



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

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

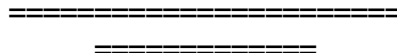


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ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM BALANCE SHEETS

(in thousands)	US dollars	
	September 30,	December 31,
	2008	2007
Current assets		
Cash and cash equivalents	66,141	28,669
Investments in marketable securities	89	9,558
Accounts receivable (net of allowance for doubtful accounts)	32,609	27,578
Other current assets	5,966	83,783
Inventories	<u>13,748</u>	<u>13,258</u>
	<u>118,553</u>	<u>162,846</u>
Long-term investments and debit balances		
Investments in affiliated companies	192	191
Investments in other companies	1,874	1,678
Other current assets	717	49
Loan to former employee	558	560
Deposit	369	-
Deferred income taxes	6,617	5,850
Funds in respect of employee rights upon retirement	<u>3,225</u>	<u>2,513</u>
	<u>13,552</u>	<u>10,841</u>
Property and equipment, net	<u>29,530</u>	<u>24,440</u>
Intangible assets, net	<u>8,187</u>	<u>8,801</u>
Goodwill	<u>10,772</u>	<u>9,631</u>
Total assets	<u><u>180,594</u></u>	<u><u>216,559</u></u>



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM BALANCE SHEETS

(in thousands)	US dollars	
	September 30,	December 31,
	2008	2007
Current liabilities		
Credit from banking institutions	8,612	318
Accounts payable	15,540	12,703
Deferred revenues	6,147	5,801
Other current liabilities	<u>16,689</u>	<u>33,592</u>
	<u>46,988</u>	<u>52,414</u>
Long-term liabilities		
Liability for employee rights upon retirement	5,106	4,085
Deferred income taxes	<u>1,891</u>	<u>1,715</u>
	<u>6,997</u>	<u>5,800</u>
Minority interest	<u>3,508</u>	<u>2,860</u>
Capital Notes	<u>5,894</u>	<u>5,894</u>
Total shareholders' equity	<u>117,207</u>	<u>149,591</u>
Total liabilities and shareholders' equity	<u>180,594</u>	<u>216,559</u>



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF INCOME

(in thousands except per share data)	US dollars			US dollars		
	Nine month			Three month		
	period ended	September 30,	September 30,	period ended	September 30,	September 30,
	2008	2007	2007	2008	2007	2007
			Pro-Forma(*)			Pro-Forma(*)
Revenues:						
Location-based services	65,250	46,523	46,523	23,579	16,504	16,504
Wireless communications products	<u>37,962</u>	<u>42,212</u>	<u>28,519</u>	<u>11,644</u>	<u>15,070</u>	<u>11,041</u>
	<u>103,212</u>	<u>88,735</u>	<u>75,042</u>	<u>35,223</u>	<u>31,574</u>	<u>27,545</u>
Cost of revenues:						
Location-based services	23,988	16,729	16,729	8,529	6,016	6,016
Wireless communications products	<u>30,157</u>	<u>31,804</u>	<u>25,260</u>	<u>9,261</u>	<u>11,504</u>	<u>9,528</u>
	<u>54,145</u>	<u>48,533</u>	<u>41,989</u>	<u>17,790</u>	<u>17,520</u>	<u>15,544</u>
Gross profit	49,067	40,202	33,053	17,433	14,054	12,001
Research and development expenses	307	2,210	301	107	734	100
Selling and marketing expenses	7,482	5,531	4,787	2,422	2,284	2,006
General and administrative expenses	20,802	15,871	14,804	7,534	5,690	5,325
Other expenses (income), net	<u>3</u>	<u>2</u>	<u>-</u>	<u>(20)</u>	<u>1</u>	<u>-</u>
Operating income	20,473	16,588	13,161	7,390	5,345	4,570
Financing income (expenses), net	<u>(5,433)</u>	<u>1,176</u>	<u>1,256</u>	<u>1,231</u>	<u>(27)</u>	<u>234</u>
Income before taxes on income	15,040	17,764	14,417	8,621	5,318	4,804
Taxes on income	<u>(5,107)</u>	<u>(4,910)</u>	<u>(4,000)</u>	<u>(2,637)</u>	<u>(1,442)</u>	<u>(1,409)</u>
	9,933	12,854	10,417	5,984	3,876	3,395
Share in losses of affiliated companies, net	(22)	(161)	(161)	7	(68)	(68)
Minority interests in income of subsidiaries	<u>(912)</u>	<u>(550)</u>	<u>(477)</u>	<u>(350)</u>	<u>(162)</u>	<u>(148)</u>
Net income for the period	<u>8,999</u>	<u>12,143</u>	<u>9,779</u>	<u>5,641</u>	<u>3,646</u>	<u>3,179</u>
Earnings per share:						
Basic	<u>0.42</u>	<u>0.52</u>	<u>0.42</u>	<u>0.27</u>	<u>0.16</u>	<u>0.14</u>
Diluted	<u>0.42</u>	<u>0.52</u>	<u>0.42</u>	<u>0.27</u>	<u>0.16</u>	<u>0.14</u>
Weighted average number of shares outstanding (in thousands):						
Basic	<u>21,587</u>	<u>23,287</u>	<u>23,287</u>	<u>21,067</u>	<u>23,338</u>	<u>23,338</u>
Diluted	<u>21,596</u>	<u>23,422</u>	<u>23,422</u>	<u>21,075</u>	<u>23,422</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	
	Nine months period ended September 30 , 2008	2007	Three months period ended September 30 , 2008	2007
Cash flows from operating activities				
Net income for the period	8,999	12,143	5,641	3,646
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	7,332	4,895	2,620	1,948
Exchange differences on principal of deposit and loan, net	72	(57)	(13)	5
Exchange differences on principal of marketable securities	(84)	(350)	8	96
Increase (decrease) in liability for employee rights upon retirement	514	596	169	297
Share in losses of affiliated companies, net	22	161	(7)	68
Deferred income taxes	(375)	1,618	(597)	2,023
Capital losses (gains) on sale of property and equipment, net	119	(48)	65	(47)
Minority interests in profits of subsidiaries, net	912	550	350	162
Decrease (increase) in accounts receivable	(1,550)	(3,655)	971	(1,336)
Decrease (increase) in other current assets	(1,624)	(658)	877	(332)
Decrease (increase) in inventories and contracts in process, net	1,157	(4,904)	852	(1,300)
Increase (decrease) in accounts payable	436	(168)	(1,011)	(1,279)
Increase (decrease) in deferred revenues	(375)	1,352	54	1,258
Increase (decrease) in other current liabilities	<u>2,672</u>	<u>(3,488)</u>	<u>1,172</u>	<u>(2,237)</u>
Net cash provided by operating activities	<u>18,227</u>	<u>7,987</u>	<u>11,151</u>	<u>2,972</u>
Cash flows from investing activities				
Increase in funds in respect of employee rights upon retirement, net of withdrawals	(400)	(599)	(137)	(311)
Capital expenditures	(11,394)	(7,663)	(3,946)	(2,720)
Deposit	(369)		(19)	
Proceeds from sale of property and equipment	210	181	46	42
Purchase of intangible assets and minority interest	-	(31)	-	(17)
Investment in affiliated company	-	(1,447)	-	-
Investment in marketable securities	(1,780)	(3,269)	(20)	(1,695)
Sale of marketable securities	12,024	11,364	14	2,054
Investment in subsidiary	(354)	-	(354)	-
Acquisition of subsidiary (Appendix A)	-	(8,549)	-	-
Proceeds from sale of subsidiary	58,720		-	
Net cash used in investment activities	<u>56,657</u>	<u>(10,013)</u>	<u>(4,416)</u>	<u>(2,647)</u>
Cash flows from financing activities				
Short-term credit from banking institutions, net	8,254	560	(4,988)	(25)
Repayment of long-term loans	-	(3,500)	-	-
Dividend paid	(29,223)	(4,838)	-	-
Proceeds from exercise of options by employees	-	12	-	12
Purchase of shares from treasury	(24,087)	-	(1,994)	-
Net cash used in financing activities	<u>(45,056)</u>	<u>(7,766)</u>	<u>(6,982)</u>	<u>(13)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>7,644</u>	<u>1,809</u>	<u>(674)</u>	<u>2,056</u>
Net increase (decrease) in cash and cash equivalents	37,472	(7,983)	(921)	2,368
Balance of cash and cash equivalents at beginning of period	<u>28,669</u>	<u>43,812</u>	<u>67,062</u>	<u>33,461</u>
Balance of cash and cash equivalents at end of period	<u>66,141</u>	<u>35,829</u>	<u>66,141</u>	<u>35,829</u>



ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

Appendix A – Acquisition of subsidiary

	US dollars
	Nine months
	period ended
	September 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	(3,163)
	<u>8,549</u>