

Organisation and management model (Decree 231/2001)



TELIT

COMMUNICATIONS S.p.A.

Organisation and Management Model

in accordance with

Legislative Decree 231/2001

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## GENERAL SECTION

### PREAMBLE

This document, approved and formally issued by the Board of Directors, constitutes the organisation and management model (the "Model"), which has been prepared (art. 6 of legislative decree no. 231 of 8 June 2001 (the "Decree 231/2001"), by Telit Communications S.p.A. ("Telit SpA" or the "Company").

The basic purpose of the Model is to create a structured, organic system of procedures and control activities to prevent the committing of offences with relevance under Decree 231/2001. It is also intended to create awareness, in all those working on the Company's behalf and for the Telit Group as a whole (all the companies subject to direction and coordination by Telit Communications PLC ("Telit PLC"), an English-law company listed on the Alternative Investment Market (AIM - Ticker: TCM) of the London stock exchange, that they may be held personally liable for offences governed by Decree 231/2001.

This model coincides with the Company's action to prevent corporate offences, in line with its business policy. Telit SpA thus intends to guarantee fairness and transparency in its business dealings and activities, and wishes to emphasise that all forms of illegal behaviour will always be condemned and considered to conflict with its guiding principles.

This initiative has also been taken in the firm belief that – beyond the provisions of Decree 231/2001 – the adoption of this model and the Code of Ethics (set out below) and the control procedures already adopted by the Company (such as the operating procedures of the Quality System, the SAP business accounting system, the segregation of functions etc) may be a valid way of raising awareness among all directors and employees of the Company, and among anyone else working with the Telit Group for any reason including the directors and managers of other Telit Group companies who do not hold positions in the Company and its customers, suppliers, business partners, collaborators and external consultants, to ensure that they all adopt fair, linear conduct in the carrying out of their activities, to prevent any risk of the offences governed by Decree 231/2001.

In order to raise accountability among all employees and third parties operating on its behalf, Telit SpA, for the proper organisation of its operations with reference to the prevention of major offences, aimed at limiting the repressive effect of Decree 231/2001, has fully recognised – on the basis of the Decree itself – the central importance of the principle by which a legal entity may, where one or more offences through which it receives an undue benefit are committed, demonstrate that it is entirely extraneous to the offences, thus supporting the effect of an exempting factor resulting in the liability for each offence being concentrated exclusively on the perpetrator.

According to the law, the Company may also prove that it was extraneous to the offence by demonstrating the existence and functioning of a thorough internal organisation aimed at prevention, and at the formulation of a correct decision making process within the organisation, and by proving that the Company has used its resources effectively in order to prevent the above-mentioned offences.

The above exemptions, outlined by the Decree, and the relevant preventive conduct and obligations, have been adopted by Telit SpA and, as can be seen, have led to the extremely important legal content of this Model, which has been drafted for the above purposes.

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In this perspective, in direct application of art. 6a of the Decree, this Model, in summarising the rules and measures effective within Telit SpA (and the Telit Group in general) is intended to represent the primary legal instrument that ensures full compliance with the applicable laws, and is circulated within the Group to reinforce this purpose.

### **Decree 231/2001**

By way of summary, the following information about the guidelines of the contents of the Decree has been given below as a useful reference to the reader, as it is closely connected to the purposes of the document.

The decree expressly introduced into Italian law the principle by which legal entities are also financially liable for various offences governed by the Decree, by way of formal administrative liability but essentially criminal liability. The offence may be carried out in their interests or for their benefit, either by key personnel or by workers subject to their direction and supervision. The liability of the entity resulting from the offences governed by the Decree is accompanied by the liability imposed by law on the individuals who actually carried out the offence.

Specifically, the Decree has introduced a new concept that any entity with or without legal personality, with the sole exception of certain public law bodies, is potentially subject to the penalties of the Decree, if:

- the offence was deemed a significant offence (see below), carried out by persons belonging to the entity, i.e. by (i) persons in a position of representation, Administration or direction, or persons from a unit of the entity with financial and functional autonomy, or persons exercising, also on a de facto basis, the management and control of the entity (key personnel); (ii) person subject to the direction of supervision of one of the persons referred to in (i);

- the offence is one of those listed in articles 24, 24/a, 24/b, 25, 25/a, 25/a1., 25/b, 25/c, 25/c1., 25/d, 25/e, 25/f, 25/g or 25/h of the Decree, or it relates to (i) the undue receipt of public funds, fraud against the State or a public entity, or the receipt of public funds, computer fraud against the State or a public body; (ii) computer crimes and the illegal use of data; (iii) organised crime offences (crimes of association), (iv) bribery and corruption; (v) counterfeiting of coins, public securities, revenue stamps, distinctive marks or signs; (vi) offences against industry or commerce, (vii) corporate offences; (viii) offences related to terrorism or subversion of democratic order; (ix) mutilation of the female genital organs, (x) offences against the individual; (xi) market abuse; (xii) manslaughter or grievous bodily harm carried out in breach of health and safety regulations; (xiii) the handling, laundering or use of cash, goods or illegally gained items, (xiv) copyright offences, (xv) incitement to commit perjury or make false declarations to the legal authorities. Although not formally governed by the Decree, the criminal liability of a corporation has also been extended to include the transnational offences governed by law no. 146 of 16 March 2006, i.e. offences committed in one or more States, relating to criminal association (ordinary or Mafia-type), money laundering, the trafficking of immigrants or obstructing the course of justice;

- the offence was committed, or attempted, in the interests of or for the benefit of the entity.

A requirement for the determination of corporate liability (article 5 (1)) is the committing of certain offences in the interests of the entity, by:

- persons in a position of representation, administration or direction of the entity, or persons from a unit of the entity with financial and functional autonomy, or persons exercising, also on a de facto basis, the management and control of the entity (key personnel);

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- persons subject to the direction or supervision of one of the persons referred to in (i), considered subordinates;

In relation to the definition of key personnel, reference has been made to the contents of the ANIA Guidelines: "Key personnel are those individuals holding a function of representation, administration or direction of the entity, and they are deemed equivalent to those performing the same functions in a business unit with financial and functional autonomy, as well as those performing the management and control – also on a de facto basis – of the entity, thus having dominance over it".

Moreover, article 25b limits the key personnel with significance for this purpose to the "directors, general managers or liquidators", which may be interpreted to include "managers responsible for drafting company accounts" pursuant to legislative decree no. 262/2005.

The distinction between the two categories (key personnel and those are subject to direction and supervision) is certainly significant, as it affects the ranking of liability of the entity, and imposes a different burden of proof. In the event of an offence committed by key personnel, the entity is presumed liable due to the fact that such persons express and represent the policy of the entity and therefore its external will and actions.

With regard to the penalties, it should be noted that for all offences, a financial penalty is always levied on the legal entity.

For more serious cases, prohibitions are also imposed, such as a prohibition from exercising a business, suspension or revocation of authorisations or permits, a prohibition on contracting with the public administration, exclusion from finance, grants or aid, and the possible revocation of any aid already granted, and a prohibition on advertising goods or services.

Any profits earned are also seized, and the court judgment is published.

The penalties that may be inflicted on the entity if the Decree is applied after a criminal-law procedure, may consist of the following, depending on which offence has been committed:

(a) fines, of an amount that may vary depending on (i) the gravity of the offence, (ii) the degree of responsibility of the entity, (iii) any work done by the entity to eliminate or reduce the consequences of the offence and to prevent further offences from being committed, (iv) the economic and financial conditions of the entity;

(b) prohibitions, imposed with particular reference to offences against the public administration and those relating to health and safety, such as (i) a prohibition from exercising a business, (ii) suspension or revocation of authorisations or permits necessary for the offence to be committed, (iii) a prohibition on contracting with the public administration, except to obtain a public service, (iv) exclusion from finance, grants or aid, and the possible revocation of any aid already granted, (v) a prohibition on advertising goods or services.

(c) confiscation of the proceeds or profits from the offence, also in the form of equivalent goods;

(d) publication of the court judgment.

Even in the presence of the above conditions (the offence was committed by a member of key personnel or a subordinate, in the interests or for the benefit of the entity), any liability of the legal entity is excluded if it can be seen that it took adequate preventive and supervisory action.

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Specifically, if the offence was committed by a member of key personnel, the entity must demonstrate (article 6 of the Decree):

1. that it adopted and effectively implemented an organisation and management model in the form described in this document, before the offence was committed, with the aim of taking adequate preventive action in accordance with the applicable laws, with regard to the committing of the offence in question (**factor 1**);
2. the name and functions of a specific body of the entity (the Supervisory Body), with its own powers of initiative and control, whose task is to supervise the functioning and observance of the Model, and to deal with its updating (**factor 2**) (the small companies, the duties of the supervisory body can be performed directly by the executive body).

Clearly the two factors mentioned above must meet specific requirements of effectiveness and internal functionality, without which their existence would be of no consequence for the required protection.

with regard to the relations between key personnel and the Model, it should be noted that, as in this case, the entity must also, in order to be deemed exempt, demonstrate the following in legal proceedings: (i) that the perpetrators of the offence deliberately and fraudulently ignored the contents of the Model (**factor 3**); (ii) that there was insufficient or absent supervision by the supervisory body (**factor 4**).

For both the first two factors, it is necessary for full operativity, also on a de facto basis, to be demonstrated. For the other factors, it is the actual circumstances surrounding the events that are decisive, in relation to which no preventive measures could have been put in place.

With regard to non-key personnel, it is the task of the public prosecutor to prove that the offence was made possible by the failure to comply with obligations of direction or supervision, but that the presence of an appropriate model would have excluded any form of administrative or criminal liability of the entity (article 7 of the Decree).

## **GROUNDINGS FOR EXCLUSION OF THE COMPANY'S LIABILITY**

The decree provides, (articles 6 and 7), that if one of the offences was committed by a person referred to in article 5 d 1, a), that there is a form of exemption from liability if the entity can demonstrate:

- that it had adopted and effectively implemented an organisational and management model intended to prevent the type of offence that was committed, before the event;
- that the task of supervising the functioning, observance and updating of the Model had been entrusted to a body with independent powers of initiative and control (supervisory body)
- that the individuals who committed the offence fraudulently evaded the organisation and management models;
- that there was insufficient or absent supervision by the body referred to above.

In any case the entity is not liable if the above persons acted in the exclusive interests of themselves or of a third party (art. 5(2)).

Subparagraph 2 of the same article provides for certain specific requirements that an organisational model must meet:

- identification of activities in connection with which the offences may be committed
- the provision of specific procedures for the formation and implementation of the Company's decisions in relation to the offences
- identify the procedures for managing financial resources in order to prevent offences from being committed;
- provision for the obligation to report to the body responsible for supervising the functioning and observance of the Models
- introduction of a system of disciplinary measures intended to sanction non-compliance with the measures indicated in the Model.

Article 6(3) of the Decree, and the enacting regulations issued in Ministerial Decree no. 201 of 26 June 2003 also confirms that the Models may fulfil the above requirements if they are adopted on the basis of the codes of conduct drafted by representative trade associations, communicated to the Ministry of Justice. The Ministry may, within 30 days, in collaboration with the other competent ministries, formulate observations on whether or not the Models are suitable to prevent offences.

In line with the above, the basic points identified by the trade associations in drafting the Models may be summarised as follows:

- identification of risk areas, intended to verify the area or sector of the Company that may be susceptible to the offences;
- obligation to report to the supervisory body in order to satisfy the controls on the functioning, effectiveness and observance of the Model
- provision of a system of internal controls that may reasonably prevent or minimise the risk of offences being committed, through the adoption of specific procedures

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In this regard the key elements of the control system recommended by Confindustria are the following: the Code of Ethics, the organisational system, the system of IT procedures, powers of signature and authorities, the control and management systems, staff communications and training. The elements of the control system must be aligned with the following principles:

- application of the principle of segregation of functions
- documentation of the controls
- provision of an appropriate system of penalties for the procedures
- conformity with laws, regulations, rules and internal policies

Confindustria has identified the steps taken by an entity to activate a system of risk management that is consistent with the requirements of the Decree and for the construction of an organisational model, i.e.:

- the mapping of areas of activity according to the activities, functions and processes by means of periodic contents of reviews of the organisation, with the ultimate aim of identifying any areas that may be affected by the offences
- the analysis of potential risks with regard to the possible ways in which offences can be carried out within the Company, with the ultimate aim of mapping the opportunities for offences to be committed in the risk areas identified as described above
- assessment/construction/adaptation of the system of preventive controls that may already exist, adapting the system if necessary or constructing one where there is none, to ensure that the risks of an offence being committed in the ways identified and documented above, are reduced to an acceptable level, with the ultimate aim of documenting the system of controls in place, with details of each component of the system and any adjustment that may be required.

## **COMPOSITION AND DRAFTING OF THE MODEL**

As mentioned above, this document is the concrete formalisation of the Model of Telit SpA and is the result of a specific analysis intended to equip the Company with the tools to release it from the application of penalties for administrative liability under the Decree.

The adequacy of the Model is thus guaranteed by its reflection of the actual organisation, to which all the provisions of the document refer.

The preparation of the Model and definition of its regulatory components are connected to the mapping of the Company's organisation, and the reference laws and legal risks linked to the operations typical of its economic sector.

In this regard (a) specific interviews were carried out with the main functions of the Company, as well as (b) an analysis of specific documentation relating to the Company's organisational, economic and financial situation.

This model was also drafted in line with suggestions contained in the Confindustria guidelines, relating to organisational and management models required by the Decree. On the basis of the information provided by the above-mentioned trade association, the Model was essentially elaborated as follows:

### **1. PRELIMINARY PHASE**

This phase relates to the preparation of supporting documentation and the planning of the mapping activity. The existing documentation was analysed (organisational charts, process mappings, mappings and assessments of risks and controls), and discussions were held with the relevant functions of the Company in order to identify the key personnel and subordinates to be involved in the subsequent evaluation of risks and of the control system.

The areas of the Company, organisational areas, processes and sub processes were also mapped to identify any areas where there is a risk of the offences governed by the Decree (grades of processes/offences). In order to facilitate the subsequent risk assessment phase, the possible methods by which an offence could be committed were also identified.

The following procedure were analysed in detail:

- presentation of the group
- programmatic document
- Chamber of Commerce records of the various Group companies
- Group's organisational chart
- list of personnel activities
- list of Treasury activities
- job descriptions
- duties of the administration department

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- document acquisition procedure
- supplier sourcing procedure
- payments procedure
- annual stock inventory procedure
- personnel management procedure
- procedure for the development and production of new products
- administration procedures
- reimbursement of travel expenses
- use of company credit cards
- procedure flows
- regulations on infragroup relations

## **2. MAPPING OF CRITICAL AREAS AND SENSITIVE ACTIVITIES**

The Objective Mapping (Chapter 3) is essentially an identification of the specific areas of the Company's activities considered to be at risk (even if indirectly, as they may relate more specifically to other Telit Group companies as explained below) in relation to the above issue, and the mapping of individual offences. It is the starting point for the construction of the risk management system, given that its findings also include the internal preventive measures that the perpetrator, if determined to commit an offence, needs to violate in order to create administrative liability for the Company.

Knowledge of the internal preventive measures is essential for anyone working for the Company, and their interpretation is thus a fundamental tool for any preventive actions by the internal bodies.

As the objective mapping is an inventory of each critical risk area, the first step is to obtain an accurate description of the area in question (content, relations and actions) with reference to the various types of offence governed by the Decree.

Within each critical area, the sensitive activities that may be affected by the types of offence governed by the Decree, are then identified in detail. The relevance with identified according to the theoretical possibility of an individual operator carrying out an offence. The theoretical nature is underlined in each case, partly because of the absence of any simultaneous verification or findings by a third party present during the operation.

With reference to the above activity, the objective mapping contains precise indications:

- of the main functions affected by the risk activities;
- of the main operational procedures of a preventive nature that may already be followed within the Company during the above activity, and any controls already in force;
- further controls that may be deemed necessary for the provision of an effective protective exempting system, which will then be fully clarified in the procedures.

### 3. PLANNING OF PREVENTIVE CONTROLS AND PROCEDURES

In accordance with article 6) 2) (b) of the Decree, a control system has been put in place that is able to reduce the risks identified in the objective mapping. This system of preventive controls and procedures (the regulatory mapping (Chapter 4) **can guarantee that the risk of an offence being committed is reduced to an “acceptable level”**, taking into account that in the best and most recognised corporate practices, a risk is universally deemed acceptable for as long as the estimated cost of the controls needed to prevent it completely are less than the value of the resource to be protected. In this specific case, the acceptability threshold used in the Model is represented by a system of prevention that can only be evaded fraudulently. In line with the Guidelines laid down by Confindustria, this decision appears to be in line with the exemption of corporate liability in the case of fraudulent evasion of the Model (see article 6(1)(c) of the Decree).

The system thus consists of specific controls to be implemented at various levels within the Company. Together with the procedure already in use (including those contained in the Company's Quality system), these constitute the sector specific protocols, which are an integral part of this model.

To ensure better consistency and to improve the understanding and impact of the new concepts contained in the Model, the contents have, as far as possible, been drafted with a view to maximising continuity and compatibility with the internal procedures and regulations already existing in the organisation, which must in turn be considered an integral part of the Model.

As drafted, in accordance with the contents of the Confindustria guidelines, the Model contains all the basic elements of an effective system of preventive controls, as it is fully represented by the existence of:

- a formal organisational system with specific reference to the allocation of functions, responsibilities and lines of authority;
- a separation and opposition of functions, manual and computerised control points, joint signatures and supervision of activities;
- a system of powers of authority and signature that is formalised and consistent with the functions and responsibilities held by key personnel;
- the ability to verify, document and the consistency, as far as possible, of company operations;
- provision of an appropriate system of penalties for violations of the provisions and procedures of the Model;
- a supervisory body whose main requirements are autonomy, professionalism, and continuity of action;
- an obligation by the functions of the Company, particularly those deemed to be most at risk, to report to the supervisory body on a structured basis (periodic reports in accordance with the Model), and to report any irregularities or non-conformities found in connection with the available information (in this case the obligation is extended to all employees without following lines of authority);
- the definition of a system of information and reporting to personnel, and personnel training;
- a Code of Ethics that can guide behaviours, even without detailed provisions.

#### **4. APPROVAL AND ADOPTION OF THE MODEL**

In accordance with article 6(1)(a) of the decree, this model was issued by the Company's executive body. On 24 April 2013 the Board of Directors formally approved the adoption and contents of the Model, when it appointed the supervisory body.

The board, either directly or at the proposal of the supervisory body, will order any subsequent amendments to the Model (see chapter 9), in order to ensure that it consistently responds to the requirements of the Decree and any changing conditions in the corporate structure.

The supervision of the adequacy and implementation of the Model is performed, as mentioned, by the supervisory body, in the exercise of its powers of control.

#### **STRUCTURE OF THE MODEL**

The adoption and effective implementation of the Model not only allows the Company to benefit from the exemption under the Decree but also improves its corporate governance, limiting the risk of an offence being committed.

The purpose of the Model is therefore to provide a structured, comprehensive system of prevention and control, intended to raise the awareness of those working directly or indirectly on sensitive activities, and, through constant monitoring, to allow the prevention of offences, or prompt reactions to prevent an offence.

Within a group, the principles of autonomy and accountability of each company remain. Therefore each company in the Group must draw up its own guidelines to this Model, undertaking to respect them and to collaborate with the supervisory body by reporting to it appropriately.

In preparing this model, which subject to the special functions described above is part of a broader system of controls, mainly consisting of the corporate governance rules, consideration was given to the procedures and control systems already in place and widely operative within the Company, as they are also considered to be measures to prevent offences in the context of sensitive activities.

The rules, procedures and principles examined during the preparation of the Model, despite not being described in detail, form part of the wider system of organisation and control that it is intended to constitute.

For the purposes of identifying the principles used in the drafting of this Model, the following factors were analysed:

- the rules of conduct, values and principles of the Code of Ethics
- the documentation and work orders relating to the group's functional and organisational hierarchy
- the communications and circulars issued to personnel
- the system of authorities and powers in force with the Group companies
- the internal regulations governing the work and tasks of the bodies involved in the investment process
- the rules on the management and disclosure of privileged information under the laws on market abuse

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In addition, the provisions of the Confindustria, ABI and ANIA guidelines were also followed, together with the requirements of the Decree and the general principles applicable to an adequate system of internal controls, such as:

- powers of authorisation that are consistent with allocated responsibilities
- application of the principle of segregation of functions
- the carrying out of specific control activities
- the traceability of processes, both on the information system and in paperwork
- disclosure of significant information to the supervisory body

This model is structured in the form of a general section and individual special sections, prepared for the various categories of offence envisaged in the Decree.

The general section contains an introduction on the structure of the decree, its application, and the rules and principles of the Model.

The special sections deal with the system of laws relevant to the various categories of offence, examples of significant conduct, sensitive activities within the group, and the existing controls and measures adopted by the Company.

## **1. THE MODEL**

### **a. Preamble**

This part of the Model summarises the current organisational structure of Telit SpA and its typical business, in order to allow the reader to form an overview of the general business risks, including information about the specific risks mentioned in the Decree and therefore to readily identify the areas within which offences could be committed.

In other words the purpose of the above is to facilitate adequate precautionary countermeasures, in order to impede the formation of negative actions, as far as possible.

\* \* \* \* \*

### **b. Profile of Telit SpA**

The Company is a known leader in the wireless technology market, and in particular in machine-to-machine technology (m2m). Telit SpA specialises in the design, development, promotion and sale of m2m modules, which allow electronic devices to transmit data through wireless networks using GSM/GPRS, CDMA/EDVO, LTE, short-range modules, GNSS satellite catchers for the IoT applications marketplace. Furthermore, through its business unit Telit IoT Connectivity, provides high quality IoT services, including mobile connectivity and cloud service. Telit offers the best in IoT one-stop-shop, providing synergetic hardware and services characterized by added-value, including access to Platforms as a Service (PaaS).

The business unit Telit Automotive Solutions, active since 2014, provides automotive products such as Automotive On-board Platform (ATOP) and solutions for manufacturers in the field of telecommunications, weather the business unit Telit GNSS Solutions provides geolocalization solutions.

The Company's technologies and products let other electronic devices benefit from GSM/GPRS, UMTS/HSDPA, CDMA/EDVO and the last innovative LTE technologies, in such a manner that they are able to transmit and receive information mostly without human interaction: Telit indeed provides several IoT communication modules. Prices and performances are absolutely competitive.

The head office of the Company is in Sgonico (Trieste), with a secondary office in Rome, a representation office in Istanbul, and two research centres in Italy (Sgonico and Cagliari). It also has another three foreign research centres in Tel Aviv (Israel), owned by Telit Wireless Solutions (IL) Ltd (the Israeli branch of the Telit ), and in Seoul (Korea), owned by Telit Wireless Solutions Co Ltd (the Korean branch of the Telit Group).

### **c. Business and activities of Telit SpA**

The business of Telit SpA originates in the work of the research and development team, located in Trieste and Cagliari, and responsible for the design, planning and development of the Modules destined for production and retail. The modules are then outsourced for production, under specific agreements with contract manufacturers. They are then sold by Telit SpA through a network in 60 countries.

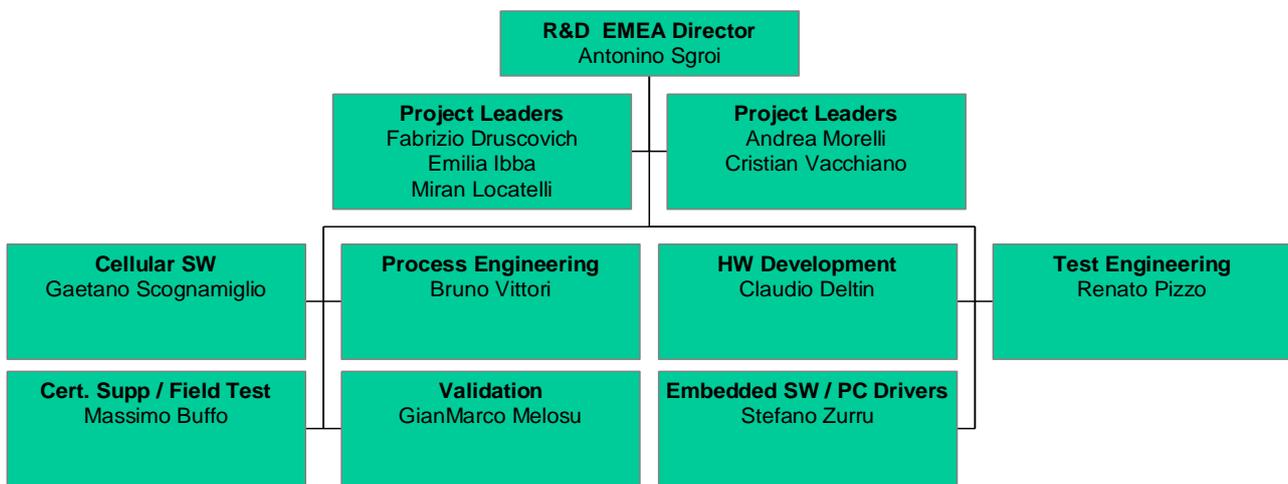
For this purpose, the Company has a number of internal functions located at the branches listed above. Everyone responsible for the various functions of the Company operates in accordance with the organisational chart, in collaboration with the Group contacts responsible for each function, according to distinct internal hierarchies.

Below is an analysis, by macro area, of the main activities of Telit SpA, highlighting as far as possible the duties and responsibilities of the various functions.

### A) R&D Area

The R&D area is the core business of the Company, and deals with the conception, technical design and development of the modules, the provision of production assistance to the contract manufacturers (through the resident engineers and remote support), and with pre-and post sale technical assistance. It is a single organisational structure, led by the Global R&D Vice President, who heads up the various technical groups at the Trieste and Cagliari branches, each with its own objectives, responsibilities and duties. The other foreign R&D groups in the organisation also report to the above unit.

The structure of Telit R&D area is the following:



The technical structure of the R&D area (located in the two laboratories in Trieste and Cagliari) is coordinated by a Technical Director: 170 people work with him (mostly engineers, telecommunications experts, computer technicians, matematicians and physicists).

The areas of expertise are:

- cellular internal platform management
- AT internal platform management
- validation of products on the field
- validation of products in production
- validation of the production process
- technical business procedures management
- innovation related to technology and products

The laboratories are split in seven areas of expertise:

- cellular software
- hardware development
- test engineering
- certifications/field test
- validation
- embedded software/PC drivers

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*B) Quality & I.P.R. Department*

*i. Quality*

Telit SpA has obtained UNI EN ISO 9001:2008, indicating a precise, detailed mode of operation that guarantees a quality product and service. Through this quality management system, an external certifying body attests that Telit SpA is organised according to certain accurate, effective rules of conduct and has a clear system of responsibilities and controls, which results in certain objectives being met. For this purpose, Telit SpA has appointed an internal *Quality & IPR Director*. Telit SpA is also certified according to UNI EN ISO 14001:2004, and environmental management system specifically for the Trieste branch. This verifies compliance with product-related environmental legal requirements, according to RoHS and REACH.

Telit SpA also has ISO TS 16949:2009 rectification, relating to the quality management system used for the supply of automotive products.

Although all the production of Telit SpA is outsourced to contract manufacturers, in order to protect its image and the integrity of the modules, the Company, through the quality department (and the R&D Area for more technical aspects) carefully selects the various contract manufacturers and carries out rigorous controls on the design and production of the Modules to ensure that products made with the image and brand of Telit SpA are in line with the objectives, policies and quality standards defined by the Company.

Quality representatives are designated for the various contract manufacturers, and they monitor the production operations on site.

*ii. I.P.R. Department*

The I.P.R. Area of Telit SpA handles a portfolio of patents (acquired from third parties or developed by Telit SpA) and trademarks, and is under the direct responsibility of the *Quality & IPR Director*, who acts jointly with Top Management. The patents are in a portfolio and third-party IP licences are used. In most cases the trademarks are owned by Telit Communications PLC. Several trademarks are being discontinued, and are still in the name of Telit Communications SpA, therefore there is no sense in transferring them.

The Company asks its suppliers and contract manufacturers to sign non-disclosure agreements containing an express undertaking not to circulate the confidential information they may receive in their commercial dealings with Telit SpA. With regard to employees, the issue of intellectual property rights created in connection with their work is governed by contract. All financial rights are transferred to Telit SpA, with the author/creator only retaining the moral rights.

*C) Finance Department*

The administration/accounting activities relating to payments and collections, drafting and preparation of the financial statements, are formed by the Finance function under the direct responsibility and supervision of the CEO and the CFO.

This department is responsible for monitoring incoming and outgoing cash flows in the purchasing/sales cycles. These flows are managed on computer using the SAP system, under the control of the Finance Reporting Controller, Tax and Statutory Controller and Economist Controller.

With regard to the sales cycle, invoices are issued by the Central office of Telit SpA upon delivery of the goods or provision of the service (measurement for example), upon submission of requests and

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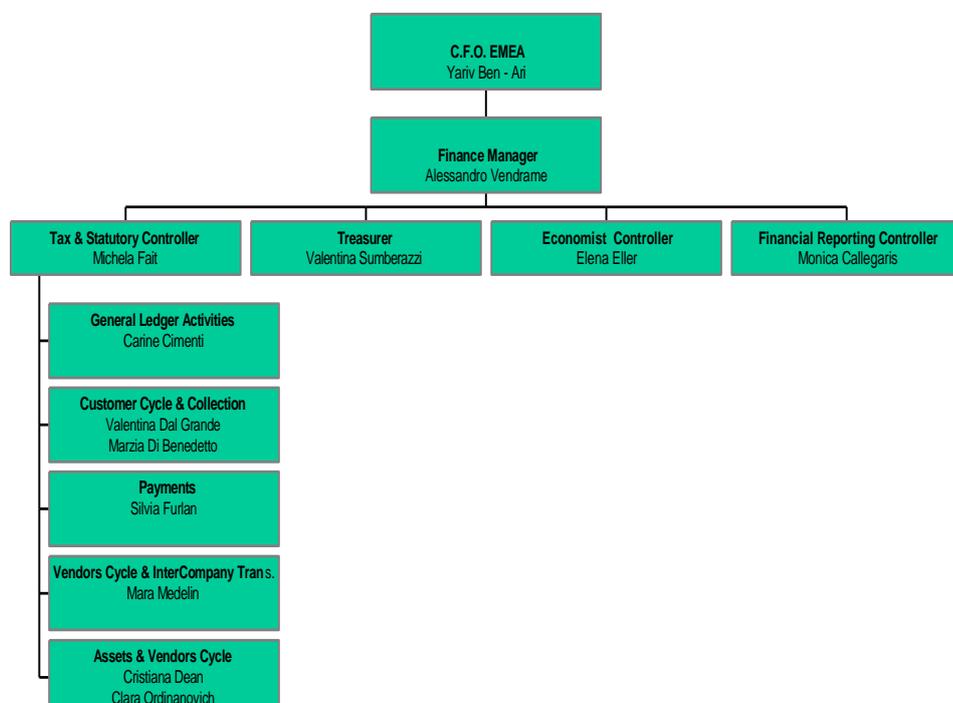
validated by an internal SAP system, by the Finance function and by the head of the Department that sold the goods or provided the service. Payments collected by the Treasury function which collects the amounts outstanding and deals with cash flow (banks etc) under the supervision of the CFO. All customer accounting is recorded and monitored on computer under the control of the accounting and budgeting manager.

With regard to the purchasing cycle, authorisation and payment is only issued after the person who dealt with the supplier has given appropriate guarantees as to the validity of the invoice, taking into account the order and the documents accompanying the goods. All payments are made by bank transfer and authorised according to the specific levels of authority defined internally on the SAP system. The main operations and contracts stipulated by the Company are also signed by at least two directors or legal representatives.

Preparation of the financial statements is the responsibility of the Finance Reporting Controller. This operation is preceded by the drafting of periodic accounts, while the management control officers are responsible for preparing operational accounts, and rolling forecasts (consisting of checks on sales or margins referred to on the profit and loss account). The Economist Controller carries out continuous monitoring, on a daily or monthly basis, to check the correspondence between the accounting records and the financial flows.

A specific function of the Finance Controller is to monitor the Company's financial data from an economic and financial point of view, for the preparation of the financial statements and the tax inspections (together with external advisers).

Annual accounts are then prepared (audited and certified by the auditing firm), as well as half yearly accounts (also audited by the auditing firm), as well as quarterly financial reports. All the interim and annual statements of Telit SpA are checked by Finance and by the CFO. In addition, the board of statutory auditors also carries out its own checks.



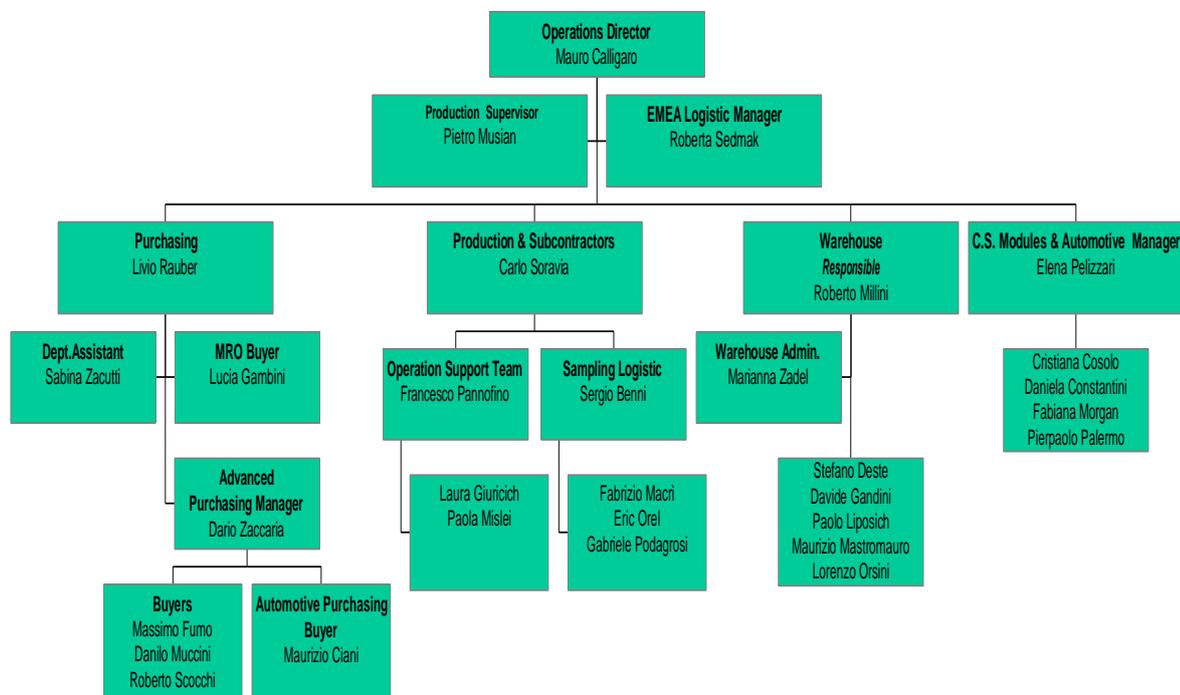
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### D) Operations

This area is the direct responsibility of the director of operations, and in collaboration with the R&D Area and the quality area, is responsible for production related issues. As mentioned above, production is outsourced, which is why the Operations activities essentially relate to the selection of contract manufacturers, suppliers, and the checking of production operations.

All activities are performed by individual departments which assume the related responsibility. The choice of contract manufacturer is made, as to Logistics and purchasing, by the Logistics & Purchasing department, and as to the assessment of production capacity, by the Production & Subcontractors Management department.

The functions of the Operation area also include warehouse management (carried out by the Warehouse Department), which is responsible for checking transport notes, unloading goods, checking them, sorting them and uploading data onto the SAP system.



### E) Sales & Marketing

#### i. Sales Area

This function relates to the sale of Modules. It relates to the management of customers and distributors, the sourcing of new customers and distributors, and in conjunction with the legal office, all the negotiations of new contracts through to signature.

Sales are formally made by Telit SpA (possibly through other Group companies), but deliveries are made directly by the contract manufacturers, except for the European customers, which deliveries are carried out by Telit SpA.

#### ii. Marketing Area

The Company's promotional activities and sponsorships, carried out in order to evaluate business opportunities and improve the Company's corporate image and positioning, are the responsibility of the Marketing area. This area of the Company essentially consists of five main sections: i)

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advertising in brochures and flyers; ii) the acquisition of advertising space on radio or television networks, or through billboards; iii) marketing on the Internet; iv) communications in the internal review Telit2Market; v) events sponsorship. This area is the responsibility of the Marketing Manager and of the Digital & Social Media Manager..

### *F) H.R & General Services*

#### i. HR Department

The management of personnel (preparation of contracts of employment, hiring, firing, promotions, training and disputes) is the responsibility of this department through the manager, the HR & G.S. Director, who may use external consultants for payroll, for example.

Personnel are usually employed under open-ended contracts (in which case the collective agreement for the metalworking sector is applied, according to qualification.) Depending on contingencies the Company may use different forms of contract such as fixed-term contracts, project-based contracts, temporary or consulting agreement. Personnel may be placed on secondment among various Group companies, or there may be transfers of employment contracts.

The HR Department is also responsible for managing the work incident register.

#### ii. General Services

The head of General Services is responsible for coordinating issues related to work safety, through a special authority. Activities related to the management of worker safety and safety in the workplace include:

- the drafting and updating – under the responsibility of the employer and with the support of the health and safety officer, of the risk assessment report containing the health and safety measures and personal protective equipment, as well as measures deemed appropriate to guarantee improvements in safety levels over time;

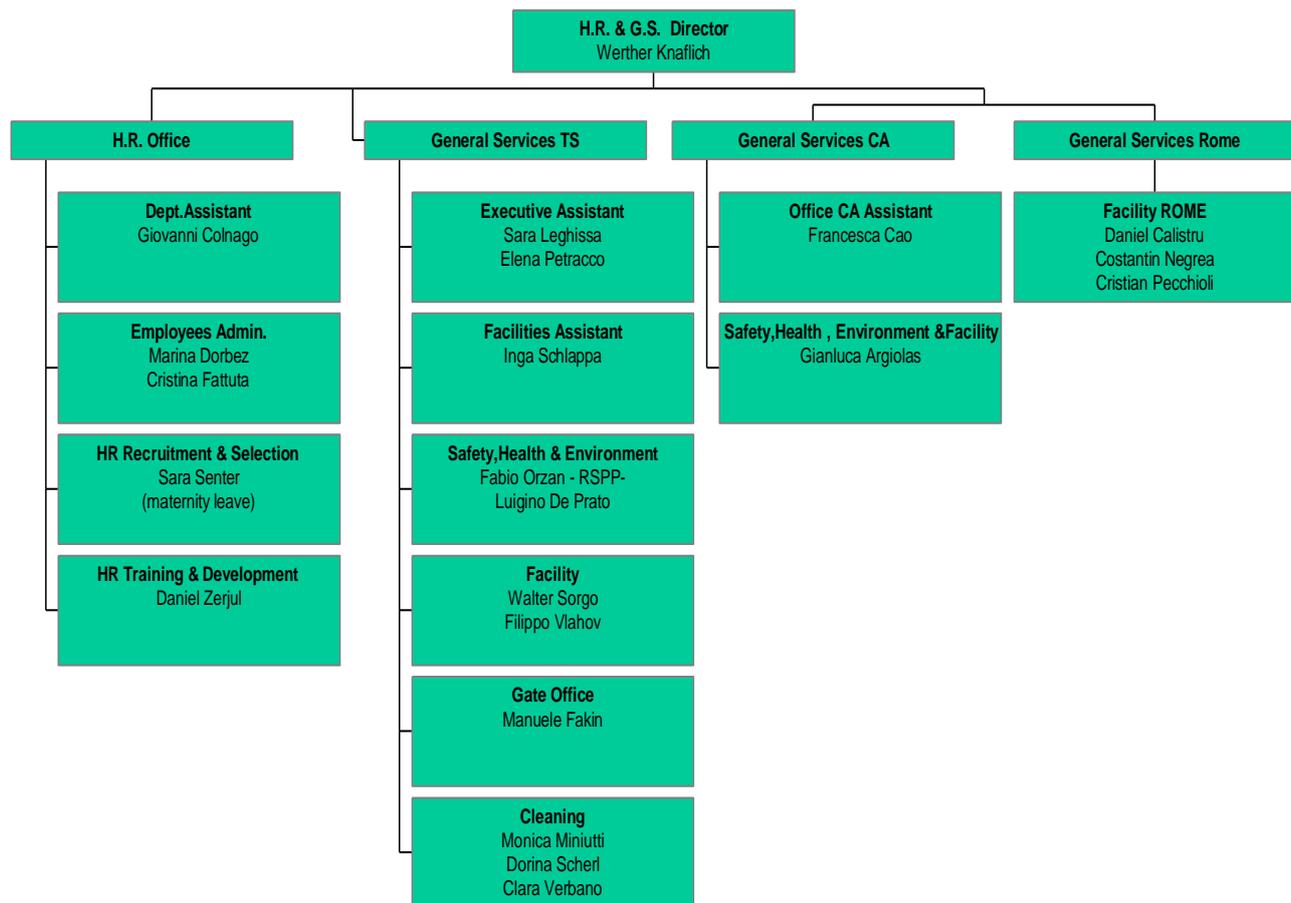
- the appointments of the health and safety officer and company physician, if required by law, and subject to the responsibility of the employer.

At present time both for the premise in Trieste and in Cagliari a safety officer has been appointed.

The Company has a health and safety officer for the Trieste and Cagliari branches. Telit SpA has also obtained UNI EN ISO 14001:2004 certification, confirming that the operations are managed in accordance with ISO regulations on environmental impact concerning atmospheric emissions, waste recycling and eco-compatibility of design.

The Company also has internal control procedures aligned with OHSAS 18001:2007 concerning the safety management system, and is awaiting completion of the procedure for the obtaining of workplace health and safety certification.

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G) Information Technology Area

Management of the information/electronic system is centralised, and is the responsibility of the IT area. In collaboration with the IT department of the Telit Group, the IT Area deals with the construction and maintenance of the information/electronic system, management of hardware and software, and management of IT security (through the use of passwords and access credentials, as well as spot checks on the use of devices and software).

The Company has appointed an IT EMEA Manager which is in charge of the IT activities in Trieste, Rome and Cagliari.

H) Legal

All the administration activities of the organs of the Company, particularly those relating to legal and corporate affairs (including the drafting of minutes) of Telit SpA are entrusted, as necessary, to the head of the legal office, and to an external adviser.

The external adviser also deals with preparing the contracts used by the Company with all its business partners, whether they be suppliers or contract manufacturers, and the management of all ordinary/extraordinary corporate activities of the Company and of the Group, mainly in Europe. He is assisted by members of the internal legal office of the Group.

I) PR and Institutional Affairs

Some of the research and development activities carried out by Telit SpA are funded by the public administration. Relations with the PA are managed by an external adviser. The same adviser is also responsible for issuing press releases on corporate issues.

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### ***b. Shareholders of Telit SpA***

The sole shareholder of Telit SpA is Telit Communications Plc, ("**Telit Plc**"), an English-law company listed on the *Alternative Investment Market* (AIM - Ticker: TCM) of the London stock exchange, which acts as a holding company.

#### *i. Board of Directors of Telit SpA*

Telit SpA is run by a Board of Directors appointed on 27 April 2015, currently consisting of 3 members appointed by the ordinary shareholders meeting, for one year: Enrico Testa (Chairman and managing director), Eran Edri (director and CFO - director of administration and finance) and Yosef Fait (Vice-President and director).

#### *ii. Board of Statutory Auditors of Telit SpA*

The board of statutory auditors has five members, of whom three are permanent members and two are substitutes: Luca Maria Tesio (chairman), appointed by the shareholders' meeting on 27/04/2015, Giuseppe Viani, appointed by the shareholders' meeting on 27/04/2015, Claudio Sambri, appointed by the shareholders' meeting on 27/04/2015. The substitute auditors are Alessandro Ceretti and Alessandro Mitri.

The legal auditing of accounts is entrusted to an external auditing firm.

#### *iii. Legal representatives of Telit SpA*

The Company has also allocated powers of signature to the following legal representatives: Yariv Ben Ari, Mauro Calligaro, Yariv Dafna, Michela Fait, Michael Akiva Galai, Roberto Millini, Carlos Perez Negrete, Sandro Spanghero, Guido Walcher e Werther Knaflich (Mr Knaflich also has certain powers relating to safety in the workplace).

#### *iv. Staff organisation of Telit SpA*

Telit SpA has approximately 260 employees, who essentially carry out administration/clerical duties, and are mainly located in the *R&D* area.

The workforce is currently divided among the following main areas, split between the Trieste, Cagliari and Rome offices:

- *R&D*
- *Operations*
- *Finance;*
- *H.R & General Services*
- *Quality*
- *I.T.*
- *Sales & Marketing*
- *P.M.*

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- *Auditing firm*

## **SYSTEM OF POWERS AND AUTHORITIES**

In general, the group's control system is based on a system of authorities and procedures, which has been formalised and circulated appropriately.

The essential requirements of the system of authorities, for the effective prevention of offences, are:

- all issued by the Board of Directors
- all persons dealing with the public administration on the group's behalf must have a formal authority for that purpose
- the authorities must be consistent with the position on the organisational chart and with the delegated responsibilities, and are constantly updated, in line with changes within the organisation
- each authority specifically defines:
  - o the powers of the delegate
  - o the person to whom the delegate reports in the Company hierarchy
  - o the authorised powers, in line with company objectives
  - o the powers of expenditure, in line with the authorised functions
  - o the duration

The essential requirements of the system of authorities, for the effective prevention of offences, are:

- the general powers of attorney describe the powers granted and are accompanied by a specific communication from the Company, determining the scope of the powers of representation
- type of authority
- the method of updating the procedures is described in the relevant procedure

## **2. GENERAL RULES OF CONDUCT FOR RECIPIENTS**

All recipients of the Model must refrain from any conduct that could constitute an offence governed by the Decree, and when carrying out their duties, they must respect:

- the Code of Ethics

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-the provisions of the Model, particularly these general provisions and the special provisions of the special sections

- the Company procedures and protocols

Key personnel must fulfil their functions in accordance with the system of authorities, and they must also respect:

- the provisions of the Company Bylaws;

- the decisions of the Board of Directors;

Members of key personnel, and others in positions of responsibility, must also adhere strictly to the obligations of direction and supervision imposed on them by virtue of their positions.

Persons subject to direction or supervision must carry out the instructions and directions of the Company and the group, provided that they correspond to the laws in force and do not conflict with the contents of the Model.

### **3. DISCLOSURE OF THE MODEL TO STAKEHOLDERS**

For the Model to be effective, the rules of conduct it contains must be known and disclosed to all employees and external collaborators and consultants. This objective concerns all company staff, including existing employees and new hirings. The level of training and information differs, depending on the extent to which each member of staff is involved in sensitive activities.

The supervisory body supervises and supplements the information and training provided to employees, managers and collaborators, in collaboration with the Information Systems manager.

### **INFORMATION AND TRAINING FOR EMPLOYEES AND MANAGERS**

The Model is deposited at the designated places indicated in the Communication sent to all personnel. A copy of the communication is kept with this document.

The above Communication also indicates the members of the supervisory body, and the methods for reporting any infringements of the principles or requirements of the Model or the Code of Ethics. An email is also sent to all employees and independent collaborators, including those at separate offices.

For employees and collaborators in general, a specific communication signed by Management is also affixed to the Company noticeboard, confirming that this Model has been adopted.

New employees are given a set of documents to ensure that they are familiar with the information considered to be of primary importance. This information contains the Code of Ethics and the communication that the Model has been adopted, as well as information about how the Model can be obtained, and the members of the supervisory body. Receipt of these documents is confirmed by a declaration signed by the employee at the time of employment.

In addition to the awareness raising activities already carried out by the Company, which led to the decision to adopt this Model, the Company has also committed to training activities to improve knowledge of the provisions of the Decree. The training is tailored to suit the status of the recipients, the risk level of their areas, whether or not they have the power to represent the Company (for those classed as managers, and for employees not classed as managers):

- classroom training for the front lines and operations managers: presentation and benefit of the front lines and operational managers of the Company, during which:
- information is given about the Decree
- the trainees are informed of the importance given by the Company to the adoption of a system for the governance and control of risks
- the structure and contents of the Model are described, together with the methodological approach used in its production and updating
- the training also covers the conduct to follow when informing and training employees, with particular regard to personnel in sensitive areas of the Company
- the training also describes the conduct to adopt towards the supervisory body when giving communications or reports, or collaborating in activities pertaining to the supervision and updating of the Model

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- training for employees/collaborators working on sensitive procedures: the managers of the "at risk" company functions inform their employees of the consequences of failing to adopt the required conduct, and of failing to respect the Model.

Attendance at these training programs is mandatory and the supervisory body is obligated to check that training is provided.

### **INDEPENDENT CONTRACTORS TRAINING AND INFORMATION**

Specific training and information is also provided for independent contractors, in relation to the Model. Independent contractors must be informed of the contents of the Model and the existence of the Company, and that their conduct must conform to the provisions of the Decree. For this purpose they were informed of this Model when it was adopted, so that they were fully aware of its contents and can commit to compliance with it.