

Ituran Location & Control Ltd.  
Form 20-F/A  
May 07, 2009

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**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, 2007*

**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)

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
<b>Ordinary Shares, par value NIS 0.33 1/3 per share</b>	<b>Nasdaq National Market</b>

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:

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None

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

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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 proceeding 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 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 as issued  
by the International Accounting Standards Board

Other

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

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The Registrant filed its Annual Report on Form 20-F for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission on June 30, 2008. In addition, the Registrant filed its Amendment No. 1 on Form 20-F/A for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission on July 7, 2008

This Amendment No. 2 to the Form 20-F (the Amendment) is filed to include revised reports of independent registered public accounting firm of Terco Grant Thornton, clarifying that:

23,475,431 Ordinary Shares

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- a) the financial statements of Teleran Holdings have been audited in accordance with the standards of the Public Company Accounting Oversight Board (United States);
- b) that it opines on the years 2006 and 2007 only.

In addition, the report of independent registered public accounting firm of Fahn Kanne & Co., as attached to our audited consolidated annual financial statements is replaced with a revised report, where the phrase "auditing standards of the Public Company Accounting Oversight Board (United States)" was replaced with the phrase "standards of the Public Company Accounting Oversight Board (United States)".

In addition, the reports of independent registered public accounting firm of Terco, member of Grant Thornton, and the reports of independent registered public accounting firm of Mazars, as attached to our audited consolidated annual financial statements and as appearing in Item 15 are replaced with revised reports, where the name of the firms were included directly below the auditor's signatures.

Therefore, this Amendment No. 2 consists of a cover page, this explanatory note, a revised Item 15 and Item 18, a certification page and a signature page.

This Amendment speaks as of the date of the initial filing of the Form 20-F. Other than as described above, this Amendment does not, and does not purport to, amend, update or restate any other information or disclosure included in the Form 20-F and 20-F/A (amendment no. 1) and does not purport to, reflect any events that have occurred after the date of the initial filing of the Form 20-F. As a result, our annual report on Form 20-F for the fiscal year ended December 31, 2007, as amended by amendment no. 1 and this Amendment, continues to speak as of the initial filing date of the Form 20-F.

**ITEM 15. CONTROLS AND PROCEDURES**

(A) Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2007, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the periods specified by the SEC's rules and forms.

(B) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on such assessment, management has concluded that, as of December 31, 2007, the Company's internal control over financial reporting is not effective due to several material weaknesses.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual financial statements will not be prevented or detected on a timely basis. Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, utilizing the criteria described above. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2007. Our assessment identified the following control deficiencies as of December 31, 2007, that constituted material weaknesses and exist only in the Company's subsidiary, Teleran Holdings Ltda. and its subsidiary Ituran Sistemas Monitoramento Ltda. ( **Ituran Brazil** ):

- § Ineffective controls related to reconciliation of Accounts receivables. This control deficiency has resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.
- § Ineffective controls to ensure timely and accurate recording of transfers of inventory to fixed assets, as well as products delivered to or returned from customers. Such deficiency, also affect the controls over physical inventories and provision for obsolescence which are not effective. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.
- § Ineffective controls related to the process of internal review of the financial statements of our subsidiary, Ituran Brazil and segregation of duties. There exist ineffective review procedures of the financial reports in Ituran Brazil, although such review is conducted on a consolidated basis. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007. This lack of segregation of duties is a deficiency in the design of our internal control over financial reporting that may allow for improprieties or errors in the application of accounting practices to go undetected. Although this ineffective control exists in Ituran Brazil, on a consolidated basis we do not view it as a material weakness as a review is conducted in Ituran.

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Our management did not assess the effectiveness of our former subsidiary Telematics Wireless Ltd. internal control over financial reporting, which was sold on December 31, 2007, as further described Item 4.A. History and Development of the Company, under the caption *Our History* above.

### ***Change in Internal Control over Financial Reporting***

There have not been any changes in our internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Remediation Steps to Address Material Weaknesses***

The Company's executive, regional and financial management are committed to achieving and maintaining a strong control environment and an overall tone within the organization. In addition, management remains committed to the process of developing and implementing improved corporate governance and compliance initiatives. Our current management team has been actively working on remediation efforts to address the material weaknesses, as well as other identified areas of risk as follows:

We have recruited additional personnel in the accounting department in Ituran Brazil in order to address the lack of segregation of duties in our prior structure. This new position will play a critical role in ensuring the integrity of financial information reported.

The Company is taking, or plan to take in the near future, the following additional actions:

- o Conducting reviews of accounting processes to incorporate technology improvements to strengthen the design and operation of controls;
- o Improving quality control reviews within the accounting function to ensure account analyses and reconciliations are completed accurately, timely, and with proper management review;
- o Formalizing and expanding the documentation of the Company's procedures for review and oversight of financial reporting.

We believe the measures described above, once designed and operating effectively, will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional remediation measures or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Management's assessment of the effectiveness of Ituran's internal control over financial reporting as of December 31, 2007 has been audited by Fahn Kanne & Co., an independent registered public accounting firm in Israel and a member of Grant Thornton International ( Fahn Kanne ), as stated in their report included below.

*(C) Attestation Report of the Registered Public Accounting Firm.*

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS OF ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

We have audited Ituran Location and Control Ltd. (the Company) and its subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We did not audit internal control over financial reporting of Teleran Holding Ltda. (Teleran) and Ituran Argentina S.A. (Ituran Argentina), subsidiaries of the Company, whose financial statements reflect total assets and revenues constituting 18% and 33%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007. Teleran and Ituran Argentina internal control over financial reporting were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to Teleran and Ituran Argentina internal control over financial reporting in relation to the Company taken as a whole, is based solely on the report of the other auditors.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS OF ITURAN



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We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

Ineffective controls related to reconciliation of Accounts Receivables. This control deficiency has resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.

Ineffective controls to ensure timely and accurate recording of transfers of inventory to fixed assets, as well as products delivered to or returned from customers. Such deficiency, also affect the controls over physical inventories and provision for obsolescence which are not effective. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007.

Ineffective controls related to the process of internal review of the financial statements of the Company's subsidiary, Teleran and segregation of duties. There exist ineffective review procedures of the financial reports in Teleran. This control deficiency resulted in audit adjustments to the consolidated annual financial statements for the year ended December 31, 2007. This lack of segregation of duties is a deficiency in the design of the Company's internal control over financial reporting that may allow for improprieties or errors in the application of accounting practices to remain undetected. As described in Management's report on internal control over financial reporting, although this ineffective control exists in Teleran, on a consolidated basis, the management of the Company does not view it as a material weakness as a review is conducted at the Company level.

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In our opinion, based on our audit and the report of other auditors, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 2007. The material weaknesses identified above were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated June 30, 2008, which expressed an unqualified opinion on those financial statements.

As described in Management’s Report on internal control over financial reporting, management has excluded the former subsidiary Telematics Wireless Ltd. internal control over financial reporting, from its assessment of internal control over financial reporting as of December 31, 2007 because it was sold on December 31, 2007 as discussed in Note 1.A.1.d to the Company’s consolidated financial statements for the year ended December 31, 2007. We have also excluded Telematics Wireless Ltd. from our audit of internal control over financial reporting. Telematics Wireless Ltd.’s total revenues represent approximately 16% of the related consolidated financial statement amounts for the year ended December 31, 2007.

Fahn Kanne & Co.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
June 30, 2008

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Ituran Argentina S.A.

#### **Introductory Paragraph:**

We have audited management’s assessment, included in the accompanying (Management’s Report on Internal Control), that Ituran Argentina S.A. maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). The Ituran Argentina S.A. management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

#### **Scope Paragraph:**

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition Paragraph:**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.





**Inherent Limitations Paragraph:**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Opinion Paragraph:**

In our opinion, management's assessment that Ituran Argentina S.A. maintained effective internal control over financial reporting as of December 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control -Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Also, in our opinion, Ituran Argentina S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ).

**Explanatory Paragraph:**

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Ituran Argentina S.A. as of December 31, 2007 and 2006, and the related statements of income stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007, and our report dated February 8, 2008, expressed an unqualified opinion on those financial statements.

Signed by:

Gustavo R. Chesta (Partner)  
Estudio Urien & Asociados  
Mazars - Argentina  
February 8, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders of Teleran Holding Ltda. Brazilian entity

We have audited Teleran Holding Ltda.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Teleran Holding Ltda.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the management's report on internal control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and

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directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

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Ineffective controls related to reconciliation of the Accounts Receivables. This control deficiency has resulted in audit adjustments to the annual financial statements for the year ended December 31, 2007.

Ineffective controls to ensure timely and accurate recording of transfers of inventory to fixed assets, as well as goods are delivered to or returned from customers. Such deficiency, also effect the controls over physical inventories and provision for obsolescence which are not effectives. This control deficiency resulted in audit adjustments to the annual financial statements for the year ended December 31, 2007.

Ineffective controls related to review of financial statements. The financial statements are prepared by local management and no review is performed. This control deficiency resulted in audit adjustments to the annual financial statements for the year ended December 31, 2007.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Teleran Holding Ltda. as of and for the year ended December 31, 2007.

The material weaknesses identified above were considered in determining the nature, timing, and extent of audit tests applied in our audit the financial statements of the Company as of and for the year ended December 31, 2007, and this report does not affect our report dated June 27, 2008, on such financial statements, which expressed an unqualified opinion.

São Paulo, Brazil

June 27, 2008

**Auditores Independentes**  
**José André Viola Ferreira**

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

**Consolidated Financial Statements**

**as of December 31, 2007**

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

**Consolidated Financial Statements**

**as of December 31, 2007**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE SHAREHOLDERS OF  
ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES**

**Fahn Kanne & Co.**  
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We have audited the accompanying consolidated balance sheets of **Ituran Location and Control Ltd. (the Company)** and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, statements of changes in shareholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the 2007 and 2006 financial statements of two subsidiaries, whose assets included in the consolidation constituted approximately 18% and 20% of total consolidated assets as of December 31, 2007 and 2006, respectively, and whose revenues included in the consolidation constituted approximately 33% and 32% of total consolidated revenues for the years ended December 31, 2007 and 2006 respectively. The financial statements of these subsidiaries were audited by other independent auditors, whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included in respect of these companies, is based solely on the reports of the other independent 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2007 and 2006, and the consolidated results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States.

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, 2007, 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 June 30, 2008 expressed an adverse opinion thereon.

Fahn Kanne & Co.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
June 30, 2008

**Certified Public Accountants**  
**Fahn Kanne & Co. is the Israeli member firm of Grant Thornton International Ltd**

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## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands)	US dollars	
	December 31,	
	2007	2006
<b>Current assets</b>		
Cash and cash equivalents	28,669	43,812
Investments in marketable securities	9,558	16,034
Accounts receivable (net of allowance for doubtful accounts)	27,578	29,709
Other current assets (Note 2)	83,783	4,915
Contracts in process, net (Note 3)	-	1,465
Inventories (Note 4)	13,258	10,901
	162,846	106,836
<b>Long-term investments and debit balances</b>		
Investments in affiliated companies (Note 5A)	191	881
Investments in other companies (Note 5B)	1,678	-
Accounts receivable	49	123
Loan to former employee	560	-
Deposit	-	1,457
Deferred income taxes (Note 17)	5,850	5,112
Funds in respect of employee rights upon retirement	2,513	4,001
	10,841	11,574
<b>Property and equipment, net</b> (Note 6)	24,440	19,109
<b>Intangible assets, net</b> (Note 7)	8,801	2,784
<b>Goodwill</b> (Note 8)	9,631	4,536
<b>Total assets</b>	216,559	144,839

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

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	US dollars	
	December 31, 2007	December 31, 2006
<b>Current liabilities</b>		
Credit from banking institutions (Note 9)	318	474
Accounts payable	12,703	14,956
Deferred revenues	5,801	4,399
Other current liabilities (Note 10)	33,592	13,573
	<u>52,414</u>	<u>33,402</u>
<b>Long-term liabilities</b>		
Liability for employee rights upon retirement	4,085	5,278
Deferred income taxes (Note 17)	1,715	816
	<u>5,800</u>	<u>6,094</u>
<b>Contingent liabilities, liens and guarantees (Note 12)</b>		
<b>Minority interests</b>	2,860	2,578
	<u>2,860</u>	<u>2,578</u>
<b>Capital Notes (Note 13)</b>	5,894	5,894
	<u>5,894</u>	<u>5,894</u>
<b>Shareholders' equity (Note 14)</b>		
Share capital - ordinary shares of NIS 0.33 $\frac{1}{3}$ par value:	1,983	1,971
Authorized - December 31, 2006 and 2007 - 60,000,000 shares		
Issued and outstanding - December 31, 2006 - 23,321,507 shares, December 31, 2007 - 23,475,431 shares		
Additional paid-in capital	73,554	73,554
Accumulated other comprehensive income (loss)	13,715	3,003
Cost of Company shares held by the Company and its subsidiary - December 31, 2006 and 2007 - 80,839 shares and 491,390 shares, respectively	(5,900)	(1,261)
Retained earning	66,239	19,604
	<u>149,591</u>	<u>96,871</u>
<b>Total shareholders' equity</b>	149,591	96,871
	<u>149,591</u>	<u>96,871</u>
<b>Total liabilities and shareholders' equity</b>	216,559	144,839
	<u>216,559</u>	<u>144,839</u>

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

## ITURAN LOCATION AND CONTROL LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share data)	US dollars		
	Year ended December 31,		
	2007	2006	2005
<b>Revenues:</b>			
Location-based services	64,634	54,048	44,128
Wireless communications products	60,204	50,004	43,806
Others	-	-	2,192
	<u>124,838</u>	<u>104,052</u>	<u>90,126</u>
<b>Cost of revenues:</b>			
Location-based services	23,630	18,419	14,987
Wireless communications products	44,009	35,434	30,956
Other	-	-	1,643
	<u>67,639</u>	<u>53,853</u>	<u>47,586</u>
Gross profit	57,199	50,199	42,540
Research and development expenses	2,991	2,682	2,799
Selling and marketing expenses	8,218	5,123	4,876
General and administrative expenses	22,629	17,659	14,959
Other expenses (income), net (Note 15)	(49,138)	3	(16)
Operating income	<u>72,499</u>	<u>24,732</u>	<u>19,922</u>
Financing income , net (Note 16)	<u>1,227</u>	<u>1,886</u>	<u>906</u>
Income before taxes on income			