

Ituran Location & Control Ltd.  
Form 20-F/A  
May 19, 2009

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F/A**

(Amendment No. 3)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

*For the fiscal year ended December 31, 2007*

**Commission file no. 001-32618**

**ITURAN LOCATION AND CONTROL LTD.**

(Exact name of Registrant as specified in its charter and  
translation of Registrant's name into English)

**Israel**

(Jurisdiction of incorporation or organization)

**3 Hashikma Street, Azour, Israel**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class                                      | Name of each exchange on which registered |
|--|---|
| <b>Ordinary Shares, par value NIS 0.33 1/3 per share</b> | <b>Nasdaq National Market</b>             |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

(Title of Class)

Securities for which there is reporting obligation pursuant to Section 15(d) of the Act:

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None

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**23,475,431 Ordinary Shares**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes  No

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If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant had used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**EXPLANATORY NOTE**

The Registrant filed its Annual Report on Form 20-F for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission on June 30, 2008. In addition, the Registrant filed its Amendment No. 1 on Form 20-F/A for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission on July 7, 2008 and its Amendment No. 2 on Form 20-F/A for the fiscal year ended December 31, 2007 on May 8, 2009 ( Second Amendment ).

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This Amendment No. 3 to the Form 20-F (the Amendment ) is filed to include certifications pursuant to Section 302 of the Sarbanes Oxley Act of 2002, which were accidentally omitted from the Second Amendment.

Therefore, this Amendment No. 3 consists of a cover page, this explanatory note, a revised Item 15 and Item 18, certification pages and a signature page.

This Amendment speaks as of the date of the initial filing of the Form 20-F. Other than as described above, this Amendment does not, and does not purport to, amend, update or restate any other information or disclosure included in the Form 20-F, 20-F/A (amendment No. 1) and 20-F/A (amendment No. 2) and does not, and does not purport to, reflect any events that have occurred after the date of the initial filing of the Form 20-F. As a result, our annual report on Form 20-F for the fiscal year ended December 31, 2007, as amended by amendment No. 1, amendment No. 2 and this Amendment, continues to speak as of the initial filing date of the Form 20-F.

**ITEM 15. CONTROLS AND PROCEDURES**

(A) Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2007, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the periods specified by the SEC's rules and forms.

(B) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on such assessment, management has concluded that, as of December 31, 2007, the Company's internal control over financial reporting is not effective due to several material weaknesses.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual financial statements will not be prevented or detected on a timely basis. Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, utilizing the criteria described above. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2007. Our assessment identified the following control deficiencies as of December 31, 2007, that constituted material weaknesses and exist only in the Company's subsidiary, Teleran Holdings Ltda. and its subsidiary Ituran Sistemas Monitoramento Ltda. ( **Ituran Brazil** ):

- § Ineffective controls related to reconciliation of Accounts receivables. This control deficiency has resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.
- § Ineffective controls to ensure timely and accurate recording of transfers of inventory to fixed assets, as well as products delivered to or returned from customers. Such deficiency, also affect the controls over physical inventories and provision for obsolescence which are not effective. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.
- § Ineffective controls related to the process of internal review of the financial statements of our subsidiary, Ituran Brazil and segregation of duties. There exist ineffective review procedures of the financial reports in Ituran Brazil, although such review is conducted on a consolidated basis. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007. This lack of segregation of duties is a deficiency in the design of our internal control over financial reporting that may allow for improprieties or errors in the application of accounting practices to go undetected. Although this ineffective control exists in Ituran Brazil, on a consolidated basis we do not view it as a material weakness as a review is conducted in Ituran.

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Our management did not assess the effectiveness of our former subsidiary Telematics Wireless Ltd. internal control over financial reporting, which was sold on December 31, 2007, as further described Item 4.A. History and Development of the Company, under the caption *Our History* above.

### ***Change in Internal Control over Financial Reporting***

There have not been any changes in our internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Remediation Steps to Address Material Weaknesses***

The Company's executive, regional and financial management are committed to achieving and maintaining a strong control environment and an overall tone within the organization. In addition, management remains committed to the process of developing and implementing improved corporate governance and compliance initiatives. Our current management team has been actively working on remediation efforts to address the material weaknesses, as well as other identified areas of risk as follows:

We have recruited additional personnel in the accounting department in Ituran Brazil in order to address the lack of segregation of duties in our prior structure. This new position will play a critical role in ensuring the integrity of financial information reported.

The Company is taking, or plan to take in the near future, the following additional actions:

- o Conducting reviews of accounting processes to incorporate technology improvements to strengthen the design and operation of controls;
- o Improving quality control reviews within the accounting function to ensure account analyses and reconciliations are completed accurately, timely, and with proper management review;
- o Formalizing and expanding the documentation of the Company's procedures for review and oversight of financial reporting.

We believe the measures described above, once designed and operating effectively, will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional remediation measures or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Management's assessment of the effectiveness of Ituran's internal control over financial reporting as of December 31, 2007 has been audited by Fahn Kanne & Co., an independent registered public accounting firm in Israel and a member of Grant Thornton International ( Fahn Kanne ), as stated in their report included below.

*(C) Attestation Report of the Registered Public Accounting Firm.*

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS OF ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

We have audited Ituran Location and Control Ltd. (the Company) and its subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We did not audit internal control over financial reporting of Teleran Holding Ltda. (Teleran) and Ituran Argentina S.A. (Ituran Argentina), subsidiaries of the Company, whose financial statements reflect total assets and revenues constituting 18% and 33%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007. Teleran and Ituran Argentina internal control over financial reporting were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to Teleran and Ituran Argentina internal control over financial reporting in relation to the Company taken as a whole, is based solely on the report of the other auditors.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS OF ITURAN



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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

Ineffective controls related to reconciliation of Accounts Receivables. This control deficiency has resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.

Ineffective controls to ensure timely and accurate recording of transfers of inventory to fixed assets, as well as products delivered to or returned from customers. Such deficiency, also affect the controls over physical inventories and provision for obsolescence which are not effective. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.

Ineffective controls related to the process of internal review of the financial statements of the Company's subsidiary, Teleran and segregation of duties. There exist ineffective review procedures of the financial reports in Teleran. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007. This lack of segregation of duties is a deficiency in the design of the Company's internal control over financial reporting that may allow for improprieties or errors in the application of accounting practices to remain undetected. As described in Management's report on internal control over financial reporting, although this ineffective control exists in Teleran, on a consolidated basis, the management of the Company does not view it as a material weakness as a review is conducted at the Company level.

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In our opinion, based on our audit and the report of other auditors, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 2007. The material weaknesses identified above were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated June 30, 2008, which expressed an unqualified opinion on those financial statements.

As described in Management’s Report on internal control over financial reporting, management has excluded the former subsidiary Telematics Wireless Ltd. internal control over financial reporting, from its assessment of internal control over financial reporting as of December 31, 2007 because it was sold on December 31, 2007 as discussed in Note 1.A.1.d to the Company’s consolidated financial statements for the year ended December 31, 2007. We have also excluded Telematics Wireless Ltd. from our audit of internal control over financial reporting. Telematics Wireless Ltd.’s total revenues represent approximately 16% of the related consolidated financial statement amounts for the year ended December 31, 2007.

Fahn Kanne & Co.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
June 30, 2008

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Ituran Argentina S.A.

#### **Introductory Paragraph:**

We have audited management’s assessment, included in the accompanying (Management’s Report on Internal Control), that Ituran Argentina S.A. maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Ituran Argentina S.A. management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

#### **Scope Paragraph:**

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition Paragraph:**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.





**Inherent Limitations Paragraph:**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Opinion Paragraph:**

In our opinion, management's assessment that Ituran Argentina S.A. maintained effective internal control over financial reporting as of December 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control -Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Also, in our opinion, Ituran Argentina S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ).

**Explanatory Paragraph:**

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Ituran Argentina S.A. as of December 31, 2007 and 2006, and the related statements of income stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007, and our report dated February 8, 2008, expressed an unqualified opinion on those financial statements.

Signed by:

Gustavo R. Chesta (Partner)  
Estudio Urien & Asociados  
Mazars - Argentina  
February 8, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders of Teleran Holding Ltda. Brazilian entity

We have audited Teleran Holding Ltda.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Teleran Holding Ltda.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the management's report on internal control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and

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directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

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Ineffective controls related to reconciliation of the Accounts Receivables. This control deficiency has resulted in audit adjustments to the annual financial statements for the year ended December 31, 2007.

Ineffective controls to ensure timely and accurate recording of transfers of inventory to fixed assets, as well as goods are delivered to or returned from customers. Such deficiency, also effect the controls over physical inventories and provision for obsolescence which are not effectives. This control deficiency resulted in audit adjustments to the annual financial statements for the year ended December 31, 2007.

Ineffective controls related to review of financial statements. The financial statements are prepared by local management and no review is performed. This control deficiency resulted in audit adjustments to the annual financial statements for the year ended December 31, 2007.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Teleran Holding Ltda. as of and for the year ended December 31, 2007.

The material weaknesses identified above were considered in determining the nature, timing, and extent of audit tests applied in our audit the financial statements of the Company as of and for the year ended December 31, 2007, and this report does not affect our report dated June 27, 2008, on such financial statements, which expressed an unqualified opinion.

São Paulo, Brazil

June 27, 2008

**Auditores Independentes**  
**José André Viola Ferreira**

**ITEM 18. FINANCIAL STATEMENTS**

The following consolidated financial statements and related registered public accounting firms reports are filed as part of this annual report.

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**Consolidated Financial Statements**

**as of December 31, 2007**

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**Consolidated Financial Statements**

**as of December 31, 2007**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE SHAREHOLDERS OF  
ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**Fahn Kanne & Co.**  
Head Office  
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We have audited the accompanying consolidated balance sheets of **Ituran Location and Control Ltd. (the Company)** and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, statements of changes in shareholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the 2007 and 2006 financial statements of two subsidiaries, whose assets included in the consolidation constituted approximately 18% and 20% of total consolidated assets as of December 31, 2007 and 2006, respectively, and whose revenues included in the consolidation constituted approximately 33% and 32% of total consolidated revenues for the years ended December 31, 2007 and 2006 respectively. The financial statements of these subsidiaries were audited by other independent auditors, whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included in respect of these companies, is based solely on the reports of the other independent auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Board of Directors and management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2007 and 2006, and the consolidated results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 30, 2008 expressed an adverse opinion thereon.

Fahn Kanne & Co.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
June 30, 2008

**Certified Public Accountants**  
**Fahn Kanne & Co. is the Israeli member firm of Grant Thornton International Ltd**

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| (in thousands)   | US dollars   |         |
|--|--------------|---------|
|  | December 31, |         |
|  | 2007         | 2006    |
| <b>Current assets</b>  |              |         |
| Cash and cash equivalents                                    | 28,669       | 43,812  |
| Investments in marketable securities                         | 9,558        | 16,034  |
| Accounts receivable (net of allowance for doubtful accounts) | 27,578       | 29,709  |
| Other current assets (Note 2)                                | 83,783       | 4,915   |
| Contracts in process, net (Note 3)                           | -            | 1,465   |
| Inventories (Note 4)   | 13,258       | 10,901  |
|  | 162,846      | 106,836 |
| <b>Long-term investments and debit balances</b>              |              |         |
| Investments in affiliated companies (Note 5A)                | 191          | 881     |
| Investments in other companies (Note 5B)                     | 1,678        | -       |
| Accounts receivable  | 49           | 123     |
| Loan to former employee                                      | 560          | -       |
| Deposit  | -            | 1,457   |
| Deferred income taxes (Note 17)                              | 5,850        | 5,112   |
| Funds in respect of employee rights upon retirement          | 2,513        | 4,001   |
|  | 10,841       | 11,574  |
| <b>Property and equipment, net</b> (Note 6)                  | 24,440       | 19,109  |
| <b>Intangible assets, net</b> (Note 7)                       | 8,801        | 2,784   |
| <b>Goodwill</b> (Note 8)                                     | 9,631        | 4,536   |
| <b>Total assets</b>  | 216,559      | 144,839 |

The accompanying notes are an integral part of the consolidated financial statements.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| (in thousands, except share data)   | US dollars           |                      |
|---|----------------------|----------------------|
|   | December 31,<br>2007 | December 31,<br>2006 |
| <b>Current liabilities</b>  |                      |                      |
| Credit from banking institutions (Note 9)   | 318                  | 474                  |
| Accounts payable  | 12,703               | 14,956               |
| Deferred revenues   | 5,801                | 4,399                |
| Other current liabilities (Note 10)   | 33,592               | 13,573               |
|   | <u>52,414</u>        | <u>33,402</u>        |
| <b>Long-term liabilities</b>  |                      |                      |
| Liability for employee rights upon retirement   | 4,085                | 5,278                |
| Deferred income taxes (Note 17)   | 1,715                | 816                  |
|   | <u>5,800</u>         | <u>6,094</u>         |
| <b>Contingent liabilities, liens and guarantees (Note 12)</b>   |                      |                      |
| <b>Minority interests</b>   | 2,860                | 2,578                |
|   | <u>2,860</u>         | <u>2,578</u>         |
| <b>Capital Notes (Note 13)</b>  | 5,894                | 5,894                |
|   | <u>5,894</u>         | <u>5,894</u>         |
| <b>Shareholders' equity (Note 14)</b>   |                      |                      |
| Share capital - ordinary shares of NIS 0.33 $\frac{1}{3}$ par value:  | 1,983                | 1,971                |
| Authorized - December 31, 2006 and 2007 - 60,000,000 shares   |                      |                      |
| Issued and outstanding - December 31, 2006 - 23,321,507 shares, December 31, 2007 - 23,475,431 shares                                       |                      |                      |
| Additional paid-in capital  | 73,554               | 73,554               |
| Accumulated other comprehensive income (loss)   | 13,715               | 3,003                |
| Cost of Company shares held by the Company and its subsidiary - December 31, 2006 and 2007 - 80,839 shares and 491,390 shares, respectively | (5,900)              | (1,261)              |
| Retained earning  | 66,239               | 19,604               |
|   | <u>149,591</u>       | <u>96,871</u>        |
| <b>Total shareholders' equity</b>   | 149,591              | 96,871               |
|   | <u>149,591</u>       | <u>96,871</u>        |
| <b>Total liabilities and shareholders' equity</b>   | 216,559              | 144,839              |
|   | <u>216,559</u>       | <u>144,839</u>       |

The accompanying notes are an integral part of the consolidated financial statements.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

| (in thousands except per share data)                                 | US dollars              |                |               |
|--|-------------------------|----------------|---------------|
|  | Year ended December 31, |                |               |
|  | 2007                    | 2006           | 2005          |
| <b>Revenues:</b>   |                         |                |               |
| Location-based services  | 64,634                  | 54,048         | 44,128        |
| Wireless communications products                                     | 60,204                  | 50,004         | 43,806        |
| Others   | -                       | -              | 2,192         |
|  | <u>124,838</u>          | <u>104,052</u> | <u>90,126</u> |
| <b>Cost of revenues:</b>   |                         |                |               |
| Location-based services  | 23,630                  | 18,419         | 14,987        |
| Wireless communications products                                     | 44,009                  | 35,434         | 30,956        |
| Other  | -                       | -              | 1,643         |
|  | <u>67,639</u>           | <u>53,853</u>  | <u>47,586</u> |
| Gross profit   | 57,199                  | 50,199         | 42,540        |
| Research and development expenses                                    | 2,991                   | 2,682          | 2,799         |
| Selling and marketing expenses                                       | 8,218                   | 5,123          | 4,876         |
| General and administrative expenses                                  | 22,629                  | 17,659         | 14,959        |
| Other expenses (income), net (Note 15)                               | (49,138)                | 3              | (16)          |
| Operating income   | 72,499                  | 24,732         | 19,922        |
| Financing income, net (Note 16)                                      | 1,227                   | 1,886          | 906           |
| Income before taxes on income  | 73,726                  | 26,618         | 20,828        |
| Taxes on income (Note 17)  | (20,953)                | (6,581)        | (5,295)       |
|  | <u>52,773</u>           | <u>20,037</u>  | <u>15,533</u> |
| Share in losses of affiliated companies, net                         | (516)                   | (213)          | (355)         |
| Minority interests in income of subsidiaries                         | (783)                   | (565)          | (803)         |
| Net income   | <u>51,474</u>           | <u>19,259</u>  | <u>14,375</u> |
| <b>Earnings per share (Note 18):</b>                                 |                         |                |               |
| Basic  | 2.21                    | 0.83           | 0.73          |
| Diluted  | 2.20                    | 0.82           | 0.71          |
| <b>Weighted average number of shares outstanding (in thousands):</b> |                         |                |               |
| Basic  | 23,315                  | 23,194         | 19,736        |
| Diluted  | 23,422                  | 23,457         | 20,254        |

**The accompanying notes are an integral part of the consolidated financial statements.**

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)

|  | Ordinary shares  |                      |                            | Accumulated other comprehensive income (loss) | Retained earnings (accumulated deficit) | Cost of Company shares held by the Company and its subsidiaries | Total         |
|--|------------------|----------------------|----------------------------|---|---|---|---------------|
|  | Number of shares | Share capital amount | Additional paid in capital |   |   |   |               |
| <b>US dollars</b>  |                  |                      |                            |   |   |   |               |
| <b>Balance as of January 1, 2005</b>   | 18,595           | 1,626                | 23,876                     | (2,487)                                       | (7,630)                                 | (384)   | 15,001        |
| <b>Changes during 2005:</b>  |                  |                      |                            |   |   |   |               |
| Net income   | -                | -                    | -                          | -   | 14,375                                  | -   | 14,375        |
| Losses on the translation of non-Israeli currency financial statements of subsidiaries and on translation of the functional currency to the reporting currency | -                | -                    | -                          | (922)   | -                                       | -   | (922)         |
| <b>Total comprehensive income</b>  |                  |                      |                            |   |   |   | 13,453        |
| Modification of terms of fully vested employee stock options   | -                | -                    | 243                        | -   | -                                       | -   | 243           |
| Issuance of share capital, net   | 4,464            | 325                  | 49,064                     | -   | -                                       | -   | 49,389        |
| Exercise of warrants   | 33               | 2                    | 371                        | -   | -                                       | -   | 373           |
| Dividend paid  | -                | -                    | -                          | -   | (2,697)                                 | -   | (2,697)       |
| <b>Balance as of December 31, 2005</b>   | <b>23,092</b>    | <b>1,953</b>         | <b>73,554</b>              | <b>(3,409)</b>                                | <b>4,048</b>                            | <b>(384)</b>  | <b>75,762</b> |
| <b>Balance as of January 1, 2006</b>   | 23,092           | 1,953                | 73,554                     | (3,409)                                       | 4,048                                   | (384)   | 75,762        |
| <b>Changes during 2006:</b>  |                  |                      |                            |   |   |   |               |
| Net income   | -                | -                    | -                          | -   | 19,259                                  | -   | 19,259        |
| Gain on translation of non-Israeli currency financial statements of subsidiaries and on translation of the functional currency to the reporting currency       | -                | -                    | -                          | 6,412   | -                                       | -   | 6,412         |
| <b>Total comprehensive income</b>  |                  |                      |                            |   |   |   | 25,671        |
| Exercise of options  | 230              | 18                   | -                          | -   | -                                       | -   | 18            |
| Purchase of Company shares by the Company  | -                | -                    | -                          | -   | -                                       | (877)   | (877)         |
| Dividend paid  | -                | -                    | -                          | -   | (3,703)                                 | -   | (3,703)       |
| <b>Balance as of December 31, 2006</b>   | <b>23,322</b>    | <b>1,971</b>         | <b>73,554</b>              | <b>3,003</b>                                  | <b>19,604</b>                           | <b>(1,261)</b>  | <b>96,871</b> |

The accompanying notes are an integral part of the consolidated financial statements.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (cont.)

(in thousands)

|   | Ordinary shares  |                      |                            | Accumulated other comprehensive income (loss) | Retained earnings (accumulated deficit) | Cost of Company shares held by the Company and its subsidiaries | Total   |
|---|------------------|----------------------|----------------------------|---|---|---|---------|
|   | Number of shares | Share capital amount | Additional paid in capital |   |   |   |         |
| <b>US dollars</b>   |                  |                      |                            |   |   |   |         |
| <b>Balance as of January 1, 2007</b>  | 23,322           | 1,971                | 73,554                     | 3,003   | 19,604                                  | (1,261)   | 96,871  |
| <b>Changes during 2007:</b>   |                  |                      |                            |   |   |   |         |
| Net income  | -                | -                    | -                          | -   | 51,474                                  | -   | 51,474  |
| Gains on translation of non-Israeli currency financial statements of subsidiaries and on translation of the functional currency to the reporting currency | -                | -                    | -                          | 10,712  | -                                       | -   | 10,712  |
| <b>Total comprehensive income</b>   |                  |                      |                            |   |   |   | 62,186  |
| Exercise of options   | 154              | 12                   | -                          | -   | -                                       | -   | 12      |
| Purchase of Company shares by the Company   | -                | -                    | -                          | -   | -                                       | (4,873)   | (4,873) |
| Cost of Company shares held by subsidiary that has been sold (see Note 1.A.1.d.)  | -                | -                    | -                          | -   | -                                       | 234   | 234     |
| Dividend paid   | -                | -                    | -                          | -   | (4,839)                                 | -   | (4,839) |
| <b>Balance as of December 31, 2007</b>  | 23,476           | 1,983                | 73,554                     | 13,715  | 66,239                                  | (5,900)   | 149,591 |

The accompanying notes are an integral part of the consolidated financial statements.

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

US dollars

| (in thousands)  | Year ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 2007                    | 2006   | 2005   |
| <b>Cash flows from operating activities</b>                                       |                         |        |        |
| Net income for the year   | 51,474                  | 19,259 | 14,375 |
| <b>Adjustments to reconcile net income to net cash from operating activities:</b> |                         |        |        |
| Depreciation and amortization   | 8,080                   | 4,205  | 3,341  |
| Exchange differences on principal of deposit and loans, net                       | (78)                    | (50)   | 104    |
| Gains in respect of marketable securities   | (437)                   | (200)  | -      |
| Gain from sale of subsidiary, net (Appendix A)                                    | (36,373)                | -      | -      |
| Increase (decrease) in liability for employee rights upon retirement              | 1,293                   | (187)  | 521    |
| Share in losses of affiliated companies, net                                      | 516                     | 213    | 355    |

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|   | US dollars      |                 |                |
|---|-----------------|-----------------|----------------|
| Deferred income taxes   | 991             | 644             | 301            |
| Stock-based compensation  | -               | -               | 243            |
| Capital gains on sale of property and equipment, net                                | (5)             | (35)            | (16)           |
| Minority interests in income of subsidiaries, net                                   | 783             | 565             | 803            |
| Increase in accounts receivable   | (8,556)         | (3,668)         | (4,912)        |
| Decrease (increase) in other current assets   | 724             | (1,630)         | (1,028)        |
| Increase in inventories and contracts in process, net                               | (3,645)         | (4,435)         | (269)          |
| Increase in accounts payable  | 1,799           | 2,686           | 460            |
| Increase (decrease) in deferred revenues  | (32)            | (1)             | 321            |
| Increase (decrease) in other current liabilities                                    | (3,773)         | 888             | 3,159          |
|   | <u>12,761</u>   | <u>18,254</u>   | <u>17,758</u>  |
| <b>Cash flows from investment activities</b>  |                 |                 |                |
| Increase in funds in respect of employee rights upon retirement, net of withdrawals | (678)           | (412)           | (288)          |
| Capital expenditures  | (9,641)         | (12,106)        | (3,540)        |
| Acquisition of subsidiary (appendix A)  | (8,549)         | (2,243)         | -              |
| Proceeds from sale of property and equipment  | 195             | 53              | 133            |
| Purchase of intangible assets and minority interest                                 | (64)            | (58)            | (746)          |
| Investment in affiliated company  | (1,447)         | -               | -              |
| Investments in marketable securities  | (5,488)         | (55,863)        | -              |
| Sale of marketable securities   | 13,982          | 40,848          | -              |
| Loan granted to affiliated company  | -               | (138)           | (452)          |
| Acquisition of additional interest in a subsidiary                                  | -               | (21)            | -              |
| Loan granted to former employee   | (560)           | -               | -              |
| Subsidiary no longer consolidated (Appendix B)                                      | (6,938)         | -               | -              |
|   | <u>(19,188)</u> | <u>(29,940)</u> | <u>(4,893)</u> |
| <b>Cash flows from financing activities</b>   |                 |                 |                |
| Short-term credit from banking institutions, net                                    | 160             | (237)           | 181            |
| Repayment of long-term loans  | (3,500)         | (3,191)         | (6,290)        |
| Dividend paid   | (4,839)         | (3,703)         | (2,697)        |
| Proceeds from exercise of options by employees                                      | 12              | 18              | 15             |
| Proceeds from exercise of warrants  | -               | -               | 373            |
| Issuance of share capital, net  | -               | -               | 49,673         |
| Dividend paid to minority interest of a subsidiary                                  | -               | (172)           | -              |
| Purchase of Company's shares  | (4,873)         | (877)           | -              |
|   | <u>(13,040)</u> | <u>(8,162)</u>  | <u>41,255</u>  |
| Effect of exchange rate changes on cash and cash equivalents                        | 4,324           | 5,231           | (295)          |
|   | <u>(15,143)</u> | <u>(14,617)</u> | <u>53,825</u>  |
| Balance of cash and cash equivalents at beginning of year                           | 43,812          | 58,429          | 4,604          |
|   | <u>28,669</u>   | <u>43,812</u>   | <u>58,429</u>  |

The accompanying notes are an integral part of the consolidated financial statements.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)

## Appendix A Acquisitions of subsidiaries

| (in thousands)   | US dollars              |              |
|--|-------------------------|--------------|
|  | Year ended December 31, |              |
|  | 2007                    | 2006         |
| Working capital (excluding cash and cash equivalents), net | 1,280                   | 2,015        |
| Deferred income taxes                                      | (1,583)                 | 54           |
| Funds in respect of employee rights upon retirement        | 408                     | 366          |
| Property and equipment , net                               | 397                     | 231          |
| Intangible assets, net                                     | 6,719                   | -            |
| Goodwill   | 5,220                   | 1,631        |
| Liability for employee rights upon retirement              | (729)                   | (559)        |
| Long term loan   | (3,163)                 | -            |
| Minority interest  | -                       | (1,495)      |
|  | <u>8,549</u>            | <u>2,243</u> |

## Appendix B Company no longer consolidated

| (in thousands)   | US dollars              |      |
|--|-------------------------|------|
|  | Year ended December 31, |      |
|  | 2007                    | 2006 |
| Working capital (excluding cash and cash equivalents and inventory), net | 50,031                  | -    |
| Inventory (including contracts in process )                              | (4,408)                 | -    |
| Funds in respect of employee rights upon retirement                      | (2,968)                 | -    |
| Deposit  | (1,680)                 | -    |
| Investment in affiliated company   | (144)                   | -    |
| Deferred income taxes  | (347)                   | -    |
| Property and equipment , net   | (1,254)                 | -    |



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|   | US dollars |   |
|---|------------|---|
|   |            |   |
| Goodwill                                      | (479)      | - |
| Liability for employee rights upon retirement | 3,803      | - |
| Minority interest                             | 757        | - |
| Gain from sale of subsidiary (*)              | (36,373)   | - |
|   | 6,938      | - |
|   |            |   |

(\*) Net of income taxes in an amount of US\$ 13,734 thousand.

**The accompanying notes are an integral part of the consolidated financial statements.**

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

**Supplementary information on investing activities not involving cash flows**

At December 31, 2005, accounts payable and other credit balances included an amount of US\$ 299,000 in respect of issuance expenses.

At December 31, 2005, 2006 and 2007, trade payables included US\$ 196,000, US\$ 84,000 and US\$ 119,000, respectively, in respect of the acquisition of property and equipment.

**Supplementary disclosure of cash flow information**

| (in thousands)    | US dollars              |       |       |
|-------------------|-------------------------|-------|-------|
|                   | Year ended December 31, |       |       |
|                   | 2007                    | 2006  | 2005  |
| Interest paid     | 100                     | 205   | 324   |
| Income taxes paid | 9,625                   | 4,864 | 2,049 |

**The accompanying notes are an integral part of the consolidated financial statements.**

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

## A. General

## 1. Operations

- a. Ituran Location and Control Ltd. (the Company) commenced operations in 1994. The Company and its subsidiaries (the Group) are engaged in the provision of location-based services and machine-to-machine wireless communications products for use in stolen vehicle recovery, fleet management and other applications.
- b. In November 2006, the Company completed the acquisition of 51% of the issued share capital of ERM Electronic Systems Limited (ERM) for \$2.8 Million. As a result of the purchase price allocation, the Company recognized goodwill in the amount of US\$ 1.6 million. ERM is an Israeli company that develops, manufactures, and markets innovative vehicle security, tracking, and management GSM-based communications solutions for the international market.
- c. On June 25, 2007, the Company completed the acquisition of 100% of the outstanding share capital of Mapa Mapping and Publishing Ltd. and Mapa Internet Ltd. (Mapa). Mapa provides geographic information (GIS) in Israel and is the owner of geographic information database for navigation in Israel.

The purchase price for the acquisition includes approx. US\$9.9 million that were paid to the shareholders of MAPA and an additional sum of approx. US\$3.1 million that was transferred to Mapa, which was used to repay Mapa's loans to its shareholders.

The acquisition was accounted for according to the purchase method of accounting, in accordance with FAS No. 141, Business Combinations and accordingly, the respective purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition (see Appendix A to the cash flow statement)

The results of operations of MAPA were included in the consolidated financial statements of the company commencing July 1, 2007.

The purchase price allocations included the following intangible assets acquired:

|                   | <u>US\$</u> |
|-------------------|-------------|
| GIS data base (1) | 4,025       |
| Customer base (2) | 1,184       |
| Brand name (3)    | 1,222       |
| Goodwill (4)      | 5,767       |
| Other             | 973         |

(1) The GIS database represents geographic information for navigation in Israel and is amortized using the straight-line method over its useful life, which is 10 years.

(2) The customer base is amortized over its useful life, which is 5 years.

(3) The brand name is amortized using the straight-line method over its useful life, which is 15 years.

(4) Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill will not be amortized and will be tested for impairment at least annually. Goodwill includes but is not limited to the synergistic value that could be realized by the Company from the acquisition.



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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**A. General (cont.)**

**1. Operations (cont.)**

c. (cont.)

Below are certain unaudited pro forma combined statement of operations data for the years ended December 31, 2007 and 2006, as if the acquisition of MAPA had occurred on January 1, 2007 and 2006, respectively, after giving effect to the purchase accounting adjustments, including amortization of certain identifiable intangible assets. This pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisition taken place at the beginning of 2007 and 2006, respectively, nor is it necessarily indicative of future results.

|   | US dollars              |         |
|---|-------------------------|---------|
|   | Year ended December 31, |         |
| (in thousands, except earnings per share) | 2007                    | 2006    |
|   | (Unaudited)             |         |
| Revenues                                  | 128,808                 | 112,006 |
| Net income                                | 52,211                  | 21,394  |
| Earnings per share:                       |                         |         |
| Basic                                     | 2.24                    | 0.92    |
| Diluted                                   | 2.23                    | 0.91    |

- d. On December 31, 2007, the Company completed the sale of the subsidiary, Telematics Wireless Ltd. (Telematics), to a third party. Pursuant to the sale transaction, the Company sold its entire shareholdings of Telematics to the purchaser, for an amount of US\$ 80 million (based on a specified enterprise value of Telematics, following the purchase of a certain portion of Telematics shares by Telematics for the aggregate sum of US\$ 5 million).

The purchase price was subject to adjustments based on performance parameters of Telematics in the year 2007. The adjustment resulted in a reduction of the enterprise value and therefore reduction of the capital gain in an amount of US\$ 3.5 million. However, based on performance parameters of Telematics in the year 2008, the reduction of the consideration might decrease up to US\$ 3.5 million.

The Company is required to deposit an amount of US\$ 7.5 million in an escrow account in order to ensure certain representations and warranties towards the buyer. Such amount will be released to the Company upon the second anniversary of the closing date, less pledging claims, if any, subject to the agreement. The escrow amount was deposited by the Company during January 2008, after receipt of the entire consideration from the buyer.

As a result of the transaction, the Company recorded a capital gain (net of direct expenses) in an amount of US\$ 50 million. The Company did not account for the transaction as a discontinued operation under the provisions of FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, since management intends to continue to be involved in the fields of activity of the disposed company and the company intends to continue to purchase products from Telematics.

Following the sale of Telematics, the Company and Telematics entered into 10 years product and service supply agreement and a revenue sharing agreement with respect to Telematics revenues in certain regions (see Note 12.D.2).

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont)

## A. General (cont.)

## 2. Functional currency and translation to the reporting currency

The functional currency of the Company and its subsidiaries located in Israel is the New Israeli Shekel ( NIS ), which is the local currency in which those entities operate. The functional currency of the foreign subsidiaries of the Group is their respective local currency.

The consolidated financial statements of the Company and all of its subsidiaries were translated into U.S. dollars in accordance with the principles set forth in *Statement of Financial Accounting Standards* ( FAS ) No. 52 of the U.S. Financial Accounting Standards Board ( FASB ). Accordingly, assets and liabilities were translated from local currencies to U.S. dollars using year-end exchange rates, and income and expense items were translated at average exchange rates during the year.

Gains or losses resulting from translation adjustments (which result from translating an entity's financial statements into U.S. dollars if its functional currency is different than the U.S. dollar) are reflected in shareholders' equity, under "accumulated other comprehensive income (loss)".

Balances denominated in, or linked to foreign currency are stated on the basis of the exchange rates prevailing at the balance sheet date. For foreign currency transactions included in the statement of income, the exchange rates applicable on the relevant transaction dates are used. Transaction gains or losses arising from changes in the exchange rates used in the translation of such balances are carried to financing income or expenses.

The following table presents data regarding the dollar exchange rate and the Israeli CPI:

|   | Exchange rate<br>of one US dollar | Israeli CPI(*) |
|---|-----------------------------------|----------------|
| <b>At December 31,</b>                      |                                   |                |
| 2007  | NIS 3.846                         | 120.90 points  |
| 2006  | NIS 4.225                         | 116.92 points  |
| 2005  | NIS 4.603                         | 117.04 points  |
| <b>Increase (decrease) during the year:</b> |                                   |                |
| 2007  | (8.97)%                           | 3.4%           |
| 2006  | (8.21)%                           | (0.1)%         |
| 2005  | 6.85%                             | 2.38%          |

(\*) Based on the Index for the month ending on each balance sheet date, on the basis of 1998 average = 100.

## 3. Accounting principles

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States ( US GAAP ).

## 4. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Actual results could differ from those estimates.

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ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES (cont)**

**B.      Principles of consolidation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. In these financial statements, the term *subsidiary* refers to a company over which the Company exerts control (ownership interest of more than 50%), and the financial statements of which are consolidated with those of the Company. Significant intercompany transactions and balances were eliminated upon consolidation; profits from intercompany sales, not yet realized outside of the Group, were also eliminated.

**C.      Cash and cash equivalents**

The Group considers all highly liquid investments, which include short-term bank deposits that are not restricted as to withdrawal or use, and short-term debentures, with original periods to maturity not exceeding three months, to be cash equivalents.

**D.      Marketable securities**

The Company accounts for investments in marketable securities in accordance with Statement of Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ( FAS No. 115 ). Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reassesses such determinations at each balance sheet date.

As of December 31, 2007 and 2006, all securities covered by FAS No. 115 were designated by management as trading securities.

Trading securities are stated at market value. The changes in market value are carried to financial income or expenses.

Trading securities are bought and held principally for the purpose of selling them in the near term. Changes in the fair value based on closing market prices of the securities at the balance sheet date, represent unrealized gains and losses which are included in earnings.

Trading gains for the year 2007 amounted to approximately US\$ 547,000 in respect of trading securities held by the Company in the reporting periods (US\$ 773,000 in 2006).

**E.      Company shares held by the Company and its subsidiary**

Company shares held by the Company and its subsidiaries are presented as a reduction of shareholders' equity, at their cost to the Company or to the subsidiary, under the caption *Cost of Company shares held by the Company and its subsidiaries* . Gains on sale of these shares, net of related income taxes, are recorded as additional paid-in capital.

Losses on the sale of such shares, net of related income taxes, are recorded as deductions from additional paid-in capital to the extent that previous net gains from sales are included therein, otherwise in retained earnings.

**F.      Allowance for doubtful accounts**

The allowance for doubtful accounts is determined with respect to amounts the Group has determined to be doubtful of collection. In determining the allowance for doubtful accounts, the Company considers, among other things, its past experience with customers and the information available on such customers. See also Note 21A.

The allowance in respect of trade receivables at December 31, 2006 and 2007 was US\$ 532,000 and US\$ 754,000, respectively.



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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES (cont)**

**G.      Contracts in process**

The contracts in process are presented at cost, less customer advances, less the portion of the costs expensed in prior periods (concurrent with the applicable revenue based on percentage of completion), and less the entire expected loss on projects, if any.

Cost includes direct costs of materials, labor, subcontractors, and other direct costs.

As of December 31, 2007 (after the sale of Telematics), the Company does not have contracts in process

**H.      Inventories**

Inventories are stated at the lower of cost or market. Cost is determined as follows: raw materials and finished products mainly on the basis of average cost; work in progress on the basis of direct production costs including materials, labor and subcontractors.

**I.      Investment in affiliated companies**

Investments in companies in which the Group has significant influence (ownership interest of between 20% and 50%) but less than a controlling interest, which are not subsidiaries ( affiliated companies ), are accounted for by the equity method. Income on intercompany sales, not yet realized outside of the Group, was eliminated.

Investments in such companies in which the company no longer has significant influence, are classified as investments in other companies . See J. Below.

**J.      Investment in other companies**

Non-marketable investments in other companies in which the Company does not have a controlling interest or significant influence are accounted for at cost, net of write down for any permanent decrease n value.

**K.      Derivatives**

The Company has a limited involvement with derivatives which do not qualify for hedge accounting under FAS No. 133, or which have not been designated as hedging instruments. Such derivatives are recognized in the balance sheet at their fair value, with changes in the fair value carried to the statements of income and included in financing income (expenses), net.

The Company did not use hedging instruments in the reported periods.

**L.      Property and equipment**

1. Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated on the straight-line method over the shorter of the estimated useful life of the property or the duration of the lease.

2. Rates of depreciation:

|   | %      |
|---|--------|
| Operating equipment (mainly 10%-20%)      | 6.5-33 |
| Office furniture, equipment and computers | 7-33   |
| Vehicles                                  | 15     |
| Buildings                                 | 2.5    |

%

Leasehold improvements

Duration of lease which is less or equal to useful life

F - 15

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont)

**M. Impairment of long-lived assets**

The Group's long-lived assets are reviewed for impairment in accordance with FAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2007, the Company recorded an impairment loss, in an amount of US\$ 0.9 million. (See Notes 7 and 8).

**N. Deferred income taxes**

The Group accounts for income taxes in accordance with FAS No. 109, *Accounting for Income Taxes*. According to FAS No. 109, deferred income taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and the tax bases of assets and liabilities under the applicable tax law. Deferred tax balances are computed using the tax rates expected to be in effect at the time when these differences reverse. Valuation allowances in respect of the deferred tax assets are provided for if, based upon the weight of available evidence, it is more likely than not that all or a portion of the deferred income tax assets will not be realized.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position, if that position will more likely than not be sustained upon examination, based on the technical merits of the position.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its provision for income tax.

The initial application of FIN 48 to the Company's tax positions did not have a material effect on the Company's Shareholders Equity. See also Note 17K.

**O. Goodwill and intangible assets**

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in business combinations accounted for as purchases. According to the provisions of FAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized but rather tested for impairment at least annually. As of December 31, 2006 and 2007, the Company has determined that there is no impairment with respect to Goodwill.

Intangible assets are amortized using the straight-line basis over their useful lives, to reflect the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with FAS No. 142, as follows

|                                    | <u>Years</u> |
|------------------------------------|--------------|
| Technology usage rights and others | 10           |
| Licenses and patents               | 7            |
| Customer base                      | 5            |
| GIS database                       | 10           |
| Brand name                         | 15           |
| Other                              | 3-10         |

**P. Issuance costs of convertible capital notes**

Costs incurred in respect of the issuance of convertible capital notes are deferred and expensed as financing expenses over the contractual life of the capital notes.

Since the original maturity of the Notes has already expired, the entire balance of the issuance cost has been amortized.

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES (cont)**

**Q.      Liability for employee rights upon retirement**

The Company's liability for employee rights upon retirement with respect to its Israeli employees is calculated, pursuant to Israeli severance pay law, based on the most recent salary of each employee multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company makes monthly deposits to insurance policies and severance pay funds. The liability of the Company is fully provided for.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial profits.

The liability for employee rights upon retirement in respect of the employees of the non-Israeli subsidiaries of the Company, is calculated on the basis of the labor laws of the country in which the subsidiary is located and is covered by an appropriate accrual.

Severance expenses for the years ended December 31, 2005, 2006 and 2007, amounted to US\$ 604,000, US\$ 421,000 and US\$ 967,000, respectively.

**R.      Revenue recognition**

Revenues are recognized in accordance with Staff Accounting Bulletin No. 104 *Revenue Recognition* when delivery has occurred and, where applicable, after installation has been completed, there is persuasive evidence of an agreement, the fee is fixed or determinable and collection of the related receivable is reasonably assured and no further obligations exist. In cases where delivery has occurred but the required installation has not been performed, the Company does not recognize the revenues until the installation is completed.

The Company's revenues are recognized as follows:

1. Revenues from sales are recognized when title and risk of loss of the product pass to the customer (usually upon delivery).
2. Revenues from installation services are recognized when the installation is completed.
3. Revenues from subscription fees are recognized over the duration of the subscription period.
4. The Company recognizes revenues as gross or net in accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* ( EITF 99-19 ). In most arrangements, the Company contracts directly with its end-user customers, it is the primary obligor and it carries all collectibility risk. Revenues under these arrangements are recorded on a gross basis.

In some cases, the Company is not considered as the primary obligor according to the criteria established in EITF 99-19, and serves only as distributors of products or services of other parties to end-user customers. In those instances, in accordance with EITF 99-19, the Company reports the revenues on a net basis.

5. Revenues from certain long-term contracts:

The Company recognizes certain long-term contract revenues, in accordance with Statement of Position ( SOP ) 81-1, *Accounting for Performance of Construction-Type and Certain Production Type Contracts*.

Pursuant to SOP 81-1, revenue is recognized under the percentage of completion method. The Company measures the percentage of completion based on output criteria, such as the number of units delivered or the progress of the engineering process (in contracts that require network buildup before end units are sold).





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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES (cont)**

**R.      Revenue recognition (cont.)**

5.      Revenues from certain long-term contracts (cont.):

Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first identified, in the amount of the estimated loss on the entire contract.

The Company believes that the use of the percentage of completion method is appropriate, as the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights of the parties to the contract, the consideration to be exchanged and the manner and terms of settlement. In all cases, the Company expects to perform its contractual obligations and the parties are expected to satisfy their obligations under the contract.

In contracts that do not meet all the abovementioned conditions, the Company utilizes zero estimates of profit; equal amounts of revenue and cost are recognized until results can be estimated with sufficient certainty.

Revenues and costs recognized pursuant to SOP 81-1 on contracts in process are subject to management estimates. Actual results could differ from these estimates.

6.      Deferred revenues include unearned amounts received from customers but not yet recognized as revenues.

7.      Sale and leaseback transactions

The Company accounts for sale and leaseback transactions in accordance with the provisions of FAS No. 13, *Accounting for Leases* as amended by FAS No. 28, *Accounting for Sales with Leasebacks*.

Accordingly, with respect of a certain leaseback transaction that was determined to be an operating lease and involving the use of more than a minor part but less than substantially all of the asset sold, the entire profit on the sale was deferred and amortized in proportion to rental payments over the term of the lease. There was no recognition of any profit at the date of the sale since the present value of the minimum lease payments exceeded the amount of the profit.

**S.      Warranty costs**

The Company provides a warranty for its products to end-users at no extra charge. The Company estimates the costs that may be incurred under its warranty obligation and records a liability at the time the related revenues are recognized.

Among the factors affecting the warranty liability are the number of installed units and historical percentages of warranty claims. The Company periodically assesses the adequacy of the recorded warranty liability and adjusts the amount to the extent necessary. To date, warranty costs and the related liabilities have not been material.

**T.      Research and development costs**

1.      Research and development costs (other than computer software-related expenses) are expensed as incurred. Grants received from the Government of Israel for development of approved projects are recognized as a reduction of expenses when the related costs are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

**NOTE 1      SIGNIFICANT ACCOUNTING POLICIES (cont)**

**T.      Research and development costs (cont.)**

2.      Software Development Costs

FAS No. 86 *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Research and development costs incurred in the process of developing product improvements or new products, are generally expensed as incurred, net of grants received from the Government of Israel for development of approved projects. Costs incurred by the Company between the establishment of technological feasibility and the point at which the product is ready for general release are insignificant.

3.      Purchased In-Process Research and Development

Purchased In-Process Research and Development ( IPR&D ) represents the value assigned in a purchase business combination to research and development projects of the acquired business that had commenced but had not yet been completed at the date of acquisition and which have no alternative use. In accordance with FAS No. 2 *Accounting for Research and Development Costs*, as clarified by FASB Interpretation No. 4, amounts assigned to IPR&D are expensed as part of the allocation of the purchase price of the business combination.

**U.      Advertising costs**

Advertising costs are expensed as incurred.

Advertising expenses for the years ended December 31, 2005, 2006 and 2007 amounted to US\$ 3.7 million, US\$ 3.8 million and US\$ 6.1 million, respectively.

**V.      Issuance of shares by affiliated companies**

Capital gains arising from the issuance of shares by affiliated companies to third parties are carried to income on a current basis. Capital gains arising from the issuance of shares by an affiliated company to the extent that the issuing company is a newly formed company are carried to additional paid in capital.

**W.      Earnings per share**

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the year, net of the weighted average number of Company shares held by the Company and its subsidiaries.

In computing diluted earnings per share, basic earnings per share are adjusted to reflect the potential dilution that could occur upon the exercise of options granted under employee stock option plans, using the treasury stock method, and the conversion of the convertible capital notes, using the if-converted method. The assumed conversion of such convertible capital notes that have not been converted during the period, was based on the average quoted share prices prior to each balance date (see also Note 18).

**X.      Stock-based compensation**

Until December 31, 2005, the Group accounted for its employee stock option plans using the fair value based method of accounting prescribed by FAS No. 123, *Accounting for Stock-Based Compensation* as amended by FAS No. 148 and applied FAS No. 123 and Emerging Issue Task Force ( EITF ) No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, with respect to options issued to non-employees.



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont)

X. Stock-based compensation (cont.)

According to FAS No. 123, the fair value of stock options granted to employees is estimated on the date of grant using the Black-Scholes option-pricing model. The compensation cost is charged to expense over the vesting period using the graded method, an accelerated method which results in charging a greater portion of the value of options granted in the earlier years of their vesting period.

Effective January 1, 2006, the Company adopted the provisions of FAS No. 123R, *Share-Based Payment* (FAS 123R), a revision of FAS No. 123 and Staff Accounting Bulletin No. 107 ( SAB 107 ), which was issued in March 2005 by the SEC.

FAS 123R eliminates the use of APB 25 (and related interpretations) and the intrinsic value method of accounting, and requires to recognize, the cost of employee services received in exchange for awards of equity instruments, based on the fair value of those awards at the grant date.

As mentioned above, throughout December 31, 2005, the Company accounted for employees stock-based compensation using the fair value based method of accounting under FAS 123, therefore, the adoption of FAS 123R, did not have a material effect on the Company's financial position or results of operations.

Y. Comprehensive income (loss)

Comprehensive income, presented in shareholders' equity, includes, in addition to net income translation gains (losses) of non-Israeli currency financial statements of subsidiaries and affiliated companies and translation gains and losses from the translation of the functional currency to the reporting currency.

Z. Recently issued accounting pronouncements FAS 157, Fair Value Measurements

In September 2006, the FASB issued FAS 157, *Fair Value Measurements*. This Statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. However, FAS 157 does not require any new fair value measurement.

FAS 157 is effective for fiscal years beginning after November 15, 2007 and should be applied prospectively (with a limited form of retrospective application). On February, 2008, the FASB issued Staff Position ( FSP ) FAS 157-2, which delays the effective date of FAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements. As applicable to the Company, FAS 157 (except as it relates to non-financial assets and liabilities as required under the provisions of FSP FAS 157-2), will be effective as of the year beginning January 1, 2008.

The Company does not expect the adoption of this statement to have a material effect on its consolidated financial statements.

**FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement 115"**

In February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement 115* ( FAS 159 ). This pronouncement permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. FAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of FAS 157. An entity is prohibited from retrospectively applying FAS 159, unless it chooses early adoption of FAS 157 also. The company is currently assessing the impact of FAS 159, if any on its financial position and results of operations.



## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont)

## Z. Recently issued accounting pronouncements (cont.)

**FAS 141(R), Business Combinations**

In December 2007, the FASB issued FAS 141(R), *Business Combinations*. This Statement will replace FAS 141, *Business Combinations* ( FAS 141(R) ). FAS 141(R) retains the fundamental requirements of FAS 141 with respect to the implementation of the acquisition method of accounting ( the purchase method ) for all business combinations and for the identification of the acquirer for each business combination. This Statement also establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, how the acquirer recognizes and measures the goodwill acquired in a business combination and the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

FAS 141(R) will apply prospectively to business combinations for which the acquisition date is on or after December 15, 2008 (January 1, 2009 for the Company). Early adoption of FAS 141(R) is prohibited. The Company has not yet evaluated this statement for the impact, if any, that it will have on the financial position and results of operations on the Company.

**FAS 160, Noncontrolling Interests in Consolidated Financial Statements**

In December 2007, the FASB issued FAS 160, *Noncontrolling Interests in Consolidated Financial Statements* ( FAS 160 ). This Statement amends ARB 51 and establishes accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FAS 160 is effective for fiscal years beginning on or after December 15, 2008 (January 1, 2009 for the Company). Early adoption of FAS 160 is prohibited. The Company has not yet determined the impact, if any, that FAS 160 will have on its financial position and results of operations.

**Staff Accounting Bulletin 110**

In December 2007, the SEC issued Staff Accounting Bulletin 110 ( SAB 110 ) regarding the use of a simplified method, as discussed in SAB 107 ( SAB 107 ), in developing an estimate of expected term of plain vanilla share options in accordance with FAS 123 (revised 2004), *Share-Based Payment*. Until December 31, 2007, SAB 107 allowed the use of the simplified method. SAB 110 allows, under certain circumstances, to continue to accept the use of the simplified method beyond December 31, 2007. The Company believes that the adoption of SAB 110 will not have a material impact on its financial position and results of operations.

## NOTE 2 OTHER CURRENT ASSETS

**Composition:**

| (in thousands)   | US dollars           |       |
|--|----------------------|-------|
|  | December 31,<br>2007 | 2006  |
| Prepaid expenses   | 903                  | 806   |
| Government institutions                                  | 2,065                | 2,571 |
| Deferred taxes   | 61                   | 633   |
| Advances to suppliers                                    | 558                  | 784   |
| Employees  | 146                  | 63    |
| Accounts receivable in respect of sale of subsidiary (*) | 79,844               | -     |
| Others   | 206                  | 58    |

| US dollars |       |
|------------|-------|
| 83,783     | 4,915 |

(\*) The entire amount was repaid during January 2008.

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 3      CONTRACTS IN PROCESS, NET**

**Composition:**

|  | US dollars   |         |
|--|--------------|---------|
| (in thousands)                           | December 31, |         |
|  | 2007         | 2006    |
| Cost of work                             | -            | 8,670   |
| Less - portion expensed in prior periods | -            | (7,205) |
|  | -            | 1,465   |
| Less - advances from customers           | -            | -       |
|  | -            | 1,465   |

The contracts were carried out by a subsidiary of the Company which was sold in December 2007. See also Note 1.A.1.d.

**NOTE 4      INVENTORIES**

**Composition:**

|                   | US dollars   |        |
|-------------------|--------------|--------|
| (in thousands)    | December 31, |        |
|                   | 2007         | 2006   |
| Finished products | 11,954       | 6,427  |
| Raw materials     | 1,156        | 2,847  |
| Work in progress  | 148          | 1,627  |
|                   | 13,258       | 10,901 |

**NOTE 5      INVESTMENTS IN AFFILIATED AND OTHER COMPANIES**

**A.      Investments in affiliated companies**

**1.      Icomtrade Ltd. ( Icomtrade )**

The Company holds 50% of the shares of Icomtrade.

The balance of the Company's investment in Icomtrade as of December 31, 2006 and 2007 was US\$ 185,000 and US\$ 191,000, respectively. As of December 31, 2006 and 2007, these balances included a loan in the amount of US\$ 186,000 and US\$ 204,000, respectively.

The loan is linked to the Israeli Consumer Price Index.



**2. MatysOnBoard Ltd. ( Matys )**

The Company holds 25% of the shares of Matys.

The balance of the Company's investment in MatysOnBoard Ltd. as of December 31, 2006 and 2007 was US\$ 300,000 and US\$ 0 respectively. As of December 31, 2006 and 2007, these balances included a loan in the amount of US\$ 667,000 and US\$ 688,000, respectively.

The loan is linked to the Israeli Consumer Price Index.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 5 INVESTMENTS IN AFFILIATED AND OTHER COMPANIES**

**B. Investments in other companies**

**1. Locationet Systems Ltd. ( Locationet )**

On December 31, 2006, the Company and a subsidiary held together 21.28% of the shares of Locationet (10.64% were held by each of the companies) and as the group had significant influence, the investment in Locationet was classified and accounted for as an investment in an affiliated company. On December 31, 2007, the Company completed the sale of the subsidiary (see Note 1A.1.d.), as a result of which, the Company no longer has significant influence in Locationet and therefore the investment was classified among investment in other companies and accounted for at cost. See Note 1.J.

The balance of the Company's investment in Locationet as of December 31, 2006 and 2007 was US\$396,000 and US\$80,000, respectively.

**2. Korea Location Information & Communications Ltd. ( KLIC )**

The Company purchased 3.73% of the shares of KLIC in March 2007.

The balance of the Company's investment in Klic as of December 31, 2007 was US\$ 1,598,000.

**NOTE 6 PROPERTY AND EQUIPMENT, NET**

**A. Composition:**

| (in thousands)                                   | US dollars |                      |
|--|------------|----------------------|
|  | 2007       | December 31,<br>2006 |
| Operating equipment                              | 32,628     | 25,224               |
| Office furniture, equipment and computers        | 10,540     | 7,216                |
| Land   | 1,091      | 904                  |
| Buildings  | 3,238      | 2,683                |
| Vehicles   | 1,646      | 1,020                |
| Leasehold improvements                           | 1,629      | 1,005                |
|  | 50,772     | 38,052               |
| Less - accumulated depreciation and amortization | (26,332)   | (18,943)             |
|  | 24,440(*)  | 19,109(*)            |

(\*) See Appendix A and B of Statements of Cash Flows, in respect of acquisition and sale of subsidiaries.

**B.** During June 2006, a subsidiary purchased an 8 storey office building, with office space of approximately 5,356 sq.m., for the amount of 7.5 million Brazilian Reals (approximately US\$ 3.3 million).

**C.** In the years ended December 31, 2005, 2006 and 2007, depreciation and amortization expense was US\$ 2.8 million, US\$ 3.7 million and US\$ 6 million, respectively and additional equipment was purchased in an amount of US\$ 3.5 million, US\$ 12.1 million and US\$ 9.6 million, respectively.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 7 INTANGIBLE ASSETS, NET**

**A. Intangible assets, net, consisted of the following:**

| US dollars                                   |                        |                    |                             |                        |
|--|------------------------|--------------------|-----------------------------|------------------------|
| (in thousands)                               | December 31,<br>2006   | 2007               | December 31,<br>2007        | 2007                   |
|  | Unamortized<br>balance | Original<br>amount | Accumulated<br>amortization | Unamortized<br>balance |
| Technology usage rights                      | 570                    | 3,662              | (3,390)                     | 272                    |
| Purchase of licenses and patent registration | 1,398                  | 2,514              | (1,514)**                   | 1,000                  |
| GIS database (*)                             | -                      | 4,025              | (106)                       | 3,919                  |
| Customer base (*)                            | -                      | 1,184              | (62)                        | 1,122                  |
| Brand name (*)                               | -                      | 1,222              | (22)                        | 1,200                  |
| Others (*)                                   | 816                    | 5,343              | (4,055)**                   | 1,288                  |
|  | 2,784                  | 17,950             | (9,149)                     | 8,801                  |

(\*) Regarding additions to intangible assets during 2007, see Note 1A.1.c.

(\*\*) See B. below.

Amortization of intangible assets amounted to US\$ 526,000, US\$ 428,000 and US\$ 1,124,000 for the years ended December 31, 2005, 2006 and 2007, respectively. As of December 31, 2007, the estimated aggregate amortization of intangible assets for the next five years is as follows: 2008 US\$ 1,495,000; 2009 US\$ 1,183,000; 2010 US\$ 1,024,000; 2011 US\$ 852,000; 2012 US\$ 792,000.

**B. During 2007, the Company recorded an amount of US\$ 366,000, as an impairment loss with respect to the licenses.**

The impairment amount was included in other expenses (income), net, and is based on valuation performed by management.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 8      GOODWILL**

A. The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2007, are as follows:

|  | US dollars                             |                               |  |       |
|--|--|-------------------------------|--|-------|
|  | Wireless<br>communications<br>products | Location<br>based<br>services | Cellular<br>communications<br>services | Total |
|  | (in thousands)                         |                               |  |       |
| Balance as of January 1, 2006                                    | 900                                    | 1,602                         | 298                                    | 2,800 |
| <b>Changes during 2006:</b>                                      |  |                               |  |       |
| Goodwill resulting from acquisitions during the year (*)         | -                                      | 1,631                         | -                                      | 1,631 |
| Impairment   | -                                      | -                             | (71)                                   | (71)  |
| Translation differences  | 76                                     | 74                            | 26                                     | 176   |
|  | 976                                    | 3,307                         | 253                                    | 4,536 |
| <b>Changes during 2007:</b>                                      |  |                               |  |       |
| Goodwill resulting from acquisitions during the year (**)        | 3,964                                  | 1,803                         | -                                      | 5,767 |
| Realization of goodwill in respect of sale of a subsidiary (***) | (479)                                  | -                             | -                                      | (479) |
| Impairment (****)  | -                                      | (291)                         | (278)                                  | (569) |
| Translation differences  | 96                                     | 255                           | 25                                     | 376   |
|  | 4,557                                  | 5,074                         | -                                      | 9,631 |

(\*) See Note 1A.1.b.

(\*\*) See Note 1A.1.c.

(\*\*\*) See Note 1A.1.d.

(\*\*\*\*) See Note B. below.

B. During 2007, the Company recorded an amount of US\$ 569,000, as an impairment loss with respect to goodwill.

The impairment amount was included in other expenses (income), net, and is based on valuation performed by management using the income approach.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 9 CREDIT FROM BANKING INSTITUTIONS**

**A. Composition:**

| (in thousands)                                      | Interest<br>rates as of | US dollars           |                      |
|---|-------------------------|----------------------|----------------------|
|   | December 31,<br>2007    | December 31,<br>2007 | December 31,<br>2006 |
|   | %                       |                      |                      |
| Revolving credit - in NIS                           | 5.5                     | 318                  | 133                  |
| Current maturities of long-term loans (See Note 11) |                         | -                    | 341                  |
|   |                         | 318                  | 474                  |

**B. Lines of credit**

Unutilized short-term lines of credit of the Group as of December 31, 2007, aggregated to US\$ 1.4 million.

**C. Liens** see Note 12B.

**NOTE 10 OTHER CURRENT LIABILITIES**

**Composition:**

| (in thousands)                                | US dollars           |                      |
|---|----------------------|----------------------|
|   | December 31,<br>2007 | December 31,<br>2006 |
| Accrued expenses                              | 12,594(*)            | 3,890                |
| Employees and institutions in respect thereof | 3,044                | 2,894                |
| Government institutions                       | 17,802(*)            | 6,683                |
| Related party                                 | 58                   | 57                   |
| Advances from customers                       | -                    | 39                   |
| Others  | 94                   | 10                   |
|   | 33,592               | 13,573               |

(\*) Accrued expenses include US\$ 9,732 thousand and Government institutions include US\$ 13,734 thousand, as direct expenses and income tax, as a result of the sale of the subsidiary. See also Note 1A.1.d.

**NOTE 11 LONG-TERM LOANS FROM BANKING INSTITUTIONS**

**A. Composition:**

US dollars

| (in thousands)            | US dollars |                      |
|---------------------------|------------|----------------------|
|                           | 2007       | December 31,<br>2006 |
| US dollar-linked          | -          | 337                  |
| Unlinked (nominal NIS)    | -          | 4                    |
| Less - current maturities | -          | (341)                |
|                           | -          | -                    |

**B. Liens** see Note 12B.

**NOTE 12 CONTINGENT LIABILITIES, LIENS AND GUARANTEES**

**A. Claims**

1. The Company is involved in litigation with Leonardo L.P., a US-based hedge fund ( Leonardo ), arising from a financial transaction entered into between the Company and Leonardo in February 2000. Pursuant to the terms of this financial transaction, the Company received a cash investment of \$12 million in exchange for certain notes that were convertible into ordinary shares of the Company according to a pre-determined formula. Pursuant to the formula, the conversion price of the notes was the lower of NIS 67.3 (\$14.7) per share or an average trading price of the shares of the Company for a defined period prior to conversion. The conversion price was used to determine the number of shares into which the notes may be converted by dividing the notional principal amount of the notes, initially \$12 million, by the conversion price. On the date the notes were issued, March 2, 2000, the notes were convertible into approximately 720,000 of the ordinary shares of the Company. As part of the terms of this financial transaction, and, as required by the rules of the TASE where the ordinary shares of the Company are currently traded, the Company was required to seek the approval from the TASE for the issuance of the ordinary shares underlying the notes. The TASE approved the issuance of 2,250,000 of the ordinary shares of the Company as the number of registered shares that could be issued under the notes. The Company understood the terms of the financial transaction with Leonardo to provide that, except in certain limited circumstances, the amounts advanced to the Company, together with accrued interest on these advances at the annual rate of 3.5%, would be repaid and satisfied solely through the delivery of ordinary shares and that under no circumstance would the Company be required to deliver more than 2,250,000 of its ordinary shares. The Company believes that Leonardo also recognized that there was a limit on the number of shares issuable under the notes, and in fact at no time on or prior to the maturity date of the notes did Leonardo seek to convert the notes for more than 2,250,000 of the ordinary shares of the Company. Prior to the maturity date of the notes, Leonardo converted approximately \$6.7 million of the notional principal amount of the notes into an aggregate of 2,241,594 of the ordinary shares of the Company. The Company believes that the holders of the notes are therefore only entitled to convert the balance of their notes into 8,406 shares, although in the pending litigation Leonardo has indicated that it does not believe that the notes were subject to any limit on the number of shares that could be issued to them on conversion and is seeking to recover damages based on this allegation.

The terms of the documents and agreements that comprise the financial arrangement with Leonardo contain provisions regarding the repayment and conversion of the notes which may be regarded as conflicting or subject to different interpretations. Accordingly, the Company believes that the matter may only be resolved through litigation in which the parties present evidence as to the proper meaning and operation of the repayment and conversion provisions of documents and agreements comprising the financing transaction with Leonardo.

The parties are currently in early stages of pleading the case before a district court in Israel and are in the process of undertaking discovery. In its pleadings, Leonardo is seeking alternative remedies and relief, including (a) the repayment in cash of the balance of the notes in the amount of approximately \$6.2 million (plus accrued interest and expenses), (b) the delivery to Leonardo of the maximum number of the ordinary shares of the Company into which the notes could have been converted on the maturity date without regard to the 2,250,000 share limitation, or 3,516,462 ordinary shares, plus additional monetary damages, or (c) the repayment of a cash amount equal to the amount obtained by multiplying the 3,516,462 shares mentioned in the preceding clause by the highest trading price of the ordinary shares of the Company between the maturity date and the date of the court's decision, plus interest or expenses.



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ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

**NOTE 12      CONTINGENT LIABILITIES, LIENS AND GUARANTEES (cont.)**

**A.      Claims (cont.)**

1.      (cont.)

Although there can be no assurances as to the final outcome of this litigation, the Company believes that the maximum liability that it could have in this matter, assuming that a court rejects our interpretation of the agreements or determines that it has otherwise defaulted in the notes, is approximately \$9.6 million. In addition, in June, 2006, Leonardo was initially permitted to amend its claim to add an additional cause of action, claiming that on January 29, 2002, the Company also breached the same agreement because Moked Ituran Ltd. distributed some of the Company's shares to other parties, in violation of the covenant that entitles Leonardo the option to redeem the notes Moked Ituran to maintain at least 70% of the number of the Company's shares that they held at the time the Company entered into the financial transaction with Leonardo. Based on such alleged breach, Leonardo is seeking an additional alternative remedy of \$9.6 million, plus interest and expenses. The Company successfully appealed the decision allowing Leonardo to amend its claim on legal grounds and such permission was ultimately revoked by the court. Leonardo subsequently filed a request for leave to appeal such decision to the Israeli Supreme Court, which request was denied. Leonardo further requested two more times, and on separate occasions, to amend its claim with relation to the same said alleged breach. Leonardo's request was denied twice by the district court, and Leonardo requested the Supreme Court once again for leave to appeal the decisions. Leonardo's second request for leave to appeal the last decisions has not yet been decided. While the Company cannot predict the outcome of this case, if Leonardo prevails, the award to Leonardo of damages, either in cash or by delivery of the Company's ordinary shares, could result in significant costs to the Company, adversely affecting its results of operations. In addition, the issuance of the Company's ordinary shares to Leonardo may impact the share price of the Company's ordinary shares and would dilute its shareholders' ownership percentage.

2.      On July 8, 2005, a class action was filed against a subsidiary of the Company, Ituran Florida Corporation, in the First Judicial District Court in Philadelphia, Pennsylvania. The lawsuit claims that Ituran Florida sent fax advertisements to the named plaintiff and the other members of the class allegedly in violation of the Telephone Consumer Protection Act of 1991. Ituran Florida filed a motion for judgment on the pleadings that such claims should not be aired as part of a class action. Such motion was denied by the court and the case is currently at the interrogatories and requests for production of information stage. The plaintiff agreed to limit the class action to Pennsylvania actions only and the maximum potential amount of damages that the Company estimates its subsidiary may be liable for pursuant to the provisions of the Telephone Consumer Protection Act if the plaintiffs prevail is approximately \$1.5 million in the aggregate for all class plaintiffs, plus punitive damages and expenses. The Company does not believe that the plaintiffs will prevail and, even if they do prevail, the Company does not believe that the resolution of this claim will have a material effect on revenues, operations or liquidity.

**B.      Liens**

To guarantee the liabilities of the Group to banks, the Company has registered the following pledges:

On monies due and/or due in the future from the bank clearing house, as well as a first degree floating lien on all of the property and assets of the Company and on the insurance rights thereto.

ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 CONTINGENT LIABILITIES, LIENS AND GUARANTEES (cont.)

C. The Company was declared a monopoly under the Israeli Restrictive Trade Practices Law, 1988, in the market for the provision of systems for the location of vehicles in Israel. Under Israeli law, a monopoly is prohibited from taking certain actions, such as predatory pricing and the provision of loyalty discounts, which prohibitions do not apply to other companies. The Israeli Antitrust Authority may further declare that the Company has abused its position in the market. Any such declaration in any suit in which it is claimed that the Company engages in anti-competitive conduct may serve as *prima facie* evidence that the Company is either a monopoly or that it has engaged in anti-competitive behavior. Furthermore, it may be ordered to take or refrain from taking certain actions, such as setting maximum prices, in order to protect against unfair competition.

D. Commitments

1. As of December 31, 2007, minimum future rentals under operating leases of buildings for periods in excess of one year were as follows: 2008 US\$ 1 million; 2009 US\$ 0.9 million; 2010 US\$ 0.9 million; 2011 US\$ 0.9 million; 2012 and thereafter US\$ 0.9 million.

The leasing fees expensed in each of the years ended December 31, 2005, 2006 and 2007, were US\$ 2.3 million, US\$ 2.7 million and US\$ 2.9 million, respectively.

2. In January 2008, the Company entered into a 10 year Frame Product and Service Purchase Agreement with Telematics, pursuant to which the Company and Telematics shall purchase from each other certain products and services as detailed in the agreement for a price and subject to other conditions as detailed in the agreement. In addition, each of the Company and Telematics undertook toward one another not to compete in each other's exclusive markets in the area of Teletrac system and technology or similar RF terrestrial location systems and technology. The agreement is for a term of 10 years, following which it shall be renewed automatically for additional consecutive 12 month periods, unless non-renewal notice is sent by one of the parties to the other.

Concurrently with the sale of Telematics, the Company and Telematics entered into a revenue sharing agreement, pursuant to which Ituran shall be entitled to a share of the sales revenues of Telematics in the Republic of Korea and in China from sale of end products and base stations to customers in such territories as well as from royalties received from customers of Telematics in such territories relating to the AVL applications. The revenue sharing scheme shall continue for a term of five (5) years from January 2008 and shall be paid on a quarterly basis.

NOTE 13 CAPITAL NOTES

1. On February 7, 2000, the Company entered into an agreement with Leonardo L.P., a foreign company ( Leonardo ), for a private placement of capital notes in return for an amount of US\$ 12 million.

The capital notes were convertible into Company shares until the end of the three-year period following their date of issue. The capital notes entitle their holders (until such time as they are converted into shares) to interest of 3.5% per annum, to be paid in cash or to be added to the principal, at the discretion of the Company.

The capital notes were convertible into ordinary shares of the Company, par value NIS 0.33 each. During the first 90-day period following the issuance of the capital notes, the conversion rate was NIS 67.3 (US\$ 15.9) per share. Subsequently, the conversion rate was set as the lower of an amount of NIS 67.3 (US\$ 15.9) per share or an amount equal to the average of the lowest 10 prices of the share during the 60 trading-day period prior to the date of the conversion of the capital notes.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

**NOTE 13 CAPITAL NOTES (cont.)**

1. (cont.)

In 2000, 2001 and 2002, capital notes in an amount of US\$ 2.5 million were converted into 241,392 Company shares, US\$ 985,000 into 297,645 Company shares and US\$ 3.2 million into 1,702,557 Company shares, respectively. As of December 31, 2003 and thereafter, the outstanding balance of capital notes could be converted into 8,406 Company shares.

Since the inception of the agreement with Leonardo, through March 2003 (the original contractual maturity of the capital notes), the Company accrued interest in respect of the capital notes. The interest charge for the year 2003 amounted to US\$ 134,000.

The Company elected not to pay the interest in cash. The effect of the accrued interest was reflected in the number of shares issued.

As of the contractual maturity of the notes, the Company does not accrue any interest in respect of the capital notes

2. See Note 12(A)(1) for a discussion regarding a pending legal action in connection with the notes.

**NOTE 14 SHAREHOLDERS EQUITY****A. Share capital**

1. Composition:

| December 31,   | 2007       | 2007                     | 2006       | 2006                     |
|--|------------|--------------------------|------------|--------------------------|
|  | Registered | Issued and<br>fully paid | Registered | Issued and<br>fully paid |
| Ordinary shares of NIS 0.33 <sup>1</sup> / <sub>3</sub> each | 60,000,000 | 23,475,431               | 60,000,000 | 23,321,507               |

2. Since May 1998, the Company has been trading its shares on the Tel-Aviv Stock Exchange ( TASE ). On September 2005, the Company registered its Ordinary shares for trade in the United States. On that day, the Company issued 4,256,000 shares for an aggregate price of US\$ 55.3 million before issuance expenses (including 416,000 shares which were sold to the underwriters).

3. The Ordinary shares of the Company confer upon their holders the right to receive notice to participate and vote in general meetings of the Company and the right to receive dividends, if and when, declared.

4. As of December 31, 2007, 2.1% of the share capital of the Company is held by the Company. As of December 31, 2006, 0.35% of the share capital of the Company was held by the Company and its subsidiary.

5. Shares held by the Company and its subsidiaries have no voting rights.

6. On July 17, 2006, the board of the Company authorized the repurchase of ordinary shares up to US\$ 10 million. As of December 31, 2006 and 2007, the Company has purchased approximately 60,103 ordinary shares equal to US\$ 0.9 million and 431,287 ordinary shares equal to US\$ 4.9 million, respectively.

On January 24, 2008, the Company's board of directors authorized an increase of the amount of the shares to be repurchased by the Company, to repurchase up to an aggregate of US\$ 20 million of ordinary shares of the Company. As of the date of this report, the Company repurchased 1,626,620 ordinary shares (of which 512,422 were purchased by its subsidiary, Ituran Cellular Communications Ltd.).

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7. During September 2005, the Company's board of directors authorized the increase of the registered share capital of the Company to 60,000,000 shares.

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 14 SHAREHOLDERS EQUITY (cont.)

## A. Share capital (cont.)

8. On September 22, 2005, the Company effected a share split pursuant to which each of its ordinary shares was converted into 3 ordinary shares. Unless otherwise noted, all share and per share amounts for all periods presented have been retroactively restated to give effect to this share split.

## B. Stock option plans of the Company

1. On August 23, 2001, the Company's Board of Directors approved an employee stock option plan (the 2001 Plan) for the grant, without consideration, of up to 282,244 options, exercisable into 846,732 ordinary shares of NIS 0.33 $\frac{1}{3}$  par value of the Company to certain employees and senior executives of the Company and its subsidiaries. The exercise price of each option is NIS 1. 32,324 options were fully vested on the date of grant and the remaining options under the plan vest over a period of 1-3 years (mainly 3) based on the employment status of each grantee. Any option not exercised within 3 years after the date such option vests will expire. Through December 31, 2007, all options under the 2001 Plan were granted and fully vested and all the options were exercised.
2. The following table presents a summary of the status of the option plans as of December 31, 2005, 2006, 2007 and changes during the years ended on those dates:

|  | 2007     |  | 2006     |  | 2005                   |  |
|--|----------|--|----------|--|------------------------|--|
|  | Number   | Weighted average exercise price <sup>(*)</sup> | Number   | Weighted average exercise price <sup>(*)</sup> | Number                 | Weighted average exercise price <sup>(*)</sup> |
| Balance outstanding at beginning of year | 51,308   | NIS 1  | 128,016  | NIS 1  | 180,035                | NIS 1  |
| Exercised                                | (51,308) | NIS 1  | (76,708) | NIS 1  | (68,951)               | NIS 1  |
| Granted                                  | -        | -  | -        | -  | 16,932 <sup>(**)</sup> | -  |
| Expired                                  | -        | NIS 1  | -        | NIS 1  | -                      | NIS 1  |
| Balance outstanding at end of year       | -        | NIS 1  | 51,308   | NIS 1  | 128,016                | NIS 1  |
| Balance exercisable at end of year       | -        | NIS 1  | 51,308   | NIS 1  | 128,016                | NIS 1  |

(\*) Each option was exercisable into 3 shares.

(\*\*) On July 18, 2005, the relevant institutions of the Company, as required under the Israeli Companies Law, approved the issuance of fully vested options to replace those options that expired, at a per-share exercise price of NIS 1. The compensation expense with respect to such options amounted to US\$ 243,000. The options were exercised.

The aggregate intrinsic value of the balances outstanding and exercisable as of December 31, 2006, was US\$ 2,304 thousand. This amount represents the total intrinsic value, based on the Company's stock price of US\$ 15.05 as of December 31, 2006, less the weighted exercise price. This represents the potential amount received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised during the year ended December 31, 2007 was US\$ 1,845 thousand, based on the Company's stock closing price on the date of exercise.



**NOTE 14 SHAREHOLDERS EQUITY (cont.)**

**B. Stock option plans of the Company (cont.)**

3. During December 2000, in return for services rendered in connection with a transaction with a foreign company to raise funds through capital notes, the foreign company was offered 11,111 non-negotiable option warrants, exercisable into 33,333 ordinary shares of the Company, par value NIS 0.33 $\frac{1}{3}$  each, at a price of NIS 51.85 per share (US\$ 12.27). The options were fully vested on the date of grant and exercisable at any time after their allotment, but no later than December 31, 2005. The options were exercised during 2005.

The fair value of these options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 10%, dividend yield of 0%, volatility factors of the expected market price of the Company's ordinary shares of 30%, and expected life of the options of 3.5 years. The Company recorded deferred issuance costs in an amount of US\$ 162,000, which were amortized over the life of the capital notes.

4. The rights of the shares issued upon exercise of the options and warrants are identical to those of the ordinary shares of the Company.

**C. Retained earnings**

1. In determining the amount of retained earnings available for distribution as a dividend, the Israeli Companies Law stipulates that the cost of the Company's shares acquired by the Company and its subsidiaries (that are presented as a separate item in the statement of changes in shareholders' equity) must be deducted from the amount of retained earnings.
2. On January 2004, the board of directors of the Company approved its dividend distribution policy whereby the Company would distribute annually 25% of its net income on the basis of the results of the Company each year, on condition that such distribution would not prevent the Company from meeting its existing and future commitments when they come due.
3. Dividends are declared and paid in NIS. Dividends paid to shareholders outside Israel may be converted into dollars on the basis of the exchange rate prevailing at the date of payment.
4. In April 2005, the Company distributed a dividend of approximately US\$ 2.6 million (NIS 11.8 million), on the basis of the results of the Company for the year ended December 31, 2004.
5. In April 2006, the Company distributed a dividend of approximately US\$ 3.7 million (NIS 17.5 million), on the basis of the results of the Company for the year ended December 31, 2005.
6. In April 2007, the Company distributed a dividend in an amount of US\$ 4.8 million, on the basis of the results of the Company for the year ended December 31, 2006.
7. In February 2008, the Company declared a dividend in an amount of US\$ 30 million (NIS 108 million), on the basis of the results of the Company for the year ended December 31, 2007. The dividend was paid in April 2008.
8. Dividends paid per share in the years ended December 31, 2007, 2006 and 2005 were US\$ 0.21, US\$ 0.16 and US\$ 0.15, respectively.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 15 OTHER EXPENSES (INCOME), NET

| (in thousands)                                     | US dollars              |          |             |
|--|-------------------------|----------|-------------|
|  | Year ended December 31, |          |             |
|  | 2007                    | 2006     | 2005        |
| Capital gain on the sale of a subsidiary           | (50,107) <sup>(*)</sup> | -        | -           |
| Decline in value of goodwill and intangible assets | 935 <sup>(**)</sup>     | -        | -           |
| Other  | 34                      | 3        | (16)        |
|  | <u>(49,138)</u>         | <u>3</u> | <u>(16)</u> |

(\*) See Note 1.A.1.d.

(\*\*) See Notes 7 and 8.

## NOTE 16 FINANCING INCOME, NET

| (in thousands)                                     | US dollars              |              |            |
|--|-------------------------|--------------|------------|
|  | Year ended December 31, |              |            |
|  | 2007                    | 2006         | 2005       |
| Interest expenses in respect of long-term loans    | (4)                     | (98)         | (331)      |
| Short-term interest expenses                       | (286)                   | (297)        | (210)      |
| Gains (losses) on derivative financial instruments | (157)                   | (229)        | 79         |
| Gains in respect of marketable securities          | 452                     | 773          | -          |
| Exchange rate differences and others, net          | 1,222                   | 1,737        | 1,368      |
|  | <u>1,227</u>            | <u>1,886</u> | <u>906</u> |

## NOTE 17 TAXES ON INCOME

## A. Taxes on income included in the statements of income:

| (in thousands)              | US dollars              |              |              |
|-----------------------------|-------------------------|--------------|--------------|
|                             | Year ended December 31, |              |              |
|                             | 2007                    | 2006         | 2005         |
| Income taxes (tax benefit): |                         |              |              |
| Current taxes:              |                         |              |              |
| In Israel                   | 17,616 <sup>(*)</sup>   | 3,105        | 2,039        |
| Outside Israel              | 3,902                   | 3,092        | 3,065        |
|                             | <u>21,518</u>           | <u>6,197</u> | <u>5,104</u> |



|                                  | US dollars           |              |              |
|----------------------------------|----------------------|--------------|--------------|
| Deferred taxes:                  |                      |              |              |
| In Israel                        | (450) <sup>(*)</sup> | 450          | 115          |
| Outside Israel                   | (541)                | 195          | 186          |
|                                  | <u>(991)</u>         | <u>645</u>   | <u>301</u>   |
| Taxes in respect of prior years: |                      |              |              |
| In Israel                        | 426                  | (261)        | (332)        |
| Outside Israel                   | -                    | -            | 222          |
|                                  | <u>426</u>           | <u>(261)</u> | <u>(110)</u> |
|                                  | <u>20,953</u>        | <u>6,581</u> | <u>5,295</u> |

(\*) Including an amount of US\$ 13,734 thousand in respect of a capital gain from sale of subsidiary. See Note 1.A.1.d.

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

#### NOTE 17 TAXES ON INCOME (cont.)

##### **B. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (the Inflationary Adjustment Law )**

The Company and its Israeli subsidiaries report income for tax purposes in accordance with the provisions of the Inflationary Adjustments Law, whereby taxable income is measured in NIS, adjusted for changes in the Israeli Consumer Price Index.

Results of operations for tax purposes are measured in terms of earnings in NIS after adjustments for changes in the Israeli Consumer Price Index ( CPI ). Commencing January 1, 2008 this law is void and in its place there are transition provisions, whereby the results of operations for tax purposes are to be measured on a nominal basis.

##### **C. The Law for the Encouragement of Capital Investments, 1959 (the Investment Law )**

A certain Israeli subsidiary of the Company has been granted Approved Enterprise status according to the Investment Law, under several different investment programs. The subsidiary is entitled to tax benefits deriving from the execution of programs for investments in assets, in accordance with the certificates of approval granted in respect of these investment programs.

Taxable income derived from the Approved Enterprise is tax exempt for a period of two to four years commencing in the first year in which the subsidiary earns taxable income from the approved enterprise and is liable to a reduced corporate tax rate of up to 25% for an additional period of three to five years (up to a total of seven years for each investment program). The benefit period for each of the programs is limited to the earlier of twelve years from the year that the investment plan was implemented, or fourteen years from the year in which the approval was granted.

In the event of distribution of cash dividends out of income which was tax exempt as above, the subsidiary would have to pay the 25% tax in respect of the amount distributed. The Company has decided not to cause declaration of dividends out of such tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to the subsidiary Company s Approved Enterprise .

On December 31, 2007, the Company completed the sale of this subsidiary.

**D. Reduction in corporate tax rates**

On July 25, 2005, the Israeli Parliament passed an amendment to the Income Tax Ordinance (No. 147) 2005, gradually reducing the tax rate applicable to the Company (regarding profits not eligible for approved enterprise benefits mentioned above) as follows: in 2006 31%, in 2007 29%, in 2008 27%, in 2009 26% and in 2010 and thereafter 25%.

**E. Non-Israeli subsidiaries**

Non-Israeli subsidiaries are taxed according to the tax laws and rates in their country of residence.

**F. Tax assessments**

The Company has received final tax assessments through the 2002 tax year. Two Israeli subsidiaries have received final tax assessments through the 2001 and 2006 tax years, respectively. The other subsidiaries have not been assessed since incorporation.

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 17 TAXES ON INCOME (cont.)**

**G. Carryforward tax losses**

Carryforward tax losses of an Israeli subsidiary as of December 31, 2007 amount to US\$ 0.9 million.

Carryforward tax losses in Israel may be utilized indefinitely.

As of December 31, 2007, the Company's non-Israeli subsidiaries in Brazil and the United States have available estimated carryforward tax losses of approximately US\$ 1.2 million and US\$ 14.4 million, respectively.

Regarding the subsidiary in the United States, carryforward tax losses may be utilized until 2021.

**H. The following is a reconciliation between the theoretical tax on pre-tax income, at the applicable Israeli tax rate, and the tax expense reported in the financial statements:**

| (in thousands)   | US dollars              |         |         |
|--|-------------------------|---------|---------|
|  | Year ended December 31, |         |         |
|  | 2007                    | 2006    | 2005    |
| Pretax income  | 73,726                  | 26,618  | 20,828  |
| Statutory tax rate   | 29%                     | 31%     | 34%     |
| Tax computed at the ordinary tax rate                              | 21,380                  | 8,252   | 7,082   |
| Non-deductible expenses  | 203                     | 201     | 251     |
| Tax in respect of approved enterprises and translation differences | -                       | (1,601) | (2,142) |
| Losses in respect of which no deferred taxes were                  |                         |         |         |

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|   | US dollars |       |         |
|---|------------|-------|---------|
| generated   | 500        | 180   | -       |
| Utilization of losses of prior years in respect of which no deferred taxes were generated | -          | (27)  | (1,317) |
| Deductible financial income (expenses) recorded to additional paid-in capital             | (430)      | (596) | 1,038   |
| Taxes in respect of prior years   | (422)      | (262) | (110)   |
| Taxes in respect of withholding at the source from royalties                              | 108        | 200   | 181     |
| Others  | (386)      | 234   | 312     |
|   | 20,953     | 6,581 | 5,295   |

**I. Summary of deferred taxes**

**Composition:**

| (in thousands)  | US dollars                      |      |
|---|---------------------------------|------|
|   | Year ended December 31,<br>2007 | 2006 |
| <b>Deferred taxes included in other current assets:</b> |                                 |      |
| Provision for employee-related obligations              | 61                              | 136  |
| Other timing differences                                | -                               | 497  |
|   | 61                              | 633  |
| Valuation allowance                                     | -                               | -    |
|   | 61                              | 633  |

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 17 TAXES ON INCOME (cont.)**

**I. Summary of deferred taxes (cont.)**

**Composition:**

| (in thousands) | US dollars                      |      |
|----------------|---------------------------------|------|
|                | Year ended December 31,<br>2007 | 2006 |
|                |                                 |      |

US dollars

| <b>Long-term deferred income taxes:</b>    |              |              |
|--|--------------|--------------|
| Provision for employee related obligations | 588          | 449          |
| Carryforward tax losses                    | 5,460        | 5,595        |
| Other timing differences, net              | 285          | (336)        |
|  | <u>6,333</u> | <u>5,708</u> |
| Valuation allowance                        | (2,198)      | (1,412)      |
|  | <u>4,135</u> | <u>4,296</u> |

**J. Income before income taxes is composed as follows:**

| (in thousands)                           | US dollars              |               |               |
|--|-------------------------|---------------|---------------|
|  | Year ended December 31, |               |               |
|  | 2007                    | 2006          | 2005          |
| The Company and its Israeli subsidiaries | 65,763 <sup>(*)</sup>   | 17,392        | 10,973        |
| Non-Israeli subsidiaries                 | 7,963                   | 9,226         | 9,855         |
|  | <u>73,726</u>           | <u>26,618</u> | <u>20,828</u> |

(\*) Including US\$ 50,107 thousand of a capital gain in respect of the sale of a subsidiary. See Note 1.A.1.d.

**K. Uncertain tax positions**

As stated in Note 1N, effective January 1, 2007, the Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FAS 109", which was issued in July 2006. As of the date of adoption, there was no difference in the Company's tax contingencies under the provisions of FIN 48, since the amount of liability with respect to tax contingencies was fully provided. As a result, there was no effect on the Company's shareholders equity upon the Company's adoption of FIN 48.

The Company and its subsidiaries files income tax returns in Israel, US, Argentina and Brazil.

Reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|  | US dollars<br>(in thousands) |
|--|------------------------------|
| Balance at January 1, 2007                                   | 3,725                        |
| Additions based on tax positions related to the current year | 558                          |
| Balance at December 31, 2007                                 | <u>4,283</u>                 |

The Company anticipates that it is reasonably possible that over the next twelve months the amount of unrecognized tax benefits could be reduced to zero, therefore as of December 31, 2007, the liability with respect to uncertain tax positions is presented as short-term liability in the balance sheet.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 18 EARNINGS PER SHARE

The net income and the weighted average number of shares used in computing basic and diluted earnings per share for the years ended December 31, 2004, 2005 and 2006, are as follows:

| (in thousands)   | US dollars              |        |        |
|--|-------------------------|--------|--------|
|  | Year ended December 31, |        |        |
|  | 2007                    | 2006   | 2005   |
| Net income used for the computation of basic earnings per share                                  | 51,474                  | 19,259 | 14,375 |
| The effect of inclusion of the earning of subsidiary based on its diluted earning per share, net | -                       | -      | (217)  |
| Net income used for the computation diluted earning per share                                    | 51,474                  | 19,259 | 14,158 |
|  |                         |        |        |
| (in thousands)   | Number of shares        |        |        |
|  | Year ended December 31, |        |        |
|  | 2007                    | 2006   | 2005   |
| Weighted average number of shares used in the computation of basic income per share              | 23,315                  | 23,194 | 19,736 |
| <b>Add:</b>  |                         |        |        |
| Additional shares from the assumed exercise of employee stock options, net                       | 98                      | 254    | 509    |
| Weighted average number of additional shares issued upon the assumed conversion of capital notes | 9                       | 9      | 9      |
| Weighted average number of shares used in the computation of diluted income per share            | 23,422                  | 23,457 | 20,254 |

## NOTE 19 RELATED PARTIES

- A. The Tzivtit Insurance Ltd. ( Tzivtit Insurance ), owned by the director of the Company, serves as the Company's insurance agent and provides the Company with elementary insurance and managers insurance.

In respect of these insurance services, Tzivtit Insurance is entitled to receive commissions at various rates, paid by the insurance company (which is not considered a related party).

With respect to basic insurance policies, and directors and offices insurance policies, the Company pays US\$ 225 thousand and US\$ 256 thousand, respectively, per annum.

- B. In February 2003, an agreement was signed between the Company and A. Sheratzky Holdings Ltd., a wholly-owned and controlled company belonging to Mr. Izzy Sheratzky, Chairman of the Company's Board of Directors. The agreement includes,

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among other things, the cost of Mr. Izzy Sheratzky's monthly employment in an amount of NIS 85,500 (US\$ 20,800), entertainment expenses, car maintenance expenses, cellular phone, and entitlement to participate in the profits of the Company in an amount equal to 5% of the pretax income of the Company, plus the share of the Company in the income or losses of affiliated companies, on the basis of the audited consolidated financial statements.

The agreement is for a two-year period, with automatic two-year extensions, unless either of the parties gives 180-day advance notice of its intention to terminate the agreement.

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### ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

##### NOTE 19 RELATED PARTIES (cont.)

- C. On September 5, 2002, the Company entered into independent contractor agreements with A. Sheratzky Holdings and each of Eyal Sheratzky and Nir Sheratzky (the Co-CEOs of the Company), pursuant to which A. Sheratzky Holdings will provide management services to the Company through Eyal Sheratzky and Nir Sheratzky in consideration of monthly payments in the amount of NIS 48,892 and NIS 49,307 (US\$ 11,900 and US\$ 12,000), respectively, in addition to providing each of them a company car and reimbursement of certain business expenses. In January 2004, changes in the employment terms of the two Co-CEOs of the Company were approved, whereby each would be entitled to an annual bonus equal to 1% of the pretax income of the Company, plus the share of the Company in the income or losses of affiliated companies, on the basis of the audited consolidated financial statements.

The aggregate amounts paid to A. Sheratzky Holdings in 2005, 2006 and 2007 (including with respect to B. above), were approximately US\$ 1,480,000, US\$ 2,581,000 and US\$ 2,855,000, respectively (all numbers include value added tax).

- D. In March 1998, an agreement was approved with an interested party, Prof. Yehuda Kahane, for financial consulting, whereby the Company would pay the consultant monthly consulting fees of NIS 4,000 (US\$ 900), linked to the Israeli Consumer Price Index in respect of January 1998. In May 2003, the Company approved an increase in the consideration paid, to a total cost of NIS 15,000 (US\$ 3,370) a month, linked to the Israeli Consumer Price Index. The aggregate amount paid to Professor Kahane in each of the years 2006 and 2005 was approximately US\$ 47,000 and US\$ 50,800 in 2007.
- E. On January 23, 2007, the Company's subsidiary, E-Com Global Electronic Commerce Ltd. signed an agreement with Gil Sheratzky for the employment of Mr. Sheratzky as CEO of that company, in consideration of monthly payments in the amount of NIS 25,000 or US\$ 5,610, in addition to providing him a company car, managers insurance and education fund contribution (as customary in Israel) and reimbursement of certain business expenses. In his position, Mr. Sheratzky will report to the CEO. The compensation paid to Gil Sheratzky includes a bonus in an amount equal to 2% of the annual increase in that company's profits before tax (up to a maximum amount of 1% of that company's profits before tax), based on its audited consolidated financial statements for the relevant year, beginning January 1, 2007.

##### NOTE 20 SEGMENT REPORTING

###### A. General information:

The operations of the Company are conducted through two different core activities: Location-Based Services and Wireless Communications Products. These activities also represent the reportable segments of the Company.

The reportable segments are viewed and evaluated separately by Company management, since the marketing strategies, processes and expected long term financial performances of the segments are different.

Commencing in 1999 and ending in March 2005, the Company, through its subsidiary, Ituran Cellular Communications Ltd., was engaged in the installation of hands-free equipment in cars, and the sale of cellular lines and equipment under an exclusivity agreement with Partner Communications Co. Ltd. In view of the fact that, as of April 1, 2005, this activity is no longer material, it ceased being a reportable segment and is presented below as Other .

**Location-based services:**

The location-based services segment consists predominantly of regionally-based stolen vehicle recovery (SVR) services, fleet management services and value-added services comprised of personal advanced locater services and concierge services.

The Company provides location-based services in Israel, Brazil, Argentina and the United States.

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)****NOTE 20 SEGMENT REPORTING (cont.)****A. General information (cont.):****Wireless communications products:**

The wireless communications product segment consists of short and medium range two-way machine-to-machine wireless communications products that are used for various applications, including automatic vehicle location, automated meter reading and automatic vehicle identification. The Company sells products to customers in Israel, Argentina, Brazil, the United States, China and Korea.

**B. Information about reported segment profit or loss and assets:**

| (in thousands)                      | US dollars              |                                  |       |         |
|-------------------------------------|-------------------------|----------------------------------|-------|---------|
|                                     | Location-based services | Wireless communications products | Other | Total   |
| <b>Year ended December 31, 2005</b> |                         |                                  |       |         |
| Revenues                            | 44,128                  | 43,806                           | 2,192 | 90,126  |
| Operating income                    | 13,024                  | 6,666                            | 232   | 19,922  |
| Assets                              | 124                     | 19,406                           | 189   | 19,719  |
| Goodwill                            | 1,602                   | 900                              | 298   | 2,800   |
| Expenditures for assets             | -                       | 714                              | -     | 714     |
| Depreciation and amortization       | -                       | 200                              | 53    | 253     |
| <b>Year ended December 31, 2006</b> |                         |                                  |       |         |
| Revenues                            | 54,048                  | 50,004                           | -     | 104,052 |
| Operating income                    | 16,648                  | 8,084                            | -     | 24,732  |
| Assets                              | 418                     | 33,835                           | 88    | 34,341  |
| Goodwill                            | 1,675                   | 2,607                            | 254   | 4,536   |
| Expenditures for assets             | -                       | 2,459                            | -     | 2,459   |
| Depreciation and amortization       | -                       | 357                              | -     | 357     |
| <b>Year ended December 31, 2007</b> |                         |                                  |       |         |
| Revenues                            | 64,634                  | 60,204                           | -     | 124,838 |
| Operating income                    | 16,227                  | 56,272 <sup>(*)</sup>            | -     | 72,499  |

US dollars

|                               |       |       |    |                      |
|-------------------------------|-------|-------|----|----------------------|
| Assets                        | 743   | 7,048 | 98 | 7,889 <sup>(*)</sup> |
| Goodwill                      | 4,273 | 5,358 | -  | 9,631 <sup>(*)</sup> |
| Expenditures for assets       | 2,251 | 631   | -  | 2,882                |
| Depreciation and amortization | 57    | 500   | -  | 557                  |

(\*) Including an amount of US\$ 50,107 thousand in respect of a capital gain on the sale of a subsidiary. See Note 1.A.1.d.

**C. Information about reported segment profit or loss and assets:**

The evaluation of performance is based on income from operations of each of the reportable segments.

Accounting policies of the segments are the same as those described in the accounting policies applied in the financial statements.

Due to the nature of the reportable segments, there have been no inter-segment sales or transfers during the reported periods.

Financing expenses, net, other expenses, net, taxes on income, minority interests and the share of the Company in losses of affiliated companies were not allocated to the reportable segments, since these items are carried and evaluated on the enterprise level.

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 20 SEGMENT REPORTING (cont.)**

**D. Reconciliations of reportable segment revenues, profit or loss, and assets, to the enterprise s consolidated totals:**

| (in thousands)   | US dollars              |                       |                       |
|--|-------------------------|-----------------------|-----------------------|
|  | Year ended December 31, |                       |                       |
|  | 2007                    | 2006                  | 2005                  |
| <b>Total revenues of reportable segment and consolidated revenues</b>    | 124,838                 | 104,052               | 90,126                |
| <b>Operating income</b>  |                         |                       |                       |
| Total operating income for reportable segments                           | 72,499                  | 24,732                | 19,922                |
| Unallocated amounts:   |                         |                       |                       |
| Financing income (expenses), net   | 1,227                   | 1,886                 | 906                   |
| Consolidated income before taxes on income taxes and extraordinary items | 73,726                  | 26,618                | 20,828                |
| <b>Assets</b>  |                         |                       |                       |
| Total assets for reportable segments                                     | 17,520 <sup>(*)</sup>   | 38,877 <sup>(*)</sup> | 22,519 <sup>(*)</sup> |
| Other unallocated amounts:   |                         |                       |                       |



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|   | US dollars                   |                              |                             |
|---|------------------------------|------------------------------|-----------------------------|
| Current assets  | 156,340                      | 79,501                       | 75,565                      |
| Investments in affiliated companies                         | 1,869                        | 881                          | 872                         |
| Property and equipment, net                                 | 24,152                       | 17,162                       | 8,885                       |
| Other assets  | 8,449                        | 2,423                        | 2,873                       |
| Other unallocated amounts                                   | 8,229                        | 5,995                        | 5,770                       |
| <b>Consolidated total assets (at year end)</b>              | <b>216,559</b>               | <b>144,839</b>               | <b>116,484</b>              |
| <b>Other significant items</b>                              |                              |                              |                             |
| Total expenditures for assets of reportable segments        | 2,628                        | 2,459                        | 714                         |
| Unallocated amounts   | 19,409                       | 11,567                       | 3,129                       |
| <b>Consolidated total expenditures for assets</b>           | <b>22,041<sup>(**)</sup></b> | <b>14,026<sup>(**)</sup></b> | <b>3,843<sup>(**)</sup></b> |
| Total depreciation and amortization for reportable segments | 557                          | 357                          | 253                         |
| Unallocated amounts   | 7,523                        | 3,851                        | 3,088                       |
| <b>Consolidated total depreciation and amortization</b>     | <b>8,080</b>                 | <b>4,208</b>                 | <b>3,341</b>                |

(\*) Including goodwill.

(\*\*) Including long-lived assets allocated to segments acquired through acquisition of subsidiaries.

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**NOTE 20 SEGMENT REPORTING (cont.)**

**E. Geographic information**

| (in thousands)  | Revenues       |                      |               |
|-----------------|----------------|----------------------|---------------|
|                 | 2007           | December 31,<br>2006 | 2005          |
| Israel          | 57,283         | 39,587               | 40,622        |
| United States   | 19,825         | 19,914               | 13,686        |
| Brazil          | 33,125         | 25,821               | 21,015        |
| Argentina       | 10,206         | 9,852                | 9,063         |
| China and Korea | 4,399          | 8,878                | 5,740         |
| <b>Total</b>    | <b>124,838</b> | <b>104,052</b>       | <b>90,126</b> |

| (in thousands) | Property and equipment, net |                      |              |
|----------------|-----------------------------|----------------------|--------------|
|                | 2007                        | December 31,<br>2006 | 2005         |
| Israel         | 4,804                       | 4,658                | 3,630        |
| United States  | 128                         | 353                  | 687          |
| Brazil         | 15,008                      | 11,035               | 2,993        |
| Argentina      | 4,500                       | 3,063                | 2,594        |
| <b>Total</b>   | <b>24,440</b>               | <b>19,109</b>        | <b>9,904</b> |

Revenues were attributed to countries based on customer location.

Property and equipment were classified based on major geographic areas in which the Company operates.

#### F. Major customers

During 2005, 2006 and 2007, sales to a certain single customer amounted to 9.26%, 12.7% and 10.8%, respectively, of the total revenues. Apart from this customer, there were no sales exceeding 10% of total revenues during the reported periods.

### NOTE 21 FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT

#### A. Concentrations of credit risks

Most of the Group's cash and cash equivalents and short-term investments (including investments in marketable securities), as of December 31, 2006 and 2007, were deposited with major Israeli banks. The Company is of the opinion that the credit risk in respect of these balances is immaterial.

Most of the Group's sales are made in Israel, South America and the United States, to a large number of customers, mainly to insurance companies. Accordingly, the Group's trade receivables do not represent a substantial concentration of credit risk.

One of the subsidiaries of the Company performed under long-term contracts with several unrelated parties. At the time of initiation, the subsidiary checks the credit worthiness of the party to each contract, but generally does not require collateral. However, in certain circumstances, the Company or the subsidiary may require a letter of credit, other collateral, or additional guarantees of advance payment.

On December 31, 2007, the Company sold this subsidiary. See Note 1.A.1.d.

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

### NOTE 21 FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (cont.)

#### B. Fair value of financial instruments

The fair value of the financial instruments included in the working capital of the Group (cash and cash equivalents, investment in marketable securities, accounts receivable, accounts payable and other current liabilities) approximates their carrying value, due to the short-term maturity of such instruments.

As the counterparties to the derivatives transactions are Israeli banks, the Company considers the inherent credit risks remote.

**C. Foreign exchange risk management**

The Group operates internationally, which gives rise to exposure to market risks mainly from changes in exchange rates of foreign currencies in relation to the functional currency.

From time to time, the Company enters into foreign currency forward transactions in order to protect itself against the risk that the eventual cash flows resulting from anticipated transactions (mainly from subscription fees to be received), denominated in currencies other than the functional currency, will be affected by changes in exchange rates. The Company has certain involvement with derivative financial instruments for trading purposes.

As of December 31, 2007 and 2006, the Company was not party to foreign currency derivatives that were designated and accounted as hedging instruments under FAS No. 133.

**NOTE 22 SUBSEQUENT EVENTS AFTER BALANCE SHEET DATE**

See Note 12.D.2.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders of

**Iturán Argentina S.A.**

We have audited the balance sheets of Iturán Argentina S.A. (the Company) as of December 31, 2007 and 2006 and the related statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and 2006 and the results of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Gustavo R. Chesta (Partner)  
Estudio Urien & Asociados  
Mazars Argentina  
February 8, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Ituran Argentina S.A.

Introductory Paragraph:

We have audited management's assessment, included in the accompanying (Management's Report on Internal Control), that Ituran Argentina S.A. maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). The Ituran Argentina S.A. management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

Scope Paragraph:

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition Paragraph:

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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### Inherent Limitations Paragraph:

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### Opinion Paragraph:

In our opinion, management's assessment that Ituran Argentina S.A. maintained effective internal control over financial reporting as of December 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control -Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Also, in our opinion, Ituran Argentina S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ).

### Explanatory Paragraph:

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Ituran Argentina S.A. as of December 31, 2007 and 2006, and the related statements of income stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007, and our report dated February 8, 2008, expressed an unqualified opinion on those financial statements.

### Signed by:

Gustavo R. Chesta (Partner)  
Mazars - Argentina  
February 8, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders of Teleran Holding Ltda. - Brazilian entity:

We have audited the accompanying consolidated balance sheets of Teleran Holding Ltda. (a Limited Liability Company) and its subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company (and its subsidiaries) as of December 31, 2007 and 2006 and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Teleran Holding Ltda.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 27, 2008 expressed an adverse opinion on the effectiveness of its internal control over financial reporting because of the existence of material weaknesses.

São Paulo, June 27, 2008.

Auditores Independentes  
José André Viola Ferreira  
Partner

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**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eli Kamer, as Chief Financial Officer of Ituran Location and Control Ltd. (the Company), certify, pursuant to 18 U.S.C. § 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The accompanying Amendment No. 3 to the Annual Report on Form 20-F for the fiscal year ended December 31, 2007 as filed with the U.S. Securities and Exchange Commission (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 19, 2009

/s/ Eli Kamer

Eli Kamer  
Chief Financial Officer

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**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eyal Sheratzky, as Co-Chief Executive Officer of Ituran Location and Control Ltd. (the Company), certify, pursuant to 18 U.S.C. § 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The accompanying Amendment No. 3 to the Annual Report on Form 20-F for the fiscal year ended December 31, 2007 as filed with the U.S. Securities and Exchange Commission (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 19, 2009

/s/ Eyal Sheratzky

Eyal Sheratzky  
Co-Chief Executive Officer

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**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nir Sheratzky, as Co-Chief Executive Officer of Ituran Location and Control Ltd. (the Company), certify, pursuant to 18 U.S.C. § 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The accompanying Amendment No. 3 to the Annual Report on Form 20-F for the fiscal year ended December 31, 2007 as filed with the U.S. Securities and Exchange Commission (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 19, 2009

/s/ Nir Sheratzky

Nir Sheratzky  
Co-Chief Executive Officer

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### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

#### PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eyal Sheratzky, certify that:

1. I have reviewed this annual report on Form 20-F of Ituran Location and Control Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: May 19, 2009

/s/ Eyal Sheratzky

Eyal Sheratzky  
Co-Chief Executive Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nir Sheratzky, certify that:

1. I have reviewed this annual report on Form 20-F of Ituran Location and Control Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: May 19, 2009

/s/ Nir Sheratzky

Nir Sheratzky  
Co-Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eli Kamer, certify that:

1. I have reviewed this annual report on Form 20-F of Ituran Location and Control Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: May 19, 2009

/s/ Eli Kamer

Eli Kamer  
Chief Financial Officer

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 3 on its behalf.

**ITURAN LOCATION AND CONTROL LTD.**  
(Registrant)

By: /s/ Eyal Sheratzky

Eyal Sheratzky  
Co-Chief Executive Officer

May 19, 2009

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