

**ITURAN LOCATION AND CONTROL LTD.**

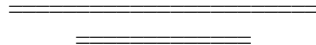
**Consolidated Interim Financial Statements  
as of March 31, 2014**

# ITURAN LOCATION AND CONTROL LTD.

## Consolidated Financial Statements as of March 31, 2014

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

|  | US dollars            |                       |
|--|-----------------------|-----------------------|
| (in thousands)   | March 31,<br>2014     | December 31,<br>2013  |
| <b>Current assets</b>  |                       |                       |
| Cash and cash equivalents                                    | 41,352                | 41,697                |
| Deposit in escrow  | 4,982                 | 4,982                 |
| Investments in marketable securities                         | 2,350                 | -                     |
| Accounts receivable (net of allowance for doubtful accounts) | 33,300                | 29,239                |
| Other current assets   | 21,184                | 18,437                |
| Inventories  | 11,800                | 14,506                |
|  | <u>114,968</u>        | <u>108,861</u>        |
| <b>Long-term investments and other assets</b>                |                       |                       |
| Investments in affiliated company                            | 1,415                 | 1,423                 |
| Investments in other company                                 | 88                    | 88                    |
| Other non-current assets                                     | 1,330                 | 1,022                 |
| Deferred income taxes  | 3,518                 | 3,781                 |
| Funds in respect of employee rights upon retirement          | 6,776                 | 6,649                 |
|  | <u>13,127</u>         | <u>12,963</u>         |
| <b>Property and equipment, net</b>                           | <u>33,319</u>         | <u>32,546</u>         |
| <b>Intangible assets, net</b>                                | <u>686</u>            | <u>739</u>            |
| <b>Goodwill</b>  | <u>5,408</u>          | <u>5,433</u>          |
| <b>Total assets</b>  | <u><u>167,508</u></u> | <u><u>160,542</u></u> |

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

|   | US dollars        |                      |
|---|-------------------|----------------------|
| (in thousands)                                | March 31,<br>2014 | December 31,<br>2013 |
| <b>Current liabilities</b>                    |                   |                      |
| Credit from banking institutions              | 1,239             | 38                   |
| Accounts payable                              | 12,027            | 11,436               |
| Deferred revenues                             | 10,730            | 9,852                |
| Other current liabilities                     | <u>37,641</u>     | <u>30,276</u>        |
|   | <u>61,637</u>     | <u>51,602</u>        |
| <b>Long-term liabilities</b>                  |                   |                      |
| Liability for employee rights upon retirement | 10,083            | 9,607                |
| Provision for contingencies                   | 905               | 2,599                |
| Deferred revenues                             | 1,033             | 1,033                |
| Deferred income taxes                         | <u>203</u>        | <u>216</u>           |
|   | <u>12,224</u>     | <u>13,455</u>        |
| Stockholders' equity                          | 89,485            | 90,918               |
| Non-controlling interests                     | <u>4,162</u>      | <u>4,567</u>         |
| Total equity                                  | <u>93,647</u>     | <u>95,485</u>        |
| <b>Total liabilities and equity</b>           | <u>167,508</u>    | <u>160,542</u>       |

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

| <b>(in thousands except per share data)</b>                                    | <b>US dollars</b>                             |                |
|--|---|----------------|
|  | <b>Three month period<br/>ended March 31,</b> |                |
|  | <b>2014</b>                                   | <b>2013</b>    |
| <b>Revenues:</b>   |   |                |
| Location-based services  | 32,180  | 31,393         |
| Wireless communications products   | <u>13,280</u>                                 | <u>9,582</u>   |
|  | <u>45,460</u>                                 | <u>40,975</u>  |
| <b>Cost of revenues:</b>   |   |                |
| Location-based services  | 11,085  | 11,108         |
| Wireless communications products   | <u>10,631</u>                                 | <u>8,460</u>   |
|  | <u>21,716</u>                                 | <u>19,568</u>  |
| Gross profit   | 23,744  | 21,407         |
| Research and development expenses  | 591   | 590            |
| Selling and marketing expenses   | 2,285   | 2,390          |
| General and administrative expenses  | 9,203   | 8,710          |
| Other expenses ( income), net  | <u>(35)</u>                                   | <u>456</u>     |
| Operating income   | 11,700  | 9,261          |
| Financing income, net  | <u>125</u>                                    | <u>61</u>      |
| Income before income tax   | 11,825  | 9,322          |
| Income tax   | <u>(3,920)</u>                                | <u>(3,084)</u> |
| Net income for the period  | 7,905   | 6,238          |
| Less: Net income attributable to non-controlling interest                      | <u>(577)</u>                                  | <u>(236)</u>   |
| Net income attributable to the Company   | <u>7,328</u>                                  | <u>6,002</u>   |
| <br>   |   |                |
| Basic and diluted earnings per share attributable to Company's stockholders    | <u>0.35</u>                                   | <u>0.29</u>    |
| <br>   |   |                |
| Basic and diluted weighted average number of shares outstanding (in thousands) | <u>20,968</u>                                 | <u>20,968</u>  |

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

| (in thousands)  | US dollars                            |         |
|---|---------------------------------------|---------|
|   | Three month period<br>ended March 31, |         |
|   | 2014                                  | 2013    |
| <b>Cash flows from operating activities</b>   |                                       |         |
| Net income for the period   | 7,905                                 | 6,238   |
| <b>Adjustments to reconcile net income to net cash from operating activities:</b>   |                                       |         |
| Depreciation amortization and impairment of goodwill                                | 2,693                                 | 3,163   |
| Exchange differences on principal of deposit and loans, net                         | (23)                                  | 97      |
| Losses in respect of trading marketable securities                                  | 105                                   | -       |
| Increase in liability for employee rights upon retirement                           | 520                                   | 490     |
| Deferred income taxes   | (472)                                 | (389)   |
| Capital losses (gains) on sale of property and equipment, net                       | (46)                                  | 14      |
| Increase in accounts receivable   | (4,195)                               | (4,536) |
| Decrease (Increase) in other current assets   | (2,007)                               | 222     |
| Decrease in inventories   | 2,639                                 | 2,672   |
| Decrease in accounts payable  | (419)                                 | (2,057) |
| Increase in deferred revenues   | 928                                   | 1,388   |
| Increase in other current liabilities   | 2,053                                 | 1,572   |
| Net cash provided by operating activities   | 9,681                                 | 8,874   |
| <b>Cash flows from investment activities</b>  |                                       |         |
| Increase in funds in respect of employee rights upon retirement, net of withdrawals | (158)                                 | (142)   |
| Capital expenditures  | (3,022)                               | (2,569) |
| Investments in marketable securities  | (2,783)                               | -       |
| Deposit   | (156)                                 | 222     |
| Proceeds from sale of property and equipment  | 230                                   | 144     |
| Net cash used in investment activities  | (5,889)                               | (2,345) |
| <b>Cash flows from financing activities</b>   |                                       |         |
| Short term credit from banking institutions, net                                    | 1,201                                 | 268     |
| Repayment of long term loans  | -                                     | (11)    |
| Dividend paid   | (3,616)                               | (2,570) |
| Dividend paid to non-controlling interest   | (736)                                 | -       |
| Net cash provided by (used in) financing activities                                 | (3,151)                               | (2,313) |
| Effect of exchange rate changes on cash and cash equivalents                        | (986)                                 | 173     |
| Net increase (decrease) in cash and cash equivalents                                | (345)                                 | 4,389   |
| Balance of cash and cash equivalents at beginning of the period                     | 41,697                                | 29,453  |
| Balance of cash and cash equivalents at end of the period                           | 41,352                                | 33,842  |

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

In February 2014, the Company declared a dividend in an amount of US\$ 7.8 million. The dividend will be paid in April 2014.

During the three month period ended March 31, 2014, the Company purchased property and equipment in an amount of US\$ 1,190 thousand using a directly related liability.