



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

**Consolidated Financial Statements  
as of December 31, 2007**

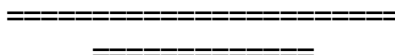


## **ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

### **Consolidated Financial Statements as of December 31, 2007**

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**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<b>(in thousands)</b>	<b>US dollars</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Current assets</b>		
Cash and cash equivalents	28,669	43,812
Investments in marketable securities	9,558	16,034
Accounts receivable (net of allowance for doubtful accounts)	27,578	29,709
Other current assets	83,783	4,915
Contracts in process , net	-	1,465
Inventories	<u>13,258</u>	<u>10,901</u>
	<u>162,846</u>	<u>106,836</u>
<b>Long-term investments and debit balances</b>		
Investments in affiliated companies	1,869	881
Accounts receivable	49	123
Loan	560	-
Deposit	-	1,457
Deferred income taxes	5,850	5,112
Funds in respect of employee rights upon retirement	<u>2,513</u>	<u>4,001</u>
	<u>10,841</u>	<u>11,574</u>
<b>Property and equipment, net</b>	<u>24,440</u>	<u>19,109</u>
<b>Intangible assets, net</b>	<u>8,801</u>	<u>2,784</u>
<b>Goodwill</b>	<u>9,631</u>	<u>4,536</u>
<b>Total assets</b>	<u>216,559</u>	<u>144,839</u>



**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<b>(in thousands)</b>	<b>US dollars</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Current liabilities</b>		
Credit from banking institutions	318	474
Accounts payable	12,703	14,956
Deferred revenues	5,335	4,399
Other current liabilities	<u>34,058</u>	<u>13,573</u>
	<u>52,414</u>	<u>33,402</u>
<b>Long-term liabilities</b>		
Liability for employee rights upon retirement	4,085	5,278
Deferred income taxes	<u>1,715</u>	<u>816</u>
	<u>5,800</u>	<u>6,094</u>
<b>Minority interest</b>	<u>2,860</u>	<u>2,578</u>
<b>Capital Notes</b>	<u>5,894</u>	<u>5,894</u>
<b>Total shareholders' equity</b>	<u>149,591</u>	<u>96,871</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>216,559</u></u>	<u><u>144,839</u></u>



**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	US dollars		US dollars	
	Year ended December 31 ,		Three months ended December 31 ,	
(in thousands except per share data)	2007	2006	2007	2006
<b>Revenues:</b>				
Location-based services	64,634	54,048	18,111	14,181
Wireless communications products	60,204	50,004	17,992	14,803
	<u>124,838</u>	<u>104,052</u>	<u>36,103</u>	<u>28,984</u>
<b>Cost of revenues:</b>				
Location-based services	23,630	18,419	6,901	5,105
Wireless communications products	44,009	35,434	12,205	10,517
	<u>67,639</u>	<u>53,853</u>	<u>19,106</u>	<u>15,622</u>
Gross profit	57,199	50,199	16,997	13,362
Research and development expenses	2,991	2,682	781	600
Selling and marketing expenses	8,218	5,123	2,687	1,294
General and administrative expenses	22,629	17,659	6,758	4,958
Other expenses (income), net	<u>(49,138)</u>	<u>3</u>	<u>(49,140)</u>	<u>1</u>
Operating income	72,499	24,732	55,911	6,509
Financing income, net	1,227	1,886	51	734
Income before taxes on income	<u>73,726</u>	<u>26,618</u>	<u>55,962</u>	<u>7,243</u>
Taxes on income	<u>(20,953)</u>	<u>(6,581)</u>	<u>(16,043)</u>	<u>(1,878)</u>
	52,773	20,037	39,919	5,365
Share in losses of affiliated companies, net	(516)	(213)	(355)	(12)
Minority interests in income of subsidiaries	<u>(783)</u>	<u>(565)</u>	<u>(233)</u>	<u>(162)</u>
Net income	<u>51,474</u>	<u>19,259</u>	<u>39,331</u>	<u>5,191</u>
<b>Earnings per share:</b>				
Basic	<u>2.21</u>	<u>0.83</u>	<u>1.68</u>	<u>0.22</u>
Diluted	<u>2.20</u>	<u>0.82</u>	<u>1.68</u>	<u>0.22</u>
<b>Weighted average number of shares outstanding (in thousands):</b>				
Basic	<u>23,315</u>	<u>23,194</u>	<u>23,408</u>	<u>23,322</u>
Diluted	<u>23,422</u>	<u>23,457</u>	<u>23,417</u>	<u>23,482</u>



**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

US dollars

(in thousands)	Year ended		Three months ended	
	December 31, 2007	2006	December 31 , 2007	2006
<b>Cash flows from operating activities</b>				
Net income for the period	51,474	19,259	39,331	5,191
<b>Adjustments to reconcile net income to net cash from operating activities:</b>				
Depreciation and amortization	8,080	4,205	3,185	1,283
Exchange differences on principal of deposit and loan, net	(78)	(50)	(21)	(13)
Gains in respect of marketable securities	(437)	(200)	(87)	(300)
Gain from sale of subsidiary , net	(36,373)	-	(36,373)	-
Increase (decrease) in liability for employee rights upon retirement	1,293	(187)	697	109
Share in losses of affiliated companies, net	516	213	355	12
Deferred income taxes	964	644	(654)	(242)
Capital gains on sale of property and equipment, net	(5)	(35)	43	-
Minority interests in profits of subsidiaries, net	785	565	235	162
Increase in accounts receivable	(8,529)	(3,668)	(4,874)	(399)
increase in other current assets	724	(1,630)	1,382	(1,393)
Decrease (increase) in inventories and contracts in process, net	(3,645)	(4,435)	1,259	(809)
Increase (decrease) in accounts payable	1,797	2,686	1,965	(448)
Increase (decrease) in deferred revenues	(32)	(1)	(1,384)	(472)
Increase in other current liabilities	<u>(3,773)</u>	<u>888</u>	<u>(285)</u>	<u>2,484</u>
Net cash provided by operating activities	<u>12,761</u>	<u>18,254</u>	<u>4,774</u>	<u>5,165</u>
<b>Cash flows from investing activities</b>				
Increase in funds in respect of employee rights upon retirement, net of withdrawals	(678)	(412)	(79)	(71)
Capital expenditures	(9,641)	(12,106)	(1,978)	(2,026)
Proceeds from sale of property and equipment	195	53	14	-
Acquisitions of subsidiary ( appendix A )	(8,549)	(2,243)	-	(2,243)
Purchase of intangible assets and minority interest	(64)	(58)	(33)	(7)
Investment in affiliated company	(1,447)	-	-	-
Investment in marketable securities	(5,488)	(55,863)	(2,219)	(3,506)
Sale of marketable securities	13,982	40,848	2,618	5,693
Loan granted to affiliated company	-	(138)	-	-
Acquisition of additional interest in a subsidiary	-	(21)	-	-
Loan	(560)	-	(560)	-
Company no longer consolidated ( Appendix B )	<u>(6,938)</u>	<u>-</u>	<u>(6,938)</u>	<u>-</u>
Net cash used in investment activities	<u>(19,188)</u>	<u>(29,940)</u>	<u>(9,175)</u>	<u>(2,160)</u>
<b>Cash flows from financing activities</b>				
Short-term credit from banking institutions, net	160	(237)	(400)	7
Repayment of long-term loans	(3,500)	(3,191)	-	(356)
Dividend paid	(4,838)	(3,705)	-	-
Proceeds from sale of Company shares held by a subsidiary	-	-	-	-
Proceeds from exercise of options by employees	12	18	-	-
Purchase of shares from treasury	(4,874)	-	(4,874)	-
Dividend distribution to minority interest of a subsidiary	-	(172)	-	-
Purchase of Company's shares	-	(877)	-	-
Net cash used in financing activities	<u>(13,040)</u>	<u>(8,160)</u>	<u>(5,274)</u>	<u>(349)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>4,324</u>	<u>5,229</u>	<u>2,515</u>	<u>1,143</u>
Net increase (decrease) in cash and cash equivalents	<u>(15,143)</u>	<u>(14,617)</u>	<u>(7,160)</u>	<u>3,799</u>
Balance of cash and cash equivalents at beginning of period	<u>43,812</u>	<u>58,429</u>	<u>35,829</u>	<u>40,013</u>
Balance of cash and cash equivalents at end of period	<u>28,669</u>	<u>43,812</u>	<u>28,669</u>	<u>43,812</u>



**ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)**

**Appendix A – Acquisitions of subsidiaries**

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

**Appendix B – company no longer consolidated**

Working capital ( excluding cash and cash equivalents ) , net	50,031
Inventory ( including contracts in process )	(4,408)
Funds in respect of employee rights upon retirement	(2,968)
Deposit	(1,680)
Investment in affiliated company	(144)
Deffered taxes	(347)
Property and equipment , net	(1,254)
Goodwill	(479)
Liability for employee rights upon retirement	3,803
Minority interest	757
Gain from sale of subsidiary	<u>(36,373)</u>
	<u>6,938</u>