

Ituran Location & Control Ltd.
Form 20-F/A
August 27, 2013

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, 2012

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)

Eli Kamer, Chief Financial Officer, 3 Hashikma Street, Azour, Israel, Tel: 972-3-5571314,
Facsimile: 972-3-5571327

(Name, Telephone, E-mail and/or Facsimile number and Address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|--|
| Ordinary Shares, par value NIS 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

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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:

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

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 corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to 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 had used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards Other
as issued by the International Accounting
Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has 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

Explanatory Note

The Company filed its Annual Report on Form 20-F for the fiscal year ended December 31, 2012 with the Securities and Exchange Commission on April 25, 2013 (the "Original Filing"); and amended the Original Filing on June 26, 2013 ("Amendment No. 1"). The Original Filing as amended by Amendment No. 1 is referred to herein as the "2012 Form 20-F".

This Amendment No. 2 to the 2012 Form 20-F is being filed for the following purposes:

- 1) to furnish certifications as required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code 906, which were inadvertently omitted from Amendment No. 1; and
- 2) to incorporate by reference into Item 19 of the 2012 Form 20-F (Exhibits) that certain Radio Location System License Agreement, dated July 13, 2004, which was previously included in Item 19 of the Company's annual reports but was accidentally omitted in prior years.

Other than as expressly set forth above, this Form 20-F/A does not, and does not purport to, amend, update or restate the information in any other item of the 2012 Form 20-F, or reflect any events that have occurred after the Original Filing was filed. This Amendment should be read in conjunction with the Company's SEC filings made subsequent to the filing of the 2012 Form 20-F.

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)
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- 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)
 - 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)
 - 4.23 Radio Location System License Agreement, dated July 13, 2004, by and between Teletrac, Inc., and Telematics Wireless Ltd. (1)
- 8 List of significant subsidiaries*
- 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)

13.1 Certification by co-chief executive officers as required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code

13.2 Certification by 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

- (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.

*Previously filed as an exhibit to the Original Filing.

ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements
as of December 31, 2012

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

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ISRAEL
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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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012. 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 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 9.8% and 10.6% as of December 31, 2012 and 2011, respectively, and total revenues of 9%, 7.7% and 7.3% for the years ended December 31, 2012, 2011 and 2010, respectively, 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 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, 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 April 25, 2013 expressed an unqualified opinion.

FAHN KANNE & CO. GRANT THORNTON ISRAEL
Certified Public Accountants (Isr.)

Tel-Aviv, Israel

April 25, 2013

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ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED BALANCE SHEETS

| (in thousands) | US dollars | |
|--|------------|----------------------|
| | 2012 | December 31, 2011 |
| Current assets | | |
| Cash and cash equivalents | 29,453 | 35,270 |
| Investments in marketable securities | - | 68 |
| Accounts receivable (net of allowance for doubtful accounts) | 26,190 | 25,294 |
| Loan to former employee | - | 340 |
| Other current assets (Note 2) | 15,399 | 15,165 |
| Inventories (Note 3) | 14,747 | 10,881 |
| | 85,789 | 87,018 |
| Long-term investments and other assets | | |
| Deposit in Escrow (Note 12A1) | 4,939 | 4,888 |
| Investments in affiliated company (Note 4A) | 160 | 207 |
| Investments in other company (Note 4B) | 82 | 80 |
| Other non-current assets (Note 5) | 1,890 | 2,216 |
| Deferred income taxes (Note 16) | 4,174 | 5,568 |
| Funds in respect of employee rights upon retirement | 5,515 | 4,741 |
| | 16,760 | 17,700 |
| Property and equipment, net (Note 6) | 34,156 | 40,870 |
| Intangible assets, net (Note 7) | 2,591 | 3,355 |
| Goodwill (Note 8) | 8,043 | 8,514 |
| Total assets | 147,339 | 157,457 |

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 | |
|---|----------------|----------------|
| | 2012 | 2011 |
| Current liabilities | | |
| Credit from banking institutions (Note 9) | 221 | 390 |
| Accounts payable | 9,524 | 9,319 |
| Deferred revenues | 9,526 | 7,869 |
| Other current liabilities (Note 10) | 22,373 | 20,966 |
| | 41,644 | 38,544 |
| Long-term liabilities | | |
| Long term Loans (Note 11) | - | 173 |
| Liability for employee rights upon retirement | 7,915 | 6,865 |
| Provision for contingencies | 3,864 | 4,250 |
| Other non-current liabilities | 460 | 753 |
| Deferred revenues | 806 | 728 |
| Deferred income taxes (Note 16) | 643 | 792 |
| | 13,688 | 13,561 |
| Contingent liabilities, liens and guarantees (Note 12) | | |
| Equity: | | |
| Stockholders' equity (Note 13) | | |
| Share capital – ordinary shares of NIS 0.33 par value: | 1,983 | 1,983 |
| Authorized – December 31, 2012 and 2011 – 60,000,000 shares | | |
| Issued and outstanding – December 31, 2012 and 2011 – 23,475,431 shares | | |
| Additional paid- in capital | 71,927 | 71,927 |
| Accumulated other comprehensive income | 11,984 | 14,153 |
| Retained earning | 32,187 | 43,185 |
| Treasury stock at cost – December 31, 2012 and 2011 – 2,507,314 shares | (30,054) | (30,054) |
| Stockholders' equity | 88,027 | 101,194 |
| Non-controlling interests | 3,980 | 4,158 |
| Total equity | 92,007 | 105,352 |
| Total liabilities and equity | 147,339 | 157,457 |

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands except earnings per share) | US dollars | | |
|---|-------------------------|---------------|---------------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Revenues: | | | |
| Location-based services | 114,565 | 120,410 | 108,101 |
| Wireless communications products | 35,753 | 39,757 | 39,724 |
| | 150,318 | 160,167 | 147,825 |
| Cost of revenues: | | | |
| Location-based services | 46,371 | 50,977 | 42,137 |
| Wireless communications products | 29,786 | 29,758 | 33,037 |
| | 76,157 | 80,735 | 75,174 |
| Gross profit | 74,161 | 79,432 | 72,651 |
| Research and development expenses | 669 | 631 | 481 |
| Selling and marketing expenses | 8,489 | 8,543 | 8,675 |
| General and administrative expenses | 33,439 | 34,984 | 31,671 |
| Other expenses, net (Note 14) | 1,617 | 8,691 | 1,156 |
| Operating income | 29,947 | 26,583 | 30,668 |
| Other (expenses) income, net (Note 12A2) | 6,755 | (819) | (14,745) |
| Financing income, net (Note 15) | 987 | 2,100 | 139 |
| Income before income tax | 37,689 | 27,864 | 16,062 |
| Income tax (Note 16) | (11,690) | (5,655) | (6,286) |
| Share in losses of affiliated companies, net | (39) | (23) | (3) |
| Net income for the year | 25,960 | 22,186 | 9,773 |
| Less: Net income attributable to non-controlling interest | (1,080) | (908) | (1,071) |
| Net income attributable to the Company | 24,880 | 21,278 | 8,702 |
| Basic and diluted earnings per share attributable to Company's stockholders (Note 17) | 1.19 | 1.01 | 0.42 |
| Basic and diluted weighted average number of shares outstanding | 20,968 | 20,968 | 20,968 |

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (in thousands) | US dollars | | |
|--|-------------------------|----------|----------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Net income for the year | 25,960 | 22,186 | 9,773 |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments | (2,286) | (9,448) | 5,295 |
| Unrealized loss in respect of derivative financial instruments designated for cash flow hedge, net | - | - | (103) |
| Realized losses in respect of derivative instrument designated for cash flow hedge | - | - | 225 |
| Other comprehensive income (loss) | (2,286) | (9,448) | 5,417 |
| Comprehensive income | 23,674 | 12,738 | 15,190 |
| Less: comprehensive income attributable to non-controlling interests | (963) | (533) | (1,298) |
| Comprehensive income attributable to the Company | 22,711 | 12,205 | 13,892 |

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 | | Additional paid in capital | Accumulated other comprehensive income | Retained earnings | Treasury stock | Non-controlling interests | Total |
|---|------------------------|----------------------------|----------------------------------|---|----------------------|-------------------|------------------------------|----------|
| | Number of shares | Share capital amount | | | | | | |
| US dollars (except for number of shares) | | | | | | | | |
| Balance as of January 1, 2010 | 23,476 | 1,983 | 73,554 | 18,036 | 66,607 | (30,054) | 3,717 | 133,843 |
| Changes during 2010: | | | | | | | | |
| Net income | - | - | - | - | 8,702 | - | 1,071 | 9,773 |
| Other comprehensive income | - | - | - | 5,190 | - | - | 227 | 5,417 |
| Acquisition of non-controlling interests | - | - | (1,627) | - | - | - | (623) | (2,250) |
| Dividend paid | - | - | - | - | (31,620) | - | - | (31,620) |
| Balance as of December 31, 2010 | 23,476 | 1,983 | 71,927 | 23,226 | 43,689 | (30,054) | 4,392 | 115,163 |
| Changes during 2011: | | | | | | | | |
| Net income | - | - | - | - | 21,278 | - | 908 | 22,186 |
| Other comprehensive income | - | - | - | (9,073) | - | - | (375) | (9,448) |
| Dividend paid to non-controlling interest | - | - | - | - | - | - | (767) | (767) |
| Dividend paid | - | - | - | - | (21,782) | - | - | (21,782) |
| Balance as of December 31, 2011 | 23,476 | 1,983 | 71,927 | 14,153 | 43,185 | (30,054) | 4,158 | 105,352 |

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 of shares | Share capital amount | Additional paid in capital | Accumulated other comprehensive income | Retained earnings | Treasury stock | Non-controlling interests | Total |
|---|------------------------|----------------------------|----------------------------------|---|----------------------|-------------------|------------------------------|-----------|
| US dollars (except for number of shares) | | | | | | | | |
| Balance as of January 1, 2012 | 23,476 | 1,983 | 71,927 | 14,153 | 43,185 | (30,054) | 4,158 | 105,352 |
| Changes during 2012: | | | | | | | | |
| Net income | - | - | - | - | 24,880 | - | 1,080 | 25,960 |
| Other comprehensive income | - | - | - | (2,169) | - | - | (117) | (2,286) |
| Dividend paid to non-controlling interest | - | - | - | - | - | - | (1,141) | (1,141) |
| Dividend paid | - | - | - | - | (33,308) | - | - | (33,308) |
| Dividend declared | - | - | - | - | (2,570) | - | - | (2,570) |
| Balance as of December 31, 2012 | 23,476 | 1,983 | 71,927 | 11,984 | 32,187 | (30,054) | 3,980 | 92,007 |

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | US dollars | | |
|---|-------------------------|-----------|-----------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Cash flows from operating activities | | | |
| Net income for the year | 25,960 | 22,186 | 9,773 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation, amortization and impairment of goodwill | 14,671 | 17,801 | 15,875 |
| Exchange differences on principal of deposit and loans, net | 55 | (429) | 839 |
| Gains in respect of trading marketable securities | (2) | (27) | (5) |
| Increase in liability for employee rights upon retirement | 888 | 854 | 667 |
| Share in losses of affiliated companies, net | 39 | 23 | 3 |
| Deferred income taxes | 1,698 | (2,224) | (1,159) |
| Capital losses (gains) on sale of property and equipment, net | 23 | 63 | (299) |
| Decrease (increase) in accounts receivable | (300) | 3,649 | (4,669) |
| Decrease (increase) in other current assets | 2,023 | (1,784) | (3,728) |
| Increase in inventories | (3,609) | (2,985) | (73) |
| Decrease in accounts payable | (372) | (180) | (3,810) |
| Increase in deferred revenues | 1,532 | 1,550 | 1,752 |
| Increase (decrease) in other current liabilities | (2,445) | 7,355 | 3,568 |
| Write-off of account receivable in respect of sale of subsidiary | (484) | - | - |
| Litigation obligation (litigation obligation adjustment) | (7,462) | - | 14,745 |
| Net cash provided by operating activities | 32,215 | 45,852 | 33,479 |
| Cash flows from investment activities | | | |
| Increase in funds in respect of employee rights upon retirement, net of withdrawals | (662) | (563) | (662) |
| Capital expenditures | (9,676) | (16,161) | (18,344) |
| Intangible assets expenditures | - | (74) | (90) |
| Deposit in escrow | - | 8,223 | - |
| Deposit | (291) | 384 | (52) |
| Proceeds from sale of property and equipment | 319 | 614 | 1,286 |
| Investments in marketable securities | - | - | (2,664) |
| Sale of marketable securities | 70 | 1,418 | 5,552 |
| Repayment of loan to a former employee | 355 | - | - |
| Company no longer consolidated (Appendix A) | 326 | - | - |
| Adjustment of proceeds received from sale of subsidiary | - | (4,650) | - |
| Net cash used in investment activities | (9,559) | (10,809) | (14,974) |
| Cash flows from financing activities | | | |
| Short term credit from banking institutions, net | (310) | 299 | 46 |
| Repayment of long term loans | (44) | (46) | (18) |
| Acquisition of non-controlling interests | - | - | (2,250) |
| Dividend paid | (33,308) | (21,782) | (31,620) |
| Dividend paid to non-controlling interest | (1,141) | (767) | - |
| Settlement of litigation obligation in connection with financing transaction | 7,462 | (22,419) | - |
| Net cash used in financing activities | (27,341) | (44,715) | (33,842) |
| Effect of exchange rate changes on cash and cash equivalents | (1,132) | (1,732) | 1,198 |

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| | | | |
|---|----------|-----------|-----------|
| Net decrease in cash and cash equivalents | (5,817) | (11,404) | (14,139) |
| Balance of cash and cash equivalents at beginning of year | 35,270 | 46,674 | 60,813 |
| Balance of cash and cash equivalents at end of year | 29,453 | 35,270 | 46,674 |

Supplementary information on investing and financing activities not involving cash flows:

During the years 2012, 2011 and 2010, the Company purchased property and equipment in an amount of US\$ 357 thousand, US\$ 259 thousand and US\$ 297 thousand, respectively, using a directly related liability.

In November 2012, the Company declared a dividend in the amount of US\$ 2,570 thousands. The dividend will be paid in January 2013.

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 (cont.)

Appendix A – Company no longer consolidated

| (in thousands) | US dollars | |
|---|-------------------------|------|
| | Year ended December 31, | |
| | 2012 | 2011 |
| Working capital (excluding cash and equivalents and inventory), net | 130 | - |
| Account receivable in respect of sale of subsidiary | 430 | - |
| Property and equipment , net | (750) | - |
| Intangible assets | (136) | - |
| | (326) | - |

Supplementary disclosure of cash flow information

| (in thousands) | US dollars | | |
|-----------------------------------|-------------------------|-------|--------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Interest paid | 518 | 470 | 85 |
| Income taxes paid, net of refunds | 8,950 | 9,007 | 10,475 |

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

Ituran Location and Control Ltd. (the “Company”) commenced operations in 1994. The Company and its a. 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 litigation with respect to the sale of the subsidiary Telematics Wireless Ltd., see Note 12A1.

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

d. Regarding the tax dispute in Brazil, see Note 12A3.

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 reported in other comprehensive income and 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 of one US dollar | | Israeli CPI(*) |
|-----------------|-----------------------------------|--------|-------------------|
| | NIS | Real | |
| At December 31, | | | |
| 2012 | 3.733 | 2.0435 | 112.15 points |
| 2011 | 3.821 | 1.8758 | |

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| | | | | | |
|--------------------------------------|----------|--|----------|--------|--------|
| | | | | 110.34 | |
| | | | | points | |
| | | | | 108.00 | |
| 2010 | 3.549 | | 1.6662 | | points |
| Increase (decrease) during the year: | | | | | |
| 2012 | (2.30)% | | (8.94)% | 1.6 | % |
| 2011 | 7.66 % | | 12.57 % | 2.2 | % |
| 2010 | (5.99)% | | (4.31)% | 2.7 | % |

(*) Based on the Index for the month ending on each balance sheet date, on the basis of 2008 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from the estimates.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to contingencies, revenue recognition, valuation of goodwill, deferred taxes and tax liabilities and uncertainties.

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 are used to ensure certain representations and warranties to third parties. 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, 2011, 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 gains for the years 2012, 2011 and 2010, in respect of trading securities held by the Group were insignificant.

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, the length of time that the balance is post due, the customer's current ability to pay and available information about the credit risk on such customers. See also Note 20A.

The allowance in respect of accounts receivable at December 31, 2012 and 2011 was US\$ 1,356,000 and US\$ 1,302,000, 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 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 nor significant influence are accounted for at cost, net of write down for any permanent decrease in value.

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.

From time to time 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.

See also Notes 15 and 20B for further information.

L. Property and equipment

- 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).

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 16K.

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, as amended by ASU No. 2011-08, "Testing for Impairment", which amendment was early adopted by the Company in its annual consolidated financial statements for the year ended December 31, 2011, the Company chooses either to perform a qualitative assessment wheatear the two-step goodwill impairment test is necessary or proceeds directly to the two-step goodwill impairment test. Such determination is made for each reporting unit on a stand-alone basis. The qualitative assessment includes various factors such as macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, earnings multiples, gross margin and cash flows from operating activities and other relevant factors.

When the Company chooses to perform a qualitative assessment and determines that it is more likely than not (a more than 50 percent likelihood) that the fair value of the reporting unit is less than its carrying value, then the Company proceeds to the two-step goodwill impairment test. If the Company determines Otherwise, no further evaluation is necessary.

When the Company decides or is required to perform the two-step goodwill impairment test, the Company compares the fair value of the 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 to be 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").

The Company applies assumptions that market participants would consider in determining the fair value of each reporting unit and the fair value of the identifiable assets and liabilities of the reporting units, as applicable.

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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.)

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.

During 2012, 2011 and 2010, the Company recorded an impairment loss in an amount of US\$ 672,000, US\$ 904,000 and US\$ 157,000, respectively. See Note 8.

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 its subsidiaries are involved in certain legal proceedings that arise from time to time in the ordinary course of their 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. Legal expenses associated with contingencies are expensed as incurred.

Q. Funds in respect of, and 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, 2012, 2011 and 2010, amounted to US\$ 1,204,000, US\$ 1,172,000 and US\$ 770,000, respectively.

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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

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. The Company applies the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. For such arrangements, each element of the contract is accounted for as a separate unit when it provides the customer value on a stand-alone basis and if an arrangement includes a right of return relative to a delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in the control of the Company. According to ASC 605-25, as amended, when neither "vendor specific objective evidence" of selling price, nor third party price exists, the Company is required to develop a best estimate of the selling price of the deliverables and the entire arrangement consideration is allocated to the deliverables based on the relative selling prices.

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, 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. Deferred revenues include unearned amounts received from customers (mostly for the provision of installation and subscription services) but not yet recognized as revenues. Such deferred revenues are recognized as described in paragraph 2, above.
4. 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.

5. Extended warranty

Revenues from extended warranty which are provided for a monthly fee and are sold separately are recognized over the duration of the warranty periods.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

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, 2012, 2011 and 2010 amounted to US\$ 6.6 million, US\$ 6.4 million and US\$ 6.6 million, respectively. Advertising expenses are presented among "selling and marketing expenses".

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 treasury stock.

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.

W. Fair value measurements

The Company measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities. 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

W. Fair value measurements (cont.)

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 20C.

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. As of December 31, 2012, the Company measured the fair value of goodwill with a total carrying amount of US\$ 5.2 million that is allocated to certain reporting units. As a result of the above impairment test, the Company recorded an impairment loss of goodwill with a carrying amount of US\$ 1.2 million to its implied fair value of US\$ 0.5 million resulting an impairment charge of US\$ 0.7 million with respect to one of the reporting units that were tested for impairment. The fair value measurement of the non-financial assets is classified as level 3.

As of December 31, 2011, the Company measured the fair value of goodwill with a total carrying amount of US\$ 5.8 million that is allocated to certain reporting units. As a result of the above impairment test, the Company recorded an impairment loss of goodwill with a carrying amount of US\$ 2 million to its implied fair value of US\$ 1.3 million resulting an impairment charge of US\$ 0.7 million with respect to one of the reporting units that were tested for impairment. The fair value measurement of the non-financial assets is classified as level 3.

See also Notes 10 and 8.

X. 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 for revenue recognition purposes 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 life of the related subscription arrangements by the straight-line method (usually 20 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.)

Y. 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.

Z. Recently issued accounting pronouncements

a. ASC Topic 220, "Comprehensive Income"

Effective January 1, 2012, the Company adopted retrospectively the provisions of Accounting Standard Update 1. No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements (as applied by the Company).

The adoption of ASU 2011-05 did not have a material impact on the consolidated financial statements but resulted in a change in the presentation manner of other comprehensive income items.

In February 2013, the FASB issued Accounting Standard Update No. 2013-02 "Comprehensive Income (Topic 2. 220) "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income" (ASU 2013-02). ASU 2013-02 requires an entity to provide information about amounts reclassified out of accumulated other comprehensive income.

According to ASU 2013-02, significant items that are required under U.S. GAAP to be reclassified to net income in their entirety shall be presented by the respective line items of net income either on the face of the financial statements or in the footnotes. Items that are not required under U.S. GAAP to be reclassified to net income in their entirety, will be required to be cross-referenced to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

ASU 2013-02 is effective for public entities prospectively for annual and interim reporting periods beginning after December 15, 2012 (fiscal year 2013 for the Company).

The adoption of ASU 2013-02 is not expected to have a material impact on the financial position or results of operations of the Company, but might result in disclosure of additional information about amounts reclassified out of accumulated other comprehensive income.

b. ASC Topic 210, "Balance Sheet"

In December 2011, the FASB issued Accounting Standard Update (ASU) 2011-11, "Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11). ASU 2011-11 enhances disclosures about financial instruments and derivative instruments that are either offset in accordance with the Accounting Standards Codification or are subject to an enforceable master netting arrangement or similar agreement.

The amended guidance will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (fiscal year 2013 for the Company) and should be applied retrospectively to all comparative periods presented.

In January 2013, the FASB issued Accounting Standard Update No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities”. The Company believes that the adoption of both the standard and the update will not have a material impact on the consolidated financial statements.

The Company is currently evaluating the impact that the adoption of ASU 2011-11 would have on its consolidated financial statements, if any.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

Z. Recently issued accounting pronouncements (cont.)

c. ASC Topic 830, "Foreign Currency Matters"

In March 2013, the FASB issued Accounting Standards Update (ASU) 2013-5, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity".

ASU 2013-5 clarifies that, when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-5 also clarifies that if the business combination achieved in stages relates to a previously held equity method investment (step-acquisition) that is a foreign entity, the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

For public companies, the amendments in this Update will be effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

The Company is currently evaluating the impact that the adoption of ASU 2013-5 would have on its consolidated financial statements, if any.

NOTE 2 - OTHER CURRENT ASSETS

| | US dollars December 31, | |
|--------------------------------|----------------------------|--------|
| (in thousands) | 2012 | 2011 |
| Prepaid expenses and others | 6,094 | 3,221 |
| Government institutions | 3,156 | 4,974 |
| Deferred installation expenses | 2,647 | 3,133 |
| Deferred income taxes (*) | 2,497 | 2,772 |
| Advances to suppliers | 865 | 954 |
| Employees | 135 | 103 |
| Related parties | 5 | 8 |
| | 15,399 | 15,165 |

(*)

See Note 16.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 3 - INVENTORIES

| (in thousands) | US dollars December 31, | |
|-------------------|----------------------------|--------|
| | 2012 | 2011 |
| Finished products | 12,222 | 9,496 |
| Raw materials | 2,525 | 1,289 |
| Work in progress | - | 96 |
| | 14,747 | 10,881 |

NOTE 4 - INVESTMENTS IN AFFILIATED AND OTHER COMPANY

A. Investment in affiliated company

Ecomtrade Ltd. ("Ecomtrade")

The Company holds 50% of the shares of Ecomtrade.

The balance of the Company's investment in Ecomtrade as of December 31, 2012 and 2011 was US\$ 160,000 and US\$ 207,000, respectively. As of December 31, 2012 and 2011, these balances included a loan in the amount of US\$ 249,000 and US\$ 234,000, respectively.

The loan is linked to the Israeli Consumer Price Index and bears no interest. The maturity date of the loan has not been determined.

B. Investment in other company

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, 2012 and 2011 was US\$ 82,000 and US\$ 80,000 respectively.

NOTE 5 - OTHER NON-CURRENT ASSETS

US dollars
December 31,

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| (in thousands) | 2012 | 2011 |
|--------------------------------|-------|-------|
| Government institutions | 700 | 1,459 |
| Deferred installation expenses | 540 | 406 |
| Deposits | 650 | 351 |
| | 1,890 | 2,216 |

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

NOTE 6 - PROPERTY AND EQUIPMENT, NET

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

| (in thousands) | US dollars | |
|---|--------------|-----------|
| | December 31, | |
| | 2012 | 2011 |
| Operating equipment (*) | 49,793 | 66,695 |
| Office furniture, equipment and computers | 22,976 | 21,183 |
| Land | 1,022 | 1,022 |
| Buildings | 2,731 | 3,067 |
| Vehicles | 3,389 | 3,196 |
| Leasehold improvements | 2,640 | 2,528 |
| | 82,551 | 97,691 |
| Less – accumulated depreciation and amortization (**) | (48,395) | (56,821) |
| | 34,156 | 40,870 |

(*)As December 31, 2012 and 2011, an amount of US\$ 28.8 million and US\$ 45.2 million is subject to operating lease transactions, respectively.

(**)As at December 31, 2012 and 2011, an amount of US\$ 14.2 million and US\$ 25.5 million is subject to operating lease transactions, respectively.

B. In the years ended December 31, 2012, 2011 and 2010, depreciation expense was US\$ 13.3 million, US\$ 16.1 million and US\$ 14.7 million, respectively and additional equipment was purchased in an amount of US\$ 9.7 million, US\$ 16.5 million and US\$ 18.6 million, respectively.

C. After deduction of the cost and the accumulated depreciation of items fully depreciated.

NOTE 7 - INTANGIBLE ASSETS, NET

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

| (in thousands) | US dollars | | | |
|----------------|-----------------|--------------------------|---------------------|---------------------|
| | 2012 | December 31, 2012 | 2012 | December 31, 2011 |
| | Original amount | Accumulated amortization | Unamortized balance | Unamortized balance |
| GIS database | 4,052 | (2,253) | 1,799 | 2,148 |
| Customer base | 1,191 | (1,191) | - | 180 |
| Brand name | 1,230 | (460) | 770 | 839 |
| Others (*) | 5,719 | (5,697) | 22 | 188 |
| | 12,192 | (9,601) | 2,591 | 3,355 |

Amortization of intangible assets amounted to US\$ 703,000 US\$ 818,000 and US\$ 1,059,000 for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the estimated aggregate amortization of intangible assets for the next five years is as follows: 2013 – US\$ 473,000; 2014 – US\$ 473,000; 2015 – US\$ 473,000, 2016 – US\$ 473,000, 2017 – US\$ 272,000.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 8

GOODWILL

A. The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows:

| (in thousands) | Location based services | US dollars Wireless communications products | Total |
|---------------------------------|-------------------------------|--|--------|
| Balance as of January 1, 2011 | 5,503 | 4,576 | 10,079 |
| Changes during 2011: | | | |
| Impairment | (904) | - | (904) |
| Translation differences | (334) | (327) | (661) |
| Balance as of December 31, 2011 | 4,265 | 4,249 | 8,514 |
| Changes during 2012: | | | |
| Impairment (See B. below) | (672) | - | (672) |
| Translation differences | 99 | 102 | 201 |
| Balance as of December 31, 2012 | 3,692 | 4,351 | 8,043 |

B. During 2012, 2011 and 2010, the Company recorded an amount of US\$ 672,000, US\$ 904,000 and US\$ 157,000, respectively, as impairment with respect to goodwill.

The impairment amount was included in "other expenses, net". See Note 14.

The Company performed its annual impairment test as of December 31, 2011 and recorded goodwill impairment in the total amount of US\$ 0.7 million in connection with a certain reporting unit within the Location Based Services segment operating in the internet portal in the field of local travel and recreation. The impairment was based on valuation performed by a third party appraiser in accordance with the income approach. The material assumptions used for the assessment were 3 years of projected net cash flows, a discount rate of 18.4% and a long-term growth rate of 0% (See Note 1W regarding fair value measurement).

The Company performed its annual impairment test as of December 31, 2012 and recorded goodwill impairment in the total amount of US\$ 0.7 million in connection with a certain reporting unit within the Location Based Services segment operating in the internet portal in the field of local travel and recreation. The impairment was based on valuation performed by a third party appraiser in accordance with the income approach. The material assumptions used for the assessment were 3 years of projected net cash flows, a discount rate of 19% and a long-term growth rate of 2% (See Note 1W regarding fair value measurement).

As part of the impairment amount recognized in 2011 and 2010, the Company recorded an impairment amount of US\$ 136,000 and US\$ 157,000, respectively, with respect to the remaining balance of goodwill allocated to a reporting unit comprised the activities of the US subsidiary on which operates in the location based services in the US. The impairment was based on a valuation performed by management. As of December 31, 2012, the entire balance of goodwill with respect to this reporting unit was written off.

See also Notes 10.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE-CREDIT FROM BANKING INSTITUTIONS

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| A. (in thousands) | Composition: | |
|---------------------------------------|----------------------------|------|
| | US dollars December 31, | |
| | 2012 | 2011 |
| Revolving credit – in NIS | 45 | 347 |
| Current maturities of long-term loans | 176 | 43 |
| | 221 | 390 |

B. Lines of credit

Unutilized short-term lines of credit of the Group as of December 31, 2012, aggregated to US\$ 0.5 million.

C. Liens – see Note 12B.

NOTE-OTHER CURRENT LIABILITIES

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Composition:

| (in thousands) | US dollars December 31, | |
|---|----------------------------|--------|
| | 2012 | 2011 |
| Accrued expenses (*) | 10,092 | 11,800 |
| Employees and institutions in respect thereof | 4,463 | 3,363 |
| Government institutions | 4,260 | 5,062 |
| Related party | 125 | 47 |
| Accrued dividend | 2,570 | - |
| Others | 863 | 694 |
| | 22,373 | 20,966 |

(*)As of December 31, 2012 and 2011 includes approximately US\$5.8 million and US\$7.9 million respectively, regarding the legal fees resulting from the claim described in Note 12A3.

NOTE 11 - LONG-TERM LOANS FROM BANKING INSTITUTIONS

A. Composition:

Interest
rates as of
US dollars
December 31,

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| (in thousands) | December 31, 2012 | 2012 | 2011 |
|--------------------------|-------------------------|--------|-------|
| | % | | |
| In NIS (unlinked) | 4.75 % | 176 | 216 |
| Less- current maturities | - | (176) | (43) |
| | | - | 173 |

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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). 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.

In 2008, the Company received a notice from the Purchaser (ST (Infocomm) Ltd. ("ST")), claiming that based on Telematics' performance parameters, the purchase price needs to be decreased by an amount of approximately US\$ 10 million (out of which \$3 million was recognized as a provision according to management estimate as of the date of such claim. The Company rejected the Purchaser's claims and requested that certain amounts be released from the Adjustment Escrow Amount in accordance with the terms of the agreement with the purchaser. 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 be available to the Company. The remainder funds held in the Adjustment Escrow Amount remained in escrow as of that date until October 2011, when an agreement between the parties determined that the sum of US\$4.4 million (and interest accrued thereon) be released from the Adjustment Escrow Amount to the purchaser and that the Company shall waive its claims with regard to the adjustment of the purchase price. In addition, an amount of US\$3 million was released to the Company from the second escrow account (in which originally the sum of US\$7.5 million out of the purchase price was deposited), without derogating from the purchaser's claims for indemnification under the purchase agreement.

In October 2011, an amount of US\$ 4.65 million was released to ST. The remainder of US\$ 4.9 million of the Escrow Amount shall remain in escrow until ST's arbitration is resolved.

On December 21, 2009, the Company also received from ST a letter seeking indemnification for an alleged breach of certain representations by the Company under the purchase agreement, claiming damages in an amount of approximately US\$ 4.3 million. ST's letter also included an allegation in respect of a possible and additional breach of representation in an additional amount of approximately US\$ 4.3 million. The Company and ST entered into arbitration proceedings in Israel in which ST claims damages in the amount of approximately US\$ 10.3 million (which amount is considered as the reasonably possible loss amount). Currently, the parties are undergoing discovery proceedings following the filing of a statement of claim and statement of defense on the part of ST and the Company respectively. A preliminary arbitration meeting took place on April 17, 2013. Due to the early stages of proceedings, it is difficult to assess the Company's chances of success, however, based on the assessment of its legal counsel, management believes that the claims made by ST as stated in their letter have no merits and intend to vigorously defend themselves against such claims. Therefore, no provision amount was recognized with respect to

ST's claims.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. Claims (cont.)

2. The Company was involved in litigation with Leonardo L.P. (hereinafter: "Leonardo"), a US-based hedge fund, arising out of a financial transaction entered into between the Company and Leonardo in February 2000 as described in the Company's annual report for the year 2011. On June 13, 2011, the district court in its decision accepted one of Leonardo's claims and 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 at that time), which total approximately the sum of NIS 78.7 million (approximately US\$22.7 million at that time). The Company filed an appeal with the Supreme Court, in which it appealed the district court's decision dated June 13, 2011 as well as the legal expenses and costs which they were ordered to pay according to the district court's decision. Leonardo counter-appealed the district court's decision in dismissing Leonardo's three alternative claims in addition to the court's decision to apply interest by law and not default interest under the terms of the financial transaction between Leonardo and the Company as well as the legal expenses and costs which they were ordered to pay.

As a result of the above district court decision, the Company has recorded an expense (among the balance "other non-operating expenses") in the sum of approximately US\$ 14.7 million in the consolidated statements of income of fiscal year 2010. The expense amount represented the excess over the US\$ 5.9 million that was presented in past period as Capital Notes with respect to Leonardo. During 2011 US\$0.6 million was recorded as adjustment.

In October 2011, the Company paid Leonardo an amount of US\$ 22.4 million. Pursuant to the district court's determination, the payment amount was placed in escrow under the control of Leonardo, until the consummation of legal proceedings between the parties.

On July 25, 2012, Leonardo and the Company settled the mutual claims against one another in a settlement agreement that annulled the decision of the district court dated June 13, 2011 and determined that out of the sum of NIS 81.9 million (approximately US\$22.4 million at that time) which was deposited in escrow, the sum of approximately NIS 49.7 million (approximately \$12.2 million at that time) was released to Leonardo and the sum of approximately NIS 32.2 million (approximately \$7.4 million at that time) was released to the Company. In addition, it was determined that any surplus amount in the escrow account shall be released to Leonardo and the Company at the ratio of 60-40. Accordingly, the Company received in December 2012 approximately the total sum of NIS 1,000,000 (approximately \$260,000) out of the deposit account.

Following the above settlement, the Company recorded an amount of US\$ 6.7 million, net of related expenses as a non-operating income, in its 2012 fiscal year financial statements. In December 2012, the Company received the settlement amount.

3. 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. (the "subsidiary"), 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 was in the amount, at the time of serving upon the subsidiary the notice 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). As of December 31, 2012, the aggregate sum claimed pursuant to the tax deficiency notice (principal amount, interest and penalties) is estimated at R\$195,600,000 (approximately \$95.0 million). The decision of the administration first level was unfavorable to the subsidiary and the subsidiary has 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.)

3. (cont.)

On March 2, 2012 the Administrative Court of the State of São Paulo dismissed the State Revenue Services of São Paulo's claims and resolved in the subsidiary's favor. The State of São Paulo filed an administrative appeal to a full bench session at the Administrative Court and the subsidiary is currently waiting the decision of the Administrative Court. In case the State of São Paulo is successful at the Administrative appeal, the subsidiary will be entitled to challenge the Administrative Court's decision in a court of law. The subsidiary received a legal opinion from a prominent law firm in Brazil that the merits of the case are overwhelmingly favorable to the subsidiary, 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. Management believes, based on the legal opinion of the subsidiary's Brazilian legal counsel and considering the results of the Administrative Court's decision in favor of the subsidiary, that the chances of success are highly probable.

As a result of the above, as of December 31, 2012, no provision has been made with respect to the litigation. However, in respect of the legal fees of the aforementioned claim, US\$ 7.9 million was recorded in the subsidiary's financial statements as of December 31, 2011. As of December 31, 2012, an amount of US\$ 5.8 million out of the legal fees amount has not been settled (based on the tax deficiency notice described above, the reasonably possible loss amount is approximately US\$ 95.0 million (including interest and penalties)). That said, if the subsidiary's efforts are unsuccessful, this could result in significant costs to the subsidiary and adversely affect the results of operations.

4. On June 24, 2010, the Brazilian Internal Revenue Service issued a tax assessment that claimed a payment of R\$ 7,571,164 (approximately US\$ 4.18 million which is considered as the reasonably possible loss amount), including interest and penalties due to the offsetting on October 1, 2005, of a receivable amount held by a Dutch subsidiary of the Company (Ituran Beheer BV) and its Brazilian subsidiary (Ituran Sistemas de Monitoramento Ltda). The decision of the administration first level held in May 2011, was unfavorable to the subsidiary and therefore the subsidiary has filed an appeal to the Administrative Court of Appeals in São Paulo and await the decision of the Administrative Court of Appeal. Management believes, based on the legal opinion of the subsidiary's Brazilian legal counsel that such claim is without merit and will continue to vigorously defend itself in the appeal proceedings. As of December 31, 2012, the aggregate sum claimed pursuant to the tax deficiency notice (principal amount, interest and penalties) is estimated at R\$8.6 million (approximately \$4.2 million). As a result of the above as of December 31, 2012, no provision has been made with respect to the Brazilian IRS claim.

5. 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.

On March 5, 2012 the court approved a settlement without admission reached with the plaintiff, for a payment of an immaterial amount as reimbursement of the plaintiff's legal fees and dismissal of the lawsuit as a class action.

6. 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 the Notes above) that are material, individually or in the aggregate, to the consolidated financial statements as a whole.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

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, 2012, the Group's liabilities to banks are insignificant.

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, 2012, minimum future rentals under operating leases of buildings for periods in excess of one year were as follows: 2013 – US\$ 1.9 million; 2014 – US\$ 0.5 million; 2015 – US\$ 0.3 million, 2016 – US\$ 0.1 million and 2017 – US\$ 30 thousand.

The leasing fees expensed in each of the years ended December 31, 2012, 2011 and 2010, were US\$ 2.8 million, US\$ 2.9 million and US\$ 2.8 million, respectively.

2. In January 2008, 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, described in Note 12A1, above), 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.

As of December 31, 2012 and 2011, the Company is obliged to purchase from Telematics products in an aggregate amount of approximately US\$ 1.5 million and US\$ 8.9 million, respectively.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 13 - STOCKHOLDERS' EQUITY

A. Share capital

1. Composition:

| December 31, 2012 and 2011 | 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.

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 Directors 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.

As of December 31, 2012, the Company repurchased 2,507,314 ordinary shares for an aggregate amount of US\$ 27.1 million.

5. As of December 31, 2012, 2011 and 2010, 10.7% of the share capital of the Company is held by the Group as treasury shares.

6. Shares of the Company held by the Group have no voting rights.

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 November 2009, the board of directors of the Company revised the dividend policy to provide for an annual dividend distribution from 25% of net income to 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.

3. On February 21, 2012, the board of directors of the Company revised its dividend policy so that their dividends will be declared and distributed on a quarterly basis in an amount not less than 50% of their net profits, calculated on the basis of the interim financial statements.

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 declaration. See also B1, above.
5. In February 2010, the Company declared a dividend in an amount of US 1.5 dollar per share, totaling 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.
6. In February 2011, the Company declared a dividend in the amount of US 1.00 dollar per share, totaling approximately US\$ 21.8 million (NIS 78.8 million). The dividend was paid in April 2011.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 13 - STOCKHOLDERS' EQUITY (cont.)

B. Retained earnings (cont.)

7. In February 2012, the Company declared a dividend in the amount of US 1.23 dollar per share, totaling approximately US\$ 25.8 million (NIS 96 million). The dividend was paid in April 2012.

8. In May 2012, the Company declared a dividend in the amount of US 0.12 dollar per share, totaling approximately US\$ 2.5 million (NIS 9.7 million). The dividend was paid in June 2012.

9. In August 2012, the Company declared a dividend in the amount of US 0.24 dollar per share, totaling approximately US\$ 5.2 million (NIS 20 million). The dividend was paid in October.

10. In November 2012, the Company declared a dividend in the amount of US 0.12 dollar per share, totaling approximately US\$ 2.6 million (NIS 9.7 million). The dividend was paid in January 2013.

11. In February 2013, the Company declared a dividend in the amount of US 0.33 dollar per share, totaling approximately US\$ 7 million (NIS 25.4 million). The dividend was paid in April 2013.

NOTE 14 - OTHER EXPENSES, NET

| (in thousands) | US dollars | | |
|--|-------------------------|-------|-------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Adjustment of purchase price of subsidiary (1) | - | - | 975 |
| Impairment of goodwill (2) | 672 | 904 | 157 |
| Legal expenses (3) | - | 7,863 | - |
| Write-off of account receivable in respect of sale of subsidiary (4) | 484 | - | - |
| Other | 461 | (76) | 24 |
| | 1,617 | 8,691 | 1,156 |

(1) See Note 12A1.

(2) See Note 8.

(3) See Note 12A3.

(4) During April 2012, the Company sold its entire holding in the subsidiary Ituran Cellular Communication Ltd. for US\$ 0.3 million in cash and for an additional amount of approximately US\$ 0.5 million that was required to be paid soon thereafter. However, during late 2012, the acquirer entered into liquidation proceedings by its creditors and therefore due to the significant uncertainty regarding the collection of this debt, the entire amount was written-off.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - FINANCING INCOME, NET

| (in thousands) | US dollars | | |
|---|-------------------------|--------|----------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Short-term interest expenses, commissions and other | (873) | (224) | (404) |
| Gains (losses) on derivative financial instruments | - | (314) | 819 |
| Gains in respect of marketable securities | 2 | 22 | 30 |
| Interest expenses in respect of long-term loans | (8) | (12) | (4) |
| Interest income in respect of deposit | 1,770 | 1,817 | 1,168 |
| Exchange rate differences and others, net | 96 | 811 | (1,470) |
| | 987 | 2,100 | 139 |

NOTE 16 - INCOME TAX

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

| (in thousands) | US dollars | | |
|----------------------------------|-------------------------|----------|----------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Income taxes (tax benefit): | | | |
| Current taxes: | | | |
| In Israel | 4,896 | 2,003 | 3,191 |
| Outside Israel | 6,013 | 6,530 | 5,396 |
| | 10,909 | 8,533 | 8,587 |
| Deferred taxes: | | | |
| In Israel | (249) | 1,425 | (1,877) |
| Outside Israel | 1,204 | (3,564) | 804 |
| | 955 | (2,139) | (1,073) |
| Taxes in respect of prior years: | | | |
| In Israel | (126) | (739) | (1,228) |
| Outside Israel | (48) | - | - |
| | (174) | (739) | (1,228) |
| | 11,690 | 5,655 | 6,286 |

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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - INCOME TAX (cont.)

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

1. Commencing 2008, a certain Israeli subsidiary of the Company was granted "beneficiary enterprise" status as defined under the investment law. As such, the subsidiary was entitled to tax exemption for the duration of 2 years.
2. In December 2010, the Israeli parliament passed the Economic Policy Law for 2011 and 2012 (Legislative Amendments) - 2011 which set out, among other things, amendments to the investment law, effective January 1, 2011. The amendment changes introduced a new status of "Preferred Company" and "Preferred Enterprise". Accordingly on the preferred revenues (as determined on the investment Law) applies uniform tax rates which are, in 2011 and 2012, 15%, in 2013 and 2014, 12.5%, and in 2015 and thereafter, 12%. The reduced tax rates will be granted for an unlimited period of time to a Preferred Enterprise that meets the conditions set out in the law.
3. Due to the changes made in the Investment Law subsidiaries of the Company were entitled to reduce tax rate as detailed above in the 2011 tax year. Accordingly, the tax imposed on the subsidiaries preferred revenues for the year 2011 was set at a rate of 15%.
4. As of December 31, 2012, only one Israeli subsidiary is entitled to a "Preferred Company" status pursuant to the investment law.

D. Reduction in corporate tax rates

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%.

On December 6, 2011, the Law for the Change in the Tax Burden (Legislative Amendments) – 2011 was publicized. As part of the law, among other, the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010) – 2009 and the Income Tax Ordinance (New Version) – 1961 were amended whereby, commencing 2012, the blueprint for the reduction in the corporate tax rates was cancelled and the corporate tax rate was set at 25%, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

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

As of December 31, 2012, the Company and its subsidiaries in Brazil and Argentina have no carry forward tax losses.

Carry forward tax losses of an Israeli subsidiary as of December 31, 2012 amount to approximately US\$ 0.9 million. Carry forward tax losses in Israel may be utilized indefinitely.

As of December 31, 2012, the Company's non Israeli subsidiary in the United States has available estimated carry forward foreign tax credits tax approximately US\$ 11.5 million. Such carry forward tax losses may be utilized until 2022.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16

INCOME TAX (cont.)

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, | | | | | |
| | 2012 | | 2011 | | 2010 | |
| Pretax income | 37,689 | | 27,864 | | 16,062 | |
| Statutory tax rate | 25 | % | 24 | % | 25 | % |
| Tax computed at the ordinary tax rate | 9,422 | | 6,687 | | 4,016 | |
| Nondeductible expenses | 418 | | 506 | | 290 | |
| Losses in respect of which no deferred taxes were generated (including reduction of deferred tax assets recorded in prior period) | 1,087 | | 757 | | 2,028 | |
| Deductible financial expenses recorded to additional paid-in capital | (244 |) | 136 | | (331 |) |
| Taxes in respect of prior years | (174 |) | (739 |) | (1,228 |) |
| Tax adjustment in respect of different tax rates | 1,734 | | 821 | | 1,726 | |
| Utilization of losses of prior years in respect of which no deferred taxes were generated | - | | (1,292 |) | (409 |) |
| Taxes in respect of withholding at the source from royalties and dividends | 853 | | 177 | | 148 | |
| Adjustment in respect of tax rate deriving from "approved enterprises" | (233 |) | (801 |) | - | |
| Others | (1,173 |) | (597 |) | 46 | |
| | 11,690 | | 5,655 | | 6,286 | |

I. Summary of deferred taxes

Composition:

| (in thousands) | US dollars | |
|--|-------------------------|-------|
| | Year ended December 31, | |
| | 2012 | 2011 |
| Deferred taxes included in other current assets: | | |
| Provision for employee related obligations | 115 | 97 |
| Provision for legal obligation | 2,382 | 2,675 |
| | 2,497 | 2,772 |

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - INCOME TAX (cont.)

I. Summary of deferred taxes (cont.)

Composition:

| (in thousands) | US dollars Year ended December 31, | |
|--|--|----------|
| | 2012 | 2011 |
| Long-term deferred income taxes: | | |
| Provision for employee related obligations | 534 | 450 |
| Carry forward tax losses | 3,188 | 3,892 |
| Temporary differences, net | 2,201 | 2,523 |
| | 5,923 | 6,865 |
| Valuation allowance | (2,392) | (2,089) |
| | 3,531 | 4,776 |

Composition:

| (in thousands) | US dollars Year ended December 31, | |
|--|--|--------|
| | 2012 | 2011 |
| Deferred income taxes included in long-term investments and other assets | 4,174 | 5,568 |
| Deferred income taxes included in long-term liabilities | (643) | (792) |
| | 3,531 | 4,776 |

J. Income before income taxes is composed as follows:

| (in thousands) | US dollars Year ended December 31, | | |
|--|---------------------------------------|--------|----------|
| | 2012 | 2011 | 2010 |
| The Company and its Israeli subsidiaries | 20,060 | 19,680 | (2,664) |
| Non-Israeli subsidiaries | 17,629 | 8,184 | 18,726 |
| | 37,689 | 27,864 | 16,062 |

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - 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, 2010 | 4,619 |
| Translation differences | (276) |
| Decrease related to settlements (*) | (4,343) |
| Balance at January 1, 2011 | - |
| Additions based on tax positions related to the current year | 1,504 |
| Balance at December 31, 2011 | 1,504 |
| Decrease related tax positions of prior years | (1,076) |
| Translations differences related to the current year | 11 |
| Balance at December 31, 2012 | 439 |

The Company anticipates that it is reasonably possible that over the next twelve months the amount of unrecognized tax benefits could be reduced to zero, therefore as of December 31, 2012, the liability with respect to uncertain tax positions is presented as short-term liability in the balance sheet (within "Other current liabilities").

(*)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 which related to the tax uncertainties that were settled. The difference between the balance of the unrecognized tax benefits and the amount settled with the tax authorities (an amount of \$1.23 million) was presented within taxes in respect of prior years, in fiscal year 2010.

NOTE-EARNINGS PER SHARE

17

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, 2012, 2011 and 2010, are as follows:

| | US dollars | | |
|---|-------------------------|--------|-------|
| | Year ended December 31, | | |
| (in thousands) | 2012 | 2011 | 2010 |
| Net income attributable to stockholder's used for the computation of basic and diluted earnings per share | 24,880 | 21,278 | 8,702 |

Number of shares

| (in thousands) | Year ended December 31, | | |
|---|-------------------------|--------|--------|
| | 2012 | 2011 | 2010 |
| Weighted average number of shares used in the computation of basic and diluted earnings per share (*) | 20,968 | 20,968 | 20,968 |

(*)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 and thereafter. (See Note 12A2). Other than the capital notes, there are no potential shares in all reported periods.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE-RELATED PARTIES

18

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 2012, US\$ 280 thousand and US\$ 189 thousand, respectively (In 2011 US\$ 280 thousand and US\$ 198 thousand, respectively.)

Tzivtit Insurance is entitled to commissions in an aggregate amount of NIS 278 thousand (US\$ 72 thousand) to be paid to Tzivtit Insurance by the insurance company on account of these policies. (US\$ 50 thousand and US\$ 65 thousand in 2011 and 2010, respectively.)

C. 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, President and Director. The agreement includes, among other things, the cost of Mr. Izzy Sheratzky's monthly employment in an amount of NIS 98,000 (US\$ 25,000), 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 Israeli Companies 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 Israeli Companies 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 2012, 2011 and 2010 (including with respect to B. above), were approximately US\$ 2,691,000, US\$ 2,618,000 and US\$ 2,284,000, respectively.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 - RELATED PARTIES (cont.)

D. In accordance with an agreement with a related party (as amended), Prof. Yehuda Kahane, for financial consulting, the Company is required to pay the consultant monthly consulting fees 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 2012, 2011 and 2010 was approximately US\$ 56,000, US\$ 59,000 and US\$ 55,000, respectively.

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\$ 6,700), 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 Co-CEO of the Company. 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 2012, 2011 and 2010 was approximately US\$ 203,000 US\$ 196,000 and US\$ 175,000, respectively.

Whereas the term of the agreement exceeds three years, under recent amendments to the Israeli Companies 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 19 - SEGMENT REPORTING

A. General information:

The operations of the Group are conducted through two different core activities: Location- Based Services and Wireless Communications Products. These activities also represent the reportable segments of the Group.

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 Group 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, and

automatic vehicle identification. The Group sells products to customers in Israel, United States, and others.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19 - SEGMENT REPORTING (cont.)

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

| (in thousands) | US dollars | | | Total |
|-------------------------------------|-------------------------|----------------------------------|-------|---------|
| | Location based services | Wireless communications products | Other | |
| Year ended December 31, 2012 | | | | |
| Revenues | 114,565 | 35,753 | - | 150,318 |
| Operating income | 29,604 | 343 | - | 29,947 |
| Assets | 64,332 | 9,129 | - | 73,461 |
| Goodwill | 3,692 | 4,351 | - | 8,043 |
| Expenditures for assets | 7,636 | 77 | - | 7,713 |
| Depreciation and amortization | 11,472 | 130 | - | 11,602 |
| Year ended December 31, 2011 | | | | |
| Revenues | 120,410 | 39,757 | - | 160,167 |
| Operating income | 22,468 | 4,115 | - | 26,583 |
| Assets | 71,100 | 7,696 | 990 | 79,786 |
| Goodwill | 4,265 | 4,249 | - | 8,514 |
| Expenditures for assets | 12,982 | 188 | - | 13,170 |
| Depreciation and amortization | 14,376 | 127 | - | 14,503 |
| Year ended December 31, 2010 | | | | |
| Revenues | 108,101 | 39,724 | - | 147,825 |
| Operating income | 31,994 | (1,326) | - | 30,668 |
| Assets | 71,101 | 9,255 | 1,454 | 81,810 |
| Goodwill | 5,503 | 4,576 | - | 10,079 |
| Expenditures for assets | 14,755 | 210 | - | 14,965 |
| Depreciation and amortization | 12,470 | 89 | - | 12,559 |

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

The evaluation of performance is based on the operating income of each of the two reportable segments.

Accounting policies of the segments are the same as those described in the accounting policies applied in the consolidated 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 19 - SEGMENT REPORTING (cont.)

D. Reconciliations of reportable segment revenues, profit or loss, and assets, to the enterprise's consolidated totals:

| (in thousands) | US dollars | | |
|--|-------------------------|---------|-----------|
| | Year ended December 31, | | |
| | 2012 | 2011 | 2010 |
| Total revenues of reportable segment and consolidated revenues | 150,318 | 160,167 | 147,825 |
| Operating income | | | |
| Total operating income for reportable segments | 29,947 | 26,583 | 30,668 |
| Unallocated amounts: | | | |
| Other income (expenses) | 6,755 | (819) | (14,745) |
| Financing income, net | 987 | 2,100 | 139 |
| Consolidated income before taxes on income | 37,689 | 27,864 | 16,062 |
| Assets | | | |
| Total assets for reportable segments (*) | 81,504 | 88,300 | 91,889 |
| Other unallocated amounts: | | | |
| Current assets | 48,512 | 50,339 | 75,396 |
| Investments in affiliated and other companies | 242 | 287 | 306 |
| Property and equipment, net | 9,187 | 9,278 | 9,795 |
| Other assets | 2,500 | 3,108 | 4,178 |
| Other unallocated amounts | 5,394 | 6,145 | 6,780 |
| Consolidated total assets (at year end) | 147,339 | 157,457 | 188,344 |
| Other significant items | | | |
| Total expenditures for assets of reportable segments | 7,713 | 13,170 | 14,965 |
| Unallocated amounts | 2,320 | 3,065 | 3,715 |
| Consolidated total expenditures for assets | 10,033 | 16,235 | 18,680 |
| Total depreciation and amortization for reportable segments | 11,602 | 14,503 | 12,559 |
| Unallocated amounts | 3,069 | 3,298 | 3,316 |
| Consolidated total depreciation and amortization | 14,671 | 17,801 | 15,875 |

(*)

Including goodwill.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19 - SEGMENT REPORTING (cont.)

E. Geographic information

| (in thousands) | Revenues Year ended December 31, | | |
|----------------|-------------------------------------|---------|---------|
| | 2012 | 2011 | 2010 |
| Israel | 70,595 | 80,202 | 71,211 |
| United States | 4,749 | 4,116 | 3,700 |
| Brazil | 58,242 | 62,409 | 61,096 |
| Argentina | 13,546 | 12,345 | 10,857 |
| Others | 3,186 | 1,095 | 961 |
| Total | 150,318 | 160,167 | 147,825 |

| (in thousands) | Property and equipment, net December 31, | | |
|----------------|---|--------|--------|
| | 2012 | 2011 | 2010 |
| Israel | 9,440 | 10,244 | 10,053 |
| United States | 146 | 183 | 161 |
| Brazil | 20,132 | 25,892 | 31,112 |
| Argentina | 4,438 | 4,551 | 4,821 |
| Total | 34,156 | 40,870 | 46,147 |

- 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 2012, 2011 and 2010 there were no sales exceeding 10% of total revenues to none of our customers.

NOTE 20 - 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, 2012 and 2011, 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 20 - 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.

From time to time, the Company enters 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. 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).

At December 31, 2010, the balance of such derivative instruments amounted to approximately US\$ 32,000 (assets) and approximately US\$ 819,000 were recognized in the Statement of Income during the year ended that date as losses on derivative financial instruments. At December 31, 2011, US\$ 314,000 were recognized in the statement of income as losses on derivative financial instruments.

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 equivalents 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.

See also Note 1W.

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.

The Company's financial assets measured at fair value on a recurring basis, as of December 31, 2011, consisted of trading securities in an amount of US\$ 68 thousand (Level 1). As of December 31, 2012, there were no financial instruments measured at fair value.

EXHIBIT L

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Ituran Argentina S.A.

We have audited the accompanying consolidated balance sheets of Ituran Argentina S.A. (the “Company”) as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 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 financial position of Ituran Argentina S.A. as of December 31, 2012 and 2011 and the results of its operations, and its cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, based on criteria established in Internal Control—Integrated Framework is issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 12, 2013 expressed an unqualified opinion.

Gustavo R. Chesta (Partner)

Estudio Urien & Asociados

Buenos Aires, Argentina
February 12, 2013

