

Ituran Location & Control Ltd.  
Form 20-F/A  
September 07, 2011

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F/A

(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

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<br>which registered |
|---|--|
| Ordinary Shares, par value NIS<br>0.331/3 per share | Nasdaq Global Select Market                  |

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:

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:

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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

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

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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 preceding 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 has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required submit and post such files)

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 has used to prepare the financial statements included in this filing:

US GAAP  International Financial Reporting Standards as issued by the Accounting Standards Board  other

If "other" has been checked in response to the previous question, indicate by check mark which financial statements the registrant 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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

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, 2010 with the Securities and Exchange Commission on June 28, 2011 (the "Form 20-F"). On August 1, 2011, the Registrant filed Amendment No. 1 to the Form 20-F (the "First Amendment").

This Amendment No. 2 to the Form 20-F, as amended by the First Amendment, is being filed by the Company solely for the purpose of correcting a clerical error in the report of independent registered public accounting firm of Estudio Urien & Asoc. (the "Auditing Firm") dated February 14, 2011, as filed within Item 15 of the Form 20-F as amended and in the report of the Auditing Firm as filed within Item 18 of the Form 20-F as amended. The audit reports and financial statements of the Company are hereby replaced in their entirety.

Other than as described above, this Amendment No. 2 speaks as of the filing date of the Form 20-F and does not, and does not purport to, amend, update or restate any other information or disclosure included in the Form 20-F, as amended.

### ITEM 15 CONTROLS AND PROCEDURES

#### (A) Disclosure Controls and Procedures

Our co-chief executive officers 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, 2010, 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 co-chief executive officers 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, 2010. 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).

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, 2010, 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, 2010. Based on such assessment, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

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, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

ITURAN LOCATION AND CONTROL LTD. AND SUBSIDIARIES

Fahn Kanne &  
Co.  
Head Office  
Levinstein  
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23 Menachem  
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We have audited Ituran Location and Control Ltd. (the “Company”) (and Subsidiaries) internal control over financial reporting as of December 31, 2010, 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 Ituran Argentina S.A. (Ituran Argentina), a wholly-owned subsidiary of the Company, whose financial statements reflect total assets and revenues constituting 7.6 and 7.3 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. Ituran Argentina's internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to Ituran Argentina's internal control over financial reporting in relation to Ituran Location and Control Ltd. taken as a whole, is based solely on the report of other auditors.

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.

Certified Public Accountants

Fahn Kanne & Co. is the Israeli member firm of Grant Thornton International Ltd

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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.

In our opinion, based on our audit and the report of other auditors, Ituran Location and Control Ltd. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ituran Location and Control Ltd. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2010 and our report dated June 28, 2011, expressed an unqualified opinion.

FAHN KANNE & CO.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
June 28, 2011

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



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, 2010, 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, based on our audit, Ituran Argentina S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010 and 2009, based on criteria established in Internal Control-Integrated Framework issued by 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, 2010 and 2009, and the related statements of income, changes in equity and cash flows for each of the three-years in the period ended December 31, 2010, and our reports dated February 14, 2011, expressed an unqualified opinion.

Signed by:

Gustavo R. Chesta (Partner)  
Estudio Urien & Asociados  
Argentina  
February 14, 2011

## 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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## ITEM 19. EXHIBITS

| Description of Document  |
|--|
| 1.1 Amended and Restated Articles of Association of the Company (1)  |
| 1.2 Form of Memorandum of Association of the Company (English Translation) (1)   |
| 2.1 Shareholders Agreement, dated May 18, 1998, by and between Moked Ituran Ltd., Moked Services, Information, Management, Investments, Yehuda Kahane Ltd., F.K. Generators and Equipment Ltd., Gideon Ezra, Ltd., Efraim Sheratzky, and Yigal Shani (English translation). (1)  |
| 2.2 Form of Amendment to Shareholders Agreement dated May 18, 1998, by and between Moked Ituran Ltd., Moked Services, Information, Management and Investments, Yehuda Kahane Ltd., F.K. Generators and Equipment Ltd., Gideon Ezra, Ltd., Efraim Sheratzky and/or T.S.D. Holdings Ltd., and Yigal Shani and/or G.N.S. Holdings Ltd. (English translation). (1) |
| 4.1 Agreement dated January 23, 2007, between E-Com Global Electronic Commerce Ltd. and Gil Sheratzky (English translation) (4)  |
| 4.2 Agreement with an Independent Contractor, dated February 1, 2003, by and between the Registrant, Izzy Sheratzky, and A. Sheratzky Holdings Ltd. (English translation). (1)   |
| 4.3 Agreement with an Independent Contractor, dated September 5, 2002, by and between the Registrant, Eyal Sheratzky, and A. Sheratzky Holdings Ltd., addendum thereof, dated October 28, 2002, and resolution of the Registrant's shareholders dated February 24, 2004 (English translation). (1)   |
| 4.4 Agreement with an Independent Contractor, dated September 5, 2002, by and between the Registrant, Nir Sheratzky, and A. Sheratzky Holdings Ltd., addendum thereof, dated October 28, 2002, and resolution of the Registrant's shareholders dated February 24, 2004 (English translation). (1)  |
| 4.5 Addendum No. 2 dated December 13, 2007 (effective January 8, 2003) and Addendum No. 3 dated April 6, 2011 to the agreement between the Company and A. Sheratzky Holdings Ltd., and Nir Sheratzky (4)   |
| 4.6 Addendum No. 2 dated December 13, 2007 (effective January 8, 2003) and Addendum No. 3 dated April 6, 2011 to the agreement between the Company and A. Sheratzky Holdings Ltd., and Eyal Sheratzky (4)  |
| 4.7 Addendum No. 1 dated April 6, 2011 to the agreement between the Company and A. Sheratzky Holdings Ltd. and Izzy Sheratzky (4)  |
| 4.8 Consulting Services Agreement, dated March 23, 1998, by and between the Registrant and Yehuda Kahane Ltd., including addendum thereof, as of May 25, 2003 (English translation). (1)   |

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- 4.9 Unprotected Lease Agreement, dated February 7, 2002, by and between Mofari Ltd. and the Registrant and addendum thereof, dated February 19, 2002 (English translation) (1)
  - 4.10 Lease Agreement, dated May 29, 2002, by and between Rinat Yogev Nadlan and Ituran Cellular Communication Ltd. (English translation). (1)
  - 4.11 Deed of undertaking and indemnification, dated November 12, 2000, executed by the Registrant to the benefit of Bank Hapoalim, B.M. on behalf of Ituran Localizacao e Controle (English translation). (1)
  - 4.12 Indenture, dated August 6, 2001, by the Registrant for the benefit of Bank Hapoalim, B.M. (English translation). (1)
  - 4.13 Indenture, dated January 29, 2002, by the Registrant for the benefit of Bank Hapoalim, B.M. (floating lien) (English translation). (1)
  - 4.14 Indenture, dated January 29, 2002, by the Registrant for the benefit of Bank Hapoalim, B.M. (English translation). (1)
  - 4.15 Deed of undertaking for repayment of loan, dated May 20, 2004, made by the Registrant in favor of Bank Hapoalim, B.M. (English translation). (1)
  - 4.16 Lease Agreement, dated March 16, 2000, by and between Teleran Localizacao e Controle Ltda. and T4U Holding B.V., and addendum thereof, dated May 31, 2000. (1)
  - 4.17 Lease Agreement, dated November 23, 2001, by and between Ituran de Argentina S.A. and El Sr. Mario Galuppo (English translation). (1)
  - 4.18 Lease Agreement, dated September 7, 2001, by and between Ituran de Argentina S.A. and El Sr. Gustavo Eduardo Bazan (English translation). (1)
  - 4.19 Form of Directors' Letter of Indemnity (English translation). (1)
  - 4.20 Agreement with Mapa dated April 26, 2007 (2)
  - 4.21 Share Purchase Agreement between dated as of November 15, 2007 by and between Ituran Location and Control Ltd., Telematics Wireless Ltd. and ST Electronics (Info-Comm Systems) Pte Ltd. (3)
  - 4.22 Frame Product and Services Purchase Agreement dated January 1, 2008 by and between Ituran Location and Control Ltd. and Telematics Wireless Ltd. (3) \*
  - 8 List of significant subsidiaries (4)
  - 12.1 Certification by chief executive officer as required by Rule 13a-14(a) \*\*
  - 12.2 Certification by person serving in the capacity of chief financial officer as required by Rule 13a-14(a). \*\*
  - 13 Certification by co-chief executive officers and the person serving in the capacity of chief financial officer as required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.\*\*
  - 15.1 Letter of Ernst & Young Terco Auditores Independentes S.S. to Securities and Exchange Commission dated June 27, 2011(4)
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- (1) Incorporated by reference to Registrant's Registration Statement on Form F-1 (File No. 333-128028) filed on September 23, 2005.
  - (2) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2006 and incorporated herein by reference.
  - (3) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2007 and incorporated herein by reference.
  - (4) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference.

\* Certain portions of this exhibit have been omitted pursuant to an order granting confidential treatment by the United States Securities and Exchange Commission. The omitted non-public information has been filed with the United States Securities and Exchange Commission

\*\* Filed herewith

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ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements  
as of December 31, 2010

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ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements  
as of December 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE STOCKHOLDERS OF  
ITURAN LOCATION AND CONTROL LTD.

Fahn Kanne & Co.  
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We have audited the accompanying consolidated balance sheets of Ituran Location and Control Ltd. and Subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2010. These 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 financial statements of Ituran Argentina S.A. (Ituran Argentina), a subsidiary of the Company, which statements reflect total assets of 7.6% as of December 31, 2010, and total revenues of 7.3% for the year ended December 31, 2010, of the related consolidated totals. We also did not audit the financial statements of Teleran Holding Ltda. (Teleran) and Ituran Argentina, subsidiaries of the Company, which statements reflect total assets of 29% as of December 31, 2009, and total revenues of 41% and 33%, respectively, for the two years ended December 31, 2009 and 2008, of the related consolidated totals. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for Teleran and Ituran Argentina, is based solely on the reports of the other 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 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 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 auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ituran Location and Control Ltd. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

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, 2010, based on criteria established



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in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 28, 2011 expressed an unqualified opinion.

FAHN KANNE & CO.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
June 28, 2011

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## ITURAN LOCATION AND CONTROL LTD.

## CONSOLIDATED BALANCE SHEETS

| (in thousands)   | US dollars     |                      |
|--|----------------|----------------------|
|  | 2010           | December 31,<br>2009 |
| <b>Current assets</b>  |                |                      |
| Cash and cash equivalents                                    | 46,674         | 60,813               |
| Deposit in escrow (Note 12A1)                                | 5,238          | 5,227                |
| Investments in marketable securities                         | 1,509          | 4,213                |
| Accounts receivable (net of allowance for doubtful accounts) | 31,161         | 24,906               |
| Other current assets (Note 2)                                | 12,770         | 6,136                |
| Inventories (Note 3)   | 8,501          | 7,924                |
|  | 105,853        | 109,219              |
| <b>Long-term investments and other assets</b>                |                |                      |
| Deposit in Escrow (Note 12A1)                                | 7,858          | 7,840                |
| Investments in affiliated company (Note 4A)                  | 220            | 205                  |
| Investments in other companies (Note 4B)                     | 86             | 80                   |
| Other non-current assets (Note 5)                            | 3,709          | 1,742                |
| Loan to former employee                                      | 558            | 558                  |
| Deferred income taxes (Note 17)                              | 4,934          | 5,653                |
| Funds in respect of employee rights upon retirement          | 4,498          | 3,606                |
|  | 21,863         | 19,684               |
| Property and equipment, net (Note 6)                         | 46,147         | 42,262               |
| Intangible assets, net (Note 7)                              | 4,402          | 5,064                |
| Goodwill (Note 8)  | 10,079         | 9,639                |
| <b>Total assets</b>  | <b>188,344</b> | <b>185,868</b>       |

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

## ITURAN LOCATION AND CONTROL LTD.

## CONSOLIDATED BALANCE SHEETS

| (in thousands, except share data)                                       | US dollars |           |
|---|------------|-----------|
|   | 2010       | 2009      |
| <b>Current liabilities</b>  |            |           |
| Credit from banking institutions (Note 9)                               | 98         | 6         |
| Accounts payable  | 13,087     | 13,459    |
| Deferred revenues   | 6,714      | 5,486     |
| Litigation obligation (Note 12A2)                                       | 21,852     | -         |
| Other current liabilities (Note 10)                                     | 17,482     | 17,443    |
|   | 59,233     | 36,394    |
| <b>Long-term liabilities</b>  |            |           |
| Long term Loans (Note 11)   | 233        | -         |
| Liability for employee rights upon retirement                           | 6,472      | 5,457     |
| Provision for contingencies   | 5,324      | 3,071     |
| Deferred revenues   | 873        | -         |
| Deferred income taxes (Note 17)   | 1,046      | 1,209     |
|   | 13,948     | 9,737     |
| <b>Contingent liabilities, liens and guarantees (Note 12)</b>           |            |           |
| Capital Notes (Notes 13 and 12A2)                                       | -          | 5,894     |
| <b>Equity:</b>  |            |           |
| Stockholders' equity (Note 14)  |            |           |
| Share capital – ordinary shares of NIS 0.33 par value:                  | 1,983      | 1,983     |
| Authorized – December 31, 2010 and 2009 – 60,000,000 shares             |            |           |
| Issued and outstanding – December 31, 2010 and 2009 – 23,475,431 shares |            |           |
| Additional paid- in capital   | 71,927     | 73,554    |
| Accumulated other comprehensive income                                  | 23,226     | 18,036    |
| Retained earning  | 43,689     | 66,607    |
| Treasury stock at cost – December 31, 2010 and 2009 – 2,507,314 shares  | (30,054 )  | (30,054 ) |
| Stockholders' equity  | 110,771    | 130,126   |
| Non-controlling interests   | 4,392      | 3,717     |
| Total equity  | 115,163    | 133,843   |
| Total liabilities and equity  | 188,344    | 185,868   |

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

## ITURAN LOCATION AND CONTROL LTD.

## CONSOLIDATED STATEMENTS OF INCOME

| (in thousands except per share data)   | US dollars              |               |               |
|--|-------------------------|---------------|---------------|
|  | Year ended December 31, |               |               |
|  | 2010                    | 2009          | 2008          |
| <b>Revenues:</b>   |                         |               |               |
| Location-based services  | 108,101                 | 91,574        | 86,051        |
| Wireless communications products   | 39,724                  | 29,807        | 46,565        |
|  | 147,825                 | 121,381       | 132,616       |
| <b>Cost of revenues:</b>   |                         |               |               |
| Location-based services  | 40,820                  | 33,377        | 31,386        |
| Wireless communications products   | 34,354                  | 27,445        | 37,611        |
|  | 75,174                  | 60,822        | 68,997        |
| <b>Gross profit</b>  | <b>72,651</b>           | <b>60,559</b> | <b>63,619</b> |
| Research and development expenses  | 481                     | 372           | 408           |
| Selling and marketing expenses   | 8,675                   | 7,684         | 9,628         |
| General and administrative expenses  | 31,671                  | 27,213        | 27,505        |
| Other expenses, net (Note 15)  | 1,156                   | 908           | 418           |
| Operating income   | 30,668                  | 24,382        | 25,660        |
| Other expenses (Notes 12A2 and 4B2)  | (14,745 )               | -             | (1,617 )      |
| Financing income (expenses), net (Note 16)   | 139                     | 1,604         | (166 )        |
| Income before income tax   | 16,062                  | 25,986        | 23,877        |
| Income tax (Note 17)   | (6,286 )                | (7,139 )      | (7,896 )      |
| Share in income (losses) of affiliated companies, net  | (3 )                    | 13            | (25 )         |
| Net income for the year  | 9,773                   | 18,860        | 15,956        |
| Less: Net income attributable to non-controlling interest                                    | (1,071 )                | (668 )        | (1,074 )      |
| Net income attributable to the Company   | 8,702                   | 18,192        | 14,882        |
| <b>Basic and diluted earnings per share attributable to Company's stockholders (Note 18)</b> | <b>0.42</b>             | <b>0.87</b>   | <b>0.69</b>   |
| <b>Basic and diluted weighted average number of shares outstanding</b>                       |                         |               |               |
| Basic  | 20,968                  | 20,968        | 21,431        |
| Diluted  | 20,968                  | 20,977        | 21,440        |

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

## ITURAN LOCATION AND CONTROL LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands)

## COMPANY STOCKHOLDERS

|  | Ordinary shares  |                      | Accumulated                |                            | Retained earnings | Treasury stock | Non-controlling interests | Total     |
|--|------------------|----------------------|----------------------------|----------------------------|-------------------|----------------|---------------------------|-----------|
|  | Number of shares | Share capital amount | Additional paid in capital | other comprehensive income |                   |                |                           |           |
| US dollars   |                  |                      |                            |                            |                   |                |                           |           |
| Balance as of January 1, 2008  | 23,476           | 1,983                | 73,554                     | 13,715                     | 66,239            | (5,900 )       | 2,860                     | 152,451   |
| Changes during 2008:   |                  |                      |                            |                            |                   |                |                           |           |
| Net income   | -                | -                    | -                          | -                          | 14,882            | -              | 1,074                     | 15,956    |
| Losses on translation of non-Israeli currency financial statements of subsidiaries and on translation of the functional currency to the reporting currency | -                | -                    | -                          | (1,228 )                   | -                 | -              | (456 )                    | (1,684 )  |
| Unrealized losses from available for sale marketable securities  | -                | -                    | -                          | (396 )                     | -                 | -              | -                         | (396 )    |
| Total comprehensive income   |                  |                      |                            |                            |                   |                |                           | 13,876    |
| Purchase of Company shares by the Company  | -                | -                    | -                          | -                          | -                 | (24,154)       | -                         | (24,154 ) |
| Dividend paid to non-controlling interests   | -                | -                    | -                          | -                          | -                 | -              | (354 )                    | (354 )    |
| Dividend paid  | -                | -                    | -                          | -                          | (29,140)          | -              | -                         | (29,140 ) |
| Balance as of January 1, 2009  | 23,476           | 1,983                | 73,554                     | 12,091                     | 51,981            | (30,054)       | 3,124                     | 112,679   |
| Changes during 2009:   |                  |                      |                            |                            |                   |                |                           |           |
| Net income   | -                | -                    | -                          | -                          | 18,192            | -              | 668                       | 18,860    |
| Gains on translation of non-Israeli currency financial statements of subsidiaries and on translation of the functional currency to the reporting currency  | -                | -                    | -                          | 5,658                      | -                 | -              | 94                        | 5,752     |

|  |        |       |        |        |          |          |        |          |
|--|--------|-------|--------|--------|----------|----------|--------|----------|
| Losses in respect of derivative financial instruments designated for cash flow hedge, net of related taxes | -      | -     | -      | (122 ) | -        | -        | -      | (122 )   |
| Unrealized gains from available for sale marketable securities   | -      | -     | -      | 180    | -        | -        | -      | 180      |
| Reclassification adjustment on available-for-sale  | -      | -     | -      | 229    | -        | -        | -      | 229      |
| Total comprehensive income   | -      | -     | -      | -      | -        | -        | -      | 24,899   |
| Dividend paid to non-controlling interest  | -      | -     | -      | -      | -        | -        | (169 ) | (169 )   |
| Dividend paid  | -      | -     | -      | -      | (3,566 ) | -        | -      | (3,566 ) |
| Balance as of December 31, 2009  | 23,476 | 1,983 | 73,554 | 18,036 | 66,607   | (30,054) | 3,717  | 133,843  |

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

## ITURAN LOCATION AND CONTROL LTD.

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

(in thousands)

## COMPANY STOCKHOLDERS

Ordinary shares

|   | Number<br>of<br>shares | Share<br>capital<br>amount | Additional<br>paid in<br>capital | Accumulated<br>other<br>comprehensive<br>income | Retained<br>earnings | Treasury<br>stock | Non-controlling<br>interests | Total     |
|---|------------------------|----------------------------|----------------------------------|---|----------------------|-------------------|------------------------------|-----------|
| US dollars  |                        |                            |                                  |   |                      |                   |                              |           |
| Balance as of<br>January 1, 2010  | 23,476                 | 1,983                      | 73,554                           | 18,036  | 66,607               | (30,054)          | 3,717                        | 133,843   |
| Changes during<br>2010:   |                        |                            |                                  |   |                      |                   |                              |           |
| Net income  | -                      | -                          | -                                | -   | 8,702                | -                 | 1,071                        | 9,773     |
| Gains on translation<br>of non-Israeli<br>currency financial<br>statements of<br>subsidiaries and on<br>translation of the<br>functional currency<br>to the reporting<br>currency | -                      | -                          | -                                | 5,068   | -                    | -                 | 227                          | 5,295     |
| Acquisition of non<br>controlling interests   | -                      | -                          | (1,627 )                         | -   | -                    | -                 | (623 )                       | (2,250 )  |
| Losses in respect of<br>derivative financial<br>instruments<br>designated for cash<br>flow hedge, net of<br>related taxes   | -                      | -                          | -                                | (103 )  | -                    | -                 | -                            | (103 )    |
| Realized losses in<br>respect of derivative<br>instruments<br>designated for cash<br>flow hedge, net of<br>related taxes  | -                      | -                          | -                                | 225   | -                    | -                 | -                            | 225       |
| Total<br>comprehensive<br>income  |                        |                            |                                  |   |                      |                   |                              | 12,940    |
| Dividend paid   | -                      | -                          | -                                | -   | (31,620)             | -                 | -                            | (31,620 ) |
| Balance as of<br>December 31, 2010  | 23,476                 | 1,983                      | 71,927                           | 23,226  | 43,689               | (30,054)          | 4,392                        | 115,163   |

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

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## ITURAN LOCATION AND CONTROL LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands)  | US dollars              |           |           |
|---|-------------------------|-----------|-----------|
|   | Year ended December 31, |           |           |
|   | 2010                    | 2009      | 2008      |
| Cash flows from operating activities  |                         |           |           |
| Net income for the year   | 9,773                   | 18,860    | 15,956    |
| Adjustments to reconcile net income to net cash from operating activities:          |                         |           |           |
| Depreciation, amortization and impairment of goodwill                               | 15,875                  | 12,530    | 10,115    |
| Exchange differences on principal of deposit and loans, net                         | 839                     | 28        | 73        |
| Gains in respect of trading marketable securities                                   | (5 )                    | (1,421 )  | (2,108 )  |
| Write-off of an investment in other company   | -                       | -         | 1,617     |
| Increase in liability for employee rights upon retirement                           | 667                     | 676       | 615       |
| Share in losses (gains) of affiliated companies, net                                | 3                       | (13 )     | 25        |
| Deferred income taxes   | (1,159 )                | 988       | (1,533 )  |
| Capital gains on sale of property and equipment, net                                | (299 )                  | (2 )      | (3 )      |
| Decrease (increase) in accounts receivable  | (4,669 )                | 722       | 1,218     |
| Increase in other current assets  | (3,728 )                | (1,716 )  | (1,938 )  |
| Decrease (increase) in inventories  | (73 )                   | 646       | 1,752     |
| Increase (decrease) in accounts payable   | (1,229 )                | 1,734     | (1,208 )  |
| Increase (decrease) in deferred revenues  | 1,752                   | 631       | (1,047 )  |
| Increase in other current liabilities   | 987                     | 4,063     | 3,722     |
| Litigation obligation   | 14,745                  | -         | -         |
| Net cash provided by operating activities   | 33,479                  | 37,726    | 27,256    |
| Cash flows from investment activities   |                         |           |           |
| Increase in funds in respect of employee rights upon retirement, net of withdrawals | (662 )                  | (794 )    | (250 )    |
| Capital expenditures  | (18,344 )               | (15,698 ) | (16,947 ) |
| Intangible assets expenditures  | (90 )                   | -         | -         |
| Deposit in escrow   | -                       | -         | (12,998 ) |
| Deposit   | (52 )                   | (389 )    | (369 )    |
| Proceeds from sale of property and equipment  | 1,286                   | 106       | 233       |
| Investments in available for sale marketable securities                             | -                       | (182 )    | (3,397 )  |
| Investments in marketable securities  | (2,664 )                | (34,467 ) | (33,211 ) |
| Sale of marketable securities   | 5,552                   | 60,600    | 13,420    |
| Sale of available for sale marketable securities                                    | -                       | 3,886     | -         |
| Investment in subsidiary  | -                       | -         | (354 )    |
| Proceeds from sale of subsidiary, net of direct related expenses                    | -                       | -         | 58,720    |
| Net cash provided by (used in) investment activities                                | (14,974 )               | 13,062    | 4,847     |
| Cash flows from financing activities  |                         |           |           |
| Short term credit from banking institutions, net                                    | 46                      | (316 )    | (2 )      |
| Repayment of long term loans  | (18 )                   | -         | -         |
| Acquisition of non-controlling interests  | (2,250 )                | -         | -         |
| Dividend paid   | (31,620 )               | (3,566 )  | (29,140 ) |
| Dividend paid to non-controlling interest   | -                       | (169 )    | -         |
| Purchase of treasury stock  | -                       | -         | (24,154 ) |
| Net cash used in financing activities   | (33,842 )               | (4,051 )  | (53,296 ) |

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|  |           |        |           |
|--|-----------|--------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | 1,198     | 1,565  | 5,035     |
| Net increase (decrease) in cash and cash equivalents         | (14,139 ) | 48,302 | (16,158 ) |
| Balance of cash and cash equivalents at beginning of year    | 60,813    | 12,511 | 28,669    |
| Balance of cash and cash equivalents at end of year          | 46,674    | 60,813 | 12,511    |

Supplementary information on investing activities not involving cash flows:

During the year 2010, the Company purchased property and equipment in an amount of US\$ 297 using a directly related liability.

Due to the district court decision with respect to Leonardo P.L.'s claim, the entire amount presented as Capital Notes in prior periods (\$5,894) was classified to current liabilities and presented within the balance "Litigation obligation". (See Note 12A2).

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)

Supplementary disclosure of cash flow information

| (in thousands)                    | US dollars              |            |            |
|-----------------------------------|-------------------------|------------|------------|
|                                   | Year ended December 31, |            |            |
|                                   | 2010                    | 2009       | 2008       |
| Interest paid                     | 85                      | 173        | 630        |
| Income taxes paid, net of refunds | 10,475                  | 3,466 (**) | 24,890 (*) |

(\*) Including US\$ 15,817 thousand with respect to taxes applicable to the capital gain on the sale of a subsidiary.

(\*\*) See Note 17A.

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

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF 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. Regarding the sale of the subsidiary, Telematics Wireless Ltd. (Telematics), see Note 12A1.

c. Regarding the district court decision with respect to Leonardo P.L.’s claim, see Note 12A2.

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 standards of the Financial Accounting Standards Board (“FASB”). Accordingly, assets and liabilities were translated from local currencies to U.S. dollars using yearend 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 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 of relevant currencies and the Israeli CPI:

|                 | Exchange rate<br>of one US dollar |        | Israeli<br>CPI(*) |
|-----------------|-----------------------------------|--------|-------------------|
|                 | NIS                               | Real   |                   |
| At December 31, |                                   |        |                   |
| 2010            | 3.549                             | 1.6662 | 133.89<br>points  |
| 2009            | 3.775                             | 1.7412 | 130.42<br>points  |
| 2008            | 3.802                             | 2.337  |                   |

|                                      |          |           |     |        |  |
|--------------------------------------|----------|-----------|-----|--------|--|
|                                      |          |           |     | 125.50 |  |
|                                      |          |           |     | points |  |
| Increase (decrease) during the year: |          |           |     |        |  |
| 2010                                 | (5.99 )% | (4.31 )%  | 2.7 | %      |  |
| 2009                                 | (0.71 )% | (25.49 )% | 3.9 | %      |  |
| 2008                                 | (1.14 )% | 31.94 %   | 3.8 | %      |  |

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

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

A. General (cont.)

3. Basis of presentation

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("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 may differ from the estimates and assumptions used in preparing the consolidated financial statements.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to contingencies, revenue recognition, intangible assets and valuation of goodwill.

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 are eliminated upon consolidation; profits from intercompany sales, not yet realized outside of the Group, are also eliminated. Non-controlling interests are presented in equity.

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. Deposits in escrow

Restricted cash is invested in certificates of deposit, which mature within one year and are used to ensure certain representations and warranties in connection with the sale of a subsidiary, towards the buyer. See Note 12A1.

Such deposits are presented in the balance sheets as current assets or as long-term assets based on management's assessment regarding their realization.

E. Marketable securities

The Company accounts for investments in marketable securities in accordance with ASC Topic 320-10, "Investments - Debt and Equity Securities" ("ASC Topic 320-10"). Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reassesses such determination at each balance sheet date.

As of December 31, 2010 and 2009 the investments in marketable securities covered by ASC Topic 320-10 were designated by management as trading securities.

Trading securities are stated at market value. The changes in market value are charged to financing income or expenses.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

E. Marketable securities (cont.)

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 2010 amounted to approximately US\$ 30,000 in respect of trading securities held by the Group in the reporting period (US\$ 1,321,000 and US\$ 2,311,000 in 2009 and 2008, respectively).

Debt and equity securities that were designated as available-for-sale were stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss). Realized gains and losses on sales of investments, as determined on a specific identification basis, were included in financial income, net.

F. Treasury stock

Company shares held by the Company and its subsidiary are presented as a reduction of equity, at their cost to the Company or to the subsidiary, under the caption "Treasury Stock". Gains and losses upon sale of these shares, net of related income taxes, are recorded as additional paid in capital.

G. 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 accounts receivable at December 31, 2010 and 2009 was US\$ 1,553,000 and US\$ 1,160,000, respectively.

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 first-in, first-out (FIFO); 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 interests, are accounted for by the equity method. Income on intercompany sales, not yet realized outside of the Group, was eliminated. The Company also reviews these investments for impairment whenever events indicate the carrying amount may not be recoverable.

Investments in 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 and significant influence are accounted for at cost, net of write down for any permanent decrease in value.

During 2008, the Company wrote-off its entire investment in a certain other company, in an amount of US\$ 1,617,000. See Note 4B.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

K. Derivatives

The group applies the provisions of ASC Topic 815, "Derivatives and Hedging". In accordance with ASC Topic 815, all the derivative financial instruments are recognized as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For derivative financial instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

The Company carries out transactions involving foreign exchange derivative financial instruments (mainly forward exchange contracts) which are designed to hedge the cash flows expected to be paid with respect to forecasted purchases of inventory, denominated in currencies other than the functional currency of the Company. Such transactions were designated as hedging instruments on the date that the Company entered into such derivative contracts, and qualify as cash flow hedges under ASC Topic 815.

The effective portion of the changes in fair value of the derivative instruments designated for hedging purposes are reported as "other comprehensive income" under "gains (losses) in respect of derivative instruments designated for cash flow hedge, net of related taxes", and are recognized in the statements of income when the hedged transaction realizes. During the reporting periods, the gains or losses that were recognized in earnings for hedge ineffectiveness were insignificant.

All other derivatives which do not qualify for hedge accounting, or which have not been designated as hedging instruments, 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. At December 31, 2010, the balance of such derivative instruments amounted to approximately US\$ 32,000 (asset), and approximately US\$ 819,000 were recognized in the Statement of Income during the year ended that date as losses on derivative financial instruments.

See also Note 21B for further information.

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 20%-33%)      | 6.5-33 |
| Office furniture, equipment and computers | 7-33   |
| Buildings                                 | 2.5    |

|                        |  |
|------------------------|--|
| Vehicles               | 15   |
| Leasehold improvements | Duration of the lease which is less or equal to useful life. |

M. Impairment of long-lived assets

The Group's long-lived assets are reviewed for impairment, 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 (see Note 10 with respect to the annual impairment test of goodwill). During 2010, 2009 and 2008, the Company recorded an impairment loss in an amount of US\$ 157,000, US\$ 901,000 and US\$ 415,000, respectively. See Notes 7 and 8.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

N. Income taxes

The Group accounts for income taxes in accordance with ASC Topic 740-10, "Income Taxes". According to this FASB guidance, 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.

US GAAP provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard the likelihood that the tax position may be challenged. If an uncertain tax position meets the "more-likely-than-not" threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. See also Note 17K.

The Company recognizes interest as interest expenses (among financing expenses) and penalties, if any, related to unrecognized tax benefits in its provision for income tax.

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 and is allocated to reporting units at acquisition. Goodwill is not amortized but rather tested for impairment at least annually in accordance with the provisions of ASC Topic 350, "Intangibles - Goodwill and Other". The Company performs its goodwill annual impairment test for the reporting units at December 31 of each year, or more often if indicators of impairment are present.

As required by ASC Topic 350, the Company compares the fair value of each reporting unit to its carrying value ("step 1") If the fair value exceeds the carrying value of the reporting unit net assets (including the goodwill allocated to such reporting unit), goodwill is considered not impaired, and no further testing is required. If the carrying value exceeds the fair value of the reporting unit, then the implied fair value of goodwill is determined by subtracting the fair value of all the identifiable net assets from the fair value of the reporting unit. An impairment loss is recorded for the excess, if any, of the carrying value of the goodwill allocated to the reporting unit over its implied fair value ("step 2").

Effective 2009, as required by ASC Topic 820, "Fair Value Measurements and disclosures", the Company applies assumptions that market place participants would consider in determining the fair value of each reporting unit.

In order to determine the fair value of the reporting units, the Company utilized the "income approach". According to the income approach expected future cash flows are discounted to their present value using an appropriate rate of return. Judgments and assumptions related to future cash flows (projected revenues, operating expenses, and capital expenditures), future short-term and long-term growth rates, and weighted average cost of capital, which are based on

management's internal assumptions, and believed to be similar to those of market participants and to represent both the specific risks associated with the business, and capital market conditions, are inherent in developing the discounted cash flow model.

See Notes 1M, 7 and 8, with respect to impairment of intangible assets and goodwill recorded in 2010, 2009 and 2008.

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## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

## O. Goodwill and intangible assets (cont.)

Intangible assets with finite lives 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, as follows

|               | Years |
|---------------|-------|
| GIS database  | 10    |
| Customer base | 5     |
| Brand name    | 15    |
| Other         | 3-10  |

## P. Contingencies

The Company and certain of its subsidiaries are involved in certain legal proceedings that arise from time to time in the ordinary course of our business and in connection with certain agreements with third parties. Except for income tax contingencies, the Company records accruals for contingencies to the extent that the management concludes that the occurrence is probable and that the related liabilities are estimable.

## 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 or losses 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 profits or losses.

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, 2010, 2009 and 2008, amounted to US\$ 770,000, US\$ 576,000 and US\$ 967,000, respectively.

## R. Revenue recognition

Revenues are recognized 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 SVR services subscription fees and from installation services, sold to customers within a single contractually binding arrangement were accounted for revenue recognition purposes as a single unit of accounting in accordance with ASC Topic 605-25, "Multiple Element Arrangements" since the installation services element was determined not to have a value on a stand-alone basis to the customer. Accordingly, the entire contract fee for the two deliverables is recognized ratably on a straight-line basis over the subscription period.
3. Revenues from rentals of leased equipment under operating lease are recognized over the term of the lease agreement (1-3 years).

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

R. Revenue recognition (cont.)

4. Deferred revenues include unearned amounts received from customers (mostly for the provision of installation and subscription services) but not yet recognized as revenues.

5. Sale and leaseback transactions

The Company accounts for sale and leaseback transactions in accordance with the provisions of ASC Topic 840-40, "Sale-Leaseback Transactions".

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.

2. Software Development Costs

ASC Topic 985-20, "Costs of Software to Be Sold, Leased, or 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 usually insignificant.

U. Advertising costs

Advertising costs are expensed as incurred.



Advertising expenses for the years ended December 31, 2010, 2009 and 2008 amounted to US\$ 6.6 million, US\$ 6.1 million and US\$ 7.5 million, respectively.

V.

Earnings per share

Basic earnings per share are computed by dividing net income attributable to the common shares, 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.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

W. Comprehensive income

Comprehensive income, presented in equity, includes, in addition to net income: a) translation gains (losses) of other than 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; b) unrealized gains (losses) from available for sale marketable securities; and, c) gains (losses) in respect of derivative instruments designated for cash flow hedge, net of related taxes.

X. Fair value measurements

The Company measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities (see also Note 21C). Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As such, fair value is a market based measurement that is required to be determined based on the assumptions that market participants would use to determine the price of an asset or a liability.

As a basis for considering such assumptions, the fair value accounting standard establishes the following fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 - Unobservable inputs are used when little or no market data is available. Level 3 inputs are considered as the lowest priority under the fair value hierarchy.

In determining fair value, companies are required to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as to consider counterparty credit risk in the assessment of fair value.

Regarding the fair value measurements of financial assets and liabilities and the fair value hierarchy of such measurement, see Note 21C.

The Company also measures certain non-financial assets, consisting mainly goodwill and intangible assets at fair value on a nonrecurring basis. These assets are adjusted to fair value when they are considered to be impaired. The fair value measurement of the non-financial assets is classified as level 3. See also Notes 10, 7 and 8.

Y. Deferred installation expenses

Direct installation expenses incurred at the inception of specific subscription arrangements in Brazil with specific customers, to enable the Company's subsidiary in Brazil to perform under the terms of the arrangement (i.e. directly

attributable to obtaining a specific subscriber), which their costs can be measured reliably, are capitalized and presented as "Deferred installation expenses" within the balances "Other current assets" and "Other non-current assets", as applicable.

Such installation activities has determined not to represent separate earnings process in accordance with the principles of ASC Topic 605-25, "Multiple-Element Arrangements" as they has been determined not to have a value on a stand-alone basis to the customer.

The deferred expenses that are capitalized are limited to the higher of value of the amount of nonrefundable deferred revenue, if any or to the amount of the minimum contractual subscription revenue, net of direct costs.

The deferred expenses are amortized over the contractual live of the related subscription arrangements by the straight-line method (usually 24 months). Costs that do not meet the aforementioned criteria, are recognized immediately as expenses.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Z. Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation. Such reclassifications did not have any impact on the Company's equity, net income or cash flows.

AA. Recently issued accounting pronouncements

1. ASC Topic 605 - 25 "Revenue Recognition - Multiple-Element Arrangements"

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (fiscal year 2011 for the Company), with early adoption permitted, modify the criteria for recognizing revenue in multiple element arrangements and require companies to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, the amendments eliminate the residual method for allocating arrangement considerations.

The adoption of the new guidance is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. ASC Topic 820, "Fair Value Measurements and Disclosures"

In January 2010, the FASB updated the "Fair Value Measurements Disclosures" accounting standard. This update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). The update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs.

As applicable to the Company, the update became effective as of the first interim or annual reporting period beginning after December 15, 2009 (fiscal year 2010), except for the disclosures of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years.

The adoption of the new guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

3. ASC Topic 310, "Receivables"

In July 2010, the FASB issued Accounting Standards Update 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ASU 2010-22). ASU 2010-20 provides guidance to enhance disclosures about the credit quality of a creditor's financing receivables and the adequacy of its

allowance for credit losses. Financial instruments that may subject the Company to significant concentrations of credit risk consist principally of trade receivable and account receivables.

For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010 (these financial statements for the Company). The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010 (fiscal 2011 for the Company).

The adoption of the new guidance that became effective during fiscal year 2010 did not have a material impact on the Company's financial position, results of operations or cash flows.

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 2 - OTHER CURRENT ASSETS

|                                | US dollars<br>December 31, |       |
|--------------------------------|----------------------------|-------|
| (in thousands)                 | 2010                       | 2009  |
| Prepaid expenses               | 1,321                      | 1,891 |
| Government institutions        | 3,269                      | 2,304 |
| Deferred installation expenses | 4,242                      | -     |
| Deferred income taxes          | 1,838                      | 72    |
| Advances to suppliers          | 1,807                      | 1,021 |
| Employees                      | 140                        | 296   |
| Related parties                | 66                         | 171   |
| Others                         | 87                         | 381   |
|                                | 12,770                     | 6,136 |

## NOTE 3 - INVENTORIES

|                   | US dollars<br>December 31, |       |
|-------------------|----------------------------|-------|
| (in thousands)    | 2010                       | 2009  |
| Finished products | 6,780                      | 6,292 |
| Raw materials     | 1,584                      | 1,102 |
| Work in progress  | 137                        | 530   |
|                   | 8,501                      | 7,924 |

## NOTE 4 - INVESTMENTS IN AFFILIATED AND OTHER COMPANIES

## A. Investments in affiliated company

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, 2010 and 2009 was US\$ 220,000 and US\$ 205,000, respectively. As of December 31, 2010 and 2009, these balances included a loan in the amount of US\$ 246,000 and US\$ 225,000, respectively.

The loan is linked to the Israeli Consumer Price Index and bears interest. The maturity date of the loan has not been determined.

## B. Investments in other companies

## 1. Locationet Systems Ltd. ("Locationet")

On December 31, 2006, the Company and a former 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 12A1), as a result of which, the Company no longer has significant influence in Locationet and therefore the investment was classified among investments in other companies and accounted for at cost, as at that date. See Note 1J.

Since January 1, 2008, the Company holds directly 10.64% of the shares of Locationet.

The balance of the Company's investment in Locationet as of December 31, 2010 and 2009 was US\$86,000 and US\$80,000 respectively.

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 4 - INVESTMENTS IN AFFILIATED AND OTHER COMPANIES (cont.)

## B. Investments in other companies (cont.)

## 2. Korea Location Information &amp; Communications Ltd. ("KLIC")

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

KLIC was established to operate a location based service in Korea by third parties.

In the fourth quarter of 2008, the Company wrote off the entire balance of this investment in an amount of US\$ 1,617,000.

## NOTE 5 - OTHER NON-CURRENT ASSETS

| (in thousands)                 | US dollars<br>December 31, |       |
|--------------------------------|----------------------------|-------|
|                                | 2010                       | 2009  |
| Government institutions        | 1,632                      | 1,066 |
| Deferred installation expenses | 1,286                      | -     |
| Deposits                       | 791                        | 676   |
|                                | 3,709                      | 1,742 |

## NOTE 6 - PROPERTY AND EQUIPMENT, NET

## A. Property and equipment, net consists of the following:

| (in thousands)  | US dollars<br>December 31, |           |
|---|----------------------------|-----------|
|   | 2010                       | 2009      |
| Operating equipment (*)                               | 68,613                     | 61,288    |
| Office furniture, equipment and computers             | 20,881                     | 16,626    |
| Land  | 1,160                      | 1,090     |
| Buildings   | 3,443                      | 3,315     |
| Vehicles  | 3,202                      | 2,394     |
| Leasehold improvements                                | 2,701                      | 2,408     |
|   | 100,000                    | 87,121    |
| Less – accumulated depreciation and amortization (**) | (53,853 )                  | (44,859 ) |
|   | 46,147                     | 42,262    |

(\*) As at December 31, 2010 and 2009, an amount of US\$ 46.3 million and US\$ 35.3 million is subject to operating lease transactions, respectively.

(\*\*)



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As at December 31, 2010 and 2009, an amount of US\$ 23.1 million and US\$ 16.4 million is subject to operating lease transactions, respectively.

B. In the years ended December 31, 2010, 2009 and 2008, depreciation expense was US\$ 14.7 million, US\$ 10.4 million and US\$ 8.2 million, respectively and additional equipment was purchased in an amount of US\$ 18.6 million, US\$ 15.7 million and US\$ 16.9 million, respectively.

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## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 7

## - INTANGIBLE ASSETS, NET

A. Intangible assets, net, consists of the following:

| (in thousands) | US dollars                               |                         |   |                             |
|----------------|--|-------------------------|---|-----------------------------|
|                | December 31, 2009<br>Unamortized balance | 2010<br>Original amount | December 31, 2010<br>Accumulated amortization | 2010<br>Unamortized balance |
| GIS database   | 3,021                                    | 4,362                   | (1,609 )                                      | 2,753                       |
| Customer base  | 597                                      | 1,283                   | (869 )  | 414                         |
| Brand name     | 1,025                                    | 1,325                   | (328 )  | 997                         |
| Others         | 421 (*)                                  | 6,077                   | (5,839 )                                      | 238 (*)                     |
|                | 5,064                                    | 13,047                  | (8,645 )                                      | 4,402                       |

(\*)

See B below.

Amortization of intangible assets amounted to US\$ 1,059,000, US\$ 1,180,000 and US\$ 1,505,000 for the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, the estimated aggregate amortization of intangible assets for the next five years is as follows: 2011 – US\$ 942,000; 2012 – US\$ 738,000; 2013 – US\$ 496,000, 2014 US\$ 496,000, 2015 – US\$ 496,000.

B. During 2009 and 2008, the Company recorded an amount of US\$ 751,000 and US\$ 415,000, respectively, as an impairment loss with respect to the licenses. Such impairment was recorded due to the fact that such assets are no longer expected to be used.

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

## NOTE-GOODWILL

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A. The changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows:

|                               | Location based services | US dollars                                      |        |
|-------------------------------|-------------------------|---|--------|
|                               |                         | Wireless communications products (in thousands) | Total  |
| Balance as of January 1, 2009 | 4,954                   | 4,776   | 9,730  |
| Changes during 2009:          |                         |   |        |
| Impairment                    | (150 )                  | -   | (150 ) |
| Translation differences       | 20                      | 39  | 59     |

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|                                 |        |       |        |
|---------------------------------|--------|-------|--------|
| Balance as of December 31, 2009 | 4,824  | 4,815 | 9,639  |
| Changes during 2010:            |        |       |        |
| Impairment                      | (157 ) | -     | (157 ) |
| Translation differences         | 250    | 347   | 597    |
| Balance as of December 31, 2010 | 4,917  | 5,162 | 10,079 |

B. During 2010 and 2009, the Company recorded an amount of US\$ 157,000 and US\$ 150,000, respectively, as impairment with respect to goodwill.

The amortization amount was included in "other expenses (income), net", and was based on valuation performed by management using the income approach (see Note 10).

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 9 - CREDIT FROM BANKING INSTITUTIONS

| (in thousands)                        | A. | Composition:                             |                                   |
|---------------------------------------|----|--|-----------------------------------|
|                                       |    | Interest rates as of December 31, 2010 % | US dollars December 31, 2010 2009 |
| Revolving credit – in NIS             |    | 3.5                                      | 52 6                              |
| Current maturities of long-term loans |    | -  | 46 -                              |
|                                       |    |  | 98 6                              |

## B. Lines of credit

Unutilized short-term lines of credit of the Group as of December 31, 2010, aggregated to US\$ 2 million.

## C. Liens – see Note 12B.

## NOTE 10 - OTHER CURRENT LIABILITIES

| (in thousands)                                | Composition: | US dollars December 31, |        |
|---|--------------|-------------------------|--------|
|   |              | 2010                    | 2009   |
| Accrued expenses (*)                          |              | 8,272                   | 7,724  |
| Employees and institutions in respect thereof |              | 3,174                   | 3,878  |
| Government institutions                       |              | 5,757                   | 5,589  |
| Related party                                 |              | 91                      | 11     |
| Derivative financial instruments              |              | -                       | 122    |
| Others  |              | 188                     | 119    |
|   |              | 17,482                  | 17,443 |

(\*) Includes approximately US\$ 4.4 million and US\$ 3 million for the years 2010 and 2009, respectively, regarding purchase price adjustment in connection with the sale of a subsidiary (see Note 12A1).

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

## A. Composition:

Interest rates as of US dollars

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| (in thousands)           | December<br>31,<br>2010<br>% | December 31,<br>2010 | 2009 |
|--------------------------|------------------------------|----------------------|------|
| In NIS (unlinked)        | 4-4.5                        | 279                  | -    |
| Less- current maturities | -                            | (46 )                | -    |
|                          |                              | 233                  | -    |

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## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 11 - LONG-TERM LOANS FROM BANKING INSTITUTIONS (cont.)

## B. Maturity dates

|                                 | US dollars<br>December 31, |
|---------------------------------|----------------------------|
| (in thousands)                  | 2010                       |
| First year (current maturities) | 46                         |
| Second year                     | 48                         |
| Third year                      | 185                        |
|                                 | 279                        |

## NOTE 12 - CONTINGENT LIABILITIES, LIENS AND GUARANTEES

## A. Claims

1. On December 31, 2007, the Company completed the sale of the subsidiary, Telematics Wireless Ltd. (Telematics), to a third party (hereinafter: the "Purchaser"). 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 Company was required to deposit an amount of US\$5 million in order to secure any adjustments to the purchase price, as further described below (the "Adjustment Escrow Amount"). In addition, the Company was required to deposit an amount of US\$ 7.5 million in an escrow account in order to ensure certain representations and warranties towards the Purchaser (the "Escrow Amount"). The Adjustment Escrow Amount and the Escrow Amount were deposited in escrow in January 2008, after receipt of the entire consideration from the purchaser.

The purchase price was subject to adjustments based on performance parameters of Telematics in the years 2007 and 2008, whereby any reduction in the purchase price in accordance with parameters of Telematics in the year 2007 may only be reduced according to the performance parameters of 2008. The adjustment, based on Telematics' 2007 performance parameters according to the Company's management interpretation of the formula resulted in a reduction of the enterprise value and therefore reduction of the capital gain in an amount of approximately US\$ 3 million

In 2008, the Company received a notice from the Purchaser (ST (Infocomm) Ltd.), claiming that based on Telematics' performance parameters for the year 2007, the purchase price needs to be decreased by an amount of approximately US\$ 10 million (out of which \$3 million was recognized according to management estimate, as a reduction of the capital gain, based on Telematics' 2007 performance parameters, however, such reduction may be decreased based on Telematics' performance parameters for the year 2008), according to the provisions of the sale agreement between the Company and the Purchaser. The Company rejected the Purchaser's claims. Subsequent to the abovementioned notice, the Company and the purchaser commenced arbitration proceedings regarding the adjustment required to be made, if any, to the purchase price, based on Telematics' performance parameters in the year 2007 and the amount, if any, to be released from the escrow. On February 10, 2011 the Arbitrator delivered his determination according to which, the Purchaser's main claims for adjustments to the purchase price were rejected and based on Telematics' 2007 financial statements, the purchase price should be reduced by approximately

US\$4.4 million. The Arbitrator determined that an amount of US\$572,000 including interest accrued thereon was to be released from escrow and paid to the Company. The remainder funds held in escrow are to be kept in escrow pending determination of any reduction to the adjustment of the purchase price based on Telematics' 2007 financial statements, i.e. approximately US\$ 4.4 million, based on Telematics 2008 financial statements, which is still in dispute between ST and the Company. As a result, the escrow amount is currently still held in escrow.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. Claims (cont.)

1.(cont.)

On December 21, 2009, the Company also received from the Purchaser a letter seeking indemnification under the purchase agreement for an alleged breach of certain representations made by Ituran under the purchase agreement, claiming damages in an amount of approximately US\$ 4.3 million. The Purchaser's letter also contains an allegation in respect of a possible and additional breach of representations in an amount of approximately US\$4.3 million, even though no damages were incurred by the Purchaser or by Telematics. The Company and the Purchaser are currently undergoing preliminary proceedings prior to entering into arbitration proceedings and signing a binding arbitration agreement. The Company believes that the claims made by the Purchaser as stated in their letter have no merits and intend to vigorously defend themselves against such claims.

2. 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 predetermined formula. Pursuant to the formula, the conversion price of the notes was the lower of NIS 67.3 (\$18.9) 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 690,000 of the ordinary shares of the Company. As part of the terms of this financial transaction, and, as required by the rules of the Tel-Aviv Stock Exchange ("TASE") where the ordinary shares of the Company are traded (at that time of the transaction and also at current), 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 (see below the district court decision with respect to the abovementioned limit). 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.



ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. Claims (cont.)

2. (cont.)

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 believe that the matter may only be resolved through a 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 gave evidence of the case before a district court in Israel during March to May 2010 and filed summations in October 2010 and January 2011. 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 Company's ordinary shares 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, (c) the payment 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 Company's ordinary shares between the maturity date and the date of the court's decision, plus interest or expenses; or (d) an additional alternative remedy, that does not alter the sum of the original claim – \$9.6 million, plus interest and expenses – based on Leonardo's alleged claim that on January 29, 2002 a "triggering event" as defined in the agreement occurred entitling Leonardo the option to redeem the notes. On June 19, 2011, the district court in its decision rejected Leonardo's three alternative claims (a) to (c) as detailed above and accepted Leonardo's forth claim that on January 29, 2002 a "triggering event", as defined in the agreement occurred, entitling Leonardo the option to redeem the notes. In its decision, the court ordered the Company to pay the sum of approximately US\$9.6 million, to be paid in accordance with the exchange rate in NIS at the date of the occurrence of the "triggering event", plus interest and linkage differences by law and in addition legal expenses in the sum of NIS 1.2 million (approximately US\$0.3 million), which total approximately the sum of NIS 78.7 million (approximately US\$22.7 million). The Company filed a motion to correct error in the court's ruling on the basis of a mistake in converting the sum of \$9.6 million to NIS based on the exchange rate on January 29, 2002 and adding to the sum to be paid by the Company to Leonardo linkage differences and interest to sums paid in NIS under law instead of payment of the sum of \$9.6 million in US dollars and interest at the rate of Libor + 1% to sums payable in foreign currency under law – the difference of which is estimated by the Company to be approximately US\$10 million. Without derogating from the motion filed by the Company, as they believe that there are numerous grounds for appeal, they plan to contest the district court's decision before the Israeli Supreme Court. The Company cannot predict the outcome of their appeal.

As a result of the above district court decision, the Company has presented an amount of approximately US\$ 21.8 million as a current liability within the balance "Litigation obligation", which amount is composed of the US\$ 5.9 million that was presented in past period as Capital Notes and the remainder, in the sum of approximately US\$ 14.7 million was recognized as an other non-operating expenses in the consolidated statements of income.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. Claims (cont.)

3. On June 24, 2010 the Brazilian Internal Revenue Service issue a tax assessment that claim the payment of R\$2,847,894 (approximately US\$1.58 million) plus interest in the amount of R\$1,089,905 (approximately US\$600 thousand) and penalties in the amount of R\$3,633,365 (approximately US\$2 million) which is composed of Income Tax 25%, Social Contribution 9%, fine at the rate of 150% on the principal sum plus interest, by reason of the offsetting on October 1, 2005, the amount of approximately US\$ 3.8 million, of a receivable held by Ituran Beheer BV, a Dutch legal entity held by the Company, against accumulated losses of their subsidiary Ituran Sistemas de Monitoramento Ltda, which originated from a technology transfer agreement executed by and between Ituran Brazil and OGM Investments B.V. (a Dutch company also held by the Company). The decision of the administration first level was unfavourable to the Company and they have filed an appeal to the Administrative Court of Appeals in São Paulo. The Company received a legal opinion from a prominent law firm in Brazil that the merits of the case are favorable to the subsidiary determining among other things that the imposition on their subsidiary of the Income Tax and Social contribution by the Brazilian Internal Revenue Service is illegal. Based on the legal advice obtained by the Company's subsidiary, the Company believes that the claim is without merit and intends to vigorously defend itself against such claim.
4. 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 heard as part of a class action. Such motion was denied by the court, the precertification discovery process was completed and a certification hearing is yet to be scheduled. The plaintiff agreed to limit the class action to Pennsylvania actions only. If the plaintiffs prevail the Company estimates that the subsidiary may have exposure pursuant to the provisions of the Telephone Consumer Protection Act in the maximum range of \$500,000 to \$750,000 for all class plaintiffs, plus punitive damages and expenses. However, based upon rulings by the Court in Philadelphia in another matter, the Company believes that the class action will be certified but that it is probable that a significant portion of the individual class members will unlikely qualify for inclusion in a class or be able to satisfy the burden of proof necessary for compensation. Even if the plaintiffs prevail, the Company believes that the resolution of this claim will not have a material effect on its revenues, operations or liquidity.
5. On July 13 2010, the State Revenue Services of São Paulo issued a tax deficiency notice against the subsidiary in Brazil, Ituran Sistemas de Monitoramento Ltda., claiming that the vehicle tracking and monitoring services provided by the subsidiary should be classified as telecommunication services and therefore subject to the imposition of State Value Added Tax – ICMS, resulting in an imposition of 25% state value added tax on all revenues of the subsidiary during the period between August 2005 and December 2007. The tax deficiency notice is in the amount of R\$36,499,984 (approximately US\$22.1 million) plus interest in the amount of R\$30,282,420 (approximately US\$18.2 million) and penalties in the amount of R\$66,143,446 (approximately US\$40 million). The penalties may be drastically reduced if payment is affected within a specified period of time. The decision of the administration first level was unfavorable to the Company and they have filed an appeal to the Administrative Court of Appeals in São Paulo.



ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. Claims (cont.)

5. (cont.)

The Company received a legal opinion from a prominent law firm in Brazil that the merits of the case are overwhelmingly favorable to them, determining among other things that the imposition on the subsidiary of the State Value Added Tax by the State Revenue Services of São Paulo is illegal. Based on the legal advice obtained by the subsidiary, the Company believe that the claim by the State Revenue Services is without merit and intend to vigorously defend themselves against such claim. On the basis of such opinion the Company also do not intend to make any provisions in their consolidated financial statements in respect of the alleged tax deficiency notice and the imposition of State Value Added Tax as described above. While the Company cannot predict the outcome of this case, if the Company is not successful in defending their claim, the Company can be subject to significant costs, adversely affecting the Company's results of operations.

6. On March 21, 2011, the Company received a purported class action lawsuit which was filed against the Company in the District Court of Central Region in Tel-Aviv, by one plaintiff who is a subscriber of the Company, alleging that the Company (see Note 12C), which was declared a monopoly under the Israeli Restrictive Trade Practices Law, 1988, unlawfully abused its power as a monopoly and discriminated between its customers. The plaintiff claims that the alleged discrimination resulted from the Company charging higher monthly subscription fees from customers who are obliged by insurance company requirements to install location and recovery systems in their vehicles than the monthly subscription fees that are charged from customers who are not required by insurance companies to install location and recovery systems in their vehicles. The lawsuit is yet to be approved as a class action. The total amount claimed if the lawsuit is certified as a class action, was estimated by the plaintiff to be approximately NIS 75 million (US\$ 21.1 million). Based on the opinion of the Company's legal counsels, the Company is of the opinion that the lawsuit lacks substantiation, includes incorrect assumptions and inconsistent claims and that the Company has good defense arguments in respect of the claims made by the plaintiff. Notwithstanding the aforesaid, at this preliminary stage, the Company is unable to assess the lawsuit's chances of success.

7. Claims are filed against the Company and its subsidiaries from time to time during the ordinary course of business, usually with respect to civil, labor and commercial matters. The Company's management believes, based on its legal counsels' assessment, that the provision for contingencies recognized in the balance sheet is sufficient and that currently there are no claims (other than those described in Notes above) that are material, individually or in the aggregate, to the consolidated financial statements as a whole.

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.

As of December 31, 2010, the Group's liabilities to banks are insignificant.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO 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 anticompetitive conduct may serve as prima facie evidence that the Company is either a monopoly or that it has engaged in anticompetitive 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, 2010, minimum future rentals under operating leases of buildings for periods in excess of one year were as follows: 2011 – US\$ 2 million; 2012 – US\$ 1.1 million; 2013 – US\$ 0.3 million, 2014 and 2015 – US\$ 0.1 million.

The leasing fees expensed in each of the years ended December 31, 2010, 2009 and 2008, were US\$ 2.8 million, US\$ 2.7 million and US\$ 2.9 million, respectively.

2. In November 2007, the Company entered into a 10 year Frame Product and Service Purchase Agreement with Telematics, pursuant to which (after the completion of the sale of Telematics), 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 RF vehicle location and tracking RF 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 nonrenewal notice is sent by one of the parties to the other. Pursuant to the agreement, each of Telematics and Ituran granted the other party a license to use certain technology in connection with the products and services purchased from each other, which license survives the termination or expiration of the agreement.

In addition, 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. No revenues were received by the Company as of the date of this report.

As of December 31, 2010, the Company is obliged to purchase from Telematics products in an aggregate amount of approximately US\$ 7.8 million.

See Note 12A1.

NOTE 13 - CAPITAL NOTES

1. As of December 31, 2010, minimum future rentals under operating leases of buildings for periods in excess of one year were as follows: 2011 – US\$ 2 million; 2012 – US\$ 1.1 million; 2013 – US\$ 0.3 million, 2014 and 2015 – US\$ 0.1 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.

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 13 - CAPITAL NOTES (cont.)

## 1. (cont.)

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\$ 18.9) per share. Subsequently, the conversion rate was set as the lower of an amount of NIS 67.3 (US\$ 18.9) 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.

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 due to a cap on the maximum amount of shares to be issued, 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 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 12A2 for a discussion regarding a pending legal action in connection with the notes.

## NOTE 14 - STOCKHOLDERS' EQUITY

## A. Share capital

## 1. Composition:

| December 31, 2010 and 2009       | Registered | Issued and fully paid |
|----------------------------------|------------|-----------------------|
| Ordinary shares of NIS 0.33 each | 60,000,000 | 23,475,431            |

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. On July 17, 2006, the board of the Company authorized the repurchase of ordinary shares up to US\$ 10 million. On January 24, 2008 the Company's board of directors authorized an increase of an additional \$10 million. On May 20, 2008, the Company's board of directors authorized another increase of additional \$10 million



up to an aggregate amount of \$30 million.

During the years 2006-2008, the Company has repurchased 2,507,314 ordinary shares (of which 924,433 ordinary shares were purchased by its subsidiary, Ituran Cellular Communication Ltd. which in May 2011 were repurchased by the Company) for an aggregate amount of US\$ 27.1 million.

5. As of December 31, 2010, 2009 and 2008, 10.7% of the share capital of the Company is held by the Company and its subsidiary.

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

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 14 - STOCKHOLDERS' EQUITY (cont.)

## B. 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 stockholders' 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. On November 2009, the board of directors of the Company revised the dividend policy to provide for an annual dividend distribution in an amount not less than 50% 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.
4. Dividends are declared and paid in NIS. Dividends paid to stockholders outside Israel may be converted into dollars on the basis of the exchange rate prevailing at the date of payment.
5. In April 2008, the Company distributed a dividend of approximately US\$ 29.1 million (NIS 108 million), on the basis of the results of the Company for the year ended December 31, 2007.
  6. In April 2009, the Company distributed a dividend of approximately US\$ 3.6 million (NIS 15.5 million) on the basis of the results of the company for the year ended December 31, 2008.
7. In April 2010, the Company declared a dividend of approximately US\$ 31.6 million (NIS 117.2) on the basis of the results of the company for the year ended December 31, 2009. The dividend was paid in April 2010.
8. In March 2011, the Company declared a dividend in the amount of 1.00 US dollar per share, totaling approximately US\$ 22.8 million (NIS 78.8 million). The dividend was paid in April 2011.
9. Dividends paid per share in the years ended December 31, 2010, 2009 and 2008 were US\$ 1.5, US\$ 0.17 and US\$ 1.34, respectively.

## NOTE 15 - OTHER EXPENSES, NET

| (in thousands)                                    | US dollars              |      |      |
|---|-------------------------|------|------|
|   | Year ended December 31, |      |      |
|   | 2010                    | 2009 | 2008 |
| Adjustment of purchase price of subsidiary (*)    | 975                     | -    | -    |
| Impairment of goodwill and intangible assets (**) | 157                     | 901  | 415  |
| Other   | 24                      | 7    | 3    |

1,156

908

418

(\*)

See Note 12A1.

(\*\*)

See Notes 7 and 8.

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 16 - FINANCING INCOME (EXPENSES), NET

| (in thousands)                                      | US dollars              |        |          |
|---|-------------------------|--------|----------|
|   | Year ended December 31, |        |          |
|   | 2010                    | 2009   | 2008     |
| Short-term interest expenses, commissions and other | (404 )                  | (339 ) | (661 )   |
| Gains on derivative financial instruments           | 819                     | 570    | -        |
| Gains in respect of marketable securities           | 30                      | 1,321  | 2,311    |
| Interest expenses in respect of long-term loans     | (4 )                    | -      | -        |
| Exchange rate differences and others, net           | (302 )                  | 52     | (1,816 ) |
|   | 139                     | 1,604  | (166 )   |

## NOTE 17 - INCOME TAX

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

| (in thousands)                   | US dollars              |             |          |
|----------------------------------|-------------------------|-------------|----------|
|                                  | Year ended December 31, |             |          |
|                                  | 2010                    | 2009        | 2008     |
| Income taxes (tax benefit):      |                         |             |          |
| Current taxes:                   |                         |             |          |
| In Israel                        | 3,191                   | 4,184       | 4,738    |
| Outside Israel                   | 5,396                   | 4,702       | 4,705    |
|                                  | 8,587                   | 8,886       | 9,443    |
| Deferred taxes:                  |                         |             |          |
| In Israel                        | (1,877 )                | (117 )      | (364 )   |
| Outside Israel                   | 804                     | 1,105       | (1,169 ) |
|                                  | (1,073 )                | 988         | (1,533 ) |
| Taxes in respect of prior years: |                         |             |          |
| In Israel                        | (1,228 )                | (2,735 )(*) | (14 )    |
|                                  | 6,286                   | 7,139       | 7,896    |

(\*)During 2009, the Company received a tax refund regarding taxes paid in 2007 with respect to the capital gain from the sale of a subsidiary.

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

Until December 31, 2007, the Company and its Israeli subsidiaries reported income for tax purposes in accordance with the provisions of the Inflationary Adjustments Law, whereby taxable income was measured in NIS, adjusted for changes in the Israeli Consumer Price Index where results of operations for tax purposes were measured in terms of earnings in NIS after adjustments for changes in the Israeli Consumer Price Index ("CPI"). Commencing January 1, 2008, this law became void and in its place there are transition provisions, whereby the results of operations for tax purposes are measured on a nominal basis.

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

Commencing 2008, a certain Israeli subsidiary of the Company was granted "beneficiary enterprise" status as defined under the investment law – 1959. As such, the subsidiary is entitled to tax benefits for the duration of 2 years.

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## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - INCOME TAX (cont.)

## 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 2008 – 27%, in 2009 – 26% and in 2010 and thereafter – 25%.

On July 23, 2009, as part of the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for the years 2009 and 2010) – 2009 (the “Arrangements Law”), article 126 of the Income Tax Ordinance (New Version) – 1961 was amended, whereby the corporate tax rate would be gradually reduced commencing in the 2011 tax year and thereafter, as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20% and 2016 and thereafter – 18%.

## 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 2008 tax year. A certain Israeli subsidiary has received final tax assessments through the 2007 tax year. The other subsidiaries have not been assessed since incorporation.

## G. Carry forward tax losses

Carry forward tax losses of an Israeli subsidiary as of December 31, 2010 amount to US\$ 0.7 million.

Carry forward tax losses in Israel may be utilized indefinitely.

As of December 31, 2010, the Company's non Israeli subsidiary in the United States have available estimated carry forward tax losses of approximately US\$ 12.2 million.

Such carry forward tax losses may be utilized until 2021.

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

| (in thousands)                        | US dollars              |   |        |   |        |   |
|---------------------------------------|-------------------------|---|--------|---|--------|---|
|                                       | Year ended December 31, |   |        |   |        |   |
|                                       | 2010                    |   | 2009   |   | 2008   |   |
| Pretax income                         | 16,062                  |   | 25,986 |   | 23,877 |   |
| Statutory tax rate                    | 25                      | % | 26     | % | 27     | % |
| Tax computed at the ordinary tax rate | 4,016                   |   | 6,756  |   | 6,447  |   |
| Nondeductible expenses                | 290                     |   | 392    |   | 218    |   |
|                                       | 2,028                   |   | 1,007  |   | 480    |   |

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|   |          |          |        |
|---|----------|----------|--------|
| Losses in respect of which no deferred taxes were generated (including reduction of deferred tax assets recorded in prior period) |          |          |        |
| Deductible financial expenses recorded to additional paid-in capital  | (331 )   | 163      | (389 ) |
| Taxes in respect of prior years   | (1,228 ) | (2,735 ) | 14     |
| Tax adjustment in respect of different tax rates  | 1,726    | 1,237    | 585    |
| Utilization of losses of prior years in respect of which no deferred taxes were generated   | (409 )   | (337 )   | -      |
| Taxes in respect of withholding at the source from royalties  | 148      | 139      | 134    |
| Others  | 46       | 517      | 407    |
|   | 6,286    | 7,139    | 7,896  |

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## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - INCOME TAX (cont.)

## I. Summary of deferred taxes

## Composition:

| (in thousands)                                   | US dollars<br>Year ended<br>December 31, |      |
|--|--|------|
|  | 2010                                     | 2009 |
| Deferred taxes included in other current assets: |  |      |
| Provision for employee related obligations       | 91                                       | 72   |
| Provision for legal obligation                   | 3,414                                    | -    |
|  | 3,505                                    | 72   |
| Valuation allowance                              | (1,670 )                                 | -    |
|  | 1,835                                    | 72   |

## Composition:

| (in thousands)                             | US dollars<br>Year ended<br>December 31, |          |
|--|--|----------|
|  | 2010                                     | 2009     |
| Long-term deferred income taxes:           |  |          |
| Provision for employee related obligations | 350                                      | 332      |
| Carry forward tax losses                   | 4,765                                    | 5,159    |
| Temporary differences, net                 | 1,452                                    | 1,673    |
|  | 6,567                                    | 7,164    |
| Valuation allowance                        | (2,679 )                                 | (2,720 ) |
|  | 3,888                                    | 4,444    |

## Composition:

| (in thousands)   | US dollars<br>Year ended<br>December 31, |          |
|--|--|----------|
|  | 2010                                     | 2009     |
| Deferred income taxes included in long-term investments and other assets | 4,934                                    | 5,653    |
| Deferred income taxes included in long-term liabilities                  | (1,046 )                                 | (1,209 ) |
|  | 3,888                                    | 4,444    |

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



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| (in thousands)                           | US dollars              |        |        |
|--|-------------------------|--------|--------|
|  | Year ended December 31, |        |        |
|  | 2010                    | 2009   | 2008   |
| The Company and its Israeli subsidiaries | (2,664 )                | 11,273 | 13,413 |
| Non-Israeli subsidiaries                 | 18,726                  | 14,713 | 10,464 |
|  | 16,062                  | 25,986 | 23,877 |

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## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - INCOME TAX (cont.)

## K. Uncertain tax positions

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 |
|--|------------|
| (in thousands)   |            |
| Balance at January 1, 2008                                   | 4,283      |
| Translation differences                                      | 50         |
| Balance at January 1, 2009                                   | 4,333      |
| Translation differences                                      | 31         |
| Additions based on tax positions related to the current year | 255        |
| Balance at December 31, 2009                                 | 4,619      |
| Translation differences                                      | (276 )     |
| Settlements (*)  | (4,343 )   |
| Balance at December 31, 2010                                 | -          |

(\*)During October 2010, the Company signed a settlement agreement with the Israeli tax authorities, relating to an audit of its tax returns for the years 2002 through 2008. As a result, the Company decreased the entire amount of the unrecognized tax benefits. The difference between the balance of the unrecognized tax benefits and the amount settled with the tax authorities was presented within taxes in respect of prior years.

## 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, 2010, 2009 and 2008, are as follows:

|   | US dollars              |        |        |
|---|-------------------------|--------|--------|
|   | Year ended December 31, |        |        |
| (in thousands)  | 2010                    | 2009   | 2008   |
| Net income attributable to stockholder's used for the computation of basic and diluted earnings per share | 8,702                   | 18,192 | 14,882 |
|   |                         |        |        |
|   | Number of shares        |        |        |
|   | Year ended December 31, |        |        |
| (in thousands)  | 2010                    | 2009   | 2008   |
| Weighted average number of shares used in the computation of basic earnings per share                     | 20,968                  | 20,968 | 21,431 |
| Add:  |                         |        |        |
|   | -                       | 9      | 9      |

|  |        |        |        |
|--|--------|--------|--------|
| Weighted average number of additional shares issued upon the assumed conversion of capital notes (*) |        |        |        |
| Weighted average number of shares used in the computation of diluted earnings per share              | 20,968 | 20,977 | 21,440 |

(\*)Following the decision of the district court to accept Leonardo’s claim, the Company has excluded the impact of the shares issuable upon the assumed conversion of the capital notes with respect to the computation diluted earnings per share for fiscal year 2010. (See Notes 13 and 12A2).

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19

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RELATED PARTIES

A. The Tzivtit Insurance Ltd. ("Tzivtit Insurance"), owned by a 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 paid to the insurance company in 2010, US\$ 251 thousand and US\$ 198 thousand (In 2009 US\$ 237 thousand and US\$ 173 thousand.)

Tzivtit Insurance is entitled to commissions in an aggregate amount of NIS 243 thousand (US\$ 65 thousand) to be paid to Tzivtit Insurance by the insurance company on account of these policies. (US\$ 40 thousand and US\$ 51 thousand in 2009 and 2008, respectively.)

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, among other things, the cost of Mr. Izzy Sheratzky's monthly employment in an amount of NIS 85,500 (US\$ 22,900), 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.

Whereas the term of the agreement exceeds three years, under recent amendments to the Law, the Company's audit committee, board of directors and shareholders have ratified and approved the agreement with A. Sheratzky, which according to current Israeli law will remain in force and effect until May 11, 2014.

C. On September 5, 2002, the Company entered into independent contractor agreements with A. Sheratzky Holdings Ltd. and each of Eyal Sheratzky and Nir Sheratzky (the Co-CEO's 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\$ 13,100 and US\$ 13,200), 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 in addition to the agreement detailed above, 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.

Whereas the term of the agreement exceeds three years, under recent amendments to the Law, the Company's audit committee, board of directors and shareholders have ratified and approved the agreement with A. Sheratzky (including third addendum thereto that clarifies the nature of its role and services), which according to current Israeli law will remain in force and effect until May 11, 2014.

The aggregate expenses to A. Sheratzky Holdings in 2010, 2009 and 2008 (including with respect to B. above), were approximately US\$ 2,284,000, US\$ 2,831,000 and US\$ 2,365,000, respectively.

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

NOTE 19 - RELATED PARTIES (cont.)

D. In March 1998, an agreement was approved with a related party, Prof. Yehuda Kahane, for financial consulting, whereby the Company would pay the consultant monthly consulting fees of NIS 4,000 (US\$ 1,100), 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\$ 4,300) a month, linked to the Israeli Consumer Price Index. The aggregate amount paid to Professor Kahane in each of the years 2010, 2009 and 2008 was approximately US\$ 55,000, US\$ 50,000 and US\$ 54,000, respectively.

Whereas the term of the agreement exceeds three years, under recent amendments to the Law, the Company's audit committee, board of directors and shareholders have ratified and approved the agreement with Professor Kahane which according to current Israeli law will remain in force and effect until May 11, 2014.

E. On January 23, 2007, the Company's subsidiary, E-Com Global Electronic Commerce Ltd. ("E-Com"), 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 (US\$ 7,100), 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 E-COM 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.

The aggregate amount paid to Mr. Gil Sheratzky in 2010, 2009 and 2008 was approximately US\$ 175,000, US\$ 152,000 and US\$ 175,000, respectively.

Whereas the term of the agreement exceeds three years, under recent amendments to the Law, the Company's audit committee, board of directors and shareholders have ratified and approved the agreement with Gil Sheratzky, which according to current Israeli law will remain in force and effect until May 11, 2014.

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.

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.

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, United States, China, Korea and others.

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## ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)  
- SEGMENT REPORTING (cont.)

NOTE 20

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

| (in thousands)                      | US dollars              |                                  |       | Total   |
|-------------------------------------|-------------------------|----------------------------------|-------|---------|
|                                     | Location based services | Wireless communications products | Other |         |
| <b>Year ended December 31, 2010</b> |                         |                                  |       |         |
| Revenues                            | 108,101                 | 39,724                           | -     | 147,825 |
| Operating income                    | 31,994                  | (1,326 )                         | -     | 30,668  |
| Assets                              | 988                     | 9,255                            | 1,454 | 11,697  |
| Goodwill                            | 4,917                   | 5,162                            | -     | 10,079  |
| Expenditures for assets             | 46                      | 210                              | -     | 256     |
| Depreciation and amortization       | 81                      | 89                               | -     | 170     |
| <b>Year ended December 31, 2009</b> |                         |                                  |       |         |
| Revenues                            | 91,574                  | 29,807                           | -     | 121,381 |
| Operating income                    | 27,124                  | (2,742 )                         | -     | 24,382  |
| Assets                              | 754                     | 7,386                            | 2     | 8,142   |
| Goodwill                            | 4,824                   | 4,815                            | -     | 9,639   |
| Expenditures for assets             | 22                      | 123                              | -     | 145     |
| Depreciation and amortization       | 87                      | 75                               | -     | 162     |
| <b>Year ended December 31, 2008</b> |                         |                                  |       |         |
| Revenues                            | 86,051                  | 46,565                           | -     | 132,616 |
| Operating income                    | 22,090                  | 3,570                            | -     | 25,660  |
| Assets                              | 753                     | 6,442                            | 139   | 7,334   |
| Goodwill                            | 4,954                   | 4,776                            | -     | 9,730   |
| Expenditures for assets             | 13                      | 116                              | -     | 129     |
| Depreciation and amortization       | 111                     | 72                               | -     | 183     |

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

The evaluation of performance is based on the operating income 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 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.





## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO 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 |                                 |            |
|--|------------|---------------------------------|------------|
|  | 2010       | Year ended December 31,<br>2009 | 2008       |
| Total revenues of reportable segment and consolidated revenues | 147,825    | 121,381                         | 132,616    |
| Operating income   |            |                                 |            |
| Total operating income for reportable segments                 | 30,668     | 24,382                          | 25,660     |
| Unallocated amounts:   |            |                                 |            |
| Other expenses   | (14,745 )  | -                               | (1,617 )   |
| Financing income (expenses), net                               | 139        | 1,604                           | (166 )     |
| Consolidated income before taxes on income                     | 16,062     | 25,986                          | 23,877     |
| Assets   |            |                                 |            |
| Total assets for reportable segments                           | 21,776 (*) | 17,781 (*)                      | 17,064 (*) |
| Other unallocated amounts:                                     |            |                                 |            |
| Current assets   | 103,875    | 113,627                         | 93,549     |
| Investments in affiliated and other companies                  | 306        | 314                             | 3,248      |
| Property and equipment, net                                    | 45,681     | 38,766                          | 26,793     |
| Other assets   | 4,178      | 4,882                           | 6,710      |
| Other unallocated amounts                                      | 12,528     | 10,498                          | 10,535     |
| Consolidated total assets (at year end)                        | 188,344    | 185,868                         | 157,899    |
| Other significant items  |            |                                 |            |
| Total expenditures for assets of reportable segments           | 256        | 144                             | 129        |
| Unallocated amounts  | 18,424     | 15,554                          | 16,818     |
| Consolidated total expenditures for assets                     | 18,680     | 15,698                          | 16,947     |
| Total depreciation and amortization for reportable segments    | 170        | 162                             | 183        |
| Unallocated amounts  | 15,706     | 12,368                          | 9,932      |
| Consolidated total depreciation and amortization               | 15,876     | 12,530                          | 10,115     |

(\*)

Including goodwill.

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 20 - SEGMENT REPORTING (cont.)

## E. Geographic information

| (in thousands) | 2010    | Revenues<br>Year ended December 31, |         |
|----------------|---------|-------------------------------------|---------|
|                |         | 2009                                | 2008    |
| Israel         | 71,211  | 62,367                              | 74,878  |
| United States  | 3,700   | 3,469                               | 3,214   |
| Brazil         | 61,096  | 44,564                              | 42,838  |
| Argentina      | 10,857  | 10,442                              | 11,193  |
| Others         | 961     | 539                                 | 493     |
| Total          | 147,825 | 121,381                             | 132,616 |

| (in thousands) | 2010   | Property and equipment, net<br>December 31, |        |
|----------------|--------|---|--------|
|                |        | 2009  | 2008   |
| Israel         | 10,053 | 8,017                                       | 5,661  |
| United States  | 161    | 104   | 30     |
| Brazil         | 31,112 | 29,143                                      | 16,240 |
| Argentina      | 4,821  | 4,998                                       | 5,143  |
| Total          | 46,147 | 42,262                                      | 27,074 |

- 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 2010, 2009 and 2008 there were no sales exceeding 10% of total revenues to none of our customers.

## NOTE 21 - FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT

## A. Concentrations of credit risks

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivables, derivatives and deposits in escrow.

Most of the Group's cash and cash equivalents, deposits in escrow and short-term investments (including investments in trading marketable securities), as of December 31, 2010 and 2009, 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, including insurance companies. Management periodically evaluates the collectability of the trade receivables to

determine the amounts that are doubtful of collection and determine a proper allowance for doubtful accounts. Accordingly, the Group's trade receivables do not represent a substantial concentration of credit risk.

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

## B. 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 of each of the entities of the Group.

During 2009, the Company entered into foreign currency forward transactions in order to protect itself against the risk that the eventual cash flows resulting from anticipated transactions (mainly purchases of inventory), denominated in currencies other than the functional currency, will be affected by changes in exchange rates. Such transactions matured in 2009 through the last quarter of 2010. In addition the Company has certain involvement with derivative financial instruments for trading purposes.

As described in Note 1K, certain transactions were designated and accounted as hedging instruments. Other transactions do not qualify as hedging instruments (or have not been designated as such).

The following table summarizes a tabular disclosure of (a) fair values of derivative instruments in the balance sheets and (b) the effect of derivative instruments in the statements of income:

Fair values of derivative instruments:

| As of December 31, 2010                                 | Asset derivatives      |            | Liability derivatives  |            |
|---|------------------------|------------|------------------------|------------|
|   | Balance sheet location | Fair value | Balance sheet location | Fair value |
| Derivatives designated as hedging instruments:          |                        | -          |                        | -          |
| Derivatives not designated as hedging instruments:      |                        |            |                        |            |
| Foreign exchange contracts                              | Other assets           | 32         | Other liabilities      | -          |
| Total derivatives not designated as hedging instruments |                        | 32         |                        | -          |
| Total derivatives                                       |                        | 32         |                        | -          |

The effect of derivative instruments in the statement of income:

| Derivatives in cash flow hedging relationships | Amount of gain or recognized in OCI on derivative | Location of gain or reclassified from accumulated OCI into | Amount of loss or reclassified from accumulated OCI into |
|--|---|--|--|
|  |   |  |  |

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|                            | (effective portion)(*) | income (effective portion)(*) | income (effective portion)(*) |
|----------------------------|------------------------|-------------------------------|-------------------------------|
| As of December 31, 2010    |                        |                               |                               |
| Foreign exchange contracts | 103                    | Cost of revenues              | 225                           |

(\*) During 2010, the gains or losses that were recognized in earnings for hedge ineffectiveness were insignificant.

|   | Location of gain or recognized in income on derivative | Amount of gain or recognized in income on derivative |
|---|--|--|
| Derivatives not designated as hedging instruments |  |  |
| As of December 31, 2010                           |  |  |
| Foreign exchange contracts                        | Financing income, net                                  | 819  |

## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

## B. Foreign exchange risk management (cont.)

Fair values of derivative instruments:

| As of December 31, 2009  | Asset derivatives      |            | Liability derivatives  |            |
|--|------------------------|------------|------------------------|------------|
|  | Balance sheet location | Fair value | Balance sheet location | Fair value |
| <b>Derivatives designated as hedging instruments:</b>          |                        |            |                        |            |
|  | Other assets           | -          | Other liabilities      | 122        |
| Foreign exchange contracts                                     |                        |            |                        |            |
| <b>Total derivatives designated as hedging instruments</b>     |                        | <b>-</b>   |                        | <b>122</b> |
| <b>Derivatives not designated as hedging instruments:</b>      |                        |            |                        |            |
|  | Other assets           | 14         | Other liabilities      | -          |
| Foreign exchange contracts                                     |                        |            |                        |            |
| <b>Total derivatives not designated as hedging instruments</b> |                        | <b>14</b>  |                        | <b>-</b>   |
| <b>Total derivatives</b>                                       |                        | <b>14</b>  |                        | <b>122</b> |

The effect of derivative instruments in the statement of income:

| Derivatives in cash flow hedging relationships<br>As of December 31, 2009 | Amount of gain or recognized in OCI on derivative (effective portion)(*) | Location of gain or reclassified from accumulated OCI into income (effective portion)(*) | Amount of gain or reclassified from accumulated OCI into income (effective portion)(*) |
|---|--|--|--|
|   |  |  |  |

(\*) During 2009, the gains or losses that were recognized in earnings for hedge ineffectiveness were insignificant.

| Derivatives not designated as hedging instruments | Location of gain or | Amount of gain or |
|---|---------------------|-------------------|
|---|---------------------|-------------------|

| As of December 31, 2009    | recognized<br>in income<br>on<br>derivative | recognized in<br>income on<br>derivative |
|----------------------------|---|--|
| Foreign exchange contracts | Financing<br>income, net                    | 570                                      |

The nominal amounts of foreign currency derivatives as of December 31, 2010 and 2009, are as follows:

| (in thousands)                              | US dollars<br>December 31, |       |
|---|----------------------------|-------|
|   | 2010                       | 2009  |
| Forward transactions – for the exchange of: |                            |       |
| NIS into US dollars(1)                      | -                          | 4,500 |
| US dollars into NIS(2)                      | 10,000                     | 6,000 |

- (1) Derivatives designated as hedging instruments
- (2) Derivatives not designated as hedging instruments.



## ITURAN LOCATION AND CONTROL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

## C. Fair value of financial instruments

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is an exit price, representing the amount that would be received to sell an asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants.

The Company measured cash equivalents, derivative financial instruments and the investments in marketable securities at fair value. Such financial instruments are measured at fair value, on a recurring basis. The measurement of cash equivalent and marketable securities are classified within Level 1 due to the fact that these assets are valued using quoted market prices. The fair value of derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting dates, based on the prevailing currency prices and the relevant interest rates. Such measurement is classified within Level 2.

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

See also Note 1X.

The Company's financial assets measured at fair value on a recurring basis, consisted of the following types of instruments as of December 31, 2010 and 2009:

| (in thousands)                                    | US Dollars        |         |         |
|---|-------------------|---------|---------|
|   | December 31, 2010 |         |         |
|   | Level 1           | Level 2 | Level 3 |
| Trading securities (*)                            | 1,509             | -       | -       |
| Derivatives                                       |                   |         |         |
| Derivatives designated as hedging instruments     | -                 | -       | -       |
| Derivatives not designated as hedging instruments | -                 | 32      | -       |
| Total   | 1,509             | 32      | -       |

| (in thousands)                                    | US Dollars        |         |         |
|---|-------------------|---------|---------|
|   | December 31, 2009 |         |         |
|   | Level 1           | Level 2 | Level 3 |
| Trading securities (*)                            | 4,213             | -       | -       |
| Derivatives                                       |                   |         |         |
| Derivatives designated as hedging instruments     | -                 | 122     | -       |
| Derivatives not designated as hedging instruments | -                 | (14 )   | -       |
| Total   | 4,213             | 108     | -       |

(\*) The entire balance consist of US government debentures.



Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Teleran Holding Ltda.

We have audited the consolidated balance sheets of Teleran Holding Ltda. (a Limited Liability Company) and subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended (not presented herein). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 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 audit provide a reasonable basis for our opinion.

On October 1, 2010, a merger took place between Ernst & Young Auditores Independentes S.S. and Terco Grant Thornton Auditores Independentes S.S. to form Ernst & Young Terco Auditores Independentes S.S. Terco Grant Thornton Auditores Independentes S.S. audited the consolidated balance sheet of Construtora Tenda S.A as of December 31, 2008 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the period October 22, 2008 through December 31, 2008 (not presented herein), and issued an unqualified opinion on those consolidated financial statements (prior to restatement), while still a member firm of Grant Thornton International. The combined firm Ernst & Young Terco Auditores Independentes S.S. has assumed responsibility for this audit work.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teleran Holding Ltda. at December 31, 2009 and 2008 and the results of its operations, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 160, Non-controlling Interest in Consolidated Financial Statements, an amendment to ARB No. 51, on January 1, 2009 and retrospectively applied the guidance.

São Paulo, Brazil.

February 17, 2010, except for fourth paragraph above, as to which the date is October 1, 2010

ERNST & YOUNG TERCO  
Auditores Independentes S.S.  
CRC-2SP-015.199/O-6

/s/ Jose Andre' Viola Ferreira  
Jose Andre' Viola Ferreira  
Contador CRC-1SP-195.865/O-0

Estudio Urien & Asociados

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

Iturán Argentina S.A.

We have audited the consolidated balance sheets of Ituran Argentina S.A. (the “Company”) as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2010. 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 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, 2010 and 2009 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, 2010, in conformity with accounting principles generally accepted in the United States of America.

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, 2010, 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 February 14, 2011 expressed an unqualified opinion.

Gustavo R. Chesta  
(Partner)  
Estudio Urien &  
Asociados  
Argentina  
February 14, 2011

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. 2 to the annual report on its behalf.

ITURAN LOCATION AND CONTROL LTD.  
(Registrant)

By: /s/ Eyal Sheratzky

\_\_\_\_\_  
Eyal Sheratzky  
Chief Executive Officer

Dated: September 7, 2011

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