



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

**Consolidated Interim Financial Statements
as of June 30, 2008**

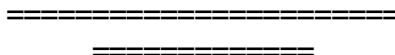


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ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM BALANCE SHEETS

	US dollars	
(in thousands)	June 30, 2008	December 31, 2007
Current assets		
Cash and cash equivalents	67,062	28,669
Investments in marketable securities	92	9,558
Accounts receivable (net of allowance for doubtful accounts)	34,220	27,578
Other current assets	7,395	83,783
Inventories	<u>14,907</u>	<u>13,258</u>
	<u>123,676</u>	<u>162,846</u>
Long-term investments and debit balances		
Investments in affiliated companies	191	191
Investments in other companies	1,911	1,678
Other current assets	333	49
Loan	558	560
Deposit	350	-
Deferred income taxes	6,641	5,850
Funds in respect of employee rights upon retirement	<u>3,146</u>	<u>2,513</u>
	<u>13,130</u>	<u>10,841</u>
Property and equipment, net	<u>30,771</u>	<u>24,440</u>
Intangible assets, net	<u>8,784</u>	<u>8,801</u>
Goodwill	<u>10,984</u>	<u>9,631</u>
Total assets	<u><u>187,345</u></u>	<u><u>216,559</u></u>



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM BALANCE SHEETS

	US dollars	
(in thousands)	June 30, 2008	December 31, 2007
Current liabilities		
Credit from banking institutions	13,607	318
Accounts payable	16,022	12,703
Deferred revenues	6,227	5,801
Other current liabilities	<u>15,806</u>	<u>33,592</u>
	<u>51,662</u>	<u>52,414</u>
Long-term liabilities		
Liability for employee rights upon retirement	5,032	4,085
Deferred income taxes	<u>2,051</u>	<u>1,715</u>
	<u>7,083</u>	<u>5,800</u>
Minority interest	<u>3,749</u>	<u>2,860</u>
Capital Notes	<u>5,894</u>	<u>5,894</u>
Total shareholders' equity	<u>118,957</u>	<u>149,591</u>
Total liabilities and shareholders' equity	<u><u>187,345</u></u>	<u><u>216,559</u></u>



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF INCOME

(in thousands except per share data)	US dollars Six month period ended June 30,			US dollars Three month period ended June 30,		
	2008	2007	2007 Pro-Forma(*)	2008	2007	2007 Pro-Forma(*)
Revenues:						
Location-based services	41,671	30,019	30,019	21,843	15,416	15,416
Wireless communications products	<u>26,318</u>	<u>27,142</u>	<u>17,478</u>	<u>13,332</u>	<u>13,807</u>	<u>8,815</u>
	<u>67,989</u>	<u>57,161</u>	<u>47,497</u>	<u>35,175</u>	<u>29,223</u>	<u>24,231</u>
Cost of revenues:						
Location-based services	15,459	10,713	10,713	8,268	5,655	5,655
Wireless communications products	<u>20,896</u>	<u>20,300</u>	<u>15,732</u>	<u>10,414</u>	<u>10,631</u>	<u>8,109</u>
	<u>36,355</u>	<u>31,013</u>	<u>26,445</u>	<u>18,682</u>	<u>16,286</u>	<u>13,764</u>
Gross profit	31,634	26,148	21,052	16,493	12,937	10,467
Research and development expenses	200	1,476	201	94	763	100
Selling and marketing expenses	5,060	3,247	2,781	2,419	1,665	1,357
General and administrative expenses	13,268	10,181	9,479	7,186	5,336	5,003
Other expenses (income), net	<u>23</u>	<u>1</u>	<u>-</u>	<u>(12)</u>	<u>12</u>	<u>-</u>
Operating income	13,083	11,243	8,591	6,806	5,161	4,007
Financing income (expenses), net	<u>(6,664)</u>	<u>1,203</u>	<u>1,022</u>	<u>(2,293)</u>	<u>892</u>	<u>691</u>
Income before taxes on income	6,419	12,446	9,613	4,513	6,053	4,698
Taxes on income	<u>(2,470)</u>	<u>(3,468)</u>	<u>(2,591)</u>	<u>(1,689)</u>	<u>(1,743)</u>	<u>(1,392)</u>
	3,949	8,978	7,022	2,824	4,310	3,306
Share in losses of affiliated companies, net	(29)	(93)	(93)	(13)	(36)	(35)
Minority interests in income of subsidiaries	<u>(562)</u>	<u>(388)</u>	<u>(329)</u>	<u>(315)</u>	<u>(164)</u>	<u>(134)</u>
Net income for the period	<u>3,358</u>	<u>8,497</u>	<u>6,600</u>	<u>2,496</u>	<u>4,110</u>	<u>3,137</u>
Earnings per share:						
Basic	<u>0.15</u>	<u>0.36</u>	<u>0.28</u>	<u>0.12</u>	<u>0.18</u>	<u>0.13</u>
Diluted	<u>0.15</u>	<u>0.36</u>	<u>0.28</u>	<u>0.12</u>	<u>0.18</u>	<u>0.13</u>
Weighted average number of shares outstanding (in thousands):						
Basic	<u>21,850</u>	<u>23,321</u>	<u>23,321</u>	<u>21,593</u>	<u>23,321</u>	<u>23,321</u>
Diluted	<u>21,859</u>	<u>23,482</u>	<u>23,482</u>	<u>21,601</u>	<u>23,482</u>	<u>23,482</u>

(*)Exclude the contribution of Telematics Wireless LTD – the sale of the company was completed on December 31, 2007.

ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands)	US dollars		US dollars	
	Six months period ended June 30 , 2008	2007	Three months period ended June 30 , 2008	2007
Cash flows from operating activities				
Net income for the period	3,358	8,497	2,496	4,110
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	4,712	2,947	2,493	1,569
Exchange differences on principal of deposit and loan, net	85	(62)	37	(38)
Exchange differences on principal of marketable securities	(92)	(446)	(49)	(206)
Increase (decrease) in liability for employee rights upon retirement	345	299	234	141
Share in losses of affiliated companies, net	29	93	13	36
Deferred income taxes	222	(405)	801	(422)
Capital losses (gains) on sale of property and equipment, net	54	(1)	21	12
Minority interests in profits of subsidiaries, net	562	388	315	164
Decrease (increase) in accounts receivable	(2,521)	(2,319)	1,112	1,485
Decrease (increase) in other current assets	(2,501)	(326)	(2,302)	(476)
Decrease (increase) in inventories and contracts in process, net	305	(3,604)	1,251	(614)
Increase (decrease) in accounts payable	1,447	1,111	(506)	(1,361)
Increase (decrease) in deferred revenues	(429)	94	(740)	270
Increase (decrease) in other current liabilities	1,500	(1,251)	107	(936)
Net cash provided by operating activities	<u>7,076</u>	<u>5,015</u>	<u>5,283</u>	<u>3,734</u>
Cash flows from investing activities				
Increase in funds in respect of employee rights upon retirement, net of withdrawals	(263)	(288)	(196)	(154)
Capital expenditures	(7,448)	(4,943)	(4,697)	(2,577)
Deposit	(350)		(350)	
Proceeds from sale of property and equipment	164	139	32	63
Purchase of intangible assets and minority interest	-	(14)	-	(14)
Investment in affiliated company	-	(1,447)	-	(947)
Investment in marketable securities	(1,760)	(1,574)	(87)	(519)
Sale of marketable securities	12,010	9,310	10,358	302
Acquisition of subsidiary (Appendix A)	-	(8,549)	-	(8,549)
Proceeds from sale of subsidiary	58,720		-	
Net cash used in investment activities	<u>61,073</u>	<u>(7,366)</u>	<u>5,060</u>	<u>(12,395)</u>
Cash flows from financing activities				
Short-term credit from banking institutions, net	13,242	585	2,425	493
Repayment of long-term loans	-	(3,500)	-	(3,163)
Dividend paid	(29,223)	(4,838)	(29,223)	(4,838)
Purchase of shares from treasury	(22,093)	-	(8,881)	-
Net cash used in financing activities	<u>(38,074)</u>	<u>(7,753)</u>	<u>(35,679)</u>	<u>(7,508)</u>
Effect of exchange rate changes on cash and cash equivalents	8,318	(247)	5,954	(984)
Net increase (decrease) in cash and cash equivalents	38,393	(10,351)	(19,382)	(17,153)
Balance of cash and cash equivalents at beginning of period	<u>28,669</u>	<u>43,812</u>	<u>86,444</u>	<u>50,614</u>
Balance of cash and cash equivalents at end of period	<u>67,062</u>	<u>33,461</u>	<u>67,062</u>	<u>33,461</u>



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

Appendix A – Acquisition of subsidiary

	US dollars
	Six and Three months period ended June 30, 2007
(in thousands)	
Working capital (excluding cash and cash equivalents), net	1,280
Funds in respect of employee rights upon retirement	408
Property and equipment , net	397
Goodwill	11,939
Liability for employee rights upon retirement	(729)
Long-term deferred income taxes	(1,583)
Long term loan	<u>(3,163)</u>
	<u>8,549</u>