / (loss)	6,556	(3,033)
Investment income	47	118
Finance costs	<u>(155)</u>	<u>(1,194)</u>
Profit / (loss) before income taxes	6,448	(4,109)
Tax income / (tax expense)	<u>2,001</u>	<u>(113)</u>
Profit / (loss) for the year	<u>8,449</u>	<u>(4,222)</u>
Other comprehensive income / (loss)		
Foreign currency translation differences (net of tax)	<u>(893)</u>	<u>532</u>
Total comprehensive income / (loss) for the period	<u>7,556</u>	<u>(3,690)</u>
Profit / (loss) attributable to:		
Owners of the Company	8,173	(4,864)
Non- controlling interests	276	642
Profit / (loss) for the year	<u>8,449</u>	<u>(4,222)</u>
Total comprehensive income / (loss) attributable to:		
Owners of the Company	7,447	(4,228)
Non- controlling interests	109	538
Total comprehensive income / (loss) for the year	<u>7,556</u>	<u>(3,690)</u>
Basic profit / (loss) per share (in USD)	<u>0.11</u>	<u>(0.10)</u>
Diluted profit / (loss) per share (in USD)	<u>0.10</u>	<u>(0.10)</u>
Basic weighted average number of equity shares	<u>74,855,355</u>	<u>45,608,802</u>
Diluted weighted average number of equity shares	<u>83,704,528</u>	<u>45,608,802</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
ASSETS		
Non-current assets		
Intangible assets	12,294	12,705
Property, plant and equipment	4,210	4,745
Investments in associated undertakings	-	669
Other investments	-	2,262
Other long term assets	610	566
Deferred tax asset	3,574	455
	<u>20,688</u>	<u>21,402</u>
Current assets		
Inventories	17,127	8,674
Trade receivables	29,560	31,226
Other current assets	5,728	8,001
Deposits – restricted cash	1,546	4,979
Cash and Cash equivalent	13,521	11,378
Assets classified as held for sale	479	-
	<u>67,961</u>	<u>64,258</u>
Total assets	<u>88,649</u>	<u>85,660</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	1,361	1,293
Share premium account	47,800	47,145
Other reserve	(2,993)	(354)
Merger reserve	1,235	-
Translation reserve	(3,669)	(2,943)
Retained earnings	(15,336)	(23,886)
Equity attributable to owners of the Company	<u>28,398</u>	<u>21,255</u>
Non-controlling interests	617	1,654
Total equity	<u>29,015</u>	<u>22,909</u>
Non-current liabilities		
Other loans	7,365	4,598
Post-employment benefits	2,906	2,925
Deferred tax liabilities	-	99
Provisions	2,138	1,199
Other long-term liabilities	295	318
	<u>12,704</u>	<u>9,139</u>
Current liabilities		
Short-term borrowings from banks and other lenders	14,917	22,161
Trade payables	22,199	25,968
Provisions	2,317	218
Other current liabilities	7,497	5,265
	<u>46,930</u>	<u>53,612</u>
Total equity and liabilities	<u>88,649</u>	<u>85,660</u>

CONSOLIDATED STATEMENT OF CASH FLOW

	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
CASH FLOWS – OPERATING ACTIVITIES		
Net cash from continuing operations	9,277	2,521
Net cash from operating activities	<u>9,277</u>	<u>2,521</u>
CASH FLOWS - INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,688)	(1,273)
Proceed from disposal of assets	70	173
Purchase of intangible assets	(3,636)	(4,437)
Decrease / (increase) in restricted cash deposits	3,072	(4,416)
Net cash used in investing activities	<u>(2,182)</u>	<u>(9,953)</u>
CASH FLOWS - FINANCING ACTIVITIES		
Issuance of shares	-	8,881
Exercise of options	64	-
Short-term borrowings from banks and others	(6,821)	3,667
Proceeds from preferential rate loan	4,341	-
Repayment of other loans	(524)	(569)
Net cash (used in) / from financing activities	<u>(2,940)</u>	<u>11,979</u>
Increase in cash and cash equivalents	4,155	4,547
Cash and cash equivalents - balance at beginning of year	11,378	6,428
Effect of exchange rate differences	<u>(2,012)</u>	<u>403</u>
Cash and cash equivalents - balance at end of year	<u>13,521</u>	<u>11,378</u>
Supplemental disclosure of cash flow information (included in cash flow from operating activities):		
Interest paid	<u>(155)</u>	<u>(1,194)</u>
Interest received	<u>47</u>	<u>118</u>
Income taxes received paid	<u>(1,209)</u>	<u>(33)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Share capital	Share premium account	Merger reserve	Other reserve	Translation adjustment	Retained earnings	Total	Minority interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2010	1,293	47,145	-	(354)	(2,943)	(23,886)	21,255	1,654	22,909
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	8,173	8,173	276	8,449
Foreign currency translation differences	-	-	-	-	(726)	-	(726)	(167)	(893)
Total comprehensive income	-	-	-	-	(726)	8,173	7,447	109	7,556
Transaction with owners									
Issuance of shares	25	594	-	-	-	-	619	-	619
Exercise of options	3	61	-	-	-	-	64	-	64
Share-based payment charge	-	-	-	-	-	377	377	-	377
Arising on acquisition of non-controlling interests in Telit Wireless Solutions Srl	40	-	1,235	(2,639)	-	-	(1,364)	(1,146)	(2,510)
Total transaction with owners	68	655	1,235	(2,639)	-	377	(304)	(1,146)	(1,450)
Balance at 31 December 2010	<u>1,361</u>	<u>47,800</u>	<u>1,235</u>	<u>(2,993)</u>	<u>(3,669)</u>	<u>(15,336)</u>	<u>28,398</u>	<u>617</u>	<u>29,015</u>

Year ended 31 December 2009

	Share capital	Share premium account	Other reserve	Translation adjustment	Retained earnings	Total	Minority interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2009	845	38,712	(354)	(3,579)	(19,583)	16,041	512	16,553
Total comprehensive income for the year								
Loss for the year	-	-	-	-	(4,864)	(4,864)	642	(4,222)
Foreign currency translation differences	-	-	-	636	-	636	(104)	532
Total comprehensive income	-	-	-	636	(4,864)	(4,228)	538	(3,690)
Transaction with owners								
Issuance of shares	448	8,433	-	-	-	8,881	-	8,881
Share-based payment charge	-	-	-	-	561	561	-	561
Arising on disposal - minority in Telit Wireless Solutions Srl	-	-	-	-	-	-	604	604
Total transaction with owners	448	8,433	-	-	561	9,442	604	10,046
Balance at 31 December 2010	<u>1,293</u>	<u>47,145</u>	<u>(354)</u>	<u>(2,943)</u>	<u>(23,886)</u>	<u>21,255</u>	<u>1,654</u>	<u>22,909</u>

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1. The Group's accounts have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards that were effective at 31 December 2010 and adopted by the EU.
2. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009. Statutory accounts for 2009 have been delivered to the Registrar of Companies. The auditors have reported on the 2010 and 2009 statutory accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006.
3. The Group meets its day to day working capital requirements through overdraft facilities, invoice advance facilities and factoring. Some of these facilities are cancellable on demand or have renewal dates within one year of the date of approval of the financial statements. In addition, the Group has received a long-term preferential rate loan. Further information on the Group's borrowings is provided in note 7.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accompanying financial information.

4. In July 2010 the Company completed an agreement with Bartolini After Market Electronics Services S.r.l. ("BAMES"), whereby it acquired from BAMES its 10% stake of the ordinary shares in Telit Wireless Solutions S.r.l. ("**Telit Srl**"), subsequently owning 100 per cent of the ordinary shares in Telit S.r.l. and the cross-holdings between the two groups ended. By way of consideration for the shares in Telit Srl, Telit transferred to BAMES its stake in BAMES' subsidiary, Services for Electronic Manufacturing Srl ("**SEM**"), being 19.9 per cent of the corporate capital of SEM.

In addition, Telit allotted to BAMES 2,700,000 ordinary shares of Telit Communications Plc. The Parties further agreed that –

- If, as of 1 February 2011, the value of the 2,700,000 Telit shares is less than €1,500,000 million, Telit will pay a further amount in cash to bring this element of the consideration to €1,500,000.
- If, on that date, the value of these shares is greater than €1,500,000, Bames will pay Telit 50% of the amount from €1,500,001 to €2,500,000 and 100% of the amount above €2,500,000, as applicable.

In 2010, based on the mechanism described above, Telit recorded a gain from fair valuation of this financial instrument of \$1.2 million and in February 2011 an amount of \$571 thousands was paid to Telit, after BAMES sold all of the shares

5. The Group is currently the subject of ongoing tax audits in respect of tax returns made in certain jurisdictions. The calculation of the Group's charges to taxation, including income tax, employment tax, sales taxes and other taxes involves the exercise of judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the

relevant tax authority or, as appropriate, through a formal legal process. The probable outcome of the tax audits has been considered in determining the appropriate level of provision for such taxes. The final resolution of some of these items may give rise to material profit/ loss and/or cash flow variances.

6. Reconciliation of operating profit / (loss) to EBITDA and Adjusted EBITDA

	<u>2010</u>	<u>2009</u>
	<u>\$ '000</u>	<u>\$'000</u>
Operating profit / (loss)	6,556	(3,033)
Depreciation & amortization	5,972	4,471
EBITDA	12,528	1,438
Share-based payments	377	561
Non-recurring income (*)	(1,161)	-
Non-recurring expenses (**)	694	3,832
Adjusted EBITDA	12,438	5,831

(*) See note 4.

(**) Includes impairment of investment in associate and deal costs of a public deal (2009: one time compensation paid from winding up exclusivity with Italian manufacturer)

7. Net Debt position

The Group continues to use cash in its operating activities, investing heavily in research and development as well as sales and marketing. Despite this, the Group has achieved net profitability in 2010 and the net debt position at the end of 2010 improved to \$7.2 million (2009: net debt of \$10.4 million).

	<u>2010</u>	<u>2009</u>
	<u>\$ '000</u>	<u>\$'000</u>
Current borrowings (1)	14,917	22,161
Non-current borrowings (2)	7,365	4,598
Cash and cash equivalents	(13,521)	(11,378)
Restricted cash deposits	(1,546)	(4,979)
Total	7,215	10,402

(1) Included within current borrowings are:

- The short-term element of the preferential rate loan from the Ministry of Trade and Commerce in Italy, amounting to \$1.0 million and the short term element of other bank loans provided to the Group in the amount of \$0.1 million.
- Working capital of credit and borrowings mainly in the form of invoice advances totalling \$12.4 million. These borrowings are secured partially by letters of guarantee issued by the Company. The total available line of credit and invoice advance facilities at 31 December 2010 was \$14.9 million.
- Factoring facilities against qualifying receivables totalling \$1.4 million. These borrowings are secured against the factored receivables and are with recourse to the Company in the event that the receivables are not collected.

- (2) Non-current borrowings include \$7.0 million which represents the long-term element of a preferential rate loan from the Ministry of Trade and Commerce in Italy of \$8.0 million while the remaining amount represents the long-term element of other bank loans provided to the Group. The preferential rate loan was provided in connection with the Group's business development program in Sardinia. The loan attracts interest at a rate of 0.75% p.a. and is repayable in ten annual instalments that commenced on 20 March 2009 and end on 20 March 2018.

The Directors believe, based on the past performance of the relevant subsidiaries and the history of the relationships with the lending banks, that the credit facilities will remain available to the Group in the foreseeable future and that therefore the Group will be able to continue to fund its operations from these credit facilities.

8. Subsequent events

- (1) On 16 February 2011 the general meeting of the Company's shareholders approved a placement of 23,793,750 new ordinary shares at 80 pence each, to raise approximately \$30 million (£19.0 million) before issuance expenses. The placing proceeds were used to fund the acquisition of Motorola Solutions Inc's ("**Motorola**") m2m modules business ("**Motorola m2m**").
- (2) On March 1, 2011 the Company's subsidiary Telit Wireless Solutions Ltd ("Telit Israel") completed the acquisition of Motorola for a consideration of \$22.5 million excluding VAT. Motorola m2m specialises in the design, development, integration, evaluation and deployment of m2m applications worldwide and offers a variety of m2m modules for wireless technologies. The Company's directors believe that the acquisition of Motorola m2m will strengthen Telit's strong position within the industry.

Under the terms of the Asset Purchase Agreement, the assets and liabilities in the transaction include:

- all rights relating to the existing product portfolio and customer database of the business;
- other assets related to the business including equipment, inventory and trade account receivables;
- warranty liability in relation to products already sold by the business (such warranties typically having a duration of 15 months);
- a perpetual license of a certain Motorola software (known as P2K) used across some of the product portfolio (entered into with Motorola Mobility, Inc.); and
- 33 employees. A majority of the employees are located in Israel, with the remaining employees located in the U.S., the U.K. Germany, Brazil and Singapore.