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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

*For the fiscal year ended December 31, 2014*

**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 0.33 $\frac{1}{3}$  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**

(Title of Class)

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**

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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 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 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 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

[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

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## USE OF CERTAIN TERMS

*As used herein, and unless the context suggests otherwise, the terms “we”, “us”, “our” or “Ituran” refer to Ituran Location and Control Ltd. and its consolidated subsidiaries.*

*We have prepared our consolidated financial statements in US Dollars. Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). All references herein to “dollars” or “\$” or “USD” are to United States dollars, and all references to “NIS” are to New Israeli Shekels.*

## FORWARD LOOKING STATEMENTS

*This Annual Report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The use of the words “projects,” “believes,” “expects,” “may,” “plans” or “intends,” or words of similar import, identifies a statement as “forward-looking.” The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on the assumption that we will not lose a significant customer or customers or experience increased fluctuations of demand or rescheduling of purchase orders, that our markets will continue to grow, that our products will remain accepted within their respective markets and will not be replaced by new technology, that competitive conditions within our markets will not change materially or adversely, that we will retain key technical and management personnel, that our forecasts will accurately anticipate market demand, and that there will be no material adverse change in our operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. In addition, our business and operations are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties described in this annual report in Item 3D: Risk Factors. Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statements or other information contained in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our reports on Form 6-K filed with the U.S. Securities and Exchange Commission (“SEC”).*

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. SELECTED FINANCIAL DATA**

The selected consolidated financial data below is provided under generally accepted accounting principles in the U.S. (U.S. GAAP). You should read the selected consolidated financial data presented in this Item together with Item 5 – Operating and Financial Review and Prospects and with our consolidated financial statements included elsewhere in this annual report.

Our selected consolidated statements of income data for the years ended December 31, 2012, 2013 and 2014 and our selected consolidated balance sheet data as of December 31, 2013 and 2014 have been derived from our consolidated financial statements included elsewhere in this report. The selected consolidated statements of income data for each of the years ended December 31, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010, 2011 and 2012 are derived from our audited consolidated financial statements not included in this report.

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**Selected Financial Data Under U.S. GAAP:**

**Consolidated Statements of Income Data**

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	<i>In USD</i>				
<i>In thousands, except per share amounts</i>					
<b>Revenues:</b>					
Location based services	133,692	126,951	114,565	120,410	108,101
Wireless communications products	48,435	43,216	35,753	39,757	39,724
<b>Total Revenues</b>	<b>182,127</b>	<b>170,167</b>	<b>150,318</b>	<b>160,167</b>	<b>147,825</b>
<b>Cost of Revenues:</b>					
Location based services	46,852	44,850	44,974	49,731	41,272
Wireless communication products	38,142	36,015	29,786	29,758	33,037
<b>Total cost of revenues</b>	<b>84,994</b>	<b>80,865</b>	<b>74,760</b>	<b>79,489</b>	<b>74,309</b>
<b>Gross profit</b>	<b>97,133</b>	<b>89,302</b>	<b>75,558</b>	<b>80,678</b>	<b>73,516</b>
Research and development expenses	2,526	2,414	2,066	1,877	1,346
Selling and marketing expenses	9,264	9,715	8,489	8,543	8,675
General and administrative expenses	38,617	34,483	33,439	34,984	31,671
Other expenses, net	856	4,760	1,617	8,691	1,156
<b>Operating Income</b>	<b>45,870</b>	<b>37,930</b>	<b>29,947</b>	<b>26,583</b>	<b>30,668</b>
Other income (expenses), net	-	(166)	6,755	(819)	(14,745)
<b>Financing income (expenses), net</b>	<b>1,704</b>	<b>238</b>	<b>987</b>	<b>2,100</b>	<b>139</b>
<b>Income before income tax</b>	<b>47,574</b>	<b>38,002</b>	<b>37,689</b>	<b>27,864</b>	<b>16,062</b>
Income tax	(14,246)	(12,447)	(11,690)	(5,655)	(6,286)
Share in losses of affiliated companies, net	(421)	(1)	(39)	(23)	(3)
<b>Net income for the year</b>	<b>32,907</b>	<b>25,554</b>	<b>25,960</b>	<b>22,186</b>	<b>9,773</b>
Less: net income attributable to non-controlling interest	(2,478)	(1,792)	(1,080)	(908)	(1,071)
<b>Net income attributable to Company stockholders</b>	<b>30,429</b>	<b>23,762</b>	<b>24,880</b>	<b>21,278</b>	<b>8,702</b>
<b>Earning per share</b>					
Basic	\$ 1.45	\$ 1.13	\$ 1.19	\$ 1.01	\$ 0.42
Diluted	\$ 1.45	\$ 1.13	\$ 1.19	\$ 1.01	\$ 0.42
<b>Weighted average number of shares outstanding</b>					
Basic	20,968	20,968	20,968	20,968	20,968
Diluted	20,968	20,968	20,968	20,968	20,968



Consolidated Balance Sheets Data

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	<i>In USD</i>				
	<i>In thousands, except per share amounts</i>				
Cash & Cash Equivalent; deposit in escrow (short and long term) and investment in trading marketable securities	40,780	46,679	34,392	40,226	61,279
Working Capital	56,910	57,259	44,145	48,474	48,594
Total Assets	152,337	160,542	147,339	157,457	188,344
Total Liabilities	57,754	65,057	55,332	52,105	73,181
Retained Earnings	49,067	38,831	32,187	43,185	43,689
Stockholders Equity	90,696	90,918	88,027	101,194	110,771
Dividend declared per share	0.93	0.86	0.81	1.23	1.00

Other Data:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	<i>(unaudited)</i>				
Subscribers of our location-based services <sup>(1)</sup>	817,000	741,000	667,000	623,000	604,000
Average monthly churn rate	3%	2.9%	3%	3.2%	2.8%

<sup>(1)</sup> number of subscribers is approximate.

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**D. RISK FACTORS**

*Our business, operating results and financial condition could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition and our share price may decline, which may result in a loss of all or part of your investment. We cannot assure you that we will successfully address any of these risks. You should carefully consider the following factors as well as the other information contained and incorporated by reference in this annual report before taking any investment decision with respect to our securities. See "Forward Looking Statements" on page iv above.*

**RISKS RELATED TO OUR BUSINESS**

**Failure to maintain our existing relationships or establish new relationships with insurance companies could adversely affect our revenues and growth potential.**

Revenues from our stolen vehicle recovery services, which we refer to as **SVR services**, and automatic vehicle location products, which we refer to as **AVL products**, are primarily dependent on our relationships with insurance companies. In Israel, insurance companies drive demand for our SVR services and AVL products by encouraging and, in some cases, requiring customers to subscribe to vehicle location services and purchase vehicle location products such as ours. In Brazil and Argentina, insurance companies enter into written agreements to subscribe to our services and purchase or lease our products directly. Our inability to maintain our existing relationships or establish new relationships with insurance companies could adversely affect our revenues and growth potential.

**Changes in practices of insurance companies in the markets in which we provide our SVR services and sell our AVL products could adversely affect our revenues and growth potential.**

We depend on the practices of insurance companies in the markets in which we provide our SVR services and sell our AVL products. In Israel, insurance companies either mandate the use of SVR services and AVL products, or their equivalent, as a prerequisite for providing insurance coverage to owners of certain medium- and high-end vehicles, or provide insurance premium discounts to encourage vehicle owners to subscribe to services and purchase products such as ours. In Brazil and Argentina, insurance companies mainly lease our AVL products directly and subsequently require their customers to subscribe to our SVR services.

Therefore, we rely on insurance companies' continued practice of:

- accepting vehicle location and recovery technology as a preferred security product;
- requiring or providing a premium discount for using location and recovery services and products;
- mandating or encouraging use of our SVR services and AVL products, or similar services and products, for vehicles with the same or similar threshold values and for the same or similar required duration of use; and
- with respect to insurance companies in Brazil and Argentina, deciding to lease SVR services and AVL products from us directly.

If any of these policies or practices change, revenues from sales of our SVR services and AVL products could decline, which could adversely affect our revenues and growth potential.

**A reduction in vehicle theft rates may adversely impact demand for our SVR services and AVL products.**

Demand for our SVR services and AVL products depends primarily on prevailing or expected vehicle theft rates. Vehicle theft rates may decline as a result of various reasons, such as the availability of improved security systems, implementation of improved or more effective law enforcement measures, or improved economic or political conditions in markets that have high theft rates. If vehicle theft rates in any or all of our existing markets decline, or if insurance companies or our other customers believe that vehicle theft rates have declined or are expected to decline, demand for our SVR services and AVL products may decline.

**A decline in sales of new medium and high end cars and commercial vehicles in the markets in which we operate could result in reduced demand for our SVR services and AVL products.**

Our SVR services and AVL products are primarily used to protect medium- and high-end cars and commercial vehicles and are often installed before or immediately after their initial sale. Consequently, a reduction in sales of new medium- and high-end vehicles could reduce our addressable market for SVR services and AVL products. New vehicle sales may decline for various reasons, including an increase in new vehicle tariffs, taxes or gas prices. A decline in vehicle production levels or labor disputes affecting the automobile industry in the markets where we operate may also impact the volume of new vehicle sales. A decline in sales of new medium- and high-end vehicles in the markets in which we provide our SVR services or sell our AVL products could result in reduced demand for such services and products.

**There is significant competition in the markets in which we offer our services and products and our results of operations could be adversely affected if we fail to compete successfully.**

The markets for our services and products are highly competitive. We compete primarily on the basis of the technological innovation, quality and price of our services and products. Our most competitive market is the location-based services market and the related AVL products market, due to the existence of a wide variety of competing services and products and alternative technologies that offer various levels of protection and tracking capabilities, including global positioning systems, or **GPS** (although we also provide services based on GPS/GPRS technology), satellite- or network-based cellular systems and direction-finding homing technologies. Some of these competing services and products, such as certain GPS-based products, are installed in new cars by vehicle manufacturers prior to their initial sale, which effectively precludes us from competing for such subscribers in the SVR market. Furthermore, providers of competing services or products may extend their offerings to the locations in which we operate or new competitors may enter the location-based services market. Our AVL products also compete with less sophisticated theft protection devices such as standard car alarms, immobilizers, steering wheel locks and homing devices, some of which may be significantly cheaper. Some of these competing products have greater brand recognition than our AVL products, including LoJack Corporation in the United States.

**The development of new or improved competitive products, systems or technologies that compete with our wireless communications products may render our products less competitive or obsolete, which could cause a decline in our revenues and profitability.**

We are engaged in businesses characterized by rapid technological change and frequent new product developments and enhancements. The number of companies developing and marketing new wireless communications products has expanded considerably in recent years. The development of new or improved products, systems or technologies that compete with our wireless communications products, for both our SVR and fleet management services, may render our products and services less competitive and we may not be able to enhance our technology in a timely manner. In addition to the competition resulting from new products, systems or technologies, our future product enhancements may not adequately meet the requirements of the marketplace and may not achieve the broad market acceptance necessary to generate significant revenues. Any of the foregoing could cause a decline in our revenues and profitability.

**The inability of local law enforcement agencies to timely and effectively recover the stolen vehicles we locate could negatively impact customers' perception of the usefulness of our SVR services and AVL products, adversely affecting our revenues.**

Our AVL products identify the location of vehicles in which our products are installed. Following a notification of an unauthorized entry, or if we receive notification of the vehicle's theft from a subscriber, we notify the relevant law enforcement agency of the location of the subscriber's vehicle and generally rely on local law enforcement or governmental agencies to recover the stolen vehicle. We cannot control nor predict the response time of the relevant local law enforcement or other governmental agencies responsible for recovering stolen vehicles, nor that the stolen vehicles, once located, will be recovered at all. In the past, some stolen vehicles in which our AVL products were installed were not recovered and the average stolen vehicle recovery time in the markets in which we operate was 20 minutes from the time an unauthorized entry is confirmed or reported to the time the vehicle is recovered. To the extent that the relevant agencies do not effectively and timely respond to our calls and recover stolen vehicles, our recovery rates would likely diminish, which may, in turn, negatively impact customers' perception of the usefulness of our SVR services and AVL products, adversely affecting our revenues.

**The ability to detect, deactivate, disable or otherwise inhibit the effectiveness of our AVL products could adversely affect demand for such products and our revenues.**

The effectiveness of our AVL products is dependent, in part, on the inability of unauthorized persons to deactivate or otherwise alter the functioning of our AVL products or the vehicle anti-theft devices that work in conjunction with our AVL products. As sales of our AVL products increase, criminals in the markets in which we operate may become increasingly aware of our AVL products and may develop methods or technologies to detect, deactivate or disable our tracking devices or the vehicle anti-theft devices that work in conjunction with our AVL products. We believe that, as is the case with any product intended to prevent vehicle theft, over time, there may be an increased ability of unauthorized persons to detect, deactivate, disable or otherwise inhibit the effectiveness of our AVL products, although it is difficult to verify this fact. An increase in the ability of unauthorized persons to detect, deactivate, disable or otherwise inhibit the effectiveness of our AVL products could adversely affect demand for our products and our revenues.

**We rely on some intellectual property that we license from third parties, the loss of which could preclude us from providing our SVR services or market and sell some of our AVL products, which would adversely affect our revenues.**

We license from third parties some of the technology that we need in order to provide our SVR services and market and sell some of our AVL products. In the event that such licenses were to be terminated, or if such licenses were rendered unenforceable or invalid and we would not be able to license similar technology from other parties, it would require us, at a minimum, to obtain rights to a different technology and reconfigure our AVL products accordingly. In addition, some of the licenses we obtained from third parties are non-exclusive, which may enable other entities to obtain identical licenses from such third parties to operate in the places in which we conduct our business resulting in increased competition and could adversely affect our revenues.

**We depend on proprietary technology and our failure to protect and enforce our intellectual property rights or our need to defend against infringement claims could result in a significant increase in costs and decline in revenues.**

Our business is dependent on the uninterrupted use of proprietary technology, both owned and licensed, from third parties. If we fail to protect, enforce and maintain our intellectual property rights, we may not be able to compete and our business and operating results could be negatively impacted. We seek to protect our intellectual property rights through a combination of patents, trademarks, copyrights, trade secret laws, know-how, confidentiality procedures and licensing arrangements. Even with the intellectual property protection currently in place, we may not be able to protect our technology from misappropriation or infringement and we may lose, or the relevant owners may restrict or lose, our current rights of use of the technology that we license from such owners. Any of our existing intellectual property rights may be invalidated, circumvented, challenged or rendered unenforceable. In addition, the laws of some countries in which we operate or plan to operate, may not protect intellectual property rights to the same extent as the laws of Israel or the United States, increasing the possibility of piracy of our technology and products. It may be necessary for us to litigate in order to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others, which litigation can be time consuming, distracting to management, expensive and difficult to predict.

It is possible that we have or will inadvertently violate the intellectual property rights of other parties and those other parties may choose to assert infringement claims against us. If a court were to determine that our technology infringes on third parties' intellectual property, in addition to exposure to substantial damages, we could be required to expend considerable resources to modify our products, to develop non-infringing technology or to obtain licenses to permit our continued use of the technology that is the subject matter of the litigation.

Our failure to protect and enforce our intellectual property rights, or our need to defend against claims of infringement of intellectual property rights of others or the loss of any such claims, could result in a significant increase in costs and decline in revenues.

**Our ability to sell our services and products depends upon the prior receipt and maintenance of various governmental licenses and approvals and our failure to obtain or maintain such licenses and approvals, or third-party use of the same licenses and frequencies, could result in a disruption or curtailment of our operations, a significant increase in costs and a decline in revenues.**

We are required to obtain specific licenses and approvals from various governmental authorities in order to conduct our operations. For example, our AVL products use radio frequencies that are licensed and renewed periodically from the Ministry of Communications in Israel and similar agencies worldwide. As we continue to expand into additional markets, we will be required to obtain new permits and approvals from relevant governmental authorities. Furthermore, once our AVL infrastructure is deployed and our AVL end-units are sold to subscribers, a change in radio frequencies would require us to recalibrate all of our antennas and replace or modify all end-units held by subscribers, which would be costly and may result in delays in the provision of our SVR services. In addition, some of the governmental licenses for radio frequencies that we currently use may be preempted by third parties. In Israel, our license is designated as a "joint" license, allowing the government to grant third parties a license to use the same frequencies, and in Brazil our license is designated as a "secondary", non-exclusive license, which allows the government to grant a third party a primary license to use such frequencies, which third-party use could adversely affect, disrupt or curtail our operations. Our inability to maintain necessary governmental licenses and frequency approvals, or third-party use of or interference with the same licenses or frequencies, could result in a significant increase in costs and decline in revenues.

**Our SVR services business model is based on the existence of certain conditions, the loss or lack of which in existing or potential markets could adversely affect our revenues generated in existing markets or our growth potential.**

Our SVR services business model and, consequently, our ability to provide our SVR services and sell our AVL products, relies on our ability to successfully identify markets in which:

- the rate of car theft or consumer concern over vehicle safety is high;
- satisfactory radio frequencies are available to us that allow us to operate our business in an uninterrupted manner; and
- insurance companies or owners of cars believe that the value of cars justifies incurring the expense associated with the deployment of SVR services.

The absence of such conditions, our inability to locate markets in which such conditions exist or the loss of any one of the above conditions in markets we currently serve could adversely affect our revenues generated in existing markets or our growth potential.

**Some of our agreements restrict our ability to expand into new markets for our SVR services, which could adversely affect our growth potential.**

In 2008, we entered into an agreement with Telematics, pursuant to which Ituran and Telematics designated parts of the world as their exclusive territories for selling their AVL products and SVR services using any RF location technology compatible to the RF vehicle location systems. This agreement restricts our ability to expand our business and operations and sell our products and services in certain markets, which could adversely affect our growth potential.

**The loss of key personnel could adversely affect our business and prospects for growth.**

Our success depends upon the efforts and abilities of key management personnel, including our President and our Co-Chief Executive Officers. Loss of the services of one or more of such key personnel could adversely affect our ability to execute our business plan. In addition, we believe that our future success depends in part upon our ability to attract, retain and motivate qualified personnel necessary for the development of our business. If one or more members of our management team or other key technical personnel become unable or unwilling to continue in their present positions, and if additional key personnel cannot be hired and retained as needed, our business and prospects for growth could be adversely affected.

**We rely on third parties to manufacture our wireless communications products, which could affect our ability to provide such products in a timely and cost-effective manner, adversely impacting our revenues and profit margins.**

We outsource the manufacturing of most of our wireless communications products to third parties. Furthermore, we use one manufacturer for production of a significant portion of our wireless communications products and we do not maintain significant levels of inventories to support us in the event of an unexpected interruption in its manufacturing process. If our principal manufacturer or any of our other manufacturers is unable to or fails to manufacture our products in a timely manner, we may not be able to secure alternative manufacturing facilities without experiencing an interruption in the supply of our products or an increase in production costs. Any such interruption or increase in production costs could affect our ability to provide our wireless communications products in a timely and cost-effective manner, adversely impacting our revenues and profit margins.

**We rely on Telematics Wireless Ltd. (previously owned by us) to supply us with various products and services as single supplier of such products and services. Termination of our agreement with Telematics in respect of such products and services could adversely affect our revenues and operations.**

Following the sale of our subsidiary, Telematics Wireless Ltd. in 2007 to a third party and the execution of a 10-year supply agreement with Telematics as a result of such sale, we rely on Telematics as a single supplier of products and services. Termination of our relations with Telematics would adversely affect our operations and revenues.

**We depend on the use of specialized quality assurance testing equipment for the production of our wireless communications products, the loss or unavailability of which could adversely affect our results of operations.**

We and our third-party manufacturers use specialized quality assurance testing equipment in the production of our products. The replacement of any such equipment as a result of its failure or loss could result in a disruption of our production process or an increase in costs, which could adversely affect our results of operations.

**The adoption of industry standards that do not incorporate the technology we use may decrease or eliminate the demand for our services or products and could harm our results of operations.**

There are no established industry standards in all of the businesses in which we sell our wireless communications products. For example, vehicle location devices may operate by employing various technologies, including network triangulation, GPS, satellite-based or network-based cellular or direction-finding homing systems. The development of industry standards that do not incorporate the technology we use may decrease or eliminate the demand for our services or products and we may not be able to develop new services and products that are in compliance with such new industry standards on a cost-effective basis. If industry standards develop and such standards do not incorporate our wireless communications products and we are unable to effectively adapt to such new standards, such development could harm our results of operations.

**Expansion of our operations to new markets involves risks and our failure to manage such risks may delay or preclude our ability to generate anticipated revenues and may impede our overall growth strategy.**

We anticipate future growth to be attributable to our business activities in new markets, particularly in developing countries, where we may encounter additional risks and challenges, such as longer payment cycles, potentially adverse tax consequences, potential difficulties in collecting receivables and potential difficulties in enforcing agreements or other rights in foreign legal systems. The challenges and risks of entering a new market may delay or preclude our ability to generate anticipated revenues and may impede our overall growth strategy.

**Part of our services rely on GPS/GPRS-based technology owned and controlled by others, the loss, impairment or increased expense of which could negatively impact our immediate and future revenues from, or growth of, our services and adversely affect our results of operations.**

Part of our business relies on signals from GPS/GPRS satellites built and maintained by third parties. If GPS/GPRS satellites become unavailable to us, or if the costs associated with using GPS/GPRS technology increase such that it is no longer feasible or cost-effective for us to use such technology, we will not be able to adequately provide our fleet management services. In addition, if one or more GPS/GPRS satellites malfunction, there could be a substantial delay before such satellites are repaired or replaced, if at all. The occurrence of any of the foregoing events could negatively impact our immediate and future revenues from, or growth of, our fleet management services and adversely affect our results of operations.

**Due to the already high penetration of SVR services and AVL products in Israel and moderate overall growth of the addressable market in Israel, our prospects for growth in such market may be limited.**

Our AVL products are primarily installed in medium- and high-end cars and commercial vehicles. Therefore, our ability to increase demand for our SVR services and revenues from sales of our AVL products is limited by the number of potential vehicles in which our products can be installed in each relevant market. We estimate that our AVL products are installed in a significant portion of the medium- and high-end cars and commercial vehicles in Israel. We anticipate that revenues from sales of our SVR services and AVL products in Israel will not increase significantly due to the already high penetration of SVR services and AVL products in Israel and moderate overall growth of the addressable market in Israel, which could adversely affect our prospects for growth in such markets.

**Some of our employees in our subsidiaries in Brazil and Argentina are members of labor unions and a dispute between us and any such labor union could result in a labor strike that could delay or preclude altogether our ability to generate revenues in the markets where such employees are located.**

Some of our employees in our subsidiaries in Brazil and Argentina are members of labor unions. If a labor dispute were to develop between us and our unionized employees, such employees could go on strike and we could suffer work stoppage for a significant period of time. A labor dispute can be difficult to resolve and may require us to seek arbitration for resolution, which arbitration can be time consuming, distracting to management, expensive and difficult to predict. The occurrence of a labor dispute with our unionized employees could delay or preclude altogether our ability to generate revenues in the markets where such employees are located.

**We are subject to litigation that could result in significant costs to us.**

On July 13, 2010 the State Revenue Services of São Paulo issued a tax deficiency notice against our subsidiary in Brazil, Ituran Sistemas de Monitoramento Ltda., claiming that the vehicle tracking and monitoring services provided by our 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 our subsidiary during the period between August 2005 and December 2007. At the time the notice was served to us, the tax deficiency notice was in the amount of R\$36,499,984 (approximately US\$22.1 million at the time) plus interest in the amount of R\$30,282,420 (approximately US\$18.2 million at the time) and penalties in the amount of R\$66,143,446 (approximately US\$40.0 million at the time). 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 our favor. The State of São Paulo filed an administrative appeal to the full bench session at the Administrative Court which has been dismissed and such a decision is non-appealable .

Furthermore, it is noted that the effect of aforesaid decision is limited to the period of August 2005 up to December 2007. It is possible that the State of São Paulo may issue us additional tax deficiency notices regarding the past 5 year period. However, we maintain our position, based among other things on the results of the aforesaid legal proceedings, that if such tax deficiency notices are issued in future, our chances of success in defending its position are overwhelmingly favorable.

For information concerning additional litigation proceedings, please refer to Item 8.A – “Consolidated Statements and other Financial Information” under the caption “Material Legal Proceedings” below.

**We have not obtained nor applied for several of the permits required for the operation of some of our base sites. To the extent enforcement is sought, the breadth, quality and capacity of our network coverage could be materially affected.**

The provision of our SVR services depends upon adequate network coverage for accurate tracking information. In Israel, we have installed 103 base sites that provide complete communications coverage in Israel. Similarly, we have established complete communications coverage in Sao Paulo and Rio, Brazil and Buenos Aires, Argentina. The installation and operation of most of our base sites require building permits from local or regional zoning authorities as well as a number of additional permits from governmental and regulatory authorities.



Currently most of our base sites in Israel and Brazil and some of our base sites in Argentina operate without local building permits or the equivalent. Although relevant authorities in Israel, Brazil and Argentina have not historically enforced penalties for non-compliance with certain permit regulations, following ongoing press coverage and actions by various public interest groups, relevant Israeli and Argentine authorities have begun seeking enforcement of permit regulations, especially with respect to antennas constructed for cellular phone operators. Some possible enforcement measures include the closure or demolition of existing base sites or the imposition of limitation on erection of new base stations. Should these enforcement measures be imposed upon us in Israel or Argentina, the extent, quality and capacity of our network coverage and, as a result, our ability to provide SVR services, may be adversely affected.

**Currency fluctuations may result in valuation adjustments in our assets and liabilities and could cause our results of operations to decline.**

The valuation of our assets and liabilities, our revenues received and the related expenses incurred are not always denominated in the same currency. This lack of correlation between revenues and expenses exposes us to risks resulting from currency fluctuations. These currency fluctuations could have an adverse effect on our results of operations. In addition, fluctuations in currencies may result in valuation adjustments in our assets and liabilities which could cause our results of operations to decline.

**RISKS RELATED TO OUR OPERATIONS IN ISRAEL**

**We are headquartered in Israel and therefore our results of operations may be adversely affected by political, economic and military instability in Israel.**

Our headquarters and sole research and development facilities are located in Israel and our key employees, officers and directors are residents of Israel. Accordingly, security, political and economic conditions in Israel directly affect our business. Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors. During July-August 2014 and November 2012, Israel was engaged in an armed conflict with a militant group and political party who control the Gaza Strip, and during the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militant group and political party. These conflicts involved missile strikes against civilian targets in various parts of Israel, including areas in which our employees and some of our consultants are located, and negatively affected business conditions in Israel. Continued or increased hostilities, future armed conflicts, political developments in other states in the region or continued or increased terrorism could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

Israel has experienced in recent years, unionized general strikes in connection with the legislation of new economic reforms. A prolonged general strike in Israel would affect our ability to provide our wireless communications products that are manufactured in Israel and would negatively impact our operations. Furthermore, there are a number of countries, primarily in the Middle East, that still restrict business with Israel or Israeli companies and as a result our company is precluded from marketing its products in these countries. Restrictive laws or policies directed toward Israel or Israeli businesses could have an adverse affect on our ability to grow our business and our results of operations.

**Under Israeli law, we are considered a “monopoly” and therefore subject to certain restrictions that may negatively impact our ability to grow our business in Israel.**

We have been declared a monopoly under the Israeli Restrictive Trade Practices Law, 1988 (the “Israeli Antitrust Law”), in the market for the provision of systems for the location of vehicles. 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 we have abused our position in the market. Any such declaration in any suit in which it is claimed that we engage in anti-competitive conduct would serve as *prima facie* evidence that we are a monopoly or that we have engaged in anti-competitive behavior. Furthermore, we may be ordered to take or refrain from taking certain actions, such as set maximum prices, in order to protect against unfair competition. If we breach certain provisions of the Israeli Antitrust Law, including as a monopoly, the Israeli antitrust authority may also impose on us in an administrative procedure, financial sanctions in an amount of up to the lower of NIS 24 million or 8% of our annual revenues for the last financial year prior to such breach. Restraints on our operations as a result of being considered a “monopoly” in Israel could adversely affect our ability to grow our business in Israel.

**It may be difficult and costly to enforce a judgment issued in the United States against us, our executive officers and directors, or to assert United States securities laws claims in Israel or serve process on our officers and directors.**

We are incorporated and headquartered in Israel. As a result, our executive officers and directors are non-residents of the United States and a substantial portion of our assets and the assets of these persons are located outside of the United States. Therefore, service of process upon any of these officers or directors may be difficult to effect in the United States. Furthermore, it may be difficult to enforce a judgment issued against us in the United States against us or any of such persons in both United States courts and other courts abroad.

Additionally, there is doubt as to the enforceability of civil liabilities under United States federal securities laws in actions originally instituted in Israel or in actions for the enforcement of a judgment obtained in the United States on the basis of civil liabilities in Israel.

**Provisions of Israeli corporate and tax law may delay, prevent or otherwise encumber a merger with, or an acquisition of, our company, which could prevent a change of control, even when the terms of such transaction are favorable to us and our shareholders.**

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. In addition, our articles of association contain, among other things, provisions that may make it more difficult to acquire our company, such as classified board provisions and certain restrictions on the members of our board pursuant to regulatory requirements of the Israeli Ministry of Communication. Furthermore, Israeli tax considerations may make potential transaction structures involving the acquisition of our company unappealing to us or to some of our shareholders. See Item 10.B. – “Memorandum and Articles of Association” - “Our Corporate Practices under the Israeli Companies Law” under the caption “Approval of Transactions under Israeli law” and Item 10.E. – “Taxation” under the caption “Israeli Tax Considerations” for additional discussion of some anti-takeover effects of Israeli law. These provisions of Israeli law and our articles of association may delay, prevent or otherwise encumber a merger with, or an acquisition of, our company or any of our assets, which could have the effect of delaying or preventing a change in control of our company, even when the terms of such a transaction could be favorable to our shareholders.

**The rights and responsibilities of our shareholders will be governed by Israeli law and may differ in some respects from the rights and responsibilities of shareholders under United States law.**

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical US-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his, her or its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli corporate law has undergone extensive revisions in the recent years and, as a result, there is little case law available to assist in understanding the implications of these provisions that govern shareholders' actions, which may be interpreted to impose additional obligations on holders of our ordinary shares that are typically not imposed on shareholders of US-based corporations.

#### **RISKS RELATED TO OUR ORDINARY SHARES AND THE ECONOMY**

##### **Future sales of our ordinary shares could reduce the market price of our ordinary shares.**

If we or our shareholders sell substantial amounts of our ordinary shares, either on the Tel Aviv Stock Exchange or the Nasdaq Global Select Market, the market price of our ordinary shares may decline.

##### **The market price of our ordinary shares is subject to fluctuation, which could result in substantial losses for our investors.**

The stock market in general, and the market price of our ordinary shares in particular, are subject to fluctuation, and changes in our share price may be unrelated to our operating performance. The market price of our ordinary shares has fluctuated in the past, and we expect it will continue to do so, as a result of a number of factors, including:

- the gain or loss of significant orders or customers;
- recruitment or departure of key personnel;
- the announcement of new products or service enhancements by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- announcements related to litigation;
- changes in earnings estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' earning estimates;
- developments in our industry; and
- general market conditions and other factors unrelated to our operating performance or the operating performance of our competitors.

These factors and price fluctuations may materially and adversely affect the market price of our ordinary shares and result in substantial losses to our investors.

##### **A significant portion of our ordinary shares are held by a small number of existing shareholders and you may not agree with some or all of the decisions taken by such shareholders.**

Moked Ituran Ltd., currently beneficially owns approximately 19.44% of our outstanding ordinary shares (not including treasury stock held by us). The amount of shares owned by Moked Ituran Ltd. was significantly reduced on September 16, 2014, by 6.82% (from 26.26%), due to Moked Ituran Ltd Shareholder, F.K. Generators and Equipment Ltd. sale of 1,431,000 of our ordinary shares through Moked Ituran Ltd. For additional information concerning the transaction, see Item 6.A "Shareholders Agreement and Articles of Association of Moked Ituran Ltd.". Other than applicable regulatory requirements under applicable law, Moked Ituran Ltd., is not prohibited from selling a controlling interest in our company to a third party. This shareholder could exercise significant influence over our operations and business strategy and may use its voting power to influence all matters requiring approval by our shareholders, including the ability to elect or remove directors, to approve or reject mergers or other business combination transactions, the decision to raise additional capital and the amendment of our articles of association that govern the rights attached to our ordinary shares. In addition, this concentration of ownership may delay, prevent or deter a change in control, or deprive our shareholders of a possible premium for ordinary shares as part of a sale of our company. For additional information concerning our major shareholders, see Item 7.A- "Major Shareholders" and Item 6.A. -Directors and Senior Management under the caption "Shareholders Agreement and Articles of Association of Moked Ituran Ltd.".

**U.S. investors in our company could suffer adverse tax consequences if we are characterized as a passive foreign investment company.**

If, for any taxable year, our passive income or our assets that produce passive income exceed levels provided by law, we may be characterized as a passive foreign investment company, which we refer to as PFIC, for US federal income tax purposes. This characterization could result in adverse US tax consequences to our shareholders who are U.S. Holders. See Item 10.E. – “Taxation” under the caption “United States Tax Considerations” below, for more information about which shareholders may qualify as U.S. Holders. If we were classified as a PFIC, a U.S. Holder could be subject to increased tax liability upon the sale or other disposition of our ordinary shares or upon the receipt of amounts treated as “excess distributions.” Under such rules, the excess distribution and any gain would be allocated ratably over the U.S. Holder’s holding period for the ordinary shares and the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income. The amount allocated to each of the other taxable years would be subject to tax at the highest marginal rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such other taxable years. In addition, holders of shares in a PFIC may not receive a “step-up” in basis on shares acquired from a decedent. U.S. shareholders should consult with their own U.S. tax advisors with respect to the United States tax consequences of investing in our ordinary shares as well as the specific application of the “excess distribution” and other rules discussed in this paragraph. For a discussion of how we might be characterized as a PFIC and related tax consequences, please see Item 10.E. – “Taxation” under the caption “United States Tax Considerations–Passive foreign investment company considerations”.

**Our ordinary shares are traded on more than one market and this may result in price variations.**

Our ordinary shares are traded on the Nasdaq Global Select Market and the Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets takes place in different currencies (dollars on the Nasdaq Global Select Market and NIS on the Tel Aviv Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets may differ due to these and other factors. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

**Securities we issue to fund our operations or in connection with acquisitions could dilute our shareholders ownership or impact the value of our ordinary shares.**

We may decide to raise additional funds through a public or private debt or equity financing to fund our operations or finance acquisitions. If we issue additional equity securities, the percentage of ownership of our shareholders will be reduced and the new equity securities may have rights superior to those of our ordinary shares, which may, in turn, adversely affect the value of our ordinary shares.

**Global and local economic downturns could reduce the level of consumer spending and available credit within the automobile industry, which could adversely affect demand for our products and services and negatively impact our financial results.**

Current and future economic conditions could adversely affect consumer spending in the automobile industry, as such spending is often discretionary and may decline during economic downturns when consumers have less disposable income. Consequently, changes in general economic conditions resulting in a significant decrease in dealer automobile sales or in a tightening of credit in financial markets, such as the 2007 U.S. subprime mortgage crisis and resulting credit crunch, could adversely impact our future revenue and earnings. Such decreases could also affect the financial security of the automobile dealers with whom we do business. The delayed payment from or closure of our larger dealer groups could affect our ability to collect on our receivables. Similar effects could result from local economic downturns in either one of our main markets of operations, i.e. Israel, Brazil and Argentina. Given the volatile nature of the current market disruption, we may not timely anticipate or manage such existing or new risks. Our failure to do so could materially and adversely affect our business, financial condition, results of operations and prospects.

#### ITEM 4. INFORMATION ON THE COMPANY

##### A. HISTORY AND DEVELOPMENT OF THE COMPANY

###### Our History

We are mainly engaged in the area of location-based services, consisting of stolen vehicle recovery, fleet management services and other tracking services. We also provide wireless communication products used in connection with our location-based services and various other applications. We currently primarily provide our services as well as sell and lease our products in Israel, Brazil, Argentina and the United States.

Ituran was initially incorporated in February 1994 in Israel as a subsidiary of Tadiran Ltd., an Israeli-based designer and manufacturer of telecommunications equipment, software and defense electronic systems, whose original business purpose was to adapt military-grade technologies for the civilian market. In July 1995, Moked Ituran Ltd. purchased us and the assets used in connection with our operations from Tadiran and Tadiran Public Offerings Ltd. The AVL infrastructure and AVL end-units for the operation of our SVR services were originally developed by an independent division of Tadiran Communications and Systems Group. These operations were later transferred to a Tadiran subsidiary, Tadiran Telematics Ltd. In November 1999, we purchased Tadiran Telematics from Tadiran and in 2002, we changed its name to Telematics Wireless.

In May 1998, we completed the initial public offering of our ordinary shares in Israel and our ordinary shares began trading on the Tel-Aviv Stock Exchange. In September 2005, we publicly offered our ordinary shares in the United States and our ordinary shares are currently quoted on both the Tel-Aviv Stock Exchange and on Nasdaq under the symbol "ITRN". The address of our principal executive office is 3 Hashikma Street, Azour 58001, Israel. Our telephone number is 972-3-557-1333. Our agent for service of process in the United States is Ituran USA Inc. 1700 NW 64<sup>th</sup> ST, SUITE 100 Fort Lauderdale, Florida 33309.

In 2006 we acquired control of E.R.M. Electronic Systems Limited ("ERM"), a developer, manufacturer, and marketer of innovative vehicle security, tracking, and management GSM based communication solutions for the international market. Since such acquisition, we have been developing our fleet management services and products, which now constitute a material portion of our operations.

In 2007, we purchased the entire issued share capital of Mapa Group from its shareholders for US\$9.9 million. In addition, we invested an additional sum of approximately US\$3.1 million in Mapa Group, which was used by Mapa Group to repay shareholders' loans. Mapa Group is a provider of geographic information (GIS) in Israel and owner of geographic information database for navigation in Israel.

On December 31, 2007, we completed the sale of our subsidiary, Telematics Wireless Ltd., to ST (Infocomm). Pursuant to the sale transaction, we sold our entire shareholdings, constituting 93.93%, of Telematics Wireless to ST (Infocomm), for an enterprise value of US\$90 million (following repurchase of our shares in Telematics for the aggregate sum of US\$5 million). Pursuant to an adjustment mechanism as detailed in the agreement and following arbitration proceedings with ST, the purchase price was adjusted by US\$4.4 Million. For details regarding the recent conclusion of arbitration proceedings related to the sale of Telematics to ST (Infocomm), please refer to Item 8.A. – "Consolidated Statements and other Financial Information" under the caption "Material Legal Proceedings" below.

In January 2008, we entered into a 10 year Frame Product and Service Purchase Agreement with Telematics, pursuant to which the Company and Telematics shall purchase from each other certain products and services as detailed in the agreement for a price and other conditions as detailed in the agreement. In addition, each of Ituran 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 months periods, unless non-renewal notice is provided 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 shall survive the termination or expiration of the agreement.

In 2010 we launched a new line of AVL products (IturanSave), which is based on our SMART products and tailored to be installed in medium-end vehicles, a market which was not previously targeted by us, offering our customers an affordable tracking device solution. This new line of products led to an increase in our sales since then.

On April 9, 2012, we entered into an agreement with General Motors Brazil ("GMB") through a Brazilian company controlled by us. According to the agreement, GMB will offer its customers immobilization, location and Telematics services for the Chevrolet range of vehicles it sells in Brazil through Ituran's Brazilian company. The sale and the installation of the anti-theft device will not be carried out by us. For the purposes of this agreement, we incorporated a new Brazilian subsidiary, Ituran Road Truck Ltda. in which we own 50% of the issued share capital. As of the date hereof, this Brazilian subsidiary has not yet commenced operations.

In December 2013 we invested \$1.4 million in Bringg delivery technologies Ltd. (formerly Overvoo Ltd.), an Israeli start-up company developing solutions for the management of mobile/field workforce. According to the agreement with Bringg, we have invested by January 2015 an additional amount of \$1.1 million and we now hold 40.8% of its share capital.

#### **Capital Expenditures and Divestitures**

We had capital expenditures of \$15.2 million in 2014, \$14 million in 2013 and \$10 million in 2012. We have financed our capital expenditures with cash generated from our operations.

Our capital expenditures in 2014, 2013 and 2012 consisted primarily of acquisition of operational equipment for \$11.2 million, \$10.2 million and \$5.6 million, respectively.

We did not have any material capital divestitures during the last three fiscal years and until the date of this report.

### **B. BUSINESS OVERVIEW**

#### **Overview**

We believe we are a leading provider of location-based services, consisting predominantly of stolen vehicle recovery, fleet management services and other tracking services. We also provide wireless communications products used in connection with our location-based services. We currently primarily provide our services and sell and lease our products in Israel, Brazil, Argentina and the United States. We utilize technologies that enable precise and secure high-speed data transmission and analysis. Some of the technology underlying our products was originally developed for the Israeli Defense Forces in order to locate downed pilots.

We generate our revenues from subscription fees paid for our location-based services and from the sale and lease of our wireless communications products.

We describe below the principal markets in which we compete. For a breakdown of total revenues by category of activity and geographic market for each of the last three financial years, please see Item 5.A - Operating Results under the caption "Revenues".

#### **Location-Based Services**

In 2014, 73.4% of our revenues were attributable to our location-based services. As of December 31, 2014, we primarily provided our services in Israel, Brazil, Argentina and the United States to approximately 340,000, 298,000, 158,000 and 21,000 subscribers, respectively.

##### *Stolen vehicle recovery services*

Our stolen vehicle recovery and tracking services, which we refer to as SVR services, enable us to locate, track and recover stolen vehicles for our subscribers. Our customers include both individual vehicle owners who subscribe to our services directly and insurance companies that either require their customers to install a security system or offer their customers financial incentives to subscribe to SVR services such as ours. In certain countries, insurance companies directly subscribe to our SVR services and purchase automatic vehicle location products supporting these SVR services from us on behalf of their customers.

##### *Fleet management services*

Our fleet management services enable corporate and individual customers to track and manage their vehicles in real time. Our services improve appointment scheduling, route management and fleet usage tracking, thereby increasing efficiency and reducing operating costs for our customers. We market and sell our services to a broad range of vehicle fleet operators and individual vehicle owners in different geographic locations and industries. As of December 31, 2014, we provided our services to approximately 122,000 end-users through 28,000 corporate customers in Israel, Brazil, Argentina and the United States. We are currently exploring collaborations with local entities in other regions of the world for the marketing of our fleet management services and products in such regions.

##### *Value-added services*

The personal locator services that we offer allow customers to protect valuable merchandise and equipment. We currently provide personal locator services in Israel, Brazil and Argentina and, as of December 31, 2014, we had approximately 8,000 subscribers to this service. In addition, through a call center, we provide 24-hour on-demand navigation guidance, information and assistance to our customers. Such services include the provision of traffic reports, help with directions and information on the location gas stations, car repair shops, post offices, hospitals and other facilities. We provide our concierge services to our subscribers in Israel, Argentina and Brazil. As of December 31, 2014, we had approximately 160,000 subscribers to our concierge service.

#### **Wireless Communications Products**

In 2014, 26.6% of our revenues were attributable to the sale of our wireless communications products. Our wireless communications products employ short- and medium-range communication between two-way wireless modems and are used for various applications, including automatic vehicle location, which we refer to as AVL.

Our AVL products enable the location and tracking of vehicles, as well as assets and persons, and are used by us primarily to provide SVR and fleet management services to our customers. Each subscriber to our SVR services has our AVL end-unit installed in his or her vehicle. Subscribers to services for locating equipment and merchandise will use our SMART products. As part of our expansion into additional markets, in 2006 we acquired control of E.R.M. Electronic Systems Limited ("ERM"), a developer, manufacturer, and marketer of innovative vehicle security, tracking, and management GSM based communication solutions for the international market. Subscribers to our fleet management services use ERM hardware and our proprietary software

## **Industry Overview**

While we believe that the statistical data, industry data forecasts and market research discussed below are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information

### **(a) Location-based services**

#### *Stolen vehicle recovery*

The demand for vehicle security products and services is driven by vehicle theft rates, increasing security awareness among customers and insurance companies' efforts to reduce incidents of loss. In addition, in Brazil, which is one of our primary markets, a regulation was adopted pursuant to which new vehicles (cars, motorcycles, trucks etc.), manufactured in Brazil or imported into the country may only be sold when equipped with a blocking (immobilizing) and GPS location system or tracking system (such as our products). However the implementation date of this regulation was delayed to June 31, 2016. This regulation may not enter in force on such date and may be subject to further delays, to amendments or to cancelation. In some of our markets, demand for SVR services has been enhanced by incidents of carjacking and car-related kidnappings that have increased consumers' perceived crime risk. Additionally, theft of trucks carrying valuable or hazardous cargo (e.g., microchips and chemicals) represents a threat to commercial, industrial, public and personal safety and security.

A wide range of vehicle security products, with varying degrees of sophistication and pricing, are available to vehicle owners today. These products can be divided roughly into two categories:

- 1) Traditional products, such as locks, alarms and traditional immobilizers. These devices are limited in their effectiveness as most can be disarmed easily and typically require the driver to activate the device upon leaving the vehicle. Also, unmonitored alarms that set off sirens are routinely ignored by people as the incidence of false alarms has been historically high. Furthermore, these products can only help in preventing theft and not in recovering the vehicle once it is stolen.
- 2) More sophisticated products that include some form of remote monitoring and communication. This category can be further separated into devices that simply provide information on the general direction of the vehicle and those that enable the location, tracking and recovery of the vehicle in real time.

AVL technology is typically used to report stolen vehicles to police, provide real-time location and tracking information and immobilize the vehicle if necessary. The application of AVL technology has proven to be effective in increasing the recovery rates of stolen vehicles. As a result, many insurance companies in countries such as Israel, Brazil and Argentina either offer discounts between 10% and 20% on insurance premiums for vehicles equipped with AVL systems or require customers to install such AVL systems in vehicles above a pre-determined value.

#### *Fleet management*

The market for fleet management services ranges from very large fleets of thousands of vehicles to very small fleets of five vehicles or less, with smaller fleets constituting a significant portion of the market given the large number of companies that maintain a fleet today. Fleet management services allow fleet operators and individuals to locate, monitor and communicate with their vehicles and employees in the field in real time. This helps them to better track loads, predict arrival times, schedule customer appointments, reduce fuel usage and manage vehicles' maintenance schedules. By increasing efficiency and reducing costs, fleet management can provide a quantifiable return on investment for fleet operators, as well as improve customer satisfaction. In addition, fleet management services can enhance driver security and can notify the fleet operator if a vehicle leaves a prescribed geographic region, reducing theft-related liabilities.



A principal factor supporting fleet management industry growth is the presence of millions of vehicles that are in commercial use but which are not yet equipped with fleet management systems.

**(b) Wireless communications products**

*Automatic vehicle location*

AVL is one of the many possible applications for wireless location technology and is an umbrella term used for communication equipment and services that facilitate wireless tracking of vehicles, as well as assets and persons.

Typical AVL applications include:

<b>Security</b>	<b>Transportation</b>	<b>Telecommunication services</b>	<b>Government</b>
Vehicle tracking	Fleet management	Maintenance vehicle tracking	Government vehicle tracking
Driver Behavior and Accident Notification	Parcel tracking		
Personal tracking	Public transit		
Asset tracking			

Currently, the main underlying technologies available for wireless location and tracking in the AVL industry are terrestrial network triangulation, GPS (in combination with wireless communication), network-based cellular communication and radio frequency-based homing.

- Terrestrial network triangulation uses the wireless signals transmitted by an end-unit in the vehicle and received by a network of land-based wireless antennas (base stations) installed in the relevant coverage region in order to determine the precise location of the transmitter.
- GPS-based systems utilize specially designed GPS devices in the vehicle that receive data from three or more satellites in order to determine the location of the device. Once located, GPS-based systems require a cellular or another wireless network to communicate with a remote control center.
- Network-based cellular systems utilize signals between the wireless device and the cellular operator’s network of land-based antennas in order to triangulate the location of the relevant device. These systems require two-way communication between the device and antennas and, therefore, both a transmitter and receiver need to be installed in the vehicle.
- RF-based homing systems utilize direction-finding technology based on a tracking signal transmitted by the end-unit in the vehicle, which is activated by a unique radio signal from the tracking unit once the vehicle is reported stolen.

## **Our Services and Products**

### ***Location-based services***

#### ***Stolen vehicle recovery***

Our stolen vehicle recovery system is based on three main components: an AVL end-unit that is installed in the vehicle, a network of base stations and a 24-hour manned control center. Once the control center receives indication of an unauthorized entry into a vehicle equipped with our AVL end-unit, our operators decide whether it is a false alarm or an actual unauthorized entry. If it is determined to be an unauthorized entry, or if a notification of the vehicle's theft is received directly from the vehicle operator, our operators transmit a signal that activates the transmitter installed in the vehicle. We then pinpoint the location of the transmitter with terrestrial network triangulation technology or GPRS technology and notify the relevant law enforcement agency. In Israel, Brazil and Argentina, we also maintain private enforcement units, which work together with local police to recover the vehicle. In addition, we have the capability to immobilize vehicles remotely from our control centers.

#### ***Fleet management***

We offer our customers the ability to use a comprehensive application for fleet management both by using an Internet site and workstations. Our system allows our customers 24-hour access to information on their fleets through our active control center and we are able to tailor our system to our customers' specific needs.

Our solutions allow our subscribers to effectively manage and control their fleet, and thereby to reduce their operating costs, optimize work hours and appointment scheduling and improve their services and operations. Our system includes the following features:

- the ability to locate the fleet's vehicles;
- continuous data communication with the fleet's vehicles;
- real-time vehicle status indicators: speed, distance driven, direction of travel, driver name, motion start/stop, engine start/stop, speeding, diagnostic alerts, driver behavior and more;
- recording of determined events and analysis of data over time to improve driving and vehicle use;
- remote monitoring and processing of data, such as temperature control in refrigerated or chilled compartments, time stamp, tire pressure and heat and other complementary data;
- connection to standard organization systems;
- accident notification;
- driver's behavior; and
- task management optimization.

#### ***Value-added services***

***Locator services.*** Our services allow consumers to protect valuable merchandise and equipment. We provide our locator services in Israel, Brazil and Argentina.

***Concierge services.*** Through a call center, we provide 24-hour on-demand navigation guidance, information and assistance to our customers. Such services include the provision of traffic reports, help with directions and information on the location of gas stations, car repair shops, post offices, hospitals and other facilities. We provide our concierge services to subscribers mainly in Israel.

#### ***Wireless communications products***

Our wireless communications products are used for various applications in the AVL markets and primarily in connection with our location-based services described above.

Our AVL products enable the location and tracking of vehicles, as well as assets or persons, and are primarily used by us in providing our SVR and fleet management services. Each subscriber to our SVR services has one of our end-units installed in his or her vehicle. Subscribers to services for locating persons or valuables will use our SMART products. Our key wireless communications products for AVL applications include:

- **Base Site:** a radio receiver, which includes a processor and a data computation unit to collect and send data to and from transponders and send that data to control centers as part of the terrestrial infrastructure of the location system;
- **Control Center:** a center consisting of software used to collect data from various base sites, conduct location calculations and transmit location data to various customers and law enforcement agencies;
- **GPS/GPRS-based products:** navigation and tracking devices installed in vehicles; and
- **SMART:** a portable transmitter installed in vehicles (including motorcycles) that sends a signal to the base site, enabling the location of vehicles, equipment or an individual;

**Geographical Information**

The following table lists the key services and products that we currently sell or lease in different regions of the world:

<b>Country</b>	<b>Services offered</b>	<b>Products sold</b>
Israel	SVR Fleet Management Value-added services	AVL
Brazil	SVR Fleet Management Value-added services	AVL
Argentina	SVR Fleet Management	AVL
United States	SVR Fleet Management Value-added services Asset protection to Auto Lenders	AVL

In each of the above countries we maintain a control center, which is operated 24 hours a day, 365 days a year. The following is a short description of key operating statistics about our location-based services in the countries in which we operate:

- **Israel:** We commenced operations in Israel in 1995 and we had approximately 340,000 subscribers as of December 31, 2014. We maintain 103 base stations in Israel, which provide complete coverage within the country. We also operate throughout Israel in providing fleet management services through GPS/GPRS based products and services.
- **Brazil:** We commenced operations in Brazil in 2000 and we had approximately 298,000 subscribers as of December 31, 2014. We currently provide RF based products and services only in the metropolitan areas of Sao Paulo, Campinas, Americans and Rio de Janeiro, where we maintain 137 base stations; however we operate throughout Brazil in providing GPS/GPRS based products and services.
- **Argentina:** We commenced operations in Argentina in 2002 and we had approximately 158,000 subscribers as of December 31, 2014. We currently provide RF based products and services only in the metropolitan area of Buenos Aires, where we maintain 43 base sites; however, we also operate throughout Argentina in providing GPS/GPRS based products and services for fleet management.
- **United States:** We commenced operations in the United States in 2000. We provide GPS/GPRS products and services throughout the United States. As of December 31, 2014, we had approximately 21,000 subscribers for our location-based services in the United States.

## **Customers, Marketing and Sales**

We market and sell our products and services to a broad range of customers that vary in size, geographic location and industry. In 2012, 2013 and 2014 no single customer or group of related customers comprised more than 10% of our total annual revenues.

Our selling and marketing objective is to achieve broad market penetration through targeted marketing and sales activities. As of December 31, 2014, our selling and marketing team consisted of 127 employees.

### **(A) Location-based services**

#### *Stolen vehicle recovery*

Our marketing and sales efforts are principally focused on five target groups: insurance companies and agents, car manufacturers, dealers and importers, cooperative sales channels (mostly vehicle fleet operators and owners) and private subscribers.

We maintain marketing and sales departments in each geographical market in which we operate. Each department is responsible for maintaining our relationships with our principal target groups. These responsibilities also include advertising and branding, sales promotions and sweepstakes.

In Israel, Brazil and Argentina, we focus our marketing efforts on insurance companies and private customers; while in Brazil, our primary focus has shifted to the retail market during recent years. In the United States, we believe that insurance companies do not constitute a material influence in the marketing of SVR services or AVL products. Most of our sales in the United States are made through car dealerships and dealers for new or used cars. Our customers in the SVR market include insurance companies as well as individual vehicle owners. As of December 31, 2014, we had a total of approximately 817,000 subscribers for our SVR services.

#### *Fleet management*

Vehicle fleet management systems are primarily marketed through vehicle fleets' departments, which form a part of our regional marketing departments. We conduct in-depth research to identify companies that will gain efficiency and cost savings through the implementation of our products and services, and conduct targeted marketing campaigns to these companies. In addition, we participate in professional conventions and advertise in professional publications and journals designed for our target customers. Our customers in the fleet management market include small-, mid- and large-size enterprises and individuals. As of December 31, 2014, we provided our services to approximately 122,000 end users through 28,000 corporate customers and individuals in Israel, Brazil, Argentina and the United States. We are currently exploring collaborations with local entities in other regions of the world for the marketing of our fleet management services and products in such regions.

#### *Value-added services*

Our concierge services are provided to existing SVR customers. As of December 31, 2014, we had approximately 160,000 subscribers to our concierge service in Israel, Argentina and Brazil and approximately 8,000 of our SMART devices were installed in valuable merchandise and equipment.

## **(B) Wireless communications products**

Our AVL end-units are primarily used by us in providing our location-based services, including fleet management and value-added services, in Israel, Brazil, Argentina and the United States.

### **Competition**

We face strong competition for our services and products in each market in which we operate. We compete primarily on technology edge, functionality, ease of use, quality, price, service availability, geographic coverage, track record of recovery rates and response times and financial strength.

#### **(A) Location-based services**

We compete with a variety of companies in each of our markets. The three major technologies utilized by our competitors are GPS/cellular, network-based cellular and radio frequency-based homing systems. In addition, new competitors utilizing other technologies may continue to enter the market.

##### *Stolen vehicle recovery*

- **Israel.** Our primary competitors in Israel are Eden Telecom Ltd. (Pointer) and Skylock Ltd.
- **Brazil.** Brazil is a highly fragmented market with many companies selling competing products and services (including immobilizers and other less-sophisticated vehicle security systems). Our main competitors in Brazil are Sascar, LoJack Corporation and Car System.
- **Argentina.** Argentina is also a highly fragmented market with many companies selling competing products and services (including immobilizers and other less-sophisticated vehicle security systems). Our main competitors in Argentina are LoJack Corporation and Megatrans S.A..
- **United States.** In the United States, there are several major companies offering various theft protection and recovery products that compete with our product and service offerings, including LoJack Corporation, OnStar Corporation, Sky Link Corporation, Spireon (which also includes SysLocate and GoldStar), PassTime, Guide Point, Sky Patrol, Sky Guard, I-Metrik SVR and Position Plus.

We believe that we are a leading provider of location-based services in Israel, as we are deemed a monopoly in this field; however, we are unable to provide specific market share information in the markets of our operations for various reasons, including the broad range of services and products that compete in these markets, the non-existence of trade publications with respect to the products and services we offer in such markets and the lack of meaningful or accurate market research or data available to us.

##### *Fleet Management*

The vehicle fleet management market is highly fragmented with many corporations offering location products and services. Our major competitors in Israel are Pointer, ISR, Traffilog and Skylock; our major competitors in the United States are GPS Insight, Trimble, Network Fleet, Street Eagle, FleetMatics, Navtrack, Teletrac, Trim Track, FleetBoss, PassTime and Spireon; our major competitors in Brazil are Sascar, Onixsat, Autotrac and Omnilink; and our major competitors in Argentina are LoJack Corporation, Megatrans SA., G4S, Sitrac S.A., American Tracer, Ubicar S.A. and Sky Cop.

## **(B) Wireless communications products**

Our AVL system for automatic vehicle location is based on terrestrial network triangulation technology and primarily competes with companies that use one of three main technologies: GPS/GPRS (in combination with wireless communication), network-based cellular communication and radio frequency-based homing.

Although AVL products based on GPS, network-based cellular and homing technologies do not require the construction of a separate infrastructure of base stations as with terrestrial network triangulation systems such as ours, such solutions have certain drawbacks. GPS receivers require line of sight to at least three satellites, which reduces their effectiveness in areas where the satellite signals are subject to interference and “noise” (such as urban areas, buildings or parking garages, forests and other enclosed or underground spaces). GPS and network-based cellular systems are also prone to jamming since the tracking signal receivers are located in the vehicle and can be easily tampered with. In addition, the satellites utilized by GPS devices are managed by the United States Department of Defense and can be subject to forced temporary outages. The main disadvantage of homing systems is that they provide only the general direction and not the precise location of the end-unit. In addition, homing systems require that the vehicle be reported stolen before the tracking signal can be activated, which may result in a delay between vehicle theft and recovery.

Terrestrial network triangulation systems have succeeded in overcoming some of the challenges faced by systems based on other technologies. Terrestrial network triangulation technology does not require line of sight and the signals are not easily interrupted in densely populated or obstructed areas. Also, the signals are transmitted from the end-unit in the vehicle to a network of base stations. Therefore, in order to jam the system, receivers in each individual base station within range of the end-unit would have to be jammed, which is difficult to accomplish. Additionally, since the primary application of terrestrial network triangulation systems in the AVL industry is vehicle location and not continuous two-way communication, short bursts of data are sufficient for tracking purposes, which enable the network of base stations to be deployed at a much lower density in the coverage area than traditional network-based cellular base stations. Terrestrial network triangulation systems are capable of determining the precise location, and not just the general direction, of a vehicle at any moment in time. Furthermore, when connected with the existing theft protection system in the vehicle, terrestrial network triangulation systems automatically alert the control center when a vehicle is stolen and do not require that the vehicle be reported stolen, which can potentially reduce stolen vehicle recovery times to a few minutes. The main disadvantage of terrestrial network triangulation systems is the necessity to deploy a physical infrastructure, including the construction, development and deployment of a network of base stations and a control center and the need to address the various financial, legal and practical issues associated with such deployment. Any such deployment entails an investment of a sizable amount of money prior to the receipt of any revenues.

Since our AVL end-units are primarily used by us in providing our location-based services, the information provided above concerning our competition in this market is applicable to the competition in the wireless communications products' market as well.

#### **Manufacturing Operations and Suppliers**

Our wireless communications products are manufactured and assembled by a limited number of manufacturers in Israel (including our subsidiary ERM). We engage with our manufacturers on a full turn-key basis, where we supply detailed production files and materials list and receive a final product that we sell directly to our clients. Other than our dependency on Telematics, as described in Item 3, “Risk Factors” above, we do not depend on a single manufacturer for the production of our products. Our main manufacturers and assemblers are Telematics and E.R.M Electronic Systems Limited (our subsidiary). For further details of our agreement with Telematics concerning the supply of products and services see Item 4.A – History and Development of our Company under the caption “Our History” above.

Our quality assurance and testing operations are performed by our manufacturers at their facilities, while using our quality assurance and testing equipment and in accordance with the test procedures designated by us. We monitor quality with respect to key stages of the production process, including the selection of components and subassembly suppliers, warehouse procedures, assembly of goods, final testing, packaging and shipping. We are ISO 9001 certified. We believe that our quality assurance procedures have been instrumental in achieving the high degree of reliability of our products.

Several components and subassemblies included in our products are presently obtainable from a single source or a limited group of suppliers and subcontractors. We maintain strong relationships with our manufacturers and suppliers to ensure that we receive an adequate supply of products, components and raw materials at favorable prices and to access their latest technologies and product specifications.

### **Proprietary Rights**

We seek to protect our intellectual property through patents, trademarks, contractual rights, trade secrets, know-how, technical measures and confidentiality, non-disclosure and assignment of inventions agreements and other appropriate protective measures to protect our proprietary rights in the primary markets in which we operate. The continued use of some licenses granted by third parties to use their intellectual property is material to our business. Please refer to Item 3.D – Risk Factors, under the caption “We rely on some intellectual property that we license from third parties, the loss of which could preclude us from providing our SVR services or market and sell some of our AVL products, which would adversely affect our revenues” above.

We typically enter into non-disclosure and confidentiality agreements with our employees and consultants. We also seek these protective agreements from some of our suppliers and subcontractors who have access to sensitive information regarding our intellectual property. These agreements provide that confidential information developed or made known during the course of a relationship with us is to be kept confidential and not disclosed to third parties, except in specific circumstances.

Our stolen vehicle recovery system is based on three main components: (i) an AVL end-unit that is installed in the vehicle, (ii) (for RF technology based AVL units) a network of base stations that relay information between the vehicle location units and the control center, certain components of which were developed by third parties and are currently licensed to us and (iii) a 24-hour manned control center consisting of software used to manage communications and the exchange of information among the hardware components of the AVL system, certain components of which were developed by third parties and licensed to us. For details concerning the non-exclusive license granted by Telematics to us in respect of the RF technology incorporated in some of our products, please refer to Item 4.A. – History and Development of our Company under the caption “Our History” above.

“Ituran”, “Mr. Big”, “Mapa” and the related logos are our trademarks, which have been registered in Israel. This report also refers to brand names, trademarks, service marks and trade names of other companies and organizations, each of which is the property of its respective holder.

### **Regulatory Environment**

In order to provide our SVR services in the locations where we currently operate, we need to obtain four primary types of licenses and permits: (i) for our products utilizing the RF technology - a license that allows us to use designated frequencies for broadcasting, transmission or reception of signals and information and to provide telecommunication services to our customers, (ii) for our products utilizing the RF technology - a building permit, which permits us to erect our base sites and transmit therefrom, (iii) product specific licenses (commonly known as type approvals), which enable us to use the equipment necessary for our services, and (iv) a general commerce license, which allows us to offer our services to the public.

The telecommunication services and frequency license and general commerce licenses we require are granted by the applicable national agency regulating communications in the markets in which we operate, specifically, the Ministry of Communication, in Israel, Anatel – Agencia Nacional de Telecomunicatoes, in Brazil, the Comision Nacional de Comunicaciones, in Argentina, and the Federal Communications Commission, in the United States. The product specific licenses we require are granted in Israel by the Ministry of Communication, in Brazil by IBRACE (the Instituto Brasileiro de Certificatao de Productos para Telecomunicatoes), in Argentina by the National Institute of Industrial Technology of Argentina and in the United States by the Federal Communications Commission.

In Brazil, the general commerce licenses, such as the city permits, are granted by the local municipalities and other specific entities, depending on the licenses required.

Our frequency licenses in all of the locations where we operate are “secondary” or “joint”, which means that the government may grant another person or persons, typically a cellular operator, a primary license to the same frequencies and, to the extent our operations interfere with the operations of the other person, we would have to modify our operations to accommodate the joint use of the frequencies. All of these licenses are also subject to revocation, alteration or limitation by the respective authority granting them. While any events that would cause us to change frequencies or to modify our operations could have a material adverse effect on us, we do not believe that this is a likely event in any of the locations where we provide our SVR services.

Our frequency license in Israel was renewed for a term of five (5) years until July 31, 2017. Our frequency licenses in Brazil expire in 2019. Except in Brazil, where a request for a new license may have to be filed upon expiration of the license in 2019, we have options to extend all of our frequency licenses for periods ranging from three- to ten-years. In Argentina, the SECOM (Secretary of Communication), on July 15, 1999, granted us a license to provide services and the authorization to use frequencies. These authorizations do not have any expired date.

In Israel and Brazil, like our competitors and most cellular operators, we are not in compliance with all relevant laws and regulations in connection with the erection of transmission antennas (our base sites). As of the date hereof, most of our base sites in Israel and Brazil are operating without local building permits. Currently, there is heightened awareness of this issue in Israel, particularly in connection with base sites of cellular providers, and possible sanctions could include fines and even the closure or demolition of these base sites. In Brazil, Brazilian authorities enforce permit requirements and impose penalties for non-compliance with such requirements. However, we do not believe this is likely. Obtaining such required permits may involve additional fees as well as payments to the Land Administration Authority.

In Israel the required permits and approvals for the erection of the base sites include:

- erection and operating permits from the Israeli Ministry of the Environment;
- permits from the Israeli Civil Aviation Authority, in certain cases;
- permits from the Israeli Defense Forces;
- approval from Israel's Land Administration and/or from Civil Administration in the Territories, which usually also involves payment for the land use rights; and
- building permits from local or regional zoning authorities in Israel and Brazil.

We are continuously in the process of obtaining the relevant permits required for the construction of our base sites in Israel, however, to date, we have been issued only 28 of these permits (13 of them have expired). With respect to the general permit from Israel's Land Administration, in 2005 we entered into an agreement with the Israel's Land Administration, pursuant to which the general permit has been issued to us against an annual consideration based on the date of approval of our base sites. The agreement had expired on December 31, 2010. In the event that the Israel Land Administration claims consideration for the erection of the base sites without a permit, we may be subject to penalties and payment of annual consideration for the years of use of those base sites.

In Brazil, very few providers of wireless telecommunications services obtain the required permits for the erection of transmission antennas due to the nature of the approval process. Currently we do not have such permits (except Anatel permits). In Brazil, we try to minimize our risk by locating most of our equipment in sub-leased sites which are already used by other telecommunication service providers, such as cellular operators. In Brazil the required permits for the erection of our base sites include:

- a permit from Anatel (National Agency for Telecommunication)
- a permit from IBAMA (Environment national agency) and/or state EPAs
- Municipal permits
- a permit from the fire department.
- and a permit from COMAR (Aviation authorities)



ANATEL permits are required only for sites where we have transmission equipment and we have obtained all the permits required with this agency. Special IBAMA permits need to be obtained only for ground sites which are located in certain preservation areas. We have few sites of this kind, most of them are collocated sites where we pay for the right of use and permits are undertaken by the landowner. Fire Department permits are required only for equipment rooms and we have not applied for any as of this date. COMAR permits are needed only for a very few of our sites, most of which are collocated.

We have been declared a monopoly under the Israeli Restrictive Trade Practices Law, 1988, in the provision of systems for the location of vehicles in Israel. This law prohibits a monopoly from abusing its market position in a manner that might reduce competition in the market or negatively affect the public. For instance, a monopoly is prohibited from engaging in predatory pricing and providing loyalty discounts, which prohibitions do not apply to other companies. The law empowers the Commissioner of Restrictive Trade Practices to instruct a monopoly abusing its market power to perform certain acts or to refrain from taking certain acts in order to prevent the abuse. Additionally, any declaration by the Israeli antitrust authority that a monopoly has abused its position in the market may serve in any suit in which it is claimed that such a monopoly engages in anti-competitive conduct, as *prima facie* evidence that it has engaged in anti-competitive behavior. Our declaration as a monopoly in the market of “provision of systems for the location of vehicles in Israel” was not accompanied with any instructions or special restrictions beyond the provisions of the Restrictive Trade Practices Law. Although we may be ordered to take or refrain from taking certain actions, to date we have not been subject to such restrictions.

### C. ORGANIZATIONAL STRUCTURE

We were initially incorporated as a subsidiary of Tadiran, an Israeli-based designer and manufacturer of telecommunications equipment, software and defense electronic systems, whose original business purpose was to adapt military-grade technologies for the civilian market. In July 1995, Moked Ituran Ltd. purchased our company and the assets used in connection with its operations from Tadiran and Tadiran Public Offerings Ltd. The AVL infrastructure and AVL end-units for the operation of our SVR services were originally developed by an independent division of Tadiran Communications and Systems Group. These operations were later transferred to a Tadiran subsidiary, Tadiran Telematics Ltd. In November 1999, we purchased Tadiran Telematics from Tadiran and in 2002, we changed its name to Telematics Wireless. In December 2007 we sold our subsidiary Telematics – for further information please refer to Item 4.A. – “History and Development of the Company” under the caption “Our History” above.

#### List of Significant Subsidiaries

<u>Name of Subsidiary</u>	<u>Country of Incorporation</u>	<u>Proportion of Ownership Interest</u>
Ituran USA Holdings Inc.	USA	100%
Ituran USA Inc.	USA	88.5% *
Ituran de Argentina S.A.	Argentina	100%
Ituran Sistemas de Monitoramento Ltda.	Brazil	98% **
Ituran Instalacoes Ltda.	Brazil	98%
Teleran Holding Ltda.	Brazil	99.99%
Ituran servicios Ltda.	Brazil	98%
Ituran Road Truck Ltda.	Brazil	50%
E.R.M. Electronic Systems Limited	Israel	51%
Mapa Internet Ltd.	Israel	100%
Mapa Mapping & Publishing Ltd.	Israel	100%

\* 88.5% of the shares are held by Ituran U.S.A. Holding Inc., which is our wholly owned subsidiary; and the remaining shares are held by employees of Ituran USA Inc.

\*\* we indirectly hold 98% of the shares (out of which one share is being held by Mr. Avner Kurz, the President of Teleran Holding Ltda.)

\*\*\* we indirectly hold 98% of the shares.

#### D. PROPERTY, PLANTS AND EQUIPMENT

As of the date of this report, and other than an office building of 8 floors in the area of approximately 5,356 sqm (57,651 square feet), which was purchased by our subsidiary Ituran Sistemas de Monitoramento Ltda (Ituran Brazil) in Sao Paulo, Brazil, and was later, on December 3, 2014 sold to us, we do not own any real estate.

Other than the property in Brazil, all of our offices, headquarters, control centers and facilities are leased in accordance with our specific needs in the areas in which we operate. Additionally, we lease space for our base sites, in order to operate the reception and transmission stations of the system, in each area in which we provide our SVR services.

In 2014 we leased an aggregate of approximately 43,153 square feet of office space in Azour and Holon, Israel. In 2014, the annual lease payments for these facilities were approximately \$684,000. The initial term of the primary lease (in Azour) expired on March 31, 2013; and we renewed the lease until 2020. These premises include our executive offices and the administrative and operational centers for our operations as well as our customer service, value-added services and technical support centers for the Israeli market.

In Buenos Aires, Argentina, we lease approximately 8,793 square feet of office space for approximately \$ 83,470 annually, approximately 720 square feet for our control center for approximately \$ 6,841 annually, approximately 5,253 square feet for our installation center for approximately \$ 84,122 annually, approximately 2,121 square feet for our warehouse for approximately \$14,877 annually, and approximately 862 square feet for our third warehouse for approximately \$8,425 annually.

We lease approximately 7,460 square feet for our offices and control center in Florida for a monthly rate of \$9,636. This lease commenced in October 2014 and is expected to end in September 2015. We are planning on extending our lease for additional 12 months commencing October 2015.

In 2014, we leased approximately 1050 Sq. m (11,020 square feet) of office space and warehouse in Brazil for approximately \$133,000 annually.

We believe that our facilities are suitable and adequate for our operations as currently conducted. In the event that additional facilities will be required, we believe that we could obtain such facilities at commercially reasonable rates.

The size of our base station sites varies from approximately 11 to 44 square feet. In Israel, we have 103 base stations and we rent most base station sites independently for a monthly rate ranging from \$200 to \$2,000 per site depending on the location, size and other factors; for certain sites we do not pay any rent. The typical duration of a lease agreement for our base stations in Israel is five years and we generally have a right to renew the term of the lease agreements for a period ranging between two and five years. In Brazil, we have 137 base station sites, of which 23 sites are leased from the same entity under a 15 years-contract,(commencing from 2012) for a monthly rate ranging from \$500 to \$3,400 per site . The remaining 114 sites are leased independently for an annual rate ranging from \$200 to \$800 depending on the location, size and other factors, and the typical duration for these leases is five years. In Argentina, we have 43 base station sites, all of which are leased from three entities for a monthly rate ranging from \$300 to \$1,250 per site. The duration of the lease ranges from one to two years.

We do not believe that we have a legal retirement obligation associated with the operating leases for our base sites pursuant to the relevant accounting standards, since we do not own any real property. However, we are obligated pursuant to certain of the operating leases for our base sites, mainly for base sites in Israel, Brazil and Argentina, to restore facilities or remove equipment at the end of the lease term. Since the restoration is limited to any construction or property installed on the property, which in our case is only the installed antennas, we do not believe that these obligations, individually or in the aggregate, will result in us incurring a material expense.

**ITEM 4.A. UNRESOLVED STAFF COMMENTS**

Not applicable

**ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this report.*

**Introduction**

We believe we are a leading provider of location-based services, consisting predominantly of stolen vehicle recovery, which we refer to as SVR, and tracking services. We also provide wireless communications products used in connection with our SVR services and for various other applications. We currently provide our services and sell and lease our products in Israel, Brazil, Argentina and the United States.

Our operations consist of two segments: location-based services and wireless communication products.

Our location-based services segment consists of our SVR, fleet management and value-added services. We currently operate stolen vehicle recovery services throughout Israel, in Brazil, Buenos Aires, Argentina and in the United States.

Our wireless communications products segment consists of our short- and medium-range two-way wireless communications products that are used for various applications, including AVL. We sell our AVL end-units to customers that subscribe to our SVR services.

**Outlook**

We have historically experienced significant growth in the markets in which we provide our location-based services. These markets are generally characterized by high car theft rates and insurance companies that are seeking solutions to limit their actual losses resulting from car theft, and hence the Brazilian market continues to represent growth potential for our location-based services. The growth in subscribers within our location-based services segment also has a direct impact on the sale or lease of our AVL products, as they are an integral component of our location-based services and are installed in each subscriber's vehicle. In Israel, improvements in the economy in 2010 have led to increased car sales which positively affected our sales as compared with previous years.

As of December 31, 2014, we had approximately 298,000 subscribers in Brazil. We estimate that the total addressable market in Brazil several million vehicles, and therefore we have a significant opportunity to grow our subscriber base and increase sales of our AVL products.

We expect growth over the next 12 months in our location-based services segment to be driven by increased demand for our services in Brazil and in Israel, as a result of our strong operating results and our customers' increased familiarity with and confidence in our services; additional insurance companies who could seek to establish relationships with us; increased direct sales of SVR services to individual subscribers in Brazil who, due to prevailing high insurance costs, are self-insured and represent an additional market opportunity for our SVR services and AVL products; and increased sales of our fleet management systems and services. In connection with such potential markets and additional growth opportunities, we constantly look to enhance our brand recognition through continuous advertising efforts.

Our services and products, including our line of AVL products, which is based on our SMART products and tailored for vehicles which are considered medium to high end vehicles, have contributed to an increase in our customer base and sales in Israel, and we expect it to continue to contribute to such increase.

Please refer to Item 3.D. – Risk Factors above in respect of factors that could negatively impact our business.

## Geographical breakdown

### Location-based services' subscriber base

The following table sets forth the geographic breakdown of subscribers to our location-based services as of the dates indicated:

	As of December 31,		
	2014	2013	2012
Israel	340,000	310,000	276,000
Brazil	298,000	262,000	238,000
Argentina	158,000	145,000	131,000
United States	21,000	24,000	22,000
<b>Total<sup>(1)</sup></b>	<b>817,000</b>	<b>741,000</b>	<b>667,000</b>

(1) All numbers provided are rounded, and therefore totals may be slightly different than the results obtained by adding the numbers provided.

### Revenues

The following table sets forth the geographic breakdown of our revenues for each of our business segments for the relevant periods indicated.

	Year ended December 31,					
	2014		2013		2012	
	In USD, in Millions					
	Location based services	Wireless communications products	Location based services	Wireless communications products	Location based services	Wireless communications products
Israel	56	33.5	51.5	31.8	45.2	25.4
Brazil	63.6	2.9	60.3	3.2	55.4	2.8
Argentina	12.5	1.3	13.6	1.6	12.3	1.1
United States	1.6	6	1.6	3.3	1.7	3.2
Others	-	4.7	-	3.3	-	3.2
<b>Total<sup>(1)</sup></b>	<b>\$ 133.7</b>	<b>\$ 48.4</b>	<b>\$ 127.0</b>	<b>\$ 43.2</b>	<b>\$ 114.6</b>	<b>\$ 35.7</b>

(1) We attribute revenues to countries based on the location of the customer.

### Location-based services segment

We generate revenues from sales and leases of our SVR, fleet management and value-added services. A majority of our revenues represent subscription fees paid to us by our customers, predominately subscribers in Israel, Brazil and the United States, and insurance companies in Brazil and Argentina. We recognize revenues from subscription fees on a monthly basis. Our customers are free to terminate their subscription at any time. In the absence of such termination, the subscription term continues automatically. We also generate subscription fees from our fleet management services. Assuming no additional growth in our subscriber base and based on our historical average churn rates of 2.5% per month in this segment, we can anticipate that at least 90% of our subscription fees generated in a prior quarter will recur in the following quarter.

*Wireless communications products segment*

We generate revenues from the sale of our AVL products to customers in Israel, Brazil, Argentina, and the United States. We currently sell or lease our AVL end-units in each of the above regions. Growth in our subscriber base is the principal driver for the sale of our AVL products. We recognize revenues from sales of our wireless communications products upon delivery.

**Cost of revenues**

*Location-based services segment*

The cost of revenues in our location-based services segment consists primarily of staffing, maintenance and operation of our control centers and base stations, costs associated with our staff and costs incurred for private enforcement, licenses, permits and royalties, as well as communication costs and costs due to depreciation of leased products and installation fees. Cost of revenues for sales of our fleet management services also includes payments to a third party who markets our services.

*Wireless communications products segment*

The cost of revenues in our wireless communications products segment consists primarily of production costs of our third-party manufacturers and costs associated with installation fees.

**Operating expenses**

*Research and development*

Our research and development expenses consist of salaries, costs of materials and other overhead expenses, primarily in connection with the design and development of our wireless communications products. We expense all of our research and development costs as incurred.

*Selling and marketing*

Our selling and marketing expenses consist primarily of advertising, salaries, commissions and other employee expenses related to our selling and marketing team and promotional and public relations expenses.

*General and administrative*

Our general and administrative expenses consist primarily of salaries, bonuses, accounting and other general corporate expenses.

**Operating Income**

*Location-based services segment*

Operating income in our location-based services segment is primarily affected by increases in our subscriber base and our ability to increase the resulting revenues without a commensurate increase in our corresponding costs.

*Wireless communications products segment*

Operating income in our wireless communications products segment is primarily affected by our ability to increase sales of our AVL products.

### **Financing expenses (income), net**

Financing expenses (income), net, include, inter alia, short- and long-term interest expenses, financial commissions, and gains and losses from currency fluctuations from the conversion of monetary balance sheet items denominated in currencies other than the functional currency of each entity in the group, gains in respect of marketable securities and interest related tax positions.

### **Taxes on income**

Income earned from our services and product sales is subject to tax in the country in which we provide our services or from which we sell our products.

### **Critical Accounting Policies and Estimates**

Our critical accounting policies are more fully described in Note 1 to our consolidated financial statements appearing elsewhere in this report. However, certain of our accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates on a periodic basis. We base our estimates on historical experience, industry trends, authoritative pronouncements and various other assumptions that we believe to be reasonable under the circumstances. Such assumptions and estimates are subject to an inherent degree of uncertainty.

The following are our critical accounting policies and the significant judgments and estimates affecting the application of those policies in our consolidated financial statements. See Note 1 to our consolidated financial statements included elsewhere in this report.

#### Revenue recognition

Revenues are recognized when delivery has occurred and, where applicable, after installation has been completed, there is persuasive evidence of an arrangement, 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, we do not recognize the revenues until the installation is completed.

Revenues are recognized as follows:

- Revenues from sales of wireless communications product are recognized when title and risk of loss of the product pass to the customer (usually upon delivery).
- Revenues from SVR services subscription fees and installation services which have been determined not to have value on the stand-alone basis to the customers, in accordance with ASC Topic 605-25 "Multiple Elements Arrangements" are recognized ratably on a straight-line basis over the subscription period.
- Deferred revenues which include unearned amounts received from customers (mostly for the provision of installation and subscription services) but not yet recognized as revenues, are recognized and described in the above paragraph.
- Revenues from extended warranty which are provided for a monthly fee and are sold separately are recognized over the duration of the warranty period.

#### Accounting for income taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure and make an assessment of temporary differences resulting from differing treatment of items, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely (i.e., less than "more likely than not"), we establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of income. Significant management judgment is required in determining our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. In the event that we generate taxable income in the jurisdictions in which we operate and in which we have net operating loss carry-forwards, we may be required to adjust our valuation allowance.

We follow the provisions of ASC Topic 740-10, "Income Taxes" which clarify the accounting for uncertainty in tax positions. ASC Topic 740-10 requires that we recognize in our financial statements the impact of a tax position, if that position will more likely than not be sustained upon examination, based on the technical merits of the position, without regard to 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.

We recognize interest as interest expenses (among financing expenses) and penalties, if any, related to unrecognized tax benefits within the provision for income tax.

#### Goodwill and other Intangible Assets Impairment Test

Goodwill acquired in a business combination is deemed to have indefinite life and is not to be amortized but rather tested at least annually for impairment. As required by ASC Topic 350, as amended by ASU No. 2011-08, "Testing for Impairment", we are required to choose either to perform a qualitative assessment where the two-step goodwill impairment test is necessary or to proceed 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, earning multiples, gross margin and cash flows from operating activities and other relevant factors.

When we choose to perform a qualitative assessment and determine 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 we proceed to the two-step goodwill impairment test. If we determine otherwise, no further evaluation is necessary.

When we decide or are required to perform the two step goodwill impairment test, we implement the following process: firstly, we compare the fair value of each reporting unit to its carrying value ("step 1"). If the fair value exceeds the carrying value of the reporting unit net assets, 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").

There are a number of generally accepted methods used for valuing a reporting unit:

The 'income approach' which utilizes discounted forecasted cash flows, the 'Market – approach', which utilizes pricing multiples of business entities with publicly traded securities whose business and financial risks are comparable to those of the reporting unit being valued and the 'Asset - based approach', which establishes a value based on the cost of reproducing or replacing the asset being valued.



These methods described may be used alone or in combination with one another.

As required by ASC Topic 820, "Fair Value Measurements", we apply assumptions that market participants would consider in determining the fair value of each reporting unit. We perform the annual goodwill impairment test for our reporting unit at December 31 of each year, or more often if indicators of impairment are present. Fair value is determined using valuation methodology that is considered appropriate under the circumstances (in connection with the assessment as of December 31, 2014, we utilized the "Income approach" with respect to one reporting unit and the Assets-based approach with respect to one reporting unit). Significant estimates used in the methodologies includes estimates of future cash flows, estimates of discount rates, growth rates, etc. We have performed impairment tests on our goodwill and other intangible assets. In 2013 and 2014, we wrote impairment losses of US\$4.6 million and US\$ 0.9 million, respectively. In assessing the recoverability of our goodwill and other intangible assets, we must make assumptions regarding the estimated future cash flows (including, 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 represent both the specific risks associated with the business, and capital market conditions. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges for these assets.

#### Contingencies

From time to time we are subject to claims arising in the ordinary course of our business, and in connection with certain agreements with third parties, as more fully described in Item 8.A. – "Consolidated Statements and other Financial Information" under the caption "Material Legal Proceedings" below. In determining whether liabilities should be recorded for pending litigation claims (including claims that are under arbitration proceedings), we assess the allegations made and the likelihood that we will be able to defend against the claim successfully. When we believe that it is probable that we will not prevail in a particular matter and when the amount thereof is estimable, we estimate the amount of such liability and its likelihood.

## Results of Operations

The following table sets forth for the periods indicated selected items from our consolidated statements of income as a percentage of our total revenues.

	Year Ended December 31,		
	%		
	2014	2013	2012
<b>Consolidated statements of operations data:</b>			
Revenues:			
Location based services	73.4	74.6	76.2
Wireless communications products	26.6	25.4	23.8
Total Revenues	100	100	100
Cost of Revenues:			
Location based services	25.7	26.4	29.9
Wireless communication products	21	21.1	19.8
Total cost of revenues	46.7	47.5	49.7
Gross profit	53.3	52.5	50.3
<b>Operating Expenses:</b>			
Research and development expenses	1.4	1.4	1.4
Selling and marketing Expenses	5.1	5.7	5.6
General and administrative expenses, net	21.2	20.3	22.3
Other expenses, net	0.4	2.8	1.1
<b>Total operating expenses</b>	28.1	30.2	30.4
Operating Income	25.2	22.3	19.9
Other income (expenses)	---	(0.1)	4.5
Financing income, net	0.9	0.1	0.7
Income before income tax	26.1	22.3	25.1
Income tax	(7.8)	(7.3)	(7.8)
Share in losses of affiliated companies, net	(0.2)	-	-
Net income for the year	18.1	15.0	17.3
Less: net income attributable to non-controlling interests	(1.4)	(1.0)	(0.7)
Net income attributable to company stockholders	16.7	14.0	16.6

### *Analysis of our Operation Results for the Year ended December 31, 2014 as compared to the Year ended December 31, 2013*

#### Revenues

Total revenues increased from \$170.2 million in 2013 to \$ 182.1 million in 2014, or 7%. This increase consisted of an increase of \$6.7 million from subscription fees from our location-based services and an increase of \$5.2 million from sales of our wireless communications products.

#### *Location-based services segment*

Revenues in our location-based services segment increased by \$6.7 million from \$127 million in 2013 to \$133.7 million in 2014, or 5.3%, due to an increase in the average annual number of subscribers from 703,000 in 2013 to 778,000 in 2014; however, this increase was offset by the negative impact of exchange rate fluctuations in the amount of approximately \$11.3 million. If the negative impact of the exchange rate fluctuations was not accounted, our revenues would increase by \$18 million.

#### *Wireless communications products segment*

Revenues in our wireless communications products segment increased from \$43.2 million in 2013 to \$48.4 million in 2014, or 12%. This increase of \$5.2 million is primarily due to an increase of \$5.7 million in our products' sales, mainly in Israel, and a negative effect of exchange rates fluctuation in an amount of \$0.5 million.

#### **Cost of revenues**

Total cost of revenues increased from \$80.9 million in 2013 to \$85 million in 2014, or 5.1%. This increase consisted of an increase of \$2 million in the location based services segment and an increase of \$2.1 million in the wireless communication product segment. As a percentage of total revenues, cost of revenues decreased from 47.5% in 2013 to 46.7% in 2014.

#### *Location-based services segment*

Cost of revenues for our location-based services segment increased from \$44.9 million in 2013 to \$46.9 million in 2014, or 4.5%. This increase was primarily the result of an increase in salary expenses of approximately \$4 million, and depreciation expenses of \$0.7 million and increase in other various expenses such as enforcement and installation fees etc. in total of approximately \$1.8 million, which was offset by effect of exchange rates fluctuations in an amount of approximately \$4.5 million. As a percentage of total revenues for this segment, cost of revenues decreased from 35.3% in 2013 to 35% in 2014.

#### *Wireless communications products segment*

Cost of revenues for our wireless communications products segment in 2014 increased from \$36 million in 2013 to \$38.1 million in 2014, or 5.8%. This increase was mainly due to the increase in our products' sales. As a percentage of total revenues for this segment, cost of revenues decreased from 83.3% in 2013 to 78.7% in 2014, mainly due to a change in the products sales mixture.

#### **Operating expenses**

##### *Research and development*

Our research and development expenses in 2014 increased from \$2.4 million in 2013 to \$2.5 million in 2014. As a percentage of total revenues, research and development expenses remained stable at 1.4%.

##### *Selling and marketing*

Our selling and marketing expenses decreased from \$9.7 million in 2013 to \$9.3 million in 2014, or a decreased of 4%. As a percentage of total revenues, selling and marketing expenses decreased from 5.7% in 2013 to 5.1% in 2014.

##### *General and administrative*

General and administrative expenses increased from \$34.5 million in 2013 to \$38.6 million in 2014, or 11.9%. This increase was primarily due to an increase in salary expenses in the amount of \$4.2 million and an increase in allowance for doubtful accounts in the amount of \$0.9 million which was offset by the effect of exchange rates fluctuations in the amount of \$2.3 million. As a percentage of total revenues, general and administrative expenses increased from 20.3% in 2013 to 21.2% in 2014.

#### **Other expenses, net**

Other expenses decreased from \$4.8 million in 2013 to \$0.9 million in 2014, primarily due to a \$0.9 million impairment loss recorded in 2014, as compared to a \$4.6 million impairment loss, which was recorded in 2013.

**Operating income**

Total operating income increased from \$37.9 million in 2013 to \$45.9 million in 2014, or 20.8%. This increase of approximately \$7.9 million reflects an increase of \$4.1 million in the operating income in the location-based segment and an increase of \$3.8 million in the operating income in the wireless communication products segment.

*Location-based services segment*

Operating income in our location-based services segment increased from \$38.5 million in 2013 to \$42.6 million in 2014, or 10.6%. This increase was mainly attributed to a higher rate of increase in revenues from subscription fees as compared to the rate of increase of this segment's operating expenses during the period.

*Wireless communications products segment*

Operating income in our wireless communications products segment increased from an operating loss of \$0.5 million in 2013 to an operating income of 3.3 in 2014. Our sales in this segment increased during 2014 mainly due to the increase in the volume of sale and the product mix.

**Other (expenses) Income, net**

Other expense, net of \$0.2 million in 2013 was as a result of the sale of our holdings in an affiliated company.

**Financing income, net**

Financing income, net, increased from \$0.2 million in 2013 to \$1.7 million in 2014. This increase was mainly due to a decrease in short term interest expenses and in exchange rate differences.

**Income Tax**

Income Tax increased from \$12.4 million in 2013 to \$14.2 million in 2014, or 14.5%. As a percentage of income before tax on income expense tax decrease from 32.8% in 2013 to 29.9% in 2014 primarily due to a change in the income before tax mix among the group's companies.

***Analysis of our Operation Results for the Year ended December 31, 2013 as compared to the Year ended December 31, 2012*****Revenues**

Total revenues increased from \$150.3 million in 2012 to \$170.2 million in 2013, or 13.2%. This increase consisted of an increase of \$12.4 million from subscription fees from our location-based services and an increase of \$7.5 million from sales of our wireless communications products.

*Location-based services segment*

Revenues in our location-based services segment increased by \$12.4 million from \$114.6 million in 2012 to \$127 million in 2013, or 10.8%. In 2013, subscription fees from location-based services increased by \$17.4 million as compared to 2012, due to an increase in the average annual number of subscriptions from 645,000 in 2012 to 704,000 in 2013; however, this increase was offset by the negative impact of exchange rate fluctuations in the amount of approximately \$5 million.

*Wireless communications products segment*

Revenues in our wireless communications products segment increased from \$35.7 million in 2012 to \$43.2 million in 2013, or 21.0%. This increase of \$7.5 million is primarily due to an increase of \$6.5 million in our products' sales, mainly in Israel, and a positive effect of exchange rates fluctuation in an amount of \$1 million.

**Cost of revenues**

Total cost of revenues increased from \$74.8 million in 2012 to \$80.9 million in 2013, or 8.2%. This increase consisted of a decrease of \$0.1 million in the location based services segment and an increase of \$6.2 million in the wireless communication product segment. As a percentage of total revenues, cost of revenues decreased from 49.7% in 2012 to 47.5% in 2013.

*Location-based services segment*

Cost of revenues for our location-based services segment decreased slightly from \$45 million in 2012 to \$44.9 million in 2013, or 0.2%. This decrease was primarily the result of an increase in salary expenses of approximately \$2 million, which was offset by a decrease in depreciation expenses in the amount of \$1 million as well as by the effect of exchange rates fluctuations in an amount of approximately \$1.5 million. As a percentage of total revenues for this segment, cost of revenues decreased from 39.3% in 2012 to 35.3% in 2013.

*Wireless communications products segment*

Cost of revenues for our wireless communications products segment in 2013 increased from \$29.8 million in 2012 to \$36 million in 2013, or 20.8%. This increase was mainly due to the increase in our products' sales. As a percentage of total revenues for this segment, cost of revenues remained stable in 2012 and 2013 at 83.3%.

**Operating expenses***Research and development*

Our research and development expenses in 2013 increased from \$2.1 million in 2012 to \$2.4 million in 2013. As a percentage of total revenues, research and development expenses remained stable at 1.4%.

*Selling and marketing*

Our selling and marketing expenses increased from \$8.5 million in 2012 to \$9.7 million in 2013, or 14.1%. As a percentage of total revenues, selling and marketing expenses increased slightly from 5.6% in 2012 to 5.7% in 2013.

*General and administrative*

General and administrative expenses increased from \$33.4 million in 2012 to \$34.5 million in 2013, or 3.3%. This increase was primarily due to an increase in salary expenses as offset by the effect of exchange rates fluctuations in the amount of \$1.2 million. As a percentage of total revenues, general and administrative expenses decreased from 22.3% in 2012 to 20.3% in 2013.

**Other expenses, net**

Other expenses increased from \$1.6 million in 2012 to \$4.8 million in 2013, primarily due to a \$4.6 million impairment loss recorded in 2013, as compared to a \$0.7 million impairment loss, which was recorded in 2012.

## **Operating income**

Total operating income increased from \$29.9 million in 2012 to \$37.9 million in 2013, or 27.1%. This increase of approximately \$8.1 million reflects an increase of \$8.6 million in the operating income in the location-based segment and a decrease of \$0.6 million in the operating income in the wireless communication products segment.

### *Location-based services segment*

Operating income in our location-based services segment increased from \$29.9 million in 2012 to \$38.5 million in 2013, or 28.8%. This increase was mainly attributed to a higher rate of increase in revenues from subscription fees as compared to the rate of increase of this segment's operating expenses during the period.

### *Wireless communications products segment*

Operating income in our wireless communications products segment decreased from an operating gain of \$0.1 million in 2012 to an operating loss of \$0.5 million in 2013. Although our sales in this segment increased during 2013, an impairment loss in the amount of \$1.8 million, which we recorded with respect to goodwill and intangible assets in this segment, resulted in an operating loss.

## **Other (expenses) Income, net**

Other income, net of \$6.8 million in 2012 was primarily the result of funds we received as part of a settlement agreement concerning the Leonardo litigation case (see Item 8.A – "Consolidated Statements and Other Financial Information" under the caption "Material Legal Proceedings" below). In 2013, we recorded other expenses of \$0.2 million as a result of the sale of our holdings in an affiliated company.

## **Financing income, net**

Financing income, net, decreased from \$1.0 million in 2012 to \$0.2 million in 2013. This decrease was mainly due to an increase in financing expenses as a result of exchange rates fluctuations.

## **Income Tax**

Income Tax increased from \$11.7 million in 2012 to \$12.4 million in 2013, or 6.0%. As a percentage of income before tax on income expense tax increased from 31% in 2012 to 32.8% in 2013 primarily due to a change in the mixture of the income before tax among the group's companies.

## **Impact of Currency Fluctuations on Results of Operations, Liabilities and Assets**

Although we report our consolidated financial statements in dollars, in 2012, 2013 and 2014, a portion of our revenues and expenses was derived in other currencies. For fiscal years 2012, 2013 and 2014, we derived approximately 8.7%, 8.3% and 10% of our revenues in dollars, 43.6%, 45.5% and 46% in NIS, 38.7%, 37.3% and 36.5% in Brazilian Reals and 9%, 8.9% and 7.6% in Argentine Pesos, respectively. In fiscal years 2012, 2013 and 2014, 18%, 20.1% and 14.8% of our expenses were incurred in dollars, 38.5%, 41% and 46.7% in NIS, 34.4%, 29.9% and 30.8% in Brazilian Reals and 9.1%, 8.9% and 7.7% in Argentine Pesos, respectively.

Exchange differences upon conversion from our functional currency to dollars are accumulated as a separate component of accumulated other comprehensive income under stockholders' equity. In the year 2014, accumulated and other comprehensive income decreased by 11.1 million as compared to the year 2013. In 2013, accumulated and other comprehensive income decreased by \$3.2 million as compared to the year 2012. In 2012, accumulated and other comprehensive income decreased by \$2.3 million as compared to the year 2011.

The fluctuation of the other currencies in which we incur our expenses or generate revenues against the dollar has had the effect of increasing or decreasing (as applicable) reported revenues, cost of revenues and operating expenses in such foreign currencies when converted into dollars from period to period. The following table illustrates the effect of the changes in exchange rates on our revenues, gross profit and operating income for the periods indicated:

	Year Ended December 31,					
	2012		2013		2014	
	Actual	At 2011 exchange rates <sup>(1)</sup>	Actual	At 2012 exchange rates <sup>(1)</sup>	Actual	At 2013 exchange rates <sup>(1)</sup>
	(In thousands)					
Revenues	\$ 150,318	\$ 166,475	\$ 170,167	\$ 174,879	\$ 182,127	\$ 193,977
Gross profit	75,558	84,935	89,302	91,937	97,133	103,871
Operating income	29,947	34,496	37,930	39,630	45,870	49,437

(1) Based on average exchange rates during the period.

Our policy remains to reduce exposure to exchange rate fluctuations by entering into foreign currency forward transactions that qualify as hedging transactions under ASC Topic 815, "Derivatives and Hedging", the results of which are reflected in our income statements as revenues or cost of revenues. The result of these transactions, which are affected by fluctuations in exchange rates, could cause our revenues, cost of revenues, gross profit and operating income to fluctuate.

#### B. LIQUIDITY AND CAPITAL RESOURCES

We fund our operations primarily from cash generated from operations. In 2012, 2013 and 2014, we had \$34.4 million, \$46.7 million and \$40.8 million in cash, marketable securities and deposit in escrow (long and short term) and \$44.1 million, \$57.2 million and \$56.9 million in working capital, respectively. We hold our cash and cash equivalents in US dollars or the local currency of their location.

In 2014 and 2013 we did not have any long term borrowings from banks; and in 2012 our long term borrowings from banks amounted to 0.2\$. In 2012, 2013 and 2014, we also had \$0.5 million, \$0.7 million and \$0.5 million respectively, available to us under existing lines of credit of which we have utilized \$0.2 million in 2012. In 2013 and in 2014, we have not utilized our lines of credit.

For a reference concerning our use of financial instruments for hedging purposes, please see Item 5.A – Operating Results under the captions "financing expenses (income), net" and "Impact of Currency Fluctuations on Results of Operations, Liabilities and Assets."

We believe that our cash flow from operations, availability under our lines of credit and cash and marketable securities will be adequate to fund our capital expenditures, contractual commitments and other demands and commitments for the foreseeable future as well as for the long-term. We believe that cash flow generated from operations and cash available to us from our credit facilities will be sufficient to cover future expansion of our various businesses into new geographical markets or new products, as currently contemplated and as we describe herein. However, if existing cash and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek financing elsewhere by selling additional equity or debt securities or by obtaining additional credit facilities.

We had long-term liabilities in 2012, 2013 and 2014 of \$7.9 million, \$9.6 million and \$10.2 million, respectively, for employee pension costs for certain of our employees that become payable upon their retirement. Our Israeli employees are entitled to one month's salary, equal to the applicable monthly salary at the time of such employee's retirement, for each year of employment, or a portion thereof, upon retirement. This liability is partially funded by deposit balances maintained for these employee benefits in the amount of \$5.5 million, \$6.6 million and \$6.6million in 2012, 2013 and 2014 respectively. The deposited funds include profits accumulated up to the balance sheet date and may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements.

In Argentina, since the end of 2012, there are several government regulations applied to foreign trade that affects the Company operation.

The global scheme is an effort of the government to stop or reduce the needs of foreign currency sending outside the country by people and corporations.

The regulations are:

1. It is not allowed for Companies to buy foreign currency for savings,
2. It is mandatory to get formal authorization to import goods,
3. If the importation is admitted, it is mandatory to obtain a formal authorization to pay it abroad. The exchange rate is at Official Dollar,
4. It is mandatory to obtain previous authorization, for paying abroad Services to providers,
5. It is mandatory to obtain previous authorization, for paying abroad dividends to shareholders. Getting this Authorization practically is not possible.
6. Since September 23, 2013, there is an additional rate of 10% Income Tax applied on dividends payments that should be withheld at the payment moment, In addition there is an inflation in pesos of about 30%-38% per year, while it is difficult to adjust our prices at the same rate.

As of November 16, 2009, our dividend policy provided for an annual dividend distribution in an amount not less than 50% of our net profits, calculated based on the audited financial statements for the period ending on December 31 of the fiscal year with respect to which the relevant dividend is paid. According the adopted dividend policy and Israeli law, an annual dividend will only be declared and paid if, in the discretion of our Board of Directors, there is no reasonable foreseeable concern that the distribution will prevent us from being able to meet the terms of our existing and contingent liabilities, as and when due, all based on our needs as will be determined from time to time and subject to the provisions of the Israeli laws concerning lawful distribution of dividends. According to our dividend policy, we distributed NIS 78.8 million (approximately \$21.8 million) on April 6, 2011 and NIS 96 million (approximately \$25.8 million) on April 4, 2012.

On February 21, 2012, we revised our dividend policy so that our dividends will be declared and distributed on a quarterly basis in an amount not less than 50% of our net profits, calculated on the basis of our reviewed quarterly financial statements each fiscal year.

Following the revision of our dividend policy in 2012, we declared and paid the following quarterly dividends in 2012: on May 29, 2012, we declared a dividend in the amount of NIS 9.7 million or \$2.5 million, which was paid on June 27, 2012, on August 14, 2012 we declared a dividend in the amount of NIS 20 million or \$5.2 million, which was paid on October 10, 2012, and on November 18, 2012 we declared a dividend in the amount of NIS 9.7 million, or \$2.6 million, which was paid on January 9, 2013; and we declared and paid the following quarterly dividends in 2013: on February 17, 2013, we declared a dividend in the amount of NIS 25.4 million or \$7 million, which was paid on April 4, 2013, on May 13, 2013, we declared a dividend in the amount of NIS 10.5 million or \$3 million, which was paid on July 11, 2013, on August 5, 2013, we declared a dividend in the amount of NIS 12.6 million or \$3.6 million, which was paid on October 3, 2013, and on November 13, 2013, we declared a dividend in the amount of NIS 12.6 million or US\$3.6 million, which was paid on January 8, 2014. In addition, on February 19, 2014 we declared a quarterly dividend in the amount of NIS 27.3 million or \$8 million, which will be paid on April 10, 2014, with respect to the fourth quarter of 2013. On May 15, 2014 we declared a quarterly dividend in the amount of NIS 13.8 million or \$4 million, which was paid on July 3, 2014, with respect to the first quarter of 2014. On August 11, 2014 we declared a quarterly dividend in the amount of NIS 13.8 million or \$4 million, which was paid on October 7, 2014, with respect to the second quarter of 2014. On November 18, 2014 we declared a quarterly dividend in the amount of NIS 17.2 million or \$4.5 million, which was paid on January 7, 2015, with respect to the third quarter of 2014.



Until the date of this report, we have repurchased 2,507,314 of our shares.

The following table sets forth the components of our historical cash flows for the periods indicated:

	Year ended December 31,		
	2014	2013	2012
	(In thousands)		
Net cash provided by operating activities	37,731	\$ 46,697	\$ 32,215
Net cash used in investing activities	(13,244)	(15,466)	(9,559)
Net cash used in financing activities	(22,426)	(17,547)	(27,341)
Effect of exchange rate changes on cash and cash equivalents	(5,340)	(1,440)	(1,132)
Net increase (decrease) in cash and cash equivalents	(3,279)	\$ 12,244	\$ (5,817)

**Years ended December 31, 2014, December 31, 2013 and December 31, 2012**

*Net cash provided by operating activities*

Our operating activities provided cash of \$32.2 million in 2012, \$46.7 million in 2013 and \$37.7 million in 2014.

The decreased of approximately \$9 million in cash from operating activities in 2014 as opposed to 2013 was due primarily to:

- an increase in the net income for the year, excluding depreciation, amortization and impairment of goodwill in an amount of approximately \$3.4 million; as offset by:
- an increase in other current and non-current assets in a total amount pf approximately \$5.3 million;
- a decrease in current and non-current liabilities in a total amount of approximately \$6.8 million;

The increase of approximately \$14.5 million in cash from operating activities in 2013 as opposed to 2012 was due primarily to:

- an increase in the operating income, excluding depreciation, amortization and impairment of goodwill in an amount of approximately \$9.5 million;
- a decrease in inventory in a total amount of approximately \$5 million;
- a decrease in other current and non-current assets in a total amount pf approximately \$2.2 million;
- an increase in other liabilities in a total amount of approximately \$6.0 million;
- an increase in accounts payable in an amount of approximately \$1.8 million; as offset by:
- an increase in deferred taxes in an amount of approximately \$2.8 million; and
- a decrease in deferred revenues in the amount of \$1.8 million.

*Net cash used in investing activities*

Net cash used in investing activities in 2014 in an amount of approximately \$13.2 million, includes mainly capital expenditures in the amount of \$15 million, an investment in marketable securities in the amount of \$2.8 million and on the other hand we have exercised a deposit in escrow in the amount of \$5 million.

Net cash used in investing activities in 2013 in an amount of approximately \$15.5 million, includes mainly capital expenditures in the amount of \$14.2 million and an investment in an associate company in the amount of \$1.4 million.

Net cash used in investment activities in 2012 in an amount of approximately \$9.5 million, includes mainly capital expenditure in an amount of \$9.7 million.

*Net cash used in financing activities*

Net cash used in financing activities in 2014 in an amount of approximately \$22.4 million consisted primarily of a cash dividend payment in an amount of \$19.3 million and a cash dividend payment in an amount of approximately \$2.6 million paid by our subsidiary to the non-controlling interest.

Net cash used in financing activities in 2013 in an amount of approximately \$17.6 million consisted primarily of a cash dividend payment in an amount of \$16.1 million and a cash dividend payment in an amount of approximately \$1.3 million paid by our subsidiary to the non-controlling interest.

Net cash used in financing activities in 2012 in an amount of approximately \$27.3 million consisted primarily of a cash dividend payment in an amount of \$33.3 million and a cash dividend payment in an amount of approximately \$1.1 million paid by our subsidiary to the non-controlling interest and funds in an amount of approximately \$7.5 million received pursuant to a settlement agreement in the Leonardo litigation.

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

All of our research and development activities take place in Israel. Our Research and Design department is constantly working on upgrading the service infrastructure and improving our fleet management applications, including by introducing new services and uses of the system, while utilizing both internal development staff and outsourcing such activities to third parties, as well as developing new service platforms for cellular/GPS based devices.

Expenditures for research and development activities undertaken by us were approximately \$2.5 million in 2014, \$2.4 million in 2013 and \$2.1 million in 2012.

**D. TREND INFORMATION**

Please see Item 4.A. – History and Development of the Company and Item 4.B. – Business Overview above for trend information.

**E. OFF-BALANCE SHEET ARRANGEMENTS**

We do not have off-balance sheet arrangements (as such term is defined in Item E(2) of the Form 20-F) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

**Contractual obligations and commercial commitments**

The following table summarizes our material contractual obligations as of December 31, 2014:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(In USD thousands)				
Operating leases	8,423	1,943	2,392	1,877	2,211
Long-term loans	-	-	-	-	-
Purchase Obligations	6,228	6,228	-	-	-
<b>Total</b>	<b>14,651</b>	<b>8,171</b>	<b>2,392</b>	<b>1,877</b>	<b>2,211</b>

**G. SAFE HARBOR**

The safe harbor provided in Section 27A of the Securities Act and Sections 21E of the Exchange Act shall apply, among other things, to forward looking information provided in Item 5. F.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT**

The following persons are our directors, senior management and employees upon whose work we are dependent:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Izzy Sheratzky	68	President and director
Yehuda Kahane	70	Director
Ze'ev Koren	69	Chairman of the Board of Directors and an independent director
Efraim Sheratzky*	62	Director
Eyal Sheratzky	46	Co-Chief Executive Officer and Director
Nir Sheratzky	42	Co-Chief Executive Officer and Director
Gil Sheratzky	37	CEO of our Subsidiary, International Activity and Business Development Officer and a Director
Yoav Kahane(1)(2)	41	Director and an independent director
Yigal Shani	70	Director
Israel Baron(1)(2)(3) +	61	External Director
Gidon Kotler(1)(2)(3)	74	External Director
Tal Sheratzky- Jaffa **	37	Director and an independent director
Ami Saranga	51	Deputy Chief Executive Officer
Eli Kamer	48	Executive Vice President, Finance; Chief Financial Officer
Guy Aharonov	49	General Counsel
Udi Mizrahi	43	VP Finance

**Notes:**

<sup>(1)</sup> Member of audit committee

<sup>(2)</sup> Member of compensation committee

<sup>(3)</sup> External director elected in accordance with the Israeli Companies Law

<sup>+</sup> Chairperson of all committees

\* Mr. Yigal Shani was reappointed by the board together with Efraim Sheratzky on February 9, 2015 in order to replace Mr. Avner Kurz and Mr. Amos Kurz (respectively) who resigned from the board on September 15, 2014 due to amendment of the shareholder agreement of Moked Ituran.

\*\* Appointed by the board on March 13, 2014, replacing Mr. Yigal Shani, who has resigned on the same day in order to allow compliance with the provisions of the Israeli Companies Law, which require that the board of directors shall include at least one female.

Izzy Sheratzky is a co-founder of our company and its President. He has previously served as the Chairman of our Board of Directors, which in our company constitutes both an officer and director positions, ever since our company was acquired from Tadiran in 1995. Until 2003, Mr. Sheratzky also served as our Chief Executive Officer. Mr. Sheratzky also serves as the Chairman of the Board of Directors of Moked (1973) Investigations Company Ltd., Moked Services, Information and Investments Ltd., and Moked Ituran. He also serves as a director in Tikal Document Collection Ltd. Mr. Sheratzky is the father of Eyal, Nir and Gil Sheratzky, Brother of Efraim Sheratzky and uncle of Tal Sheratzky-Jaffa.

*Yehuda Kahane* is a co-founder of our company and has served on our board since 1995. Professor Kahane is an entrepreneur in both the academic and business arenas. He received the highest international insurance award for his lasting contribution to the theory, practice and education in insurance and risk management. He founded and chairs the YKCenter for Preparing for the New Economy. Professor Kahane is a Professor Emeritus from the Faculty of Management, Tel Aviv University where he headed the Institute for Business and the Environment. He taught at many business schools around the world, including the Wharton School, the University of Texas, the University of Toronto and the University of Florida, and has founded and served as the first Dean of the Israeli Academic School of Insurance. Professor Kahane chairs and is a major owner of Pango Parking and of Capital Point Ltd., and is active in the formation, seed investment and management of start-up companies and technological incubators, unrelated to our company. He is involved in a large number of not-for-profit enterprises dealing with a variety of aspects of the new Economy, with the association for the visually impaired people, and is a honorary member of the Israel-Brazil chamber of Commerce. Professor Kahane holds a BA degree in Economics and Statistics, an MA degree in Business Administration and a PhD in Finance from the Hebrew University of Jerusalem. He specializes in insurance, risk management, environmental issues and technological forecasting. He is the father of Yoav Kahane.

*Zeev Koren* has served as a director of our company since 2006 and since 2011 serves as the Chairman of the Board of Directors of the Company. In 1988 Brigadier Gen. (Res) Koren retired from the Israel Defense Forces after a career of 25 years, where in his final position he served as the head of human resources planning for the general staff division. Since then he has served in a senior capacity in companies in the fields of international forwarding and medical services. During the past six years he has also served as the general manager of a Provident Management Company. He holds a B.A. in Political Science and Criminology from Bar Ilan University.

*Efraim Sheratzky* was appointed to the board on February 9, 2015 to replace Mr. Amos Kurz, as a Class A Director. Efraim Sheratzky studied insurance in the Israeli Insurance College. Efraim Sheratzky owns together with Yigal Shani, Tzivtit Insurance Agency (1998) Ltd. Efraim Sheratzky served as our director from 1999 and until 2005. Efraim Sheratzky is the brother of Izzy Sheratzky and the uncle of Eyal, Nir and Gil Sheratzky and father of Ms. Tal Sheratzky-Jaffa.

*Eyal Sheratzky* has served as a director of our company since its acquisition from Tadiran in 1995 and as a Co-Chief Executive Officer since 2003. Prior to 2003, he served as an alternate Chief Executive Officer of our company in 2002 and as Vice President of Business Development during the years 1999 through 2002. Mr. Sheratzky also serves as a director of Moked Ituran and certain of our other subsidiaries, including Ituran Network. From 1994 to 1999, he served as the Chief Executive Officer of Moked Services, Information and Investments and as legal advisor to several of our affiliated companies. Mr. Sheratzky holds LLB and LLM degrees from Tel Aviv University School of Law and an Executive MBA degree from the Kellogg School of Management at Northwestern University, USA. Mr. Sheratzky is the son of Izzy Sheratzky and the brother of Nir and Gil Sheratzky and cousin of Efraim Sheratzky.

*Nir Sheratzky* has served as a director of our company since its acquisition from Tadiran in 1995 and as a Co-Chief Executive Officer since 2003. Prior to 2003, Mr. Sheratzky served as an alternate Chief Executive Officer of our company from 1995 to 2003. Mr. Sheratzky is also a director in Moked Ituran. He holds BA and MA degrees in Economics from Tel Aviv University. Nir is the son of Izzy Sheratzky and the brother of Eyal and Gil Sheratzky and cousin of Efraim Sheratzky.

*Gil Sheratzky* serves as a director of our company and since 2013 as our International Activity and Business Development Officer. Mr. Sheratzky has been serving since January 23, 2007 as the Chief Executive Officer of our subsidiary, E-Com Global Electronic Commerce Ltd. From 2003 and until 2013 Mr. Sheratzky served as our advertising officer. During the years 2000 - 2001 Gil worked in our control center, and during the years 2001 - 2002 he worked in an advertising agency. Mr. Sheratzky holds a BA in Business Administration from the Herzliya Interdisciplinary Center, and an MBA degree from the Booth School of Business at Chicago University, USA. Nir Sheratzky is the son of Izzy Sheratzky and the brother of Eyal Sheratzky and Nir Sheratzky and cousin of Efraim Sheratzky.

*Yoav Kahane* has served as director of our company since 1998. Mr. Kahane is serving as the Chief Executive Officer of Spot-On Therapeutics Ltd., a startup company that develops a medical device for the treatment of dizziness. During 2006-2014, Mr. Kahane has worked for Enzymotec in various managerial positions including Director of Business Development, VP Sales & Marketing, Infant Nutrition Business Unit Manager, Chief Executive Officer and Chairman of Advanced Lipids AB, a joint venture of AAK AB and Enzymotec, specializing in nutritional ingredients to the infant nutrition industry. During the years 2004-2005, Mr. Kahane served as Vice President of Sales and Marketing in Elbit Vision Systems Ltd. During the years 2001 and 2002, he served as Manager of Business Development in Denver Holdings and Investments Ltd. In 2000, Mr. Kahane established Ituran Florida Corp. and served as its Chief Executive Officer until 2001. Mr. Kahane holds a BA degree in Life Sciences from Tel-Aviv University, a BA degree in Insurance and an MBA degree from the University of Haifa. Yoav Kahane is the son of Professor Yehuda Kahane.

*Yigal Shani* has served as a director of our company since its acquisition from Tadiran in 1995. Mr. Shani is an insurance agent and a partner in the insurance agency Tzivtit Insurance Agency (1998) Ltd. together with Efraim Sheratzky, which provides insurance services to our company. Mr. Shani, has resigned on March 13, 2014 in order to allow compliance with the provisions of the Israeli Companies Law, which require that the board of directors to include at least one female and was reappointed on February 9, 2015 to replace Mr. Avner Kurz, as a Class B Director.

*Israel Baron* has been serving as an external director of our company since 2003 and is the Chairman of our board's committees. Mr. Baron serves as a director in Poalim Trust Services Ltd., a fully owned subsidiary of Bank Hapoalim Ltd. In addition, Mr. Baron has been serving as Chief Executive Officer of several public sector employee retirement and saving plans since 2003. Prior to 2003, Mr. Baron managed an organizational consulting firm, served as an investment manager in the Isaac Tshuva group during the years 1999 to 2001 and as Chief Executive Officer of Gmulot Investment Company Ltd. Mr. Baron serves as a director of Quality Baron Management Services Ltd. and until 2004 he served as a director of Brill Shoe Industries Ltd. Mr. Baron is a certified CPA and holds a BA degree in Economics and Accounting from the Bar-Ilan University in Ramat-Gan, Israel. Israel Baron was reelected on December 15, 2014 for additional 3 year term to serve as external director.

*Gidon Kotler* is an external director of our company. He was nominated on April 30, 2014. Mr. Kotler has been serving as the assets manager of Strauss-Group Ltd., one of Israel's largest public companies, since 1997. Prior to that, Mr. Kotler has served for 3 years as the chief executive officer of the Tel-Aviv New Central Bus Station, and for 14 years as the chief executive officer of the Dizengof Center's management company. Mr. Kotler has served as an external director of Elran Real Estate Ltd. from 2007 until 2010.

*Ms. Tal Sheratzky-Jaffa* was appointed as a member of the board, and serves as a Class A director until December 25, 2016. Ms. Sheratzky-Jaffa is a partner at the High Tech and Venture Capital Department of the law firm Amit, Pollak, Matalon and Co.(APM), specializing in the fields of mergers and acquisitions, venture capital and private equity investments, fund formation, high-tech and corporate governance. Prior to joining APM, Ms. Sheratzky-Jaffa was an associate at the New York offices of the international law firm Akin Gump Strauss Hauer & Feld. Ms. Sheratzky-Jaffa holds LL.B and B.A degrees in Economics from Haifa University and LL.M degree from Columbia University (New York) and is a member of the Israeli Bar Association and the New York State Bar. Ms. Sheratzky-Jaffa is the nephew of Izzy Sheratzky and the cousin of Eyal, Nir and Gil Sheratzky and the daughter of Efraim Sheratzky.

*Ami Saranga* has been serving as the Deputy Chief Executive Officer of our company since 2011. Prior to that Mr. Saranga served as our VP Marketing since 2008. Prior to 2008, Mr. Saranga managed the SME division of Pelephone Communications Ltd., one of Israel's largest telecommunication network operators. Mr. Saranga holds a BA degree in Business Administration from Ruppin Academic Center, Israel.

*Eli Kamer* has served as Executive Vice President, Finance and Chief Financial Officer of our company since 1999, after serving as its Finance Department Manager since 1997. Prior such date, Mr. Kamer worked as an accountant in Fahn Kanne & Co., our independent auditors. Mr. Kamer is a CPA and holds a BA degree in Business Administration from the Israel College of Management and an MBA degree in business administration from Bar Ilan University.

*Guy Aharonov* has served as our in-house legal counsel since 1999. Prior to joining our company, he has worked as an attorney in Cohen Lahat & Co. Mr. Aharonov holds LLB and LLM degrees from Tel Aviv University.

*Udi Mizrahi* has served as our VP Finance since 2000. Mr. Mizrahi is a CPA and holds a BA degree in accounting and economics from Ruppin Academic Center, Israel.

Our articles of association provide for staggered three-year terms for all of our directors (except our external directors, who are elected in accordance with the provisions of the Israeli Companies Law). The directors on our board (excluding the external directors) are divided into three classes, and each class of directors serves for a term of three years, as follows: Nir Sheratzky, Yigal Shani and Yehuda Kahane (class B), who were re-elected on December 13, 2014; Izzy Sheratzky, Gil Sheratzky and Zeev Koren (class C), who were re-elected on December 6, 2012; and Eyal Sheratzky, Efraim Sheratzky, Tal Sheratzky-Jaffa and Yoav Kahane (class A), who were re-elected on December 26, 2013. This classification of the board of directors may delay or prevent a change of control of our company.

Mr. Israel Baron and Dr. Orna Ophir were re-elected to serve as external directors for a three-year term as required under the Israeli Companies Law on December 13, 2011. Dr. Ophir passed away in January 2014. On April 30, 2014, an extraordinary shareholders meeting appointed Mr. Gidon Kotler as our new external director. In addition the Company has appointed prior to this meeting (on March 13, 2014), to its board of directors, Ms. Tal Sheratzky- Jaffa, a female who is not a controlling person or its relative (as such term is defined in the Israeli Companies Law), in order to comply with the provision of the Israeli Companies Law, which provide that if, at the time of the election of the external director, all directors who are not controlling persons or their relatives are of the same gender, then the elected external director must be of the other gender.

#### **Shareholders Agreement and Articles of Association of Moked Ituran Ltd..**

On May 18, 1998, a shareholders agreement was entered into between Moked Ituran Ltd. and each of its shareholders, Moked Services, Information, Management and Investments Ltd. (38%), F.K. Generators and Equipment Ltd. (26%), Yehuda Kahane Ltd. (26%), Gideon Ezra, Ltd. (2.5%), T.S.D. Holdings Ltd. (3.75%) and G.N.S. Holdings Ltd. (3.75%). On May 18, 1998, Moked's articles of association were amended to incorporate some of the provisions of the shareholders agreement as well as other provisions governing the relationship of its shareholders. The Moked articles were amended again on September 6, 2005 to correspond to an amendment to the shareholders agreement that was entered into on such date. On September 17, 2014, , and F.K. Generators and Equipment Ltd rights and obligations in the shareholders agreement were terminated following the execution of their right to sell their portion in our shares as was defined in the terms of the second amendment of Moked shareholder agreement.

Gideon Ezra, Ltd. is a company wholly owned by Mr. Doron Ezra. Moked Services, Information, Management and Investments is a company owned by A. Sheratzky Holdings Ltd. (a company controlled by Izzy Sheratzky, 93%, and in which each of Eyal Sheratzky and Nir Sheratzky, Co-CEO's of Ituran and directors, holds 3.5%). F.K. Generators and Equipment is a company controlled by Perfect Quality Trading Ltd. (51%), a company owned by Avner Kurz, Amos Kurz and Uri Kurz in equal parts. Yehuda Kahane Ltd. is a company owned by Professor Kahane and Rivka Kahane. T.S.D. Holdings is a company controlled by Efraim Sheratzky. G.N.S. Holdings is a company controlled by Yigal Shani

The shareholders agreement (as amended) and Moked's amended articles of association provide as follows:

- Prior to the time a shareholders meeting of our company takes place, a separate meeting of the shareholders of Moked will be convened.
- At the Moked shareholders meeting, all matters included in our meeting's agenda will be discussed and voted on.
- The required quorum in the Moked meeting will be any number of shareholders actually present. The resolutions will be adopted by a majority of the votes present and voting, based on the relative shareholdings in Moked, with the exception of Moked Services, Information, Management and Investments, which is entitled to 41.5% of the voting rights..
- With respect to director elections, every Moked shareholder holding at least 3.5% of Moked's shares is entitled to designate one director in our annual shareholders meeting. Each Moked shareholder holding over 10% of Moked's shares may nominate an additional director for every additional 10% of Moked shares held by him or her in excess of the initial 10%. For the purpose of nominating additional directors, shareholdings may be aggregated.
- Upon the expiration of the term of office of our class A directors, each of Moked Services, Information and Investment, provided it holds at least 40% of the voting rights (together with the 3.5% of the voting rights held by F.K. Generators and Equipment), Yehuda Kahane Ltd., provided it holds at least 20% of the voting rights, F.K. Generators and Equipment, provided it holds at least 20% of the voting rights, and Yigal Shani or G.N.S. Holdings, provided either of them holds at least 3.5% of the voting rights, shall be entitled to require Moked to appoint one director to class A. Upon the expiration of the term of office of our class B directors, each of Moked Services, Information and Investment, provided it holds at least 40% of the voting rights (together with the 3.5% of the voting rights held by F.K. Generators and Equipment), and Yehuda Kahane, provided it holds at least 20% of the voting rights, and F.K. Generators and Equipment, provided it holds at least 20% of the voting rights, shall be entitled to require Moked to appoint one director to class B. Upon the expiration of the term of office of our class C directors, (i) Moked Services, Information and Investment, provided it holds at least 36.5% of the voting rights shall be entitled to require Moked to appoint two directors and (ii) Efraim Sheratzky or T.S.D. Holdings, provided either of them holds at least 3.5% of the voting rights, shall be entitled to require Moked to appoint one director to class C.
- Moked has agreed to vote all of its shares at our shareholders meetings in accordance with the resolutions adopted at the Moked shareholders meeting or, with regard to director elections, as described above. In the event of a tie with respect to a certain issue, Moked has agreed to vote its shares against the relevant resolution at our shareholders meeting.
- Moked's shareholders have a right of first refusal on any sale of our shares by Moked. This right does not apply to open market sales by Moked of up to 2% of the issued share capital of our company in any given calendar year.
- According to Moked's articles of association, each of the shareholders of Moked may direct Moked to dispose of a portion of Moked's holdings in our company that corresponds to such shareholders' proportional holdings in Moked and to distribute the proceeds of such disposition to such directing shareholders.

This shareholders agreement is in effect only for as long as Moked holds at least 15% of our issued and outstanding share capital.

#### **B. COMPENSATION**

The aggregate direct compensation we paid to our directors who are not officers for their services as directors as a group for the year ended December 31, 2014 was approximately \$194,000. Directors are reimbursed for expenses incurred in connection with their attendance of board or committee meetings. The compensation payable to external directors is determined in accordance with regulations promulgated under the Israeli Companies Law. See Item 6.C - Board Practices under the caption "External directors" below. Our audit committee and board of directors approved compensation for Mr. Ze'ev Koren, for serving as the Chairman of our board of directors, and for Mr. Yoav Kahane, for serving as a member of our board committees, such that they shall be compensated in the same manner as our external directors are compensated, annually and per meeting, in accordance with the Companies Regulations (Rules for the Compensation and Expenses of an External Director), 2000-5760. In 2014, we paid the sum of NIS 291,000 (approximately \$81,000) to our external directors, NIS 200,000 (approximately \$56,000) to Mr. Ze'ev Koren, NIS 126,000 (approximately \$36,000) to Mr. Yoav Kahane.



We do not have any agreements with directors providing for benefits upon termination of their respective services as such.

The aggregate cost to the Company of the compensation paid to our Co-Chief Executive Officers in 2014 was \$3,198,000. The aggregate compensation paid to all Ituran officers as a group during 2014 was approximately \$9,404,000. In 2014 we paid an aggregate amount of \$142,000 to two directors who provided us with services. The above compensation amounts include amounts attributable to automobiles made available to our officers and other fringe benefits commonly reimbursed or paid by companies in Israel. Employee directors do not receive additional fees for their services as directors.

The following table sets forth the breakdown of the compensation paid to our 5 highest paid officers in 2014 according to our 2014 financial reports:

	Management fees	Wage	Social components	Car value	Bonus (results based)	Bonus (Share yield based)	Total
Compensation components (in thousand US Dollars)							
Izi Sheratzky (President)	720	-	-	-	1,241	256	2,217
Eyal Sheratzky (Co-Chief Executive Officer)	552	-	-	-	848	199	1,599
Nir Sheratzky (Co-Chief Executive Officer)	552	-	-	-	848	199	1,599
Gil Sheratzky (CEO of our Subsidiary, International Activity and Business Development Officer)*	384	26	2	-	577	142	1,131
Ami Saranga (Deputy Chief Executive Officer)	-	191	44	46	39	-	320
Total of our 5 highest paid officers	2,208	217	46	46	3,553	796	6,866

\*80% of the compensation of Gil Sheratzky was paid by us, the rest 20% was paid by our subsidiary E-Com Global Electronic Commerce Ltd.

During 2014, we set aside \$477,000 for the benefit of our officers for pension, retirement or similar benefits. We do not set aside any funds for the benefit of our directors who are not employees for any pension, retirement or similar benefits.

All numbers in this section are rounded to the nearest thousand.

During 2014, Messrs. Izzy Sheratzky, Eyal Sheratzky and Nir Sheratzky provided their services as President and Co-Chief Executive Officers, respectively, as independent contractors pursuant to services agreements, which were approved by our shareholders meeting in May 2011, between us and A. Sheratzky Holdings Ltd., a company controlled by Izzy Sheratzky. In addition, during 2014, Mr. Gil Sheratzky provided his services as the Chief Executive Officer of one of our subsidiaries, E-Com Global Electronic Commerce Ltd., pursuant to an employment agreement approved by our shareholders meeting in May 2011. See Item 7.B. – Related Parties Transactions under the caption “Transactions with our directors and principal officers” below.

Pursuant to the above agreements, the compensation paid to Mr. Izzy Sheratzky in 2013 included a bonus in an amount equal to 5% of our profits before tax (including the share of affiliated companies net), on a consolidated basis, based on our audited consolidated financial statements for the relevant year; the compensation paid to each of our Co-Chief Executive Officers, Eyal Sheratzky and Nir Sheratzky, in 2013 included a bonus in an amount equal to 1% of our profits before tax (including the share of affiliated companies net), on a consolidated basis, based on our audited consolidated financial statements for the relevant year; and the compensation paid to Gil Sheratzky by our subsidiary E-Com Global Electronic Commerce Ltd. included a bonus in an amount equal to 2% of the annual increase in this company's profits before tax (up to a maximum amount of 1% of this company's profits before tax), based on its audited consolidated financial statements for the relevant year, beginning January 1, 2007.

In January 2014, our shareholders meeting approved new terms of service for Messrs. Izzy Sheratzky, Eyal Sheratzky, Nir Sheratzky and Gil Sheratzky, which terms correspond to our recently approved compensation policy as described below. For further details concerning such terms of service, please see Item 7.B – Related Parties Transactions under the caption "Transactions with our directors and principal officers."

In 2006, our compensation committee has devised a bonus scheme pursuant to which some of our officers and employees received shares of our profit before tax on a consolidated basis, based on their seniority, level of global and domestic involvement, contribution to our operations and other criteria set by the compensation committee. In 2010, our compensation committee resolved that additional managers shall be entitled to receive bonuses under this bonus scheme and that some of the grantees should continue to receive a bonus based on our consolidated results and some should receive a bonus based only on our solo financial statements. During 2014, we paid a total of \$823,000 to our officers and employees pursuant to the above bonus schemes.

#### Our compensation policy for office holders

In December 2012, amendment no. 20 to the Israeli Companies Law became effective. Among other things, this amendment requires Israeli public companies to set forth their policy regarding their office holders' terms of office, including fixed compensation, target-based incentives, equity awards, severance and other benefits. The amendments also set forth the considerations that should be applied when devising a compensation policy for office holders.

The term "office holder" is defined in the Israeli Companies Law, to mean the chief executive officer, chief business officer, deputy chief executive officer, vice chief executive officer, any other person fulfilling such position even if his title is different, as well as a director or a manager directly subordinate to the chief executive officer.

The compensation policy must be approved every three years by the board of directors, after considering the recommendations of the compensation committee; and generally requires the approval of the company's general meeting of shareholders by a special majority of shareholders who are not controlling shareholders and who do not have a personal interest in the approval of the policy; or, alternatively, that the non-controlling shareholders and shareholders who do not have a personal interest in the matter who are present and vote against the policy hold two percent or less of the voting power of the company.

The compensation policy does not intend to amend any officer's existing terms of office; nor to bestow any officer with a right to receive the compensation, or any element thereof set forth therein. However, generally, once the compensation policy is approved, all future terms of service of office holders should conform to its provisions. The specific terms of office of each officer shall be separately determined in accordance with the relevant provisions of the Israeli Companies Law and the regulations promulgated thereunder.

Our general shareholders meeting approved our compensation policy for office holders on October 31, 2013. The policy applies to office holders of the Company (see definition above), who serve as the Company's President, Chief Executive Officer(s) and other executives who are deemed office holders of the Company, as well as office holders of the Company's Israeli wholly owned subsidiaries, provided they report to the chief executive officer. The policy also applies to directors of the Company.

Our compensation policy for office holders was formulated in view of our belief that our business success is the result of the excellence of our human resources and their devotion to the achievement of our company's goals. Therefore, it is aimed at offering our officers with a competitive compensation package that will align their incentives with those of our company and our shareholders, and at motivating them to achieve the goals of our company, while avoiding undue pressure to take excessive risks. Among other factors, our compensation committee and board of directors have considered, as required by amendment no. 20 to the Israeli Companies Law and as reflected in the policy: (a) the advancement of the company's goals, its business plan and its policy with a long-term view; (b) the creation of appropriate incentives for office holders, considering the company's risk management policy; (c) the size of the company and the nature of its business; (d) with respect to variable components of the terms of office – the contribution of the office holders to the achievement of the company's goals and to the maximization of its profits, with a long-term view and in accordance with the position of the office holder.

The compensation policy incorporates all matters required to be included in a compensation policy as mandated by amendment 20 to the Israeli Companies Law, including (without limitation): (a) the requirement to consider the office holders' education, skills, professional experience, expertise, position and past compensation agreements; (b) consideration of the ratios between overall compensation of the officers and the average and median salary of the other employees of the Company; (c) the board's right to reduce variable compensation; (d) the determination of a maximum period for advanced and transition periods upon termination of services; (e) basing variable components of compensation on key performance indicators and on measurable criteria; (f) determining the ratio between fixed and variable components of compensation and setting forth caps on the amount of variable compensation payable; and (g) a claw-back provision with respect to restatements of financial statements. For further details, see our full compensation policy for office holders, which is filed herewith as Exhibit 4.24 under Item 19 – Exhibits.

### **C. BOARD PRACTICES**

#### **Board of Directors**

Pursuant to our articles of association as presently in effect, our board of directors generally consists of twelve directors, including at least three independent directors in accordance with the listing rules of Nasdaq concerning the composition of audit committees, of whom two directors are external directors as required by Israeli law. Our independent directors, as such term is defined under the Nasdaq listing rules, are Mr. Baron, Mr. Kotler, Mr. Koren, Mr. Yoav Kahane and Ms. Tal Sheratzky - Jaffa. Pursuant to our articles of association, other than the external directors, for whom special election requirements apply (see "External directors" below), our directors are elected, and may in certain circumstances be removed, by the majority of our shareholders. However, see Item 6.A – Directors and Senior Management for a description of our staggered board and the shareholders agreement and articles of association of Moked Ituran Ltd. Our board of directors may at any time and from time to time appoint any other person as a director to fill a vacancy until the general meeting of shareholders in which the term of service of the replaced director was scheduled to expire.

Pursuant to the Israeli Companies Law, our chairman convenes and presides over the meetings of the board. In addition, any two directors may convene a meeting of the board of directors, as well as a director who becomes aware of a company's matter that allegedly involves a breach of the law or an improper business conduct. A quorum consists of a majority of the members of the board, and decisions are taken by a vote of the majority of the members present. Our articles of association provide that such quorum will in no event be less than two directors.

We are incorporated in Israel and are therefore subject to the provisions of the Israeli Companies Law, including certain corporate governance provisions. Our ordinary shares are listed on the Nasdaq Global Select Market and on the Tel Aviv Stock Exchange, and we are therefore subject to certain provisions of the Israeli securities laws, the U.S. securities Law and the Nasdaq listing rules. See also Item 16.G. – Corporate Governance below for additional information concerning our compliance with the Nasdaq listing rules and exemptions therefrom.

#### External directors

Under Israeli law, the board of directors of companies whose shares are publicly traded are required to include at least two members who qualify as external directors. External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- such majority includes at least the majority of the shares held by all non-controlling shareholders or those having personal interest in the nomination, except personal interest which is not resulting from connections with controlling shareholders, present and voting at such meeting; or
- the total number of shares voted against the election of the external director and held by shareholders other than controlling shareholders or those having personal interest in the nomination, except personal interest which is not resulting from connections with controlling shareholders, must not exceed 2% of the shares whose holders are entitled to vote at any meeting of shareholders.

External directors are generally elected to serve an initial term of three years and may be re-elected to serve in that capacity for two additional three-year terms; however, companies whose securities are listed on recognized foreign exchanges, such as Nasdaq, may extend the service terms of their external directors for additional unlimited terms, each of no more than three years, subject to the approval of the audit committee and the board of directors that such extension is for the benefit of the company in view of the directors' expertise and special contribution to the operation of the board and its committees and these reasons together with the term served by the external director were presented to the shareholders prior to their approval (see the Israeli Companies Regulations (Allowances for Companies with Securities Listed on an Exchange Outside Israel), 2000-5760). The appointment of an external director for additional terms may be brought for the approval of the shareholders either by the board of directors or by a shareholder that holds at least 1% of the company's voting rights, provided that the nominee is not a related or competing shareholder (as defined below) or a relative thereof, at the time of the appointment, and does not have an affinity to such shareholder (as defined below) at the time of the appointment or the two years preceding such appointment. The term "related or competing shareholder" means the shareholder who proposed the appointment or a 5% shareholder of the company if, at the time of the appointment, his controlling person or a company controlled by either of them, has business relations with the company, or if he, his controlling person or a company controlled by either of them are competitors of the company. The term "affinity" means the on-going existence of work relationship, business or professional relationship or control and the service as an officer.

External directors may generally be removed from office by the same majority of shareholders required for their election or by a court, in each case, only under limited circumstances, including if they cease to meet the statutory qualification for their appointment or violate the duty of loyalty to the company.

If at the time of the appointment of an external director, all directors who are not controlling persons or their relatives are of the same gender, then the elected external director must be of the other gender.

Each committee of the board of directors that is vested with an authority of the board must include at least one external director, except that the audit committee and compensation committee must include all external directors then serving on the board of directors. The Israeli Companies Law prohibits external directors from receiving, directly or indirectly, any compensation other than for services as an external director pursuant to the provisions and limitations set forth in the applicable regulations promulgated under the Israeli Companies Law.

Israeli law provides that a person is not qualified to serve as an external director if he is a relative (as defined in the Israeli Companies Law) of the company's controlling person, or if, at the time of his/her appointment and/or at any time during the two years preceding his or her appointment, that person, a relative, partner or employer of that person, or any entity under that person's control, has or has had an affinity (as defined above) to the company, its controlling person or its relative or to any entity that, as of the date of appointment, or at any time during the two years preceding that date, is controlled by the company or by its controlling person. In addition, no person may serve as an external director if that person's professional activities create, or may create, a conflict of interest with that person's responsibilities as a director or otherwise interfere with that person's ability to serve as a director; and, a person already serving as a director of one company may not be appointed as an external director of the company if at that time a director of the company is serving as an external director of the first company. In addition, a company, controlling shareholder and any other entity controlled by the controlling shareholder may not grant to such external director, its spouse or child, any benefits, directly or indirectly, and the external director, its spouse or child may not be appointed to serve in any position, may not be employed by and may not, directly or indirectly, render any professional services to the company, such controlling shareholder or any other entity controlled by the controlling shareholder, during the first two years following such external director's termination of tenure of office, and with respect to a relative who is not the external director's spouse or child – during the first year following such termination.

Mr. Israel Baron is now serving his fifth term as an external director of the Company, who was reelected on of December 14, 2014 for a term of 3 years. Mr. Gidon Kotler was appointed on April 30, 2014 by an extraordinary shareholders meeting as our new external director, following the death of our former external director, Dr. Orna Ophir, in January 2014.

#### **Audit committee**

Under Israeli law, the board of directors of a public company must appoint an audit committee. The audit committee must comprise of at least three directors, including all of the external directors and the chairman of the audit committee must be an external director. In addition, the majority of the members of the audit committee must be independent directors. Under the Israeli Companies Law, a director is considered "independent" if he/she is an external director or if he/she meets the qualifications of an external director, has not served as a director of the company for over 9 consecutive years, and has been classified as such. The audit committee may not include the chairman of the board, any director who is employed by the company or regularly provides services to the company (other than as a board member), a controlling shareholder or any relative of such person. All audit committee decisions must be approved by a majority of the committee members of which the majority of members present are independent directors. Furthermore, a person who is not eligible to serve on the audit committee is restricted from participating in its meetings and votes, unless the chairman of the audit committee determines that such person's presence is necessary in order to present a certain matter, provided however, that the company employees who are not controlling shareholders or relatives of such shareholders may be present in the meetings but not in the actual votes and likewise, company counsel and secretary who are not controlling shareholders or relatives of such shareholders may be present in meetings and decisions of such present is requested by the audit committee.

Our audit committee must also meet the requirements of the Nasdaq listing rules concerning audit committees.

Our board of directors has formed an audit committee that is empowered, among other things, to exercise the powers of the board of directors concerning our accounting, reporting and financial control practices. Our audit committee operates in accordance with a charter, which complies with the provisions of the Israeli Companies Law and the Nasdaq listing rules. The members of the audit committee are currently Messrs. Israel Baron, Gidon Kotler and Yoav Kahane, all of whom are independent as required of members of the audit committee under the Nasdaq listing rules. Mr. Gidon Kotler was appointed on April 30, 2014 to replace Dr. Orna Ophir who passed away in January 2014. Our board of directors has determined that Mr. Israel Baron possesses financial sophistication as required by Rule 5605(c)(2) under the Nasdaq listing rules, and that both Mr. Baron and Mr. Kotler possess accounting and financial expertise as defined by Israeli regulations.

Pursuant to the Israeli Companies Regulations (Provisions and Conditions regarding the Financial Statements' Authorization Process), 2010, a reporting entity, except for a reporting entity that is subject to Chapter E(3) of the Israeli Securities Act, is required to establish a committee of the board of directors for the examination of financial statements. Since we are a reporting entity under Chapter E(3), we are not obliged to constitute a committee for the examination of financial statements; and therefore, commencing with the financial statements for the first quarter of 2013, we ceased holding meetings of the examination of financial statements committee; and instead, our audit committee considers the financial statements prior to their approval by the board.

Pursuant to the 22<sup>nd</sup> amendment in the Israeli Company law, which was set to define new rules to approve transaction of the public company with its controlling shareholders, or the transaction in which the controlling shareholder has interest. The law requires from our Audit committee to set up rules to define the criteria for classification of transactions, which are neither Insignificant Transactions nor extraordinary transactions, and their procedures of approval that will be determined per each year in advance. In addition the law requires from the Audit Committee to set methods of examining transactions with the controlling shareholders, in order to enable their classification and their comparison to the conditions in the free market. The Audit Committee resolved on September 29, 2014 as follows:

1. Transaction that is neither extraordinary, nor insignificant.

Definition: the relevant criteria that is calculated for the transaction is such transaction which is higher than 0.25% of the equity of the company according its last combined financial reports, or higher than 1% of average net revenue of the past 3 years of the company in their absolute value, in the last 2 calendar years prior to the date of the transaction is being reported according the last financial report of the company.

Methods of approval: approval by the senior management of the company (from vice chief executive officer and higher) and report to the Board. The following transactions will require also the approval of the Audit Committee:

- (1) Transaction which is higher than 4.5% of the equity of the company according its last combined financial reports which were published prior to the approval of the transaction.
- (2) Transaction that involves risks or significant exposure beyond mere monetary liabilities or obligations.
- (3) Transaction in which the company enters a new activity field or exits from an existing activity field.

2. Insignificant transaction:

Definition: such transaction which is not higher than 0.25% of the equity of the company according its last combined financial reports, or is not higher than 1% of average net revenue of the past 3 years of the company in their absolute value, in the last 2 calendar years prior to the date of the transaction is being reported according the last financial report of the company.

Methods of approval: Approval by the management of the company or by the in charged officer in the company (vice chief executive officer, other officer or other in charged body in the company according the decisions of the company).

3. General rules:

- (1) Any transaction with a controlling shareholder or any transaction that a controlling shareholder has an interest in, will be brought before the Audit Committee, which will determine its type and decide on case by case basis on defining it as an insignificant transaction or other kind of transaction, and will decide on its review and on its approval.
- (2) According the adopted criteria, transactions with Tzivtit Insurance Agency (1998) Ltd. and with Rinat Yogev Nadlan Ltd. shall be classified as Insignificant transactions. If the extent of such transactions will remain similar during the following years, our management shall be deemed qualified to approve such transactions and to report them to the Audit Committee.
- (3) Every year the criteria for classifying transactions as set up above shall be brought for reapproval by the Audit Committee.

### **Compensation committee**

The Israeli Companies Law mandates the appointment of a compensation committee comprising of at least three directors. The compensation committee must include all of the external directors, who shall constitute the majority of the members thereof, and its remaining members shall be directors whose terms of service comply with the provisions promulgated concerning the remuneration of external directors. The chairman of the committee must be an external director. The members of the Compensation committee are currently Israel Baron, Gidon Kotler and Yoav Kahane. Mr. Gidon Kotler was appointed on April 30, 2014 to replace Dr. Orna Ophir who passed away in January 2014. All members of our compensation committee are independent directors as defined by the Nasdaq listing rules, and all of whom meet the composition requirements under the Israeli Companies Law.

Under the Israeli Companies Law, the compensation committee is responsible for: (i) making recommendations to the board of directors with respect to the approval of the compensation policy for office holders and any extensions thereto; (ii) periodically reviewing the implementation of the compensation policy and providing the board of directors with recommendations with respect to any amendments or updates thereto; (iii) reviewing and resolving whether or not to approve arrangements with respect to the terms of office of office holders; and (iv) determining whether or not to exempt a transaction with a candidate for chief executive officer from shareholders approval.

Furthermore, our compensation committee oversees, on behalf of the Board, the management of Ituran's compensation and other human resources-related issues and otherwise carries out on behalf of the Board its responsibilities relating to these issues. The committee is responsible for establishing annual and long-term performance goals and objectives for our executive officers. In addition, as required under the Nasdaq listing rules, our compensation committee is responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the committee; and may retain such advice only after taking into account the considerations set forth in the Nasdaq listing rules in this respect. Our compensation committee operates in accordance with a charter, which complies with the provisions of the Israeli Companies Law and the Nasdaq listing rules.

According to our compensation committee charter, the compensation committee, among its other duties, is responsible on reviewing the disclosure in this form which concerns the Compensation Policy and the sections describing the Terms of Service of Officers, controlling persons and their relatives.

### **Internal auditor**

Under the Israeli Companies Law, the board of directors of a public company must appoint an internal auditor nominated by the audit committee. An internal auditor may not be:

- a person (or a relative of a person) who holds more than 5% of the company's shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an executive officer, director or other affiliate of the company; or
- a member of the company's independent accounting firm.

The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business procedures. Our internal auditor is Simon Yarel, CPA, who has served as our internal auditor since January 1999.

#### D. EMPLOYEES

The following table sets forth the total number of our employees at the end of each of the past three years, and a breakdown of such employees by main category of activity and by geographic location:

	Year Ended December 31,		
	2014	2013	2012
<b>By area of activity:</b>			
Control Center	401	361	346
Research and Development	54	33	27
Sales and Marketing	127	110	96
Technical support and IT	271	254	234
Finance, Administration and Management	209	216	217
Private enforcement and operations	395	356	353
Manufacturing	65	62	47
<b>Total</b>	<b>1,522</b>	<b>1,392</b>	<b>1,320</b>
<b>By geographic location (out of total):</b>			
Israel	703	628	599
Brazil	617	550	519
Argentina	162	183	171
United States	40	31	31
<b>Total</b>	<b>1,522</b>	<b>1,392</b>	<b>1,320</b>

We consider our relations with our employees to be satisfactory and have no ongoing major labor disputes or material labor-related litigation. Our employees are subject to local labor laws and regulations, which in some countries are more stringent than others. Some of our senior executives also have employment agreements that may grant them rights in excess of those provided by the applicable laws.

##### Israel

Our employees in Israel are subject to Israeli labor laws and regulations and employment customs. The applicable labor laws and regulations principally concern matters such as paid annual vacation, paid sick days, length of the workday, payment for overtime and severance pay. Israeli law generally requires severance pay equal to one month's salary for each year of employment upon retirement or death of an employee or termination of employment without cause. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Since January 1, 1995, these amounts also include payments for national health insurance.

##### Brazil

Our employment agreements in Brazil are subject to Brazilian labor laws and regulations, to collective labor agreements or bargaining arrangements with unions and contract. The laws and regulations in Brazil govern almost all aspects of an employment relationship and do not leave much room to be negotiated with the employee. Still, employment contracts create obligations to the parties if they are in compliance with the law. The Labor Code mainly governs the employees' right to paid annual vacation, paid sick days, the maximum length of a workday, minimum payment for overtime and statutory severance pay. Brazilian law generally requires severance pay equal to 50% of the balance of the employee's FGTS account (a mandatory fund to guarantee severance and unemployment). The FGTS can also be withdrawn when the employee retires, dies or his employment is terminated without cause, among others. Brazilian employers are required to purchase health insurance for employees only in the event it is set forth by the applicable collective labor agreement, contract or company policy, and are required to cover employees' food and travel costs whenever a business trip is required, and to make deposits into the a Guarantee Severance Fund (the so-called "FGTS"). Furthermore, Brazilian employees and employers are required to make contributions to the National Insurance Institute ("INSS"), similar to the United States Social Security Administration. Our collections to the National Insurance Institute amount to 34.8% to 39.8% of the payrolls, out of which 8% to 11% (limited to R\$4,159,000 of individual salary) corresponds to contributions by the employees deducted from salaries and 26.8% is the fixed part we pay. Our contribution of 26.8% includes mandatory contribution to the Public Insurance for Labor Accidents and Diseases (SAT). According to Decree Law 6957/2009 such portion, which varies from 1% to 3% of payroll, should be multiplied by another factor (FAP) from 0.5 to 2 in order to reduce or increase our burden to reflect statistics of occupational accidents and diseases in our business.



All of our employees in Brazil, excluding the chief executive officer, some directors (VPs) and one manager, are represented by a labor union and the employees' mandatory contributions to their union are paid by us. The law authorizes us to deduct mandatory contributions to unions from the respective salaries.

**Argentina**

Our employees in Argentina are subject to Argentine labor laws and regulations and other special practices and employment customs. The laws and regulations in Argentina control all aspects of labor relations and designate a general Employment Contract with which all employees and employers must comply. This general Employment Contract adopts by reference the provisions of the Labor Law which principally concerns matters such as paid annual vacation, paid sick days, the length of the workday, and payment for overtime and severance pay. Argentinean law generally requires severance pay equal to one month per year of service upon the termination of employment without a justified cause. Argentine employers are also required to contribute for the following items: (a) Pension funds 21% (b) health insurance for employees 6% (c) occupational accident insurance 2.88%; and (d) Retirement fund insurance 3.5% (only this item is for Union Employees). All the rates should be applied on the gross salary.

Our employees in Argentina, excluding the chief executive officer and a number of other employees, are members of a labor union and the employee member fees are paid by them.

**United States**

We have no collective bargaining agreements with any of our employees in the United States and none of our employees are members of a union.

## E. SHARE OWNERSHIP

The following sets forth, as of March 31, 2015 the share ownership of our directors and executive officers listed in Item 6.B above. All of the information with respect to beneficial ownership by our directors and executive officers has been furnished by the respective director or executive officer, as the case may be.

Name of Director/Officer(1)	Number of Ordinary Shares Beneficially Owned (2)	Percentage of beneficial ownership(3)
Izzy Sheratzky(4)	4,146,747	19.8
Professor Yehuda Kahane (5)	1,647,021	7.9
Zeev Koren	-	-
Efraim Sheratzky (6)	279,867	1.3
Yigal Shani (7)	316,010	1.5
Eyal Sheratzky	-	-
Nir Sheratzky	-	-
Gil Sheratzky	-	-
Yoav Kahane	-	-
Tal Sheratzky- Jaffa	*	*
Israel Baron	-	-
Gidon Kotler	-	-
Ami Saranga	-	-
Eli Kamer	-	-
Guy Aharonov	-	-
Udi Mizrahi	-	-

\* Own less than one percent of our shares.

- (1) This table includes only current directors and officers that beneficially hold our shares.
- (2) 'Beneficial ownership' is determined in accordance with the rules of the Securities and Exchange Commission (as defined in Rule 13d – 3 under the Securities Exchange Act of 1934) and shares deemed beneficially owned by virtue of the right of any person or group to acquire such ordinary shares within 60 days are treated as outstanding only for the purposes of determining the percent owned by such person or group. To our knowledge, the persons and entities named in the table above are believed to have sole voting and investment power with respect to all ordinary shares shown as owned by them, except as described below.
- (3) Amounts in this column are based on 23,475,431 ordinary shares outstanding as of March 31, 2015, less 2,507,314 treasury shares held by us.
- (4) Shares beneficially owned include: (a) 69,430 shares directly owned by Mr. Sheratzky and an entity wholly owned by him; (b) 4,075,952 shares owned by Moked Ituran Ltd., which Mr. Sheratzky is deemed to beneficially own due to his shared voting and investment power over such shares in accordance with that certain shareholders agreement, dated May 18, 1998 as amended on September 6, 2005 and on September 17, 2014, among Moked Ituran and its shareholders, which we refer to as the Moked Shareholders Agreement. For further information concerning the Moked Shareholders Agreement see the discussion under Item 6.A. –Directors and Senior Management under the caption "Shareholders Agreement and Articles of Association of Moked Ituran Ltd." above; (c) 1,365 shares that are directly held by Mr. Sheratzky's wife, Maddie Sheratzky.

- (5) Shares beneficially owned include: (a) 66,264 shares directly owned by Professor Kahane jointly with his wife, Rivka Kahane; (b) 148,950 shares owned by Yehuda Kahane Ltd., which Professor Kahane may be considered to beneficially own by virtue of his shared voting and investment control of the company through his 50% shareholdings thereof, the other 50% being owned by his wife, Rivka Kahane; and (c) 1,431,807 shares owned by Moked Ituran Ltd., which Professor Kahane may be considered to beneficially own by virtue of his right to direct the disposition of such shares in accordance with Moked's articles of association. Professor Kahane has shared voting and investment control over Yehuda Kahane Ltd., a holder of 26% of the shares of Moked Ituran.
- (6) Shares beneficially owned include: (a) 7,357 shares directly owned by Efraim Sheratzky, (b) 66,000 shares owned by Tzivtit Insurance Agency (1998) Ltd., which Efraim Sheratzky may be considered to beneficially own by virtue of his shared voting and investment control over such shares through his 50% ownership thereof, the other 50% of the shares held by Yigal Shani, and (c) 206,510 shares owned by Moked Ituran, which Mr. Sheratzky may be considered to beneficially own by virtue of his right to direct the disposition of such shares in accordance with Moked's articles of association. Mr. Sheratzky may be considered to beneficially own such shares by virtue of his sole voting and investment control over his wholly owned G T.S.D. Holdings Ltd, the holder of 3.75% of Moked's shares.
- (7) Shares beneficially owned include: (a) 43,500 shares directly owned by Yigal Shani, (b) 66,000 shares owned by Tzivtit Insurance Agency (1998) Ltd., which Yigal Shani may be considered to beneficially own by virtue of his shared voting and investment control over such shares through his 50% ownership thereof, the other 50% of the shares held by Efraim Sheratzky, and (c) 206,510 shares owned by Moked Ituran, which Mr. Shani may be considered to beneficially own by virtue of his right to direct the disposition of such shares in accordance with Moked's articles of association. Mr. Shani may be considered to beneficially own such shares by virtue of his sole voting and investment control over his wholly owned G.N.S. Holdings, the holder of 3.75% of Moked's shares

#### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

##### **A. MAJOR SHAREHOLDERS**

The following table shows the number of our ordinary shares beneficially owned by (a) the shareholders known to us as of March 30, 2015, to beneficially own more than 5% of our outstanding ordinary shares and (b) all of our directors and executive officers as a group.

Please also see Item 6.E above.

There are no shares underlying options or warrants held by such persons

The shareholders listed below do not have any different or special voting rights from any other shareholders of our company. Except where otherwise indicated, we believe, based on information furnished by the owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares.

Shareholder	Number of Ordinary Shares Beneficially Owned		% Voting
Moked Ituran Ltd. (1)	4,075,952	19.44	
All directors and executive officers as a group(2).	4,479,751	21.36	
Vulcan Value Partners(3)	2,379,261	11.35	
Psagot Investments House Ltd.(4)	1,306,644	6.23	
Migdal Insurance & Financial Holdings Ltd.(5)	1,168,026	5.57	
Treasury shares	2,507,314	-	

(1) Moked's articles of association provides that each of Moked's shareholders shall have the right to direct Moked to dispose of such number of our shares corresponding to his or her relative shareholdings in Moked. In addition, ownership of all shares held by Moked are attributed to Mr. Izzy Sheratzky by virtue of his holdings in Moked. Please see Item 6.E above for the ownership of our shares attributed to Moked's shareholders. For further information please see Item 6.A – Directors and Senior Management under the caption "Shareholders Agreement and Articles of Association of Moked Ituran Ltd." above.

(2) Includes shares held by Moked Ituran Ltd., which ownership are attributed to some of these directors and executive officers and which was changed significantly due to Moked Ituran Ltd Shareholder, F.K. Generators and Equipment Ltd. sale of 1,431,000 of our ordinary shares through Moked Ituran Ltd. which were considered beneficially owned by some of our offices. See Item 6E. above.

(3) The information presented herein is based on Form 13G filed by Vulcan Value Partners, LLC ("Vulcan") on February 17, 2015. According to the information presented on such Form 13G, Vulcan is an investment adviser, and various persons, including the investment companies and owners of the separate accounts to which Vulcan serves as investment adviser, have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the Company's securities that are the subject of Form 13G. As of January 31, 2015, Vulcan Value Partners Small Cap Fund, an investment company advised by Vulcan, owned 6.23% of the outstanding shares of the Company.

(4) The information presented herein is based on Form 13G filed by Psagot Investments House Ltd. ("Psagot") on February 18, 2015. According to the information presented on such Form 13G, the shares are beneficially owned by portfolio accounts managed by Psagot Securities Ltd., Psagot Exchange Traded Notes Ltd., mutual funds managed by Psagot Mutual Funds Ltd., and provident funds and pension funds managed by Psagot Provident Funds and Pension Funds. Each of Psagot Securities Ltd., Psagot Exchange Traded Notes Ltd., Psagot Mutual Funds Ltd., Psagot Provident Funds and Pension Funds is a wholly owned subsidiary of Psagot. For further information on the beneficial ownership by the portfolio accounts, please refer to Form 13G filed by Psagot on February 18, 2015.

(5) The information presented herein is based on Form 13G filed by Migdal Insurance & Financial Holdings Ltd. on February 10, 2015 ("Migdal"). According to the information presented on such Form 13G, the shares are beneficially owned by Migdal. For further information on the beneficial ownership by the portfolio accounts, please refer to Form 13G filed by Migdal on February 10, 2015.

As of March 16, 2015, we had a total of 3\* shareholders of record in the United States with registered addresses in the United States. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

\* Includes the Depository Trust Company.

## B. RELATED PARTY TRANSACTIONS

### *Transactions with our directors and principal officers*

We purchase our insurance policies, including our directors' and officers' insurance, through Tzivit Insurance Agency (1998) Ltd., an insurance agency owned by Efraim Sheratzky a director of the company and a shareholder of Moked, the brother of the President of our company and the uncle of both of our Co-Chief Executive Officers, and by Yigal Shani, who is one of our directors and is a shareholder of Moked. We pay an annual aggregate amount of NIS 1,158,000 or \$324,000, for our basic insurance policies and NIS 676,000, or \$189,000 for our directors' and officers' insurance policy. During 2014 Tzivit Insurance Agency was entitled to commissions in an aggregate amount of NIS 187,000 or \$52,000 which is paid by the insurance company on account of these policies. As to April 14, 2015, Tzivit Insurance Agency is expected to receive during the year 2015 commissions in an aggregate amount of approximately NIS 260,000 or \$66,500.

We have entered into indemnification agreements with each of our directors and officers and the officers and directors of our subsidiaries providing them with indemnification for liabilities or expenses incurred as a result of acts performed by them in their capacity as our directors and officers. Our general meeting of shareholders approved on January 28, 2014 an amendment to these indemnification agreements and the grant thereof to office holders, including controlling persons and their relatives, who serve at our company and its subsidiaries from time to time. For the full indemnification agreements as so approved, please see Exhibit 4.19 under Item 19 – Exhibits.

Our general meeting of shareholders has also approved on January 28, 2014 the procurement from time to time of directors' and officers' insurance policies covering the liability of office holders, including controlling persons and their relatives, who serve at the Company and its subsidiaries from time to time, under the following terms: (a) the principal terms of the D&O insurance policies shall not materially deviate from the terms of our current directors' and officers' insurance policy; or (b) to the extent that the Company shall desire to procure a D&O insurance policy, which a material term thereof adversely deviates (from our company's point of view) from the terms of the current policy, then our company's board of the directors shall confirm that, notwithstanding such deviation, our procurement of such policy is compatible with market terms and does not materially affect our profitability, assets or liabilities.

During the last several years, our President and Co-Chief Executive Officers were compensated for their services through services agreements with A. Sheratzky Holdings, a company controlled by Mr. Izzy Sheratzky, which were entered into during 2003 and 2002, respectively, as amended.

Under his 2003 service agreement, as amended, Mr. Sheratzky agreed to (i) cease to act as our Chief Executive Officer and (ii) to act as an independent contractor that provides full-time services to our company under the same terms of his previous employment as Chief Executive Officer and also act as Chairman of our Board of Directors. The agreement further provided that (a) A. Sheratzky Holdings will receive compensation equal to NIS 63,250, or approximately \$16,300, per month, adjusted for inflation, and linked to the Israeli CPI since 2003, plus reimbursement of certain business expenses; and (b) Mr. Sheratzky will be entitled to participate in our profits in an amount equal to 5% of profits before tax, on a consolidated basis, based on our audited consolidated financial statements for the relevant year. This services agreement was automatically renewable for successive two-year periods and either party had the right to notify the other of its intention to terminate the agreement by providing a 180-day prior written notice. Whereas the term of this agreement exceeded three years, then in 2011 (as required under an amendments to the Companies Law), our audit committee, board of directors and shareholders have ratified and approved the agreement with A. Sheratzky for a three year period until May 11, 2014. Whereas under Israeli laws, a chairman of the board who is related to a chief executive officer of a company cannot continue to act in such capacity without shareholders' approval with a special majority as determined under Israeli laws and such majority was not obtained, Mr. Sheratzky ceased to act as chairman of our board, but nonetheless, Mr. Sheratzky was appointed by our board to serve as president of our company and in such capacity he continued to provide the services as determined by the agreement.

Under our 2002 agreements with our Co-Chief Executive Officers, as amended, A. Sheratzky Holdings has provided us management services through Eyal Sheratzky and Nir Sheratzky in consideration for monthly payments in the amount of NIS 48,892 and NIS 49,307, or \$12,600 and \$12,700, respectively, in addition to providing each of them a company car and reimbursement of certain business expenses. Since January 2004, our Co-Chief Executive Officers were also entitled to an annual bonus in an amount equal to 1% of our profits before taxes, on a consolidated basis, based on our audited consolidated financial statements for the year for which the bonus was paid. Whereas the term of these agreements exceeded three years, then in 2011 (as required under an amendments to the Companies Law), our audit committee, board of directors and shareholders have ratified and approved the agreements with A. Sheratzky (including a third addendum thereto that clarifies the nature of their role and services) for a three year period until May 11, 2014. The aggregate amounts paid to A. Sheratzky Holdings according to this agreement in 2012, 2013 and 2014 were approximately \$2,691,000, \$3,470,000 and \$793,000 respectively (all numbers include value added tax).

On January 23, 2007, our subsidiary, E-Com Global Electronic Commerce Ltd. entered into an agreement with Gil Sheratzky for the employment of Mr. Sheratzky as the CEO of that company in consideration for monthly payments in the amount of NIS 25,000 or \$6,400, 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 this position, Mr. Sheratzky reported to our CEO. Gil Sheratzky was also entitled to a bonus in an amount equal to 2% of the annual increase in E-Com's profits before tax (up to a maximum amount of 1% of its profits before tax) based on its audited consolidated financial statements for the relevant year, beginning January 1, 2007. The aggregate amounts paid to Mr. Gil Sheratzky according to this agreement in 2012, 2013 and 2014 were approximately \$196,000, \$145,000 and \$28,000, respectively. Whereas the term of this agreement exceeded three years, in 2011 (as required under an amendment to the Companies Law), our audit committee, board of directors and shareholders have ratified and approved the agreement with Gil Sheratzky for a three year period until May 11, 2014. A new agreement with Gil Sheratzky was approved by our Shareholders meeting on January 28, 2014.

#### The new service agreements

In February 2014, following the approval of our general meeting of shareholders on January 28, 2014, we entered into new service agreements, setting forth the terms of service of our President and Co-Chief Executive Officers in compliance with our compensation policy for office holders; and E-Com entered into a service agreement setting forth the terms of service of its Chief Executive Officer in compliance with our compensation policy for officer holders. The principal terms of these agreements are as follows:

Mr. *Izzy Sheratzky* shall provide his services as an independent contractor through A. Sheratzky Holdings Ltd., which shall be entitled to a monthly payment of NIS 225,000 (or \$57,900) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses, subsistence allowance abroad and participation in work-related home telephone expenses. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon 180 days' advance notice of termination; however, the company may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards the company; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of company's secrets or competition with the company. The aggregate amounts paid to A. Sheratzky according this new service agreement in 2014 were approximately \$ 2,387,000 (the number includes value added tax).

*Mr. Eyal Sheratzky* shall provide his services as an independent contractor through ORAS Capital Ltd. which shall be entitled to a monthly payment of NIS 175,000 (or \$45,000) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses and subsistence allowance abroad. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon 180 days' advance notice of termination; however, the company may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards the company; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of company's secrets or competition with the company. The aggregate amount paid to ORAS Capital Ltd (for new and old agreements combined) in 2014 was approximately \$1,552,000 (the number includes value added tax).

*Mr. Nir Sheratzky* shall provide his services as an independent contractor through Galnir Management and Investments Ltd., which shall be entitled to a monthly payment of NIS 175,000 (or \$45,000) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses and subsistence allowance abroad. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon 180 days' advance notice of termination; however, the company may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards the company; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of company's secrets or competition with the company. The aggregate amount paid to Galnir Management and Investments Ltd, (for new and old agreements combined) was approximately \$1,418,000 (the number includes value added tax).

*Mr. Gil Sheratzky* shall provide his services as an independent contractor through ZERO-TO-ONE S.B.L. INVESTMENTS LTD., which shall be entitled to a monthly payment of NIS 125,000 (or \$32,000) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses and subsistence allowance abroad. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon two months' advance notice of termination; however, E-Com may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards E-Com; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of E-Com' and/or company's secrets or competition with E-Com and/or the company. The aggregate amount paid to ZERO-TO-ONE S.B.L. INVESTMENTS LTD, in 2014 according to this new service agreement, was approximately \$948,000 (the number includes value added tax).

Each of the above agreements also provides that the executives may request to provide their services to the company as an employee, and not through a service provider, and in such event, they shall execute an employment agreement with the company, in lieu of the above service agreements, which shall also set forth the provisions of social security and other benefits that the company usually grants its senior executive officers (which may not deviate from the provisions of the Compensation Policy in this respect). In any event, it was agreed that the nature of the agreement pursuant to which the services are provided shall not affect the cost to us of the provision of the services as set forth in the service agreements.

The terms of the Cash Incentives applicable to each of Messrs. Izzy Sheratzky, Eyal Sheratzky, Nir Sheratzky and Gil Sheratzky (the "**Executive Office Holders**"), as set forth in their agreements referred to above (the "**Agreements**"), are as follows:

- "Target-based Cash Incentives" means a cash incentive awarded to the Executive Office Holders for the company's achievement of the following Profit-Before-Tax targets in each calendar year following the effective date of the above agreements, in which the Minimum Threshold (as defined below) has been achieved:

<b>Company's Profit-Before-Tax Targets (in USD thousands)</b>	<b>Level of Incentive - As a Percentage of the Executive Office Holder's Annual Cost of Pay</b>
24,001 - 27,500	20%
27,501-31,000	45%
31,001-35,000	75%
35,001-39,000	110%
Above 39,001	150%

"Minimum Threshold" means, with respect to a particular calendar year, a minimum Company's Return on Equity (as defined below) of 15%, and a minimum company's Profit Before Tax of USD 24 million.

"Return on Equity" means, with respect to a particular calendar year, the ratio between the net income for such year and the average of the shareholders' equity at the beginning of such calendar year and at the end of each calendar quarter of such year; calculated in accordance with the company's audited or reviewed consolidated financial statements for such year, as the case may be, after taking into account Executive Officers' compensation, but excluding adjustments of the value of assets and obligations to their fair value in accordance with accounting standards.

"Profit-Before-Tax" means, with respect to a particular calendar year, the company's profit before tax for such year in accordance with the company's audited consolidated financial statements for such year, after taking into account Executive Officers' compensation, but excluding adjustments of the value of assets and obligations to their fair value in accordance with accounting standards.

"Executive Officers" means Office Holders of the Company ("Nosei Misra", as such term is defined in the Companies Law) who serve as the company's President, Co-CEOs and other executives who are deemed Office Holders of the company, as well as Office Holders of the company's Israeli wholly owned subsidiaries, provided they report to the CEO.



"Cost of Pay" means, with respect to independent contractors – their invoice amount plus company car and related expenses; and with respect to employees - their base pay (i.e. fixed gross amount payable to the employee in return for his services, excluding expenses, benefits and bonuses) plus 40% thereof.

- Target-based Cash Incentives shall become payable upon the lapse of 30 days from the date of publication of the company's audited annual financial statements (the "**Entitlement Date**"); and such cash incentive shall be paid on such date. However, if an Executive Office Holder's Target-based Cash Incentives exceed an amount equal to 100% of such Executive Office Holder's annual Cost of Pay (the "**100% Threshold**"), then 20% of the amount by which the Target-based Cash Incentives exceed the 100% Threshold (the "**Deferred Portion**") shall not be paid on their Entitlement Date, but rather shall be deferred and paid in two equal installments on the first and second anniversary of the Entitlement Date, provided that the Minimum Threshold was achieved during the first calendar year (for the first installment) and during the second calendar year (for the second installment) following the Entitlement Date, respectively. The Deferred Portion shall be linked to the consumer price index known on the Entitlement Date.
- The company may pay to the Executive Office Holders advances on account of expected Target-based Cash Incentives, based on the company's reviewed financial statements, prior to the Entitlement Date; provided that if on the Entitlement Date, it turns out that such advances exceed the Target-based Cash Incentives to which the Executive Office Holders are entitled, then the excess amounts shall be returned to the Company or shall be deducted from the payment of the remainder Target-based Cash Incentives on the Entitlement Date, as the case may be.
- "**Excess Return Cash Incentives**" means a cash grant based on the company's Stock Yield as compared to the TA 100 Index's Yield, as set forth below. In the event that the company shall de-list from the Tel-Aviv Stock Exchange, then the company's board of directors and compensation committee shall select a comparable NASDAQ index for the purpose of this Excess Return Cash Incentive and the provisions hereof shall apply with respect thereto mutatis mutandis.

"**Company's Stock Yield**" means the percentage of increase or decrease of the company's stock price on the Tel-Aviv Stock Exchange over an Examined Period (as defined below), as adjusted for dividend distribution, calculated based on the average adjusted closing price of the company's shares on the Tel-Aviv Stock Exchange during the 5 business days prior to and the 5 business days after the commencement and end of such Examined Period.

"TA 100 Index's Yield" means the percentage of increase or decrease of the TA 100 Index over an Examined Period, calculated based on the average TA 100 Index closing quotes during the 5 business days prior to and the 5 business days after the commencement and end of such Examined Period.

At the end of each calendar year, the company shall examine the Company's Stock Yield since January 1 of such year or, with respect to the first year of such grant – since the date of its approval (an "Examined Period"), as compared to the TA 100 Index's Yield over such Examined Period; and to the extent that the Company's Stock Yield exceeds the TA 100 Index's Yield for such period, each of the Executive Office Holders shall receive an amount equal to 50% of his monthly Cost of Pay for each 1% of excess return (in percentage points' terms), or a relative amount in the event of a partial excess return. For the avoidance of doubt, in the event that the Company's Stock Yield during such period is negative, no grant shall be awarded.

The Excess Return Cash Incentive for each year shall not exceed an amount equal to the Executive Officer Holder's annual Cost of Pay.

- In the event that an Agreement is terminated during a calendar year, the company's compensation committee and board of directors shall determine the relative amounts out of the Target-based Cash Incentives and/or Excess Return Cash Incentives to which the relevant Executive Office Holder is entitled for the portion of the year during which the Agreement was in force; and these amounts shall be paid within 30 days after the termination of service/employment, as the case may be.

- On the date of determination of each Executive Office Holder's entitlement for a Target-based Cash Incentive for a particular year, the company's compensation committee shall examine whether the total amount of grants to which Executive Officers are entitled with respect to such calendar year and which constitute variable components of their terms of services (the "Total Amount of Grants to Executive Officers"), exceed an amount equal to 10% of the Company's EBITDA for such year (the "EBITDA's Threshold"), as calculated in accordance with data extracted from the company's audited consolidated annual financial statements, after taking into account the Executive Officers' fixed compensation but excluding their variable compensation. In such event, the amount by which the Total Amount of Grants to Executive Officers exceeds the EBITDA's Threshold shall be referred to as the "Excess Amount".
- In the event that the Total Amount of Grants to Executive Officers exceeds the EBITDA's Threshold, then the Target-based Cash Incentive and the Excess Return Cash Incentive to which an Executive Office Holder is entitled (together, the "Grants") shall be reduced by an amount equal to the Executive Office Holder's Rate of Grants (as defined below) out of the Excess Amount. The term "Executive Office Holder's Rate of Grants" means, with respect to a particular Executive Office Holder, the percentage which such Executive Office Holder's Grants constitute out of the Total Amount of Grants to Executive Officers.
- The company's board of directors shall have the right, under special circumstances at its discretion, to reduce the amount of Grants to which the Executive Office Holders are entitled, upon a 60 days prior notice.
- The Executive Office Holder shall be required to return any compensation paid to them on the basis of results included in financial statements that turned out to be erroneous and were subsequently restated in the company's financial statements published during the three year period following publication of the erroneous financial statements; to the extent they would not have been entitled to the compensation actually received had it been determined based on the restated financial statements. In such case, compensation amounts will be returned within 60 days from the date of publication of the restated financial statements, net of taxes that were withheld thereon. If the Executive Office Holder has a right to reclaim such tax payments with respect to Grants which were paid in excess, from the relevant tax authorities, then the Executive Office Holder shall reasonably act to reclaim such amounts from the tax authorities and upon their receipt, shall remit them to the company.

In 2014 Executive Office Holders were eligible to Target based cash incentives at the maximum rate of (150%) as follows (which is included in the formentioned payments according to the above new service agreements):

Executive Office Holders	Target-based Cash Incentive	Deferred Portion for the next 2 years (In US\$ thousands)	Total to be paid for 2014:
Izzy Sheratzky	1,038	(69)	968
Eyal Sheratzky	807	(54)	753
Nir Sheratzky	807	(54)	753
Gil Sheratzky	576	(38)	538

For the full service agreements regarding the services of our President, Co-Chief Executive Officers and the Chief Executive Officer of E-Com, please see Exhibits 4.17-4.20 attached hereto.

On January 28, 2014, our general meeting of shareholders re-approved the terms of engagement of Professor Yehuda Kahane, which were set forth in a financial services agreement, dated March 23, 1998, between our company and Professor Kahane. Pursuant to this agreement, as amended in May 2003, we are obligated to pay Professor Kahane a monthly consulting fee of NIS 15,000, or approximately \$3,900, linked to the Israeli consumer price index as known on May 1, 2003. The term of the agreement automatically renews every two-years; however, either party may terminate it by providing a 180-day prior notice. The aggregate amounts paid to Professor Kahane by virtue of this agreement in each of the years 2012, 2013 and 2014 were approximately \$56,000, \$59,000 and \$62,000, respectively.

On January 28, 2014, our general meeting of shareholders re-approved the terms of engagement of Mr. Avner Kurz as a consultant to Ituran Sistemas de Monitoramento Ltda, a Brazilian subsidiary of our company, in accordance with an agreement dated February 23, 2012. Pursuant to the terms of this agreement, Mr. Kurz provided consultation services to the Brazilian subsidiary as an independent contractor, including services concerning: general strategy of the subsidiary, developing connections with the private market, infrastructure development and in any other area as is required from time to time. In addition, he was in direct contact with the chief executive officer of the subsidiary and its office holders, he was directly reporting to the Company's president and advises him regarding the aforementioned; Mr. Kurz undertook to stay at least eight times per year in Brazil at the subsidiary's offices and to invest no less than twenty monthly hours in providing the services; the term of the agreement automatically renews every two years, although each party may terminate it with a 180 days prior notice; and in consideration for the services described above, the Brazilian subsidiary payed Mr. Kurz a monthly amount of USD 8,000, against the receipt of a tax invoice; and Mr. Kurz was entitled to receive a cellular phone and reimbursement of related expenses from the Company, payable against receipts. The aggregate amounts paid to Mr Kurz by virtue of this agreement for each of the years 2012, 2013 and 2014 were approximately \$99,771, \$81,105 and \$80,000, respectively. The agreement with Mr. Kurz was terminated on September 15, 2014 as the date of his resignation from the board.

#### *Transactions with our affiliates and associates*

We purchase our GPS/GPRS equipment from our subsidiary, E.R.M Electronic Systems Limited. In 2013 and 2014, Ituran, including its subsidiaries in Brazil and USA, purchased GPS/GPRS equipment from ERM in the sum of approximately NIS 37.4 million (or \$10.4 million), and 39.2 Million NIS (or 11\$ Million) respectively.

#### **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable

#### **ITEM 8. FINANCIAL INFORMATION**

##### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

For the audited financial statements and audit reports required to be contained in this annual report, please see Item 18 below.

#### *Material Legal Proceedings*

We were involved in litigation with Leonardo L.P., a US-based hedge fund, arising out of a financial transaction entered into between us and Leonardo in February 2000 as described in our annual report for the year 2011. On June 13, 2011, the district court in its decision accepted one of Leonardo's claims and ordered us 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" referred to in the litigation, plus interest and linkage differentials as provided law and in addition, legal expenses in the sum of NIS 1.2 million (approximately US\$0.3 million), which totaled approximately NIS 78.7 million (approximately US\$22.7 million) at that time. We filed an appeal with the Supreme Court, in which we appealed the district court's decision dated June 13, 2011, as well as the legal expenses and costs which we 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, the court's decision to apply interest as provided by law and not a default interest under the terms of the financial transaction between Leonardo and us, and the legal expenses and costs which we were ordered to pay. On July 25, 2012, Leonardo and we 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 \$22.4 million) which was deposited in escrow by Leonardo pursuant to the district court's determination on June 13, 2011, 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 \$7.9 million at that time) was released to us. In addition, any surplus amount in the escrow account was to be released to Leonardo and us at the ratio of 60-40.

On December 21, 2009, we have received from ST a letter seeking indemnification for an alleged breach of certain representations by Ituran under the purchase agreement between us (see Item 4.A – Information on the Company, under the caption “History and Development of the Company” above), 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 a representation in an additional amount of approximately US\$4.3 million. The Company and ST entered into arbitration proceedings in Israel in which ST claimed damages in the amount of approximately US\$10.3 million. On December 19, 2013, the parties reached a settlement regarding the above dispute and consequently, the arbitration proceedings were concluded. Consequently, the Remaining Escrow Amount in the amount of US\$ 4.9 million (including accumulated interest), less US\$200,000 that will be released to ST was released on April 2014.

On July 13, 2010 the State Revenue Services of São Paulo issued a tax deficiency notice against our subsidiary in Brazil, Ituran Sistemas de Monitoramento Ltda., claiming that the vehicle tracking and monitoring services provided by our 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 our subsidiary during the period between August 2005 and December 2007. At the time of serving the notice upon us, the tax deficiency notice was in the amount of R\$36,499,984 (approximately US\$22.1 million at the time) plus interest in the amount of R\$30,282,420 (approximately US\$18.2 million at the time) and penalties in the amount of R\$66,143,446 (approximately US\$40.0 million at the time). As of December 31, 2014, the aggregate sum claimed pursuant to the tax deficiency notice (principal amount, interest and penalties) was estimated on December 2014, at R\$220,000,000 (approximately US\$82.7 million). The decision of the administration first level was unfavorable to us and we have filed an appeal to the Administrative Court of Appeals in São Paulo. 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 our favor. The State of São Paulo filed an administrative appeal to a full bench session at the Administrative Court which has been dismissed on December 20, 2014 and such a decision is non-appealable.

Furthermore, it is noted that the effect of aforesaid decision is limited to the period of August 2005 up to December 2007. It is possible that the State of São Paulo may issue us additional tax deficiency notices regarding the past 5 year period. However, we maintain our position, based among other things on the results of the aforesaid legal proceedings, that if such tax deficiency notices are issued in future, our chances of success in defending its position are overwhelmingly favorable.

On June 24, 2010 the Brazilian Internal Revenue Service issued a tax assessment that claimed the payment, at the time of filing the tax assessment, of R\$5,567,032 (approximately US\$ 3,120,000 at the time) including interest and penalties, following the offsetting on October 1, 2005 of an amount of approximately US\$ 2.1 million of a receivable held by Ituran Beheer BV, a Dutch legal entity held by us, against accumulated losses of our subsidiary Ituran Sistemas de Monitoramento Ltda, which originated from a technology transfer agreement executed by and between Ituran Brazil and OGM Investments B.V. (also a Dutch company held by us). The decision of the administrative court of the first level was unfavourable to us and therefore we have filed an appeal to the Administrative Court of Appeals in São Paulo. In October 2013, we were notified that the Court of Appeal has partially accepted our administrative defense in order to reduce the percentage of penalty imposed on us and we currently await the decision of the Administrative Court of Appeal. Based on the legal opinion of the subsidiary’s Brazilian legal counsel we believe that such claim is without merit and we will continue to vigorously defend ourselves in the appeal proceedings. As of December 31, 2014, the aggregate sum claimed pursuant to the tax assessment (principal amount, interest and penalties) is estimated at R\$9.8 million (approximately \$3.7 million) and we are waiting for the admissibility of our special appeal.

On October 29, 2014, Brazilian Federal Communication Agency – Anatel issued an additional tax assessment for FUST contribution (contribution on telecommunication services) levied on the monitoring services rendered by us regarding the year of 2010 in amount of R\$ 2.678,226 (approximately US\$ 1 million) including interest and penalties. This amount added up to the previous Anatel tax assessment for the years 2007 and 2008 which was issued on October 20, 2011, and at time was R\$ 3,350,165 (approximately US\$ 1.9 million) including interest and penalties, which on December 31, 2014 amounts to R\$ 4,630,000 (approximately US\$ 1.7 million). Due to the 2010 tax assessment, on December 31, 2014, the aggregate amount claimed by Anatel increased to approximately R\$ 7.3 million (approximately US\$ 2.7 million). The reason Anatel demand the payment of FUST from us is the fact that in order to provide monitoring services we need to operate telecommunication equipment in a given radio frequency. We hold a telecommunication license from Anatel (for information on our licenses see item 4B. "Information on the company" – "Business overview" under the caption "Regulatory Environment"). The authorities have construed that we render telecommunication services and FUST should be levied in relation to Net Revenues. Based on the legal opinion of the subsidiary's Brazilian legal counsel we believe that such claim is without merit, the interpretation of the legislation is mistaken, given that we don't render telecommunication services, but rather services of monitoring goods and persons for security purposes. We have filed our defense for the years 2007 and 2008 on December 1, 2011. Our Defense for the year 2010 was filed on November 27, 2014. We are currently awaiting the Lower Court decision on all the aforementioned Anatel claims.

10.B. – "Memorandum and Articles of Association" - "Our Corporate Practices under the Israeli Companies Law" under the caption "Approval of Transactions under Israeli law"

*Dividend distribution policy*

For a description of our dividend policy, see Item 5.B – Liquidity and Capital Resources above.

**B. SIGNIFICANT CHANGES**

Except as stated in this annual report, there are no significant changes since December 31, 2014.

**ITEM 9. THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

**Price History of Our Shares**

Our ordinary shares have been trading on the Tel-Aviv Stock Exchange since May 1998 and have been trading on Nasdaq under the symbol "ITRN" since September 2005.

The following table sets forth, for the periods indicated, the high and low market prices of our ordinary shares as reported by the Nasdaq Global Select Market.

	Price per +ordinary share (\$)	
	High	Low
<b>During the last six months</b>		
March 2015	23.14	22.00
February 2015	23.29	21.07
January 2015	22.00	20.75
December 2014	22.66	21.42
November 2014	21.7	20.13
October 2014	21.39	20.46
<b>During each fiscal quarter of 2012 and 2013 and the first quarter of 2014</b>		
First Quarter 2015	23.29	20.75
Fourth Quarter 2014	22.66	20.13
Third Quarter 2014	24.45	21.07
Second Quarter 2014	25.70	22.78
First Quarter 2014	25.40	21.35
Fourth Quarter 2013	21.64	17.88
Third Quarter 2013	18.60	16.39
Second Quarter 2013	17.11	15.31
First Quarter 2013	16.41	13.77
<b>During each of the five most recent full financial years:</b>		
2014	25.70	20.13
2013	21.64	13.77
2012	15.67	10.70
2011	18.30	11.65
2010	17.53	12.90

The following table shows, for the periods indicated, the high and low market prices of our ordinary shares as quoted on the Tel-Aviv Stock Exchange. U.S. dollars per ordinary share amounts are calculated using the applicable rate of exchange on the date the high or low market price occurred during the period shown.

	Price per ordinary share (NIS)		Price per ordinary share (\$)	
	High	Low	High	Low
<b>Annual:</b>				
2014	89.93	74.02	25.75	21.29
2013	75.71	51.60	21.81	13.82
2012	57.85	42.10	15.28	10.72
2011	65.09	42.00	18.09	11.81
2010	62.60	48.55	17.54	12.86
<b>Quarterly:</b>				
First Quarter 2015	92.57	81.61	23.54	20.93
Fourth Quarter 2014	88.30	76.23	22.51	20.18
Third Quarter 2014	82.88	74.02	24.19	21.29
Second Quarter 2014	89.93	80.12	25.75	23.24
First Quarter 2014	89.60	75.72	25.67	21.67
Fourth Quarter 2013	75.71	63.50	21.81	17.95
Third Quarter 2013	67.09	60.04	18.56	16.53
Second Quarter 2013	63.11	55.43	17.02	15.27
First Quarter 2013	61.07	51.60	16.54	13.82
<b>Most recent six months:</b>				
March 2015	92.53	87.78	23.33	22.06
February 2015	92.57	81.71	23.54	20.75
January 2015	85.45	81.61	21.97	20.93
December 2014	88.30	83.37	22.51	21.19
November 2014	84.00	76.47	21.60	20.07
October 2014	78.87	76.23	21.11	20.18

**B. PLAN OF DISTRIBUTION**

Not applicable

**C. MARKETS**

Our ordinary shares are quoted on the Nasdaq Global Select Market under the symbol "ITRN" and on the Tel-Aviv Stock Exchange.

**D. SELLING SHAREHOLDERS**

Not applicable

**E. DILUTION**

Not applicable

**F. EXPENSES OF THE ISSUE**

Not applicable

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

Our number with the Israeli Registrar of Companies is 52-004381-1. Our purpose appears in our memorandum of association and includes engaging in any lawful business.

*Articles of Association; Israeli Companies Law*

**Articles of Association**

Pursuant to our articles of association our objectives are to engage in any lawful business and our purpose is to operate in accordance with business considerations to maximize our profits. We may take into consideration, inter alia, the interests of our creditors, employee and the public interest. Please also see a summarized description of our purposes and activities under the caption "Overview" in Item 4.A. above.

**Our Corporate Practices Under The Israeli Companies Law**

*Approval of Transactions under Israeli Law*

**Directors and executive officers**

*Fiduciary duties*

Israeli law codifies the fiduciary duties that office holders owe to a company. An office holder is defined as any director, managing director, general manager, chief executive officer, executive vice president, vice president, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of these positions regardless of that person's title. Each person listed in the table under "Management—Executive Officers and Directors" is an office holder of our company under the Israeli Companies Law.

An office holder's fiduciary duties consist of a duty of loyalty and a duty of care. The duty of loyalty requires the office holder to avoid any conflict of interest between the office holder's position in the company and personal affairs, and proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantage for himself or others. This duty also requires him or her to reveal to the company any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information pertaining to these actions.

#### *Disclosure of Personal interest*

Israeli law requires that an office holder promptly disclose to the board of directors any personal interest that he or she may have and all related material information known to him or her concerning any existing or proposed transaction with the company. A personal interest, as defined by the Israeli Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of one's relative or of a corporate body in which such person or a relative of such person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager, but excluding a personal interest stemming solely from one's ownership of shares in the company. A personal interest also includes personal interest of a person voting pursuant to a proxy given by another person even if the other person does not have personal interest, regardless of whether the person given the proxy to vote at the meeting is given directions to vote in a certain manner or given discretion to vote independently. An office holder must disclose his personal interest no later than the first meeting of the company's board of directors that discusses the particular transaction. An office holder is not obliged to disclose such information if the personal interest of the office holder derives solely of the personal interest of his or her relative in a transaction that is not an "extraordinary transaction." The Israeli Companies Law defines an "extraordinary transaction" as a transaction not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities. The term "relative" is defined by the Israeli Companies Law as a spouse, sibling, parent, grandparent, descendant, and descendent, brother, sister or parent of a spouse or the spouse of any of the foregoing.

The Israeli Companies Law provides that once an office holder has complied with the disclosure requirement, a company may approve a transaction between the company and the office holder or a third party in which the office holder has a personal interest, or approve an action by the office holder that would otherwise be deemed a breach of duty of loyalty. Such a transaction generally requires approval by the board of directors, unless the articles of association provide otherwise. Our articles of association do not provide otherwise. If the transaction considered is an extraordinary transaction, audit committee approval is required prior to approval by the board of directors. For the approval of arrangements regarding the compensation, indemnification or insurance of executive officers and directors, see "Compensation arrangements" below. A company may not approve a transaction or action that is adverse to the company's interest or that is not performed by the office holder in good faith.

A director who has a personal interest in a matter involving an extraordinary transaction, as defined in the Israeli Companies Law, which is considered at a meeting of the board of directors or the audit committee may not attend that meeting or vote on that matter, unless a majority of the directors or members of the audit committee, as applicable, also have a personal interest in the matter. Any transaction in which a majority of the directors has a personal interest requires shareholder approval.



### *Compensation arrangements*

Subject to the provisions relating to related-party transactions as described below, the terms of office of office holders other than the chief executive officer and directors, require the approval of both our compensation committee and the board of directors; and the terms of office of chief executive officers and directors require the approval of the compensation committee, the board of directors and our shareholders. "terms of office" includes the grant of an exemption, insurance, undertaking to indemnify or indemnification, retirement compensation, and any benefit, other payment or an undertaking to pay, which are granted by virtue of serving as an office holder.

### **Shareholders**

#### *Controlling shareholders*

Pursuant to Israeli law, the disclosure requirements regarding personal interests that apply to an office holder also apply to a "controlling shareholder" of a public company. A "controlling shareholder" is a shareholder who has the ability to direct the activities of a company, and for the purpose of the disclosure requirements and approval of related party transactions, the term includes any shareholder holding 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder. Currently Moked Ituran Ltd. is considered a "controlling shareholder" of our company under Israeli law. Mr. Izzy Sheratzky beneficially owns the shareholdings of Moked Ituran due to his shared voting and investment power over such shares in accordance with a shareholders agreement, dated May 18, 1998, among Moked Ituran and its shareholders, as amended. In addition, all shareholders of Moked Ituran who are parties to such shareholders agreement, may also be considered "controlling shareholders" for the purposes of interested parties transactions under the Israeli Companies Law.

#### *Required approval*

Extraordinary transactions of a public company and a controlling shareholder, or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, a transaction concerning the terms of compensation of the controlling shareholder or the controlling shareholder's relative, directly or indirectly, through a company controlled by him in respect of receipt of services from same and if he is an office holder or an employee – the terms of his employment, generally require the approval of the audit committee (or with respect to Terms of Office and Employment – the compensation committee), the board of directors and the shareholders, in that order. If required, shareholder approval must include the majority of shares voted at the meeting. In addition, either:

- the majority must include at least the majority of the shares of disinterested shareholders voted at the meeting; or
- the total number of shares of disinterested shareholders who voted against the transaction must not exceed 2% of the aggregate voting rights in the company.

Transactions for a period of more than three years generally need to be brought for approval in accordance with the above procedures every three years.

The approval of the board of directors and shareholders is required for a private placement of securities (or a series of related private placements during a 12-month period or that are part of one continuous transaction or transactions conditioned upon each other) that:

- represents at least 20% of a company's actual voting power prior to the issuance of such securities, and that would increase the relative holdings of a 5% shareholder or that would cause any person to become a 5% shareholder the consideration for which (or a portion thereof) is not cash or securities listed on a recognized stock exchange, or is not at fair market value; or
- results in a person becoming a controlling shareholder of the company.

### *Shareholder duties*

Pursuant to the Israeli Companies Law, a shareholder has a duty to act in good faith and in customary way toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at the general meeting of shareholders and class meetings with respect to the following matters:

- an amendment to the company's articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- interested party transactions that require shareholder approval.

In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or other power towards the company. The Israeli Companies Law does not describe the substance of this duty except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

### *Anti take-over provisions; mergers and acquisitions under Israeli Law*

#### **Tender offers**

*Full Tender Offer.* A person wishing to acquire shares or any class of shares, or voting rights of a publicly traded Israeli company and who would, as a result, hold over 90% of the company's issued and outstanding share capital or of a class of shares that are listed, is required by the Israeli Companies Law to make a tender offer to all of the company's shareholders or all shareholders of such class of shares, as applicable, for the purchase of all of the issued and outstanding shares of the company or of that class of shares, as applicable. If the shareholders who do not respond to the offer hold less than 5% of the issued share capital of the company or of that class of shares, as applicable, and the majority of shareholders who are disinterested accepted the offer, then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law (however, full tender offer shall be accepted if shareholders who objected to the offer constituted less than 2% of the issued and outstanding share capital of the company to which the offer relates). However, the shareholders may petition the court to determine that the consideration for the shares constituted less than their fair value and that their fair value should be paid to the offerees. If the full tender offer is not accepted as described above, the acquirer may not acquire shares from shareholders who accepted the tender offer that would provide it over 90% of the company's issued and outstanding share capital or of the shares comprising such class, as applicable.

*Special Tender Offer.* The Israeli Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights of the company. This rule does not apply if there is already another holder of 25% or more of the voting rights of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights of the company, if there is no other holder of more than 45% of the voting rights of the company. The foregoing provisions do not apply to:

- a private placement in which the company's shareholders approved such holder owning 25% or more of the voting rights of the company (provided that there is no other shareholder that holds 25% or more of the voting rights of the company); or more than 45% of the voting rights of the company (provided that there is no other shareholder that holds 45% or more of the voting rights of the company); or

- a purchase from an existing holder of 25% or more of the voting rights of the company that results in another person becoming a holder of 25% or more of the voting rights of the company; or
- purchase from an existing holder of more than 45% of the voting rights of the company that results in another person becoming a holder of more than 45% of the voting rights of the company.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. An office holder in a target company who, in his or her capacity as an office holder, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages, unless such office holder acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, office holders of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not announce their stand or who had objected to the offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, the purchaser or any person or entity controlling it at the time of the offer or under common control with the purchaser or such controlling person or entity shall refrain from making a subsequent tender offer for the purchase of shares of the target company and cannot execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

## **Merger**

The Israeli Companies Law permits merger transactions if approved by each party's board of directors and shareholders. Pursuant to the Israeli Companies Law and our articles of association as currently in effect, merger transactions may be approved by holders of a simple majority of our shares present, in person or by proxy, at a general meeting and voting on the transaction. In determining whether the required majority has approved the merger in the event of "cross ownership" between the merging companies, namely, if our shares are held by the other party to the merger, or by any person holding at least 25% of the outstanding voting shares or 25% of the means of appointing directors of the other party to the merger, then a vote against the merger by holders of the majority of the shares present and voting, excluding shares held by the other party or by such person, or anyone acting on behalf of either of them, including any of their affiliates, is sufficient to reject the merger transaction. If the transaction would have been approved but for the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be consummated unless at least 50 days have passed from the time that a proposal for approval of the merger has been filed with the Israeli Registrar of Companies and 30 days have passed from the date of the approval of the shareholders of the merging companies.

The Israeli Companies Law further provides that the foregoing approval requirements will not apply to shareholders of a wholly-owned subsidiary in a roll-up merger transaction, or to the shareholders of the acquirer if:

- the transaction is not accompanied by an amendment to the acquirer's memorandum or articles of association;
- the transaction does not contemplate the issuance of more than 20% of the voting rights of the acquirer that would result in any shareholder becoming a controlling shareholder; and
- there is no "cross-ownership" of shares of the merging companies, as described above.

For these purposes, "controlling shareholder" is a shareholder who has the ability to direct the activities of a company, including a shareholder who owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights.

The Israeli Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred or additional rights to voting, distributions or other matters and shares having preemptive rights. In the future, if we do create and issue a class of shares other than our ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association. Shareholders voting at such a meeting will be subject to the restrictions under the Israeli Companies Law. See "Voting, Shareholder Meetings and Resolutions" below.

#### Dividend and Liquidation Rights.

We may declare a dividend to be paid to the holders of our ordinary shares according to their rights and interests in our profits. If we dissolve, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to their shareholdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. Our articles of association provide that shareholder approval would not be required for the declaration of dividends. Dividends may only be paid out of our retained earnings or "profits" accrued over a period of two years, as defined in the Israeli Companies Law, whichever is greater, according to the last reviewed or audited financial reports of the company, provided that the date of the financial reports is not more than six months before the date of distribution (the "profits" test), and further provided that there is no reasonable concern that a payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due, as determined by our Board of Directors. However, if we do not meet the profit requirement, a court may allow us to distribute a dividend, as long as the court is convinced that there is no reasonable risk that a distribution might prevent us from being able to meet our existing and anticipated obligations as they become due. For more information on our ability to grant or declare dividends, see Item 8.A – Financial Information under the caption "Dividend Distribution Policy" above.

#### Voting, Shareholder Meetings and Resolutions.

As a foreign private issuer, we have elected to follow our home country practices in lieu of the Nasdaq Marketplace Rule requiring an issuer to hold its annual meeting of its shareholders no later than one year after the end of the issuer's fiscal year-end. Specifically, according to the Israeli Companies Law, we are required to hold an annual general meeting of our shareholders once every calendar year, and no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to as special meetings. Our Board of Directors may call special meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Israeli Companies Law provides that the board of directors of a public company is required to convene a special meeting upon the request of (a) any two directors of the company or one quarter of its board of directors or (b) one or more shareholders holding, in the aggregate, (i) 5% of the outstanding shares of the company and 1% of the voting power in the company or (ii) 5% of the voting power in the company.

Pursuant to our articles of association, shareholders are entitled to participate and vote at general meetings and are the shareholders of record on a date to be decided by our Board of Directors, provided that such date is not more than 21 days, nor less than four days, prior to the date of the general meeting, except as otherwise permitted by the Israeli Companies Law. Furthermore, the Israeli Companies Law dictates that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

- amendments to our articles of association;
- appointment or termination of our auditors;
- appointment and dismissal of external directors;
- approval of acts and transactions requiring general meeting approval pursuant to the Israeli Companies Law;
- increase or reduction of our authorized share capital;
- a merger; and
- the exercise of the Board of Directors' powers by a general meeting, if the Board of Directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

The Israeli Companies Law and our articles of association require that a notice of any annual or special shareholders meeting will be provided 21 days prior to the meeting, except where the regulation prescribe for a period of not less than 35 days if the agenda includes certain resolutions to be adopted at the general meeting.

Pursuant to our articles of association, holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of the shareholders. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that we may authorize in the future. The quorum required for our ordinary meetings of shareholders consists of at least two shareholders present in person or by proxy, who hold or represent between them at least thirty-three and one-third percent of the total outstanding voting rights. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or on a later date specified in the summons or notice of the meeting. At the reconvened meeting, any number of our shareholders present in person or by proxy shall constitute a lawful quorum.

Our articles of association provide that, other than with respect to the amendment of the provisions of the articles of association with respect to the appointment of directors and a resolution for removal of a director, which action requires a majority vote of 75%, all resolutions of the shareholders require a simple majority.

Israeli law does not provide for public companies such as ours to have shareholder resolutions adopted by means of a written consent in lieu of a shareholders meeting. The Israeli Companies Law provides that a shareholder, in exercising his or her rights and performing his or her obligations toward the company and its other shareholders, must act in good faith and in an acceptable manner and avoid abusing his or her powers. This is required, among other things, when voting at general meetings on matters such as changes to the articles of association, increasing the company's registered capital, mergers and approval of related-party transactions. In addition, pursuant to the Israeli Companies Law, any controlling shareholder, any shareholder who knows that its vote can determine the outcome of a shareholder vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder, is required to act with fairness towards the company.

An ordinary resolution requires approval by the holders of a simple majority of the voting rights represented at the meeting, in person, by proxy or by written ballot, and voting on the resolution. Under the Israeli Companies Law, unless otherwise provided in the articles of association or applicable law, all resolutions of the shareholders require a simple majority. A resolution for the voluntary winding up of the company requires the approval of holders of 75% of the voting rights represented at the meeting, in person, by proxy or by written ballot and voting on the resolution. For information regarding the majority required for approval of related party transactions, see "Approval of related party transactions under Israeli law" above.

Transfer of Shares and Notice.

Our ordinary shares that are fully paid are issued in registered form and may be freely transferred under our articles of association unless the transfer is restricted or prohibited by applicable law or rules of a stock exchange on which the shares are traded.

Election of Directors.

Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors, subject to the special approval requirements for external directors described under the caption "External directors" in Item 6.C. – "Board Practices" above. Pursuant to the Israeli Companies Law, the procedures for the appointment and removal and the term of office of directors, other than external directors, may be contained in the articles of association of a company. Our articles of association provide for staggered terms for directors. This provision may be amended only by a vote of 75% of our shares voting at a meeting of shareholders. The appointing mechanism of our directors according to the is farther described under the caption "Shareholders Agreement and Articles of Association of Moked Ituran Ltd." in item 6.A. – "Directors and Senior Management" above. .

Insurance, Indemnification and Exculpation of Directors and Officers.

Under the Israeli Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care but only if a provision authorizing such exculpation is included in its articles of association. Our articles of association do not include such a provision. An Israeli company may not exculpate a director for liability arising out of a breach of duty of care in respect of a prohibited dividend or distribution to shareholders.

Under the Israeli Companies Law, a company may indemnify an office holder in respect of the following liabilities and expenses incurred for acts performed as an office holder, either in advance of an event or following an event, provided a provision authorizing such indemnification is included in its articles of association:

- Financial liability imposed on him or her in favor of another person pursuant to a judgment, settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned events and amount or criteria.
- Reasonable litigation expenses, including attorneys' fees, incurred by the office holder as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding, and (ii) no financial liability, such as a criminal penalty, was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent or in connection with monetary penalty.
- Reasonable litigation expenses, including attorneys' fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf or by a third party or in connection with criminal proceedings in which the office holder was acquitted or as a result of a conviction for an offense that does not require proof of criminal intent. Under the Israeli Companies Law, a company may obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder if and to the extent provided in the company's articles of association.
- A breach of duty of loyalty to the company, to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company.
- A breach of duty of care to the company or to a third party, including a breach arising out of the negligent conduct of the office holder.
- A financial liability imposed on the office holder in favor of a third party.

An Israeli company may not indemnify or insure an office holder against any of the following:

- a breach of duty of loyalty, except to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;
- an act or omission committed with intent to derive illegal personal benefit; or
- a fine, civil fine, monetary penalty or forfeit levied against the office holder.

Under the Israeli Companies Law, exculpation, indemnification and insurance of office holders must be approved by our compensation committee and our board of directors and, in respect to our chief executive officer, directors and controlling persons, by our shareholders.

Our articles of association allow us to indemnify and insure our office holders to the fullest extent permitted by the Israeli Companies Law. Our articles of association also allow us to insure or indemnify any person who is not an office holder, including any employee, agent, consultant or contractor who is not an office holder.

We currently have directors' and officers' liability insurance covering our officers and directors (including the officers and directors of our subsidiaries) against certain claims. No claims for liability have been filed under this policy to date.

Our compensation committee, board of directors and shareholders have resolved to indemnify our directors and officers to the fullest extent permitted by law and by our articles of association for liabilities that are of certain enumerated types of events, subject to an aggregate sum equal to 25% of the shareholders equity outstanding at the time a claim for identification is made as indicated by our then latest financial statements (which sum also includes all insurance amounts received by such directors and officers under directors and officers insurance policies maintained by us). For further details, see Item 7.B – Related Party Transactions above.

#### Change in Capital.

Our articles of association enable us to increase or reduce our share capital. Any such changes are subject to the provisions of the Israeli Companies Law and must be approved by a resolution duly passed by our shareholders at a general meeting and voting on such change in the capital. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings and profits and an issuance of shares for less than their nominal value, require a resolution of the Board of Directors and court approval.

#### **C. MATERIAL CONTRACTS**

For information concerning our recently entered into service contracts with our President and Co-Chief Executive Officers, see Item 7.B – Related Party Transactions.

#### **D. EXCHANGE CONTROLS**

ordinary shares purchased by nonresidents of Israel with certain non-Israeli currencies (including dollars) and any amounts payable upon the dissolution, liquidation or winding up of our affairs, as well as the proceeds of any sale in Israel of our securities to an Israeli resident, may be paid in non-Israeli currencies (including US dollars) or, if paid in NIS, may be converted into freely repatriable currencies at the rate of exchange prevailing at the time of conversion – pursuant to the general permit issued under the Israeli Currency Control Law, 1978, provided that Israeli income tax has been paid on (or withheld from) such payments. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, U.S. shareholders will be subject to any such currency fluctuation during the period from when a dividend is declared through the date payment is made in U.S. dollars. Investments outside Israel by our company no longer require specific approval from the Controller of Foreign Currency at the Bank of Israel.

## E. TAXATION

The following describes certain income tax issues relating to us and also certain income tax consequences arising from the purchase, ownership and disposition of our ordinary shares. **This discussion is for general information only and is not intended, and should not be construed, as legal or professional tax advice and does not cover all possible tax considerations.** To the extent that the discussion is based on legislation yet to be judicially or administratively interpreted, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. Accordingly, holders of our ordinary shares should consult their own tax advisor as to the particular tax consequences arising from your purchase, ownership and disposition of ordinary shares, including the effects of applicable Israeli, United States and other laws and possible changes in the tax laws.

The following discussion represents a summary of the material United States & Israeli tax laws affecting us and our shareholders.

### United States Tax Considerations

The following discussion is a description of the material United States, or US, federal income tax considerations applicable to the acquisition, ownership and disposition of our ordinary shares by US Holders who hold such ordinary shares as "capital assets". As used in this section, the term "US Holder" means a beneficial owner of an ordinary share who is:

- an individual citizen or resident of the United States;
- a corporation or partnership created or organized in or under the laws of the United States or of any state of the United States or the District of Columbia (other than a partnership, including any entity treated as a partnership for U.S. tax purposes, that is not treated as a US person under any applicable Treasury regulations);
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if the trust has elected validly to be treated as a US person for United States federal income tax purposes or if a US court is able to exercise primary supervision over the trust's administration and one or more US persons have the authority to control all of the trust's substantial decisions.

The term "Non-US Holder" means a beneficial owner of an ordinary share who is not a US Holder. The tax consequences to a Non-US Holder may differ substantially from the tax consequences to a US Holder. This discussion does not address any aspects of US federal income tax which may be relevant to a Non-US Holder. Accordingly, Non-US Holders are strongly urged to consult with their own tax advisors.

This description is based on provisions of the United States Internal Revenue Code of 1986, as amended, existing, proposed and temporary US Treasury regulations and administrative and judicial interpretations thereof, each as available and in effect as of the date of this report. These sources may change, possibly with retroactive effect, and are open to differing interpretations. This description does not discuss all aspects of US federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under US federal income tax law, including:

- insurance companies;
- dealers or traders in stocks, securities or currencies;
- financial institutions and financial services entities;
- real estate investment trusts;



- regulated investment companies;
- grantor trusts;
- persons that receive ordinary shares as compensation for the performance of services;
- tax-exempt organizations;
- persons that hold ordinary shares as a position in a straddle or as part of a hedging, conversion or other integrated instrument;
- individual retirement and other tax-deferred accounts;
- expatriates of the United States;
- persons having a functional currency that is not the US dollar; or
- direct, indirect or constructive owners of 10% or more, by voting power or value, of our ordinary shares.

This description also does not consider the US federal gift or estate tax or alternative minimum tax consequences of the acquisition, ownership and disposition of our ordinary shares.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner should consult its tax advisor as to its tax consequences.

**We urge our shareholders to consult with your own tax advisor regarding the tax consequences of acquiring, owning or disposing of our ordinary shares, including the effects of US federal, state, local and foreign and other tax laws. This summary does not constitute, and should not be construed as, legal or tax advice to holders of our shares.**

#### Medicare Tax

Beginning January 1, 2013, certain individuals, estates and trusts, which have income above the statutory threshold amounts, generally will be subject to a 3.8% Medicare tax on their investment income and gain, with limited exceptions. US Holders should consult their own tax advisors concerning Medicare tax consequences, if any, of owning or disposing of our ordinary shares.

#### Distribution Paid on the Ordinary Shares

As of November 16, 2009, our dividend policy provides for an annual dividend distribution in an amount not less than 50% of our net profits, calculated based on the audited financial statements for the period ending on December 31 of the fiscal year with respect to which the relevant dividend is paid. On February 21, 2012, we revised our dividend policy so that our dividends will be declared and distributed on a quarterly basis in an amount not less than 50% of our net profits, calculated on the basis of our reviewed quarterly financial statements each fiscal year.

Subject to the discussion below under "Passive Foreign Investment Company Considerations", US Holders, for US federal income tax purposes, will generally be required to include in their gross income as ordinary dividend income (unless qualifies as "qualified dividend income") in the amount of any distributions made to them in cash or property (other than certain distributions, if any, of our ordinary shares distributed pro rata to all our shareholders), with respect to their ordinary shares, before reduction for any Israeli taxes withheld (without regard to whether any portion of such tax may be refunded to them by the Israeli tax authorities), to the extent that those distributions are paid out of our current or accumulated earnings and profits as determined for US federal income tax purposes. Subject to the discussion below under "Passive Foreign Investment Company Considerations", distributions in excess of our current and accumulated earnings and profits as determined under US federal income tax principles will be applied first against, and will reduce their tax basis in, your ordinary shares and, to the extent they exceed that tax basis, will then be treated as capital gain. We do not maintain calculations of our earnings and profits under US federal income tax principles. Our dividends will not qualify for the dividends-received deduction generally available to corporate US Holders.

For a US Holder, if we pay a dividend in NIS, any such dividend, including the amount of any Israeli taxes withheld, will be includible in such US Holder's income in a US dollar amount calculated by reference to the currency exchange rate in effect on the day the distribution is includible in your income, regardless of whether the NIS are converted into US dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in such US Holder's income to the date that payment is converted into US dollars generally will be treated as ordinary income or loss.

A non-corporate US Holder's "qualified dividend income" currently is subject to tax at reduced rates not exceeding 23.8% (including, if applicable, Medicare tax at a rate of 3.8%). For purposes of determining whether a non-corporate US Holders will have "qualified dividend income," "qualified dividend income" generally includes dividends paid by a foreign corporation if either:

- the stock of that corporation with respect to which the dividends are paid is readily tradable on an established securities market in the US, or
- that corporation is eligible for benefits of a comprehensive income tax treaty with the US that includes an information exchange program and is determined to be satisfactory by the US Secretary of the Treasury. The Internal Revenue Service has determined that the US-Israel Tax Treaty is satisfactory for this purpose.

In addition, under current law, a non-corporate US Holder must generally hold his ordinary shares for more than 60 days during the 121-day period beginning 60 days prior to the ex-dividend date in order for the dividend to qualify as "qualified dividend income."

Dividends paid by a foreign corporation will not be treated as "qualified dividend income", however, if such corporation is treated, for the tax year in which the dividend is paid or the preceding tax year, as a "passive foreign investment company" for US federal income tax purposes. We do not believe that we will be classified as a "passive foreign investment company" for US federal income tax purposes for our current taxable year. However, see the discussion under "Passive Foreign Investment Company Considerations" below.

#### **Foreign Tax Credit**

Any dividends paid by us to a US Holder with respect to our ordinary shares generally will be treated as foreign source passive income for US foreign tax credit purposes. Subject to the foreign tax credit limitations, a US Holder may elect to credit any Israeli income taxes withheld from dividends paid on our ordinary shares against such shareholder's US federal income tax liability (provided, *inter alia*, such shareholder satisfies certain holding requirements with respect to our ordinary shares). Amounts withheld in excess of the Treaty tax rate, however, will not be creditable against such shareholder's US federal income tax liability. As an alternative to claiming a foreign tax credit, such shareholder may instead claim a deduction for any withheld Israeli income taxes, but only for a year in which such shareholder elects to do so with respect to all foreign income taxes. The amount of foreign income taxes that may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. Accordingly, our shareholders should consult their own tax advisor to determine whether their income with respect to their ordinary shares would be foreign source income and whether and to what extent they would be entitled to the credit.

#### **Disposition of Ordinary Shares**

Upon the sale or other disposition of ordinary shares, subject to the discussion below under "Passive Foreign Investment Company Considerations", if a holder of our shares is a US Holder, such shareholder generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and such shareholder's adjusted tax basis in the ordinary shares, which is usually the cost of such shares, in dollars. US Holders should consult their own advisors with respect to the tax consequences of the receipt of a currency other than dollars upon such sale or other disposition.

Gain or loss upon the disposition of the ordinary shares will be treated as long-term if, at the time of the disposition, the ordinary shares were held for more than one year. Long-term capital gains realized by non-corporate US Holders generally are subject to a lower maximum marginal US federal income tax rate than the maximum marginal US federal income tax rate applicable to ordinary income, other than qualified dividend income, as defined above, generally, not exceeding 23.8% (including, if applicable, Medicare tax at a rate of 3.8%). The deductibility of capital losses by a US Holder is subject to limitations. In general, any gain or loss recognized by a US Holder on the sale or other disposition of ordinary shares will be US source income or loss for US foreign tax credit purposes. US Holders should consult their own tax advisors concerning the source of income for US foreign tax credit purposes and the effect of the US-Israel Tax Treaty on the source of income.

## Passive Foreign Investment Company Considerations

Special US federal income tax rules apply to US Holders owning shares of a “passive foreign investment company”, or a PFIC, for US federal income tax purposes. A non-US corporation will be considered a PFIC for any taxable year in which, after applying look-through rules, either

- 75% or more of its gross income consists of specified types of passive income, or
- 50% or more of the average value of its assets consists of passive assets, which generally means assets that generate, or are held for the production of, “passive income.”
- Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions and includes amounts derived by reason of the temporary investment of funds. If we were classified as a PFIC, and you are a US Holder, you could be subject to increased tax liability upon the sale or other disposition of ordinary shares or upon the receipt of amounts treated as “excess distributions” (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you either in the shorter of the three preceding years or your holding period). Under these rules, the excess distribution and any gain would be allocated ratably over our shareholders’ holding period for the ordinary shares, and the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income. The amount allocated to each of the other taxable years would be subject to tax at the highest marginal rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such other taxable years. In addition, holders of stock in a PFIC may not receive a “step-up” in basis on shares acquired from a decedent. If any of our shareholders are US Holders who hold ordinary shares during a period when we are a PFIC, such shareholders be subject to the foregoing rules even if we cease to be a PFIC.

We believe that we will not be classified as a PFIC for US federal income tax purposes for our current taxable year and we anticipate that we will not become a PFIC in any future taxable year based on our financial statements, our current expectations regarding the value and nature of our assets, and the sources and nature of our income. This conclusion, however, is a factual determination that must be made annually based on income and assets for the entire taxable year and thus may be subject to change. It is not possible to determine whether we will be a PFIC for the current taxable year until after the close of the year and our status in future years depends on our income, assets and activities in those years. In addition, because the market price of our ordinary shares is likely to fluctuate and the market price of the shares of technology companies has been especially volatile, and because that market price may affect the determination of whether we will be considered a PFIC, we cannot assure any US Holder that we will not be considered a PFIC for any taxable year.

If we were a PFIC, our shareholders could avoid certain tax consequences referred to above by making an election to treat us as a qualified electing fund or by electing to mark the ordinary shares to market. A US Holder may make a qualified electing fund election only if we furnish the US Holder with certain tax information and we do not presently intend to prepare or provide this information. Alternatively, a US Holder of PFIC stock that is publicly traded may elect to mark the stock to market annually and recognize as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the US Holder’s adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the US Holder under the election for prior taxable years. This election is available for as long as our ordinary shares constitute “marketable stock,” which includes stock that is “regularly traded” on a “qualified exchange or other market.” We believe that the Nasdaq Global Select Market will constitute a qualified exchange or other market for this purpose. However, no assurances can be provided that our ordinary shares will continue to trade on the Nasdaq Global Select Market or that the shares will be regularly traded for this purpose.

According to law amendments effective in 2010, US persons that are shareholders in a PFIC generally will be required to file an annual report disclosing the ownership of such shares and certain other information.

The rules applicable to owning shares of a PFIC are complex, and our shareholders should consult with their own tax advisor regarding the tax consequences that would arise if we were treated as a PFIC.

#### **Information Reporting and Back-up Withholding**

Dividend payments with respect to ordinary shares and proceeds from the sale or disposition of ordinary shares made within the United States or by a US payor or US middleman may be subject to information reporting to the Internal Revenue Service and possible US backup withholding. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup withholding also will not apply to a US Holder who furnishes a correct taxpayer identification number and makes any other required certification or otherwise is exempt from US backup withholding requirements. US Holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. US Holders should consult their tax advisors regarding the application of the US information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a US Holder's US federal income tax liability and a US Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner. **The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. Our shareholders are urged to consult their own tax advisor concerning the tax consequences of their particular situation.**

#### **Israeli Tax Considerations**

The following is a summary of the current material Israeli tax laws applicable to companies in Israel with special reference to its effect on us. This section also contains a discussion of certain Israeli government programs from which we may benefit and some Israeli tax consequences to persons acquiring ordinary shares. This summary does not discuss all the acts of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include residents of Israel, traders in securities or persons that own, directly or indirectly, 10% or more of our outstanding capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. Accordingly, we cannot assure you that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

The discussion below should not be construed as legal or professional tax advice and does not cover all possible tax considerations. Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares, including in particular, the effect of any foreign, state or local taxes.

#### **General Corporate Tax Structure in Israel**

Israeli companies are generally subject to corporate tax on their taxable income. In 2013 the corporate tax rate was 25%. On August 5, 2013 the Israeli Parliament amended the Income Tax Ordinance, by which, inter alia, the corporate tax rate was raised by 1.5% to a rate of 26.5% as from 2014. Capital gains derived after January 1, 2010 are subject to a corporate tax rate imposed in the sale year.

#### **Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959, as amended**

Under the Israeli law, Israeli subsidiaries of the company are entitled to various tax benefits by virtue of the "Preferred Enterprise" status that was granted to their production under the "Investment Law". There can be no assurance that those Israeli subsidiaries will continue to qualify as "Preferred Enterprises" in the future or that the benefits will be granted in the future.

#### Reform of the Investments Law under the 2010 and 2013 Amendments

On December 29, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which introduces a new status of "**Preferred Company**" and "**Preferred Enterprise**". The amendment allows enterprises meeting certain required criteria to enjoy grants as well as tax benefits. The amendment also introduces certain changes to the map of geographic development areas for purposes of the Investments Law, which will take effect in future years. The amendment generally abolishes the previous tax benefit routes that were afforded under the Investment Law, specifically the tax-exemption periods previously allowed, and introduces new tax benefits for industrial enterprises meeting the criteria of the law, which include among others the following:

- A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise's entire preferred income so that in the tax years 2011-2012 the reduced tax rate will be 15% for preferred income derived from industrial facilities located in areas which are not classified as area A. In the tax year 2013 the reduced tax rate was 12.5%.

On August 5, 2013 the Israeli Parliament amended the Investments Law, by which, inter alia, it canceled the scheduled progressive reduction in the corporate tax rate for Preferred Enterprises and set it at 16% for enterprises located elsewhere as of January 1, 2014.

- The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.
- A definition of "preferred income" was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a preferred enterprise.

A Preferred Company (as defined in the Investments Law) may generally elect to apply the provisions of the amendment to preferred income produced or generated by it commencing from January 1, 2011. The amendment provides various transitional provisions which allow, under certain circumstances, to apply the new regime to investment programs previously approved or elected under the Investments Law in its previous form, or to continue existing investment programs under the provisions of the Investment Law in its previous form for a certain period of time.

The subsidiaries elected to adopt the Investments Law's instructions as amended, commencing 2011.

## Taxation of Non-Israeli Subsidiaries

Non-Israeli subsidiaries are generally taxed based upon tax laws applicable in their countries of residence. In accordance with the provisions of Israeli-controlled foreign corporation rules, certain income of a non-Israeli subsidiary, if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or income from capital gains), may be deemed distributed as a dividend to the Israeli parent company and consequently is subject to Israeli taxation. An Israeli company that is subject to Israeli taxes on such deemed dividend income of its non-Israeli subsidiaries may generally receive a credit for non-Israeli income taxes paid by the subsidiary in its country of residence or are to be withheld from the actual dividend distributions.

On December 23, 2013 the Israeli Parliament amended the Income Tax Ordinance, with profound changes to the tax treatment of CFC, mainly with regard to the following:

- Reducing the tax rate criterion: a company is considered CFC if the tax rate applicable to passive income does not exceed 15 % (instead of 20 %).
- Sale of a security will be considered passive income, unless the holding duration is less than one year and it has been shown that the security served in a business.
- Cancel the notional credit mechanism and replacing it with dividend deduction against the actual dividend distribution. Tax refund may be allowed under certain conditions.
- Dividends derived from income that was taxed at a rate of at least 15% shall not be considered "passive income" under certain conditions.

## Taxation of our shareholders

### *Capital Gains Taxes Applicable to Israeli Resident Shareholders*

The income tax rate applicable to Real Capital Gain derived by an Israeli individual from the sale of shares which had been purchased after January 1, 2012, whether listed on a stock exchange or not, is 25%. However, if such shareholder is considered a "Substantial Shareholder" (as defined below) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 30%. A "substantial shareholder" is generally a person who alone, or together with his relative or another person who collaborates with him on a permanent basis, hold, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, and all regardless of the source of such right.

Commencing as of January 1, 2013, an individual whose taxable income during a tax year is in excess of NIS 812 thousand (in 2014), will be liable for an additional 2% on the portion that is in excess of NIS 812 thousand.

Moreover, capital gains derived by a shareholder who is a dealer or trader in securities, or to whom such income is otherwise taxable as ordinary business income, are taxed in Israel at ordinary income rates (currently up to 48% for individuals in 2014).

### *Taxation of Israeli shareholders on receipt of dividends*

Israeli resident individuals are subject to Israeli income tax on the receipt of dividends paid, at the rate of 25%, or 30% for a shareholder that is considered a "Substantial Shareholder" (as defined above). A distribution of dividend to Israeli resident individuals from income attributed to a Preferred Enterprise will be generally subject to a withholding tax rate of 20%. An individual whose taxable income during a tax year is in excess of NIS 812 thousand, will be liable for an additional 2% on the portion that is in excess of NIS 812 thousand.

Dividends paid on our ordinary shares to Israeli companies are exempt from such tax, except for dividends distributed from income derived outside of Israel, which are subject to the corporate tax rate.

*Taxation of non-Israeli shareholders on receipt of dividends.*

As of the beginning of 2012, non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, which tax will be withheld at the source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. With respect to a person who is a "substantial shareholder" (as defined above) at the time receiving the dividend or on any date in the 12 months preceding such date, the applicable tax rate is 30%. Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends that are paid to a U.S. corporation holding 10% or more of our outstanding voting capital throughout the tax year in which the dividend is distributed as well as the previous tax year is 12.5%, provided, however, that no more than 25% of our gross income for such previous tax year (if any) consists of interest or dividends (other than dividends or interest received from subsidiary corporations, 50% or more of the outstanding shares of the voting stock of which is owned by us at the time such dividends or interest is received). We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability.

A distribution of dividend to non-Israeli resident from income attributed to a Preferred Enterprise will be generally subject to withholding tax rates of 20%, subject to a reduced rate under the provisions of any applicable double tax treaty.

A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

*Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders.*

Israeli law generally imposes a capital gains tax on the sale of securities and any other capital asset. Shareholders that are not Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of our ordinary shares provided that (1) such shareholders did not acquire their shares prior to our initial public offering, (2) the shares are listed for trading on the Tel Aviv Stock Exchange, and (3) such gains did not derive from a permanent establishment of such shareholders in Israel. Furthermore, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (i) hold 25% or more of their means of control (i.e., the right to vote at the general meeting or to nominate directors or the chief executive officer), or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly; In such case, the sale, exchange or disposition of ordinary shares would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel Tax Treaty, U.S. resident would be permitted to claim a credit for the Israeli taxes against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes. In addition, under the U.S.-Israel Tax Treaty, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) holding the ordinary shares as a capital asset is exempt from Israeli capital gains tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting capital during any part of the 12-month period preceding such sale, exchange or disposition or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel. Certain other tax treaties to which Israel is a party also grant exemptions from Israeli capital gains taxes.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable

## G. STATEMENT BY EXPERTS

Not applicable.

## H. DOCUMENTS ON DISPLAY

We are required to file reports and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and the regulations thereunder applicable to foreign private issuers. Reports and other information filed by us with the Securities and Exchange Commission may be inspected and copied at the Securities and Exchange Commission's public reference facilities described below. We are not required to file periodic information as frequently or as promptly as United States companies. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements; and our officers, directors and principal shareholders are exempt from the reporting and other provisions of Section 16 of the Exchange Act.

You may review a copy of our filings with the Securities and Exchange Commission, including any exhibits and schedules, at the Securities and Exchange Commission's public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of such materials at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You may call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer we are now required to file through the Securities and Exchange Commission's EDGAR system and our periodic filings are therefore available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. You may read and copy any reports, statements or other information that we file with the Securities and Exchange Commission at the Securities and Exchange Commission facilities listed above. These Securities and Exchange Commission filings are also available to the public from commercial document retrieval services.

We also files annual and special reports and other information with the Israeli Securities Authority through its fair disclosure electronic system called the MAGNA. You may review these filings on the website of the MAGNA system operated by the Israeli Securities Authority at [www.magna.isa.gov.il](http://www.magna.isa.gov.il) or on the website of the TASE at [www.tase.co.il](http://www.tase.co.il).

## I. SUBSIDIARY INFORMATION

Not applicable

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks to which we are exposed as a result of our operations are foreign exchange rate risks and interest rate risks.

### Foreign exchange rate risk

Although we report our consolidated financial statements in dollars, in 2012, 2013 and 2014, a portion of our revenues and expenses was derived in other currencies. For fiscal years 2012, 2013 and 2014, we derived approximately 8.7%, 8.3% and 10% of our revenues in dollars, 43.6%, 45.5% and 46% in NIS, 38.7%, 37.3% and 36.5% in Brazilian Reals and 9%, 8.9% and 7.6% in Argentine Pesos, respectively. In fiscal years 2012, 2013 and 2014, 18%, 20.1% and 14.8% of our expenses were incurred in dollars, 38.5%, 41% and 46.7% in NIS, 34.4%, 29.9% and 30.8% in Brazilian Reals and 9.1%, 8.9% and 7.7% in Argentine Pesos, respectively.

Exchange differences upon conversion from our functional currency to dollars are accumulated as a separate component of accumulated other comprehensive income under shareholders' equity. In the year 2014, accumulated other comprehensive income decreased by \$11.1 million compared to the year 2013. In the year 2013, accumulated and other comprehensive income decreased by \$3.2 million compared to the year 2012. In the year 2012, accumulated other comprehensive income decreased by \$2.3 million compared to the year 2011.



The fluctuation of the other currencies in which we incur our expenses or generate revenues against the dollar has had the effect of increasing or decreasing (as applicable) reported revenues, cost of revenues and operating expenses in such foreign currencies when converted into dollars from period to period. The following table illustrates the effect of the changes in exchange rates on our revenues, gross profit and operating income for the periods indicated:

	Year Ended December 31,					
	2012		2013		2014	
	Actual	At 2011 exchange rates <sup>(1)</sup>	Actual	At 2012 exchange rates <sup>(1)</sup>	Actual	At 2013 exchange rates <sup>(1)</sup>
	(In thousands)					
Revenues	\$ 150,318	\$ 166,475	\$ 170,167	\$ 174,879	\$ 182,127	\$ 193,977
Gross profit	75,558	84,935	89,302	91,937	97,133	103,871
Operating income	29,947	34,496	37,930	39,630	45,870	49,437

(1) Based on average exchange rates during the period.

Our policy remains to reduce exposure to exchange rate fluctuations by entering into foreign currency forward transactions that qualify as hedging transactions under ASC Topic 815, "Derivatives and Hedging" the results of which are reflected in our income statements as revenues or cost of revenues. Currently, the item most likely to be affected by the foreign currency risk is our inventory purchase price. Therefore, from time to time, we enter into such forward contracts, generally of 3 to 20 months' duration in order to hedge a portion of our foreign currency risk on the inventory purchase price. The result of these transactions, which are affected by fluctuations in exchange rates, could cause our cost of revenues, gross profit and operating income to fluctuate. See Note 19 to our consolidated financial statements included elsewhere in this report.

#### Interest rate risk

We invest our cash balances primarily in NIS, Brazilian real and Argentine peso bank deposits and therefore, we are exposed to interest rate fluctuation in those currencies, but we do not believe such risks to be material. We do not use derivative financial instruments to limit exposure to interest rate risk.

#### ITEM 12. DESCRIPTIONS OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

#### PART II

#### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable

#### ITEM 14.A MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None

**ITEM 15. CONTROLS AND PROCEDURES**

(A) Disclosure Controls and Procedures

Our co-chief executive officers 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, 2014, 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 co-chief executive officers 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 our internal control over financial reporting, as of December 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework).

Based on such assessment, our management has concluded that, as of December 31, 2014, our internal control over financial reporting is effective.

Fahn Kanne & Co. Grant Thornton Israel, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting, as of December 31, 2014 and such report is included elsewhere in this Form 20 -F.

***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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Board of Directors and Stockholders**

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

We have audited the internal control over financial reporting of Ituran Location and Control Ltd. and Subsidiaries (the "Company") as of December 31, 2014, based on criteria established in the 2013 *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 the internal control over financial reporting of Ituran Argentina S.A. (Ituran Argentina), a wholly-owned subsidiary of the Company, whose financial statements reflect total assets and revenues constituting 8.7 and 7.6 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014. Ituran Argentina's internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to Ituran Argentina's internal control over financial reporting in relation to the Company taken as a whole, is based solely on the report of other auditors.

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.

In our opinion, based on our audit and the report of other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by 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 Company as of and for the year ended December 31, 2014 and our report dated April 28, 2015, expressed an unqualified opinion on those financial statements.

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

Tel-Aviv, Israel  
April 28, 2015

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

Ituran Argentina S.A.

We have audited the internal control over financial reporting of Ituran Argentina S.A. (the "Company") as of December 31, 2014, based on criteria established in the 2013 *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 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 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.



Gonzalo Urien Berri  
Estudio Urien & Asociados  
Buenos Aires, Argentina  
February 12, 2015

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors determined that Mr. Israel Baron, one of our independent directors, is an “audit committee financial expert”, as defined by the applicable regulations promulgated under Section 407 of the Sarbanes-Oxley Act. For information concerning the experience of Mr. Baron, please refer to Item 6.A – Directors and Senior Management, above.

**ITEM 16B. CODE OF ETHICS**

In 2005, we adopted a Code of Ethics that applies to our senior management, including chief executive officer, chief financial officer, internal auditor and other individuals performing similar functions. This code of ethics has been posted on our website at [www.ituran.com](http://www.ituran.com).

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Fahn Kanne & Co. Grant Thornton Israel (“Grant Thornton”), has served as our independent auditors. On December 15, 2014 they been re-elected by our shareholders to serve as our independent auditors for the year 2015, until the next general meeting of the shareholders. The following table presents aggregate fees for professional audit services and other services rendered by Grant Thornton, for 2013 and 2014:

	<u>2013</u>	<u>2014</u>
	(in thousands, USD)	
Audit Fees (1)	262	290
Tax Fees (2)	27	24
<b>Total</b>	<b>289</b>	<b>314</b>

(1) The audit fees for the years ended December 31, 2013 and 2014 respectively, were for professional services rendered for the audits of our annual consolidated financial statements, review of consolidated quarterly financial statements, statutory audits of Ituran.

(2) Consists of all tax related services.

Our audit committee has pre-approved the above audit and non-audit services provided by Grant Thornton, during the years 2013 and 2014, up to a certain amount.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

During 2013, the Company did not purchase any of its shares.

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Under NASDAQ Marketplace Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the Rule 5600 series and the requirement to distribute annual and interim reports. A foreign private issuer that elects to follow a home country practice instead of any of such provisions, must disclose in its annual reports each requirement that it does not follow, describe the home country practice followed by the company in lieu of such requirements, satisfy the voting rights (Rule 5640) requirements, have an audit committee that satisfies Rule 5605(c)(3), and ensure that such audit committee's members meet the independence requirement in Rule 5605(c)(2)(A)(ii). In reliance upon Rule 5615(a)(3), as a foreign private issuer, we have elected to follow our home country practices, absent home country rules requiring otherwise, in lieu of certain Nasdaq Marketplace Rules. Specifically, in Israel, it is not required that a public company have (i) a majority of independent board members or that independent directors have regularly scheduled meetings at which only independent directors are present, or (iii) independent oversight of director nominations. As a result, we have elected to follow Israeli law regarding the independence requirements of our board of directors. See "External directors" above. In addition, our board of directors has not appointed a nominating committee and, instead, elects to follow Israeli law, which provides that a company may determine its method of nominating its directors. In our case, board of directors members are nominated by our board of directors, as is the custom in Israel.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

See "Item 18—Financial Statements."

**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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Consolidated Statements of Income	F-5
Statements of Comprehensive Income	F-6
Statement of Changes in Equity	F-7-F-8
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ITEM 19. EXHIBITS

- Description of Document
- 1.1 Amended and Restated Articles of Association of the Company
  - 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)
  - 2.3 Form of the second 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). (6)
  - 4.1 Agreement dated January 23, 2007, between E-Com Global Electronic Commerce Ltd. and Gil Sheratzky (English translation) (3)
  - 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)
  - 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 (3)
  - 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 (3)
  - 4.7 Addendum No. 1 dated April 6, 2011 to the agreement between the Company and A. Sheratzky Holdings Ltd. and Izzy Sheratzky (3)
  - 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)
  - 4.9(a) Addendum to February 7, 2002 Unprotected Lease Agreement, by and between Mofari Ltd. and the Registrant, dated October 31, 2012. (7)
  - 4.10 Lease Agreement, dated May 29, 2002, by and between Rinat Yogev Nadlan and Ituran Cellular Communication Ltd. (English translation). (1)(5)
  - 4.11 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)
  - 4.12 Form of Directors' Letter of Indemnity (English translation). (7)
  - 4.13 Frame Product and Services Purchase Agreement dated January 1, 2008 by and between Ituran Location and Control Ltd. and Telematics Wireless Ltd. (2) \*
  - 4.14 Radio Location System License Agreement, dated July 13, 2004, by and between Teletrac, Inc., and Telematics Wireless Ltd. (1)
  - 4.15 Ituran Location & Control Compensation Policy, as approved on October 31, 2013 (7)
  - 4.16 Agreement dated February 23, 2012 between Ituran Systems De Monitoramento Ltda. and Mr. Avner Kurz (4)
  - 4.17 Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., Izzy Sheratzky and A. Sheratzky Holdings Ltd. (English Translation). (7)
  - 4.18 Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., ORAS Capital Ltd. and Eyal Sheratzky. (7)
  - 4.19 Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., Galnir Management and Investments Ltd. and Nir Sheratzky. (7)
  - 4.20 Service Agreement, dated as of February 1, 2014, by and among E-Com Global Electronic Commerce Ltd., ZERO-TO-ONE S.B.L. INVESTMENTS LTD. and Gil Sheratzky. (7)

8	List of significant subsidiaries
12.1	Certifications by co-chief executive officers 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	Certifications by the co-chief executive officers and the 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) Filed as an exhibit to the Registrant's Registration Statement on Form F-1 (File No. 333-128028) filed on September 23, 2005, and incorporated herein by reference.
- (2) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2007 and incorporated herein by reference.
- (3) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference.
- (4) Filed as an exhibit to Form 6-K for the month of April 2012, filed on April 5, 2012, and incorporated herein by reference.
- (5) The current lessee under this agreement is the Registrant.
- (6) Filed as an exhibit to Form 13G of Yehuda Kahane for the year ended December 31, 2014, filed on February 17, 2015, and incorporated herein by reference.
- (7) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2013 and incorporated herein by reference.

\* Certain portions of this exhibit have been omitted pursuant to an order granting confidential treatment by the United States Securities and Exchange Commission. The omitted non-public information has been filed with the United States Securities and Exchange Commission

ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements  
as of December 31, 2014

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ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements  
as of December 31, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
BOARD OF DIRECTORS AND STOCKHOLDERS  
ITURAN LOCATION AND CONTROL LTD.**

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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, 2014 and 2013, 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, 2014. 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 did not audit the financial statements of Ituran Argentina S.A. (Ituran Argentina), a subsidiary of the Company, which statements reflect total assets constituting 8.7% and 8.6%, respectively, of consolidated total assets as of December 31, 2014 and 2013, and total revenues of 7.6%, 8.9% and 9%, respectively, of consolidated total revenues for the years ended December 31, 2014, 2013 and 2012. 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 management, 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 28, 2015 expressed an unqualified opinion.

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

Tel-Aviv, Israel  
April 28, 2015

## ITURAN LOCATION AND CONTROL LTD.

## CONSOLIDATED BALANCE SHEETS

(in thousands)	US dollars	
	December 31,	
	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	38,418	41,697
Deposit in Escrow (Note 11A1)	-	4,982
Investment in marketable securities	2,362	-
Accounts receivable (net of allowance for doubtful accounts)	27,960	29,239
Other current assets (Note 2)	22,318	18,437
Inventories (Note 3)	12,164	14,506
	<u>103,222</u>	<u>108,861</u>
<b>Long-term investments and other assets</b>		
Investments in affiliated company (Note 4A)	1,016	1,423
Investments in other company (Note 4B)	79	88
Other non-current assets (Note 5)	2,091	1,022
Deferred income taxes (Note 15)	2,886	3,781
Funds in respect of employee rights upon retirement	6,642	6,649
	<u>12,714</u>	<u>12,963</u>
<b>Property and equipment, net (Note 6)</b>	<u>31,908</u>	<u>32,546</u>
<b>Intangible assets, net (Note 7)</b>	<u>452</u>	<u>739</u>
<b>Goodwill (Note 8)</b>	<u>4,041</u>	<u>5,433</u>
<b>Total assets</b>	<u>152,337</u>	<u>160,542</u>

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	
	December 31, 2014	2013
<b>Current liabilities</b>		
Credit from banking institutions (Note 9)	-	38
Accounts payable	11,658	11,436
Deferred revenues	9,401	9,852
Other current liabilities (Note 10)	25,253	30,276
	<u>46,312</u>	<u>51,602</u>
<b>Long-term liabilities</b>		
Liability for employee rights upon retirement	10,229	9,607
Provision for contingencies	-	2,599
Deferred revenues	1,063	1,033
Deferred income taxes (Note 15)	150	216
	<u>11,442</u>	<u>13,455</u>
<b>Contingent liabilities</b> (Note 11)		
<b>Equity:</b>		
<b>Stockholders' equity</b> (Note 12)		
Share capital – ordinary shares of NIS 0.33½ par value:	1,983	1,983
Authorized – December 31, 2014 and 2013 – 60,000,000 shares		
Issued and outstanding – December 31, 2014 and 2013 – 23,475,431 shares		
Additional paid- in capital	71,550	71,550
Accumulated other comprehensive income	(1,850)	8,608
Retained earnings	49,067	38,831
Treasury stock at cost – December 31, 2014 and 2013 – 2,507,314 shares	(30,054)	(30,054)
<b>Stockholders' equity</b>	<u>90,696</u>	<u>90,918</u>
<b>Non-controlling interests</b>	<u>3,887</u>	<u>4,567</u>
<b>Total equity</b>	<u>94,583</u>	<u>95,485</u>
<b>Total liabilities and equity</b>	<u>152,337</u>	<u>160,542</u>

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,		
	2014	2013	2012
<b>Revenues:</b>			
Location based services	133,692	126,951	114,565
Wireless communications products	48,435	43,216	35,753
	<u>182,127</u>	<u>170,167</u>	<u>150,318</u>
<b>Cost of revenues:</b>			
Location based services	46,852	44,850	44,974
Wireless communications products	38,142	36,015	29,786
	<u>84,994</u>	<u>80,865</u>	<u>74,760</u>
Gross profit	97,133	89,302	75,558
Research and development expenses	2,526	2,414	2,066
Selling and marketing expenses	9,264	9,715	8,489
General and administrative expenses	38,617	34,483	33,439
Other expenses, net (Note 13)	856	4,760	1,617
Operating income	45,870	37,930	29,947
Other (expenses) income, net (Note 11A2)	-	(166)	6,755
Financing income, net (Note 14)	1,704	238	987
Income before income tax	47,574	38,002	37,689
Income tax expenses (Note 15)	(14,246)	(12,447)	(11,690)
Share in losses of affiliated companies, net (Note 4A)	(421)	(1)	(39)
Net income for the year	32,907	25,554	25,960
Less: Net income attributable to non-controlling interest	(2,478)	(1,792)	(1,080)
Net income attributable to the Company	<u>30,429</u>	<u>23,762</u>	<u>24,880</u>
<b>Basic and diluted earnings per share attributable to Company's stockholders (Note 16)</b>	<u>1.45</u>	<u>1.13</u>	<u>1.19</u>
<b>Basic and diluted weighted average number of shares outstanding</b>	<u>20,968</u>	<u>20,968</u>	<u>20,968</u>

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		
	2014	Year ended December 31,	
		2013	2012
Net income for the year	32,907	25,554	25,960
<b>Other comprehensive loss, net of tax:</b>			
Foreign currency translation adjustments	(13,354)	(2,754)	(2,286)
Unrealized gains (losses) in respect of derivative financial instruments designated for cash flow hedge	2,273	(635)	-
Reclassification of net gains realized to net income	29	217	-
Other comprehensive loss, net of tax	(11,052)	(3,172)	(2,286)
Comprehensive income	21,855	22,382	23,674
Less: comprehensive income attributable to non-controlling interests	(1,884)	(1,996)	(963)
Comprehensive income attributable to the Company	19,971	20,386	22,711

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							Non-controlling interests	Total
	Number of shares	Share capital amount	Additional paid in capital	Accumulated other comprehensive income	Retained earnings	Treasury stock			
US dollars (except for number of shares)									
<b>Balance as of January 1, 2012</b>	23,476	1,983	71,927	14,153	43,185	(30,054)	4,158	105,352	
<b>Changes during 2012:</b>									
Net income	-	-	-	-	24,880	-	1,080	25,960	
Other comprehensive loss	-	-	-	(2,169)	-	-	(117)	(2,286)	
Dividend paid to non-controlling interests	-	-	-	-	-	-	(1,141)	(1,141)	
Dividend paid	-	-	-	-	(33,308)	-	-	(33,308)	
Dividend declared	-	-	-	-	(2,570)	-	-	(2,570)	
<b>Balance as of December 31, 2012</b>	<b>23,476</b>	<b>1,983</b>	<b>71,927</b>	<b>11,984</b>	<b>32,187</b>	<b>(30,054)</b>	<b>3,980</b>	<b>92,007</b>	
<b>Changes during 2013:</b>									
Net income	-	-	-	-	23,762	-	1,792	25,554	
Other comprehensive loss	-	-	-	(3,376)	-	-	204	(3,172)	
Acquisition of none controlling interests	-	-	(377)	-	-	-	(123)	(500)	
Dividend paid to non-controlling interests	-	-	-	-	-	-	(1,286)	(1,286)	
Dividend paid	-	-	-	-	(13,502)	-	-	(13,502)	
Dividend declared	-	-	-	-	(3,616)	-	-	(3,616)	
<b>Balance as of December 31, 2013</b>	<b>23,476</b>	<b>1,983</b>	<b>71,550</b>	<b>8,608</b>	<b>38,831</b>	<b>(30,054)</b>	<b>4,567</b>	<b>95,485</b>	

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						Non-controlling interests	Total
	Number of shares	Share capital amount	Additional paid in capital	Accumulated other comprehensive income	Retained earnings	Treasury stock		
<b>US dollars (except for number of shares)</b>								
<b>Balance as of January 1, 2014</b>	23,476	1,983	71,550	8,608	38,831	(30,054)	4,567	95,485
<b>Changes during 2014:</b>								
Net income	-	-	-	-	30,429	-	2,478	32,907
Other comprehensive income (loss)	-	-	-	(10,458)	-	-	(594)	(11,052)
Dividend paid to non-controlling interests	-	-	-	-	-	-	(2,564)	(2,564)
Dividend paid	-	-	-	-	(15,697)	-	-	(15,697)
Dividend declared	-	-	-	-	(4,496)	-	-	(4,496)
<b>Balance as of December 31, 2014</b>	<b>23,476</b>	<b>1,983</b>	<b>71,550</b>	<b>(1,850)</b>	<b>49,067</b>	<b>(30,054)</b>	<b>3,887</b>	<b>94,583</b>

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,		
	2014	2013	2012
<b>Cash flows from operating activities</b>			
Net income for the year	32,907	25,554	25,960
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Depreciation, amortization and impairment of goodwill and other intangibles	12,219	16,196	14,671
Losses of sale affiliated company	-	166	-
Exchange differences on principal of deposit and loans, net	(23)	317	55
Gains in respect of trading marketable securities	(133)	-	(2)
Increase in liability for employee rights upon retirement	1,655	1,095	888
Share in losses of affiliated companies, net	421	1	39
Deferred income taxes	(737)	(1,812)	955
Capital (gain) losses on sale of property and equipment, net	(270)	19	23
Decrease (increase) in accounts receivable	(1,864)	(609)	(300)
Decrease (increase) in other current and non-current assets	(4,749)	580	2,766
Decrease (increase) in inventories	783	1,354	(3,609)
Increase (decrease) in accounts payable	927	1,446	(372)
Increase (decrease) in deferred revenues	749	(227)	1,532
Increase (decrease) in other current and non-current liabilities	(4,154)	2,617	(3,413)
Write-off of account receivable in respect of sale of subsidiary	-	-	484
Litigation obligation adjustment	-	-	(7,462)
Net cash provided by operating activities	<u>37,731</u>	<u>46,697</u>	<u>32,215</u>
<b>Cash flows from investment activities</b>			
Increase in funds in respect of employee rights upon retirement, net of withdrawals	(708)	(718)	(662)
Capital expenditures	(14,976)	(14,216)	(9,676)
Investment in affiliated company	-	(1,400)	-
Investment in marketable securities	(2,771)	-	-
Deposit in escrow	5,005	-	-
Proceeds from (Investment in) short- term deposit	(283)	217	(291)
Proceeds from sale of property and equipment	489	651	319
Sale of marketable securities	-	-	70
Repayment of loan to a former employee	-	-	355
Company no longer consolidated (Appendix A)	-	-	326
Net cash used in investment activities	<u>(13,244)</u>	<u>(15,466)</u>	<u>(9,559)</u>
<b>Cash flows from financing activities</b>			
Short term credit from banking institutions, net	(38)	(7)	(310)
Repayment of long term loans	-	(182)	(44)
Acquisition of non-controlling interests	(500)	-	-
Dividend paid	(19,324)	(16,072)	(33,308)
Dividend paid to non-controlling interests	(2,564)	(1,286)	(1,141)
Settlement of litigation obligation in connection with financing transaction	-	-	7,462
Net cash used in financing activities	<u>(22,426)</u>	<u>(17,547)</u>	<u>(27,341)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(5,340)</u>	<u>(1,440)</u>	<u>(1,132)</u>
Net increase (decrease) in cash and cash equivalents	(3,279)	12,244	(5,817)
Balance of cash and cash equivalents at beginning of year	<u>41,697</u>	<u>29,453</u>	<u>35,270</u>
Balance of cash and cash equivalents at end of year	<u>38,418</u>	<u>41,697</u>	<u>29,453</u>

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

During the years, 2014 and 2013, the Company purchased property and equipment in an amount US\$ 217 thousand and US\$ 104 thousand, respectively, using a directly related liability.

In November 2014, the Company declared a dividend in the amount of US\$ 4.5 million. The dividend was paid in January 2015.

In October 2013, the Company purchased 0.5% of non-controlling interests for an amount of US\$ 500,000. The purchase amount was paid in 2014.

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

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

Appendix A – Company no longer consolidated

	US dollars
(in thousands)	Year ended December 31, 2012
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

	US dollars		
(in thousands)	Year ended December 31,		
	2014	2013	2012
Interest paid	397	254	318
Income taxes paid, net of refunds	15,078	9,280	8,950

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**

- a. Ituran Location and Control Ltd. (the "Company") commenced operations in 1994. The Company and its 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 the tax dispute in Brazil, see Note 11A3.

**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:

	<b>Exchange rate of one US dollar</b>		<b>Israeli CPI<sup>(*)</sup></b>
	<b>NIS</b>	<b>Real</b>	
<b>At December 31,</b>			
2014	3.889	2.6562	113.96 points
2013	3.471	2.3426	114.18 points
2012	3.733	2.0435	112.15 points
<b>Increase (decrease) during the year:</b>			
2014	12.04%	13.39%	(0.2)%
2013	(7.02)%	(14.63)%	1.8%
2012	(2.30)%	(8.94)%	1.6%

(\*) Based on the Index for the month ending on each balance sheet date, on the basis of 2008 average 100.

**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").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

**A. General (cont.)**

**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, goodwill impairment assessment, 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.

Changes in the Company ownership interest in a subsidiary while the control is retained are accounted for as equity transactions and accordingly no gain or loss is recognized in consolidated net income or comprehensive income. Upon such transaction, the carrying amount of the noncontrolling interest is adjusted to reflect the change in its ownership interest in the subsidiary and any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest was adjusted is recognized in additional paid-in capital.

**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 11A1.

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.

The investments in marketable securities covered by ASC Topic 320-10 that were held by the Company during the reported periods 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.

Trading gains for the year 2014 amounted to US\$ 133,000 and trading gains for the years 2013 and 2012, in respect of trading securities held by the Group were insignificant.

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

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

**F. Treasury stock**

Company shares held by the Company and its subsidiary are presented as a reduction of equity, at their cost, 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 19A.

The allowance in respect of accounts receivable at December 31, 2014 and 2013 was US\$ 2,391,000 and US\$ 1,945,000, 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.

**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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

**K. Derivatives (cont.)**

The effective portion of the changes in fair value of the derivative instruments designated for hedging purposes are reported as other comprehensive income (loss), net of tax under the caption "unrealized gains (losses) in respect of derivative financial instruments designated for cash flow hedge" and are reclassified to the statements of income when the hedged transaction realizes (i.e. when the related inventory is sold). 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 as incurred in financing income (expenses), net.

See also Note 19B 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.
- 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 also Note 10 and Notes 7 and 8).

**N. Income taxes**

The Group accounts for income taxes in accordance with ASC Topic 740-10, "Income Taxes". According to this 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

**N. Income taxes (cont.)**

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 a tax position is based solely on the technical merits of the position, without regard to 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 15K.

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**

1. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in business combinations accounted for in accordance with the "purchase method" 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, the Company chooses either to perform a qualitative assessment whether 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 of the reporting unit 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").

There are a number of generally accepted methods used for valuing a reporting unit:

The 'income approach' utilizes discounted forecasted cash flows, the 'Market - approach which utilize pricing multiples of business entities with publicly traded securities whose business and financial risks are comparable to those of the reporting unit being valued and the 'Asset - based approach' which establishes a value based on the cost of reproducing or replacing the asset being valued. These methods described may be used alone or in combination with one another.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

**O. Goodwill and intangible assets (cont.)**

## 1. (cont.)

The Company performed a qualitative assessment for two reporting units as of December 31, 2014 and 2013, and concluded that the qualitative assessment did not result in a more likely than not indication of impairment, and therefore no further impairment testing was required, with respect to such units.

For other reporting unit (three different units in 2013), operating in Israel, the Company elected to bypass the qualitative assessment and proceeded directly to performing the first step of the goodwill impairment test.

In order to determine the fair value of that reporting unit, 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 that would be utilized by market participants under the circumstances 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 2014, 2013 and 2012, the Company recorded a goodwill impairment loss in an amount of US\$ 879,000, US\$ 3,093,000 and US\$ 672,000, respectively. See Note 8.

## 2. 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

Recoverability of intangible assets is measured as described in Note 1M above. During 2014, the Company recorded an intangible assets impairment loss in an amount of US\$ 43,000. See Note 7.

**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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

**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, 2014, 2013 and 2012, amounted to US\$ 1,460,000 US\$ 882,000 and US\$ 1,204,000, respectively.

**R. Revenue recognition**

Revenues are recognized when delivery has occurred and, where applicable, after installation has been completed, there is persuasive evidence of an arrangement, 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. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

**S. Warranty costs**

The Company provides a standard 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, 2014, 2013 and 2012 amounted to US\$ 6.7 million, US\$ 7.6 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.

## 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 measurements, see Note 19C.

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 (see 1O and 1M above). As of December 31, 2014, the Company measured the fair value of goodwill with a total carrying amount of US\$ 1.5 million (before the recognition of an impairment loss) that is allocated to one reporting unit. As a result of the above impairment test, the Company recorded an impairment loss of goodwill in an amount of US\$ 0.8 million, allocated to such reporting unit to its imputed fair value of US\$ 0.7 million. The fair value measurement of the non-financial assets is classified as level 3.

As of December 31, 2013, the Company measured the fair value of goodwill with a total carrying amount of US\$ 4.8 million (before the recognition of an impairment loss) that was allocated to three reporting units. As a result of the above impairment test, the Company recorded an impairment loss of goodwill with a carrying amount of US\$ 2.6 million, US\$ 0.5 million and US\$ 1.7 million allocated to three different reporting units to their imputed fair value of US\$ 1.7 million, US\$ 0 and US\$ 0, respectively, resulting in an aggregate impairment charge of US\$ 3.1 million. The fair value measurement of the non-financial assets is classified as level 3. See also Notes 1O 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.

## 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****1. Accounting pronouncements adopted in 2014****a. ASC Topic 830, "Foreign Currency Matters"**

Effective January 1, 2014, the Group adopted Accounting Standards Update 2013-5, Foreign Currency Matters (Topic 830): 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").

ASU 2013-5 clarifies among other things 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.

For public companies, the amendments in ASU 2013-5 became 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.

The adoption did not have a material impact on the Group's consolidated results of operations and financial condition.

**b. ASC Topic 740, "Income Taxes"**

Effective January 1, 2014, the Company adopted Accounting Standard Update 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11").

The amendments in ASU 2013-11 state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be presented net of deferred tax assets.

ASU 2013-11 applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. For public companies the amendments in this ASU became effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments were applied prospectively to all unrecognized tax benefits that existed at the effective date.

The adoption did not have a material impact on the Company's consolidated results of operations and financial condition.

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.)

2. Accounting pronouncements not yet effective

Accounting Standard Update 2014-09, "Revenue from Contracts with Customers"

In May 2014, the FASB issued Accounting Standard Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09").

ASU 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 also requires entities to disclose sufficient information, both quantitative and qualitative, to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

An entity should apply the amendments in this ASU using one of the following two methods: 1. Retrospectively to each prior reporting period presented with a possibility to elect certain practical expedients, or, 2. Retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If an entity elects the latter transition method, it also should provide certain additional disclosures.

For a public entity, the amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period (the first quarter of fiscal year 2017 for the Company). Early application is not permitted.

The Company is in the process of assessing the impact, if any, of ASU 2014-09 on its consolidated financial statements.

NOTE 2 - OTHER CURRENT ASSETS

(in thousands)	US dollars	
	December 31,	
	2014	2013
Prepaid expenses and others	9,779	9,314
Government institutions	2,694	1,716
Deferred installation expenses	2,485	2,905
Deferred income taxes (*)	3,649	3,692
Advances to suppliers	324	457
Employees	343	300
Forward Exchange Contracts	1,580	-
Others	1,464	53
	<u>22,318</u>	<u>18,437</u>

(\*) See Note 15.

NOTE 3 - INVENTORIES

(in thousands)	US dollars	
	December 31,	
	2014	2013
Finished products	8,845	11,733
Raw materials	3,319	2,773
	<u>12,164</u>	<u>14,506</u>



ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 4 - INVESTMENTS IN AFFILIATED AND OTHER COMPANY

A. Investment in affiliated companies

1. Ecomtrade Ltd. ("Ecomtrade")

The Company held 50% of the shares of Ecomtrade.

In December 2013, the Company sold its entire investment in Ecomtrade which amounted to a net amount of US\$ 166,000 (including a loan in an amount fo US\$ 273,000) for no proceeds.

2. BRINGG Delivery Technologies Ltd. ("BRINGG") Formerly Overvyoo Ltd

In December 2013, the Company purchased 27.5% of BRINGG's shares for an amount of US\$ 1.4 million. BRINGG is an Israeli start-up Company developing solutions of the management of mobile/field workforce. See also Note 20.

B. Investment in other company

Locationet Systems Ltd. ("Locationet")

The Company holds 10.64% of the shares of Locationet.

The balance of the Company's investment in Locationet as of December 31, 2014 and 2013 was US\$ 79,000 and US\$ 88,000 respectively.

NOTE 5 - OTHER NON-CURRENT ASSETS

(in thousands)	US dollars	
	December 31,	
	2014	2013
Forward Exchange Contracts	984	-
Government institutions	73	128
Deferred installation expenses	459	526
Deposits	575	368
	<u>2,091</u>	<u>1,022</u>

**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:**

<b>(in thousands)</b>	<b>US dollars</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Operating equipment (*)	46,947	46,991
Office furniture, equipment and computers	23,858	25,116
Land	1,022	1,022
Buildings	1,855	2,252
Vehicles	3,412	3,197
Leasehold improvements	3,088	3,099
	<u>80,182</u>	<u>81,677</u>
Less – accumulated depreciation and amortization (**)	(48,274)	(49,131)
	<u>31,908</u>	<u>32,546</u>

(\*) As December 31, 2014 and 2013, an amount of US\$ 26.0 million and US\$ 25.8 million is subject to operating lease transactions, respectively.

(\*\*) As at December 31, 2014 and 2013, an amount of US\$ 10.4 million and US\$ 11.3 million is subject to operating lease transactions, respectively.

**B.** In the years ended December 31, 2014, 2013 and 2012, depreciation expense was US\$ 11.2 million, US\$ 11.1 million and US\$ 13.3 million, respectively and additional equipment was purchased in an amount of US\$ 15 million, US\$ 14 million and US\$ 10 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, consist of the following:**

<b>(in thousands)</b>	<b>US dollars</b>			
	<b>2014</b>	<b>December 31, 2014</b>	<b>2014</b>	<b>December 31, 2013</b>
	<b>Original amount</b>	<b>Accumulated amortization and impairment charges</b>	<b>Unamortized balance</b>	<b>Unamortized balance</b>
GIS database	3,889	3,594	295	555
Brand name	1,181	1,049	132	163
Others	5,490	5,465	25	21
	<u>10,560</u>	<u>10,108</u>	<u>452</u>	<u>739</u>

Amortization of intangible assets amounted to US\$ 231,000, US\$ 367,000 and US\$ 703,000 for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the estimated aggregate amortization of intangible assets for the next five years is as follows: 2015 – US\$ 170,000; 2016 – US\$ 170,000; 2017 – US\$ 80,000, 2018 – US\$ 20,000, 2019 – US\$ 12,000.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 7 - INTANGIBLE ASSETS, NET (cont.)

- B. Due to the deteriorating results of a certain Israeli subsidiary and the current expectation of management for further decrease its anticipated performance, during 2014 and 2013, the Company recorded an impairment charge for its intangible assets which directly relate to the operations of the subsidiary.

In order to determine the fair value of such intangible assets, the Company, based on a valuation performed by the management, with the assistance of a third party appraiser, utilized the "Relief from Royalties" valuation method. Accordingly, certain assumptions and judgments were made in order to determine the future income from which royalties will be derived from and in order to determine the appropriate rate of royalties and rate of discount.

As a result of the above, the Company recorded in 2014 and 2013, an impairment loss in an amount of US\$ 33,500 and US\$ 1,017,000, respectively, with respect to the GIS database and in 2014 and 2013, an amount of US\$ 9,500 and US\$ 511,000, respectively, with respect to the Brand name totaling an aggregate impairment charge of US\$ 43,000 in 2014 (of which related to wireless communications products segment) and an aggregate impairment charge of US\$ 1,527,000 in 2013 (of which US\$ 661,000 related to location based services segment and US\$ 866,000 is related to wireless communications products segment).

The impairment was included in "other expenses, net" (see Note 13).

NOTE 8 - GOODWILL

- A. The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013 are as follows:

	US dollars		
	Location based services	Wireless communications products	Total
<b>(in thousands)</b>			
Balance as of January 1, 2013 (*)	3,692	4,351	8,043
<b>Changes during 2013:</b>			
Impairment (see B. below)	(2,155)	(938)	(3,093)
Translation differences	193	290	483
Balance as of December 31, 2013	1,730	3,703	5,433
<b>Changes during 2014:</b>			
Impairment (See B. below)	-	(879)	(879)
Translation differences	(186)	(327)	(513)
Balance as of December 31, 2014	1,544	2,497	4,041

- (\*) The accumulated amount of impairment loss as of January 1, 2013, December 31, 2013 and December 31, 2014 was US\$ 2,452,000, US\$ 5,545,000 and US\$ 6,424,000, respectively.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 8 - GOODWILL (cont.)

B. During 2014, 2013 and 2012, the Company recorded an amount of US\$ 879,000 US\$ 3,093,000 and US\$ 672,000, respectively, as impairment with respect to goodwill.

The impairment amount was included in "other expenses, net". See Note 13.

The Company performed its annual impairment test as of December 31, 2014 and recorded goodwill impairment in the total amount of US\$ 0.9 million in connection with certain reporting unit which is a part of the Wireless communications products segment and operates in the internet portal in the field of local travel and recreation. The impairment was recorded primarily due to a significant decline in current and future forecasted revenues and profitability margins of the GIS services offered by an Israeli subsidiary resulting from the continued weakness in the cellular industry in Israel that has suffered from recent regulatory changes and also the continuing popularity of navigation applications and tools developed by competitors which are offered for no charge. The impairment was based on valuation performed by the management using the assistance of a third party appraiser in accordance with the income approach. The significant assumptions used for the assessment were 3 years of projected net cash flows, a discount rate of 16.9% and a long-term growth rate of 0% (See Note 1W regarding fair value measurements).

The Company performed its annual impairment test as of December 31, 2013 and recorded goodwill impairment in the total amount of US\$ 3.1 million in connection with three reporting units 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 the management using the assistance of a third party appraiser in accordance with the income approach. The significant assumptions used for the assessment were 3 years of projected net cash flows, a discount rate of 17.5% and a long-term growth rate of 0% (See Note 1W regarding fair value measurements).

See also Note 10.

NOTE 9 - CREDIT FROM BANKING INSTITUTIONS

Lines of credit

Unutilized short-term lines of credit of the Group as of December 31, 2014, aggregated to US\$ 0.5 million.

NOTE 10 - OTHER CURRENT LIABILITIES

Composition:

(in thousands)	US dollars	
	December 31,	
	2014	2013
Accrued expenses (*)	7,919	13,620
Accrued payroll and related taxes	5,692	4,597
Government institutions	6,009	7,524
Related party	98	133
Accrued dividend	4,639	3,616
Others	896	786
	<u>25,253</u>	<u>30,276</u>

(\*) As of December 31, 2013 includes approximately US \$5 million, regarding the legal fees resulting from the claim described in Note 11A3.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 11 - CONTINGENT LIABILITIES

## 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 most of 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. The Company and Purchaser commenced arbitration proceedings in this matter, and 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 plus interest was to be released from escrow and be available to the Company. However, the funds held in the Adjustment Escrow Amount remained in escrow until October 2011, when an agreement between the parties provided that the sum of US\$4.4 million (and interest accrued thereon) shall 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; and that an amount of US\$3 million shall be released to the Company from the second escrow account (in which the Escrow Amount in 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.

Consequently, in October 2011, an amount of US\$ 4.65 million (the US\$ 4.4 noted above plus interest) was released to ST from the Adjustment Escrow Amount, and an amount of US\$ 3 million was released to the Company from the Escrow Amount. The remainder of US\$ 4.9 million of the Escrow Amount, after interest and the release of the US\$ 3 million noted above (the "**Remaining Escrow Amount**") has remained in escrow until ST's additional arbitration (as described below) 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 claimed damages in the amount of approximately US\$ 10.3 million (which amount was considered as the reasonably possible loss amount). On December 19, 2013, the parties reached a settlement agreement regarding the above dispute and these arbitration proceedings were concluded. Consequently, the Remaining Escrow Amount in the amount of US\$ 4.9 million (including accumulated interest), less US\$200,000 that was released to ST, released to the Company in April 2014.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 11 - CONTINGENT LIABILITIES (cont.)

## A. Claims

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. 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 under the law and legal expenses in the sum of NIS 1.2 million (approximately US\$0.3 million at that time), which totals approximately NIS 78.7 million (approximately US\$22.7 million at that time). The Company filed an appeal with the Israeli Supreme Court, in which it appealed the district court's decision dated June 13, 2011 as well as the legal expenses and costs which it was ordered to pay according to the district court's decision. Leonardo counter-appealed the district court's decision to dismiss Leonardo's three alternative claims and to apply interest under the 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 its consolidated statements of income of fiscal year 2010. The expense amount represented the excess amount over the US\$ 5.9 million that was presented in past periods 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 ruling, the payment amount was placed in escrow under the control of Leonardo, until the consummation of the 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, pursuant to which out of the sum of NIS \$1.9 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.

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.

3. On July 13, 2010 the State Revenue Services of São Paulo issued a tax deficiency notice against a subsidiary in Brazil, Ituran Sistemas de Monitoramento Ltda. ("the subsidiary"), claiming that the vehicle tracking and monitoring services provided by their 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. At the time of serving the notice upon the Company, the tax deficiency notice was in the amount of R\$36,499,984 (approximately US\$22.1 million at the time) plus interest in the amount of R\$30,282,420 (approximately US\$18.2 million at the time) and penalties in the amount of R\$66,143,446 (approximately US\$40.0 million at the time). As of December 31, 2014, the aggregate sum claimed pursuant to the tax deficiency notice (principal amount, interest and penalties) was estimated at R\$220,000,000 (approximately \$82.7 million). The decision of the administration first level was unfavorable to the subsidiary and the company has filed an appeal to the Administrative Court of Appeals in São Paulo. 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 which has been dismissed on December 20, 2014 and such a decision is non-appealable.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 11 - CONTINGENT LIABILITIES (cont.)

## A. Claims (cont.)

## 3. (cont.)

Furthermore, it is noted that the effect of aforesaid decision is limited to the period of August 2005 up to December 2007. It is possible that the State of São Paulo may issue us additional tax deficiency notices regarding the past 5 year period. However, the company maintain their position, based among other things on the results of the aforesaid legal proceedings, that if such tax deficiency notices are issued in future, their chances of success in defending its position are overwhelmingly favorable.

4. On June 24, 2010 the Brazilian Internal Revenue Service issued a tax assessment that claimed the payment, at the time of filing the tax assessment, of R\$5,567,032 (approximately US\$3,120,000 at the time), including interest and penalties, following the offsetting on October 1, 2005 of an amount of approximately US\$ 2.1 million of a receivable held by Ituran Beheer BV, a Dutch legal entity held by us, against accumulated losses of our subsidiary Ituran Sistemas de Monitoramento Ltda, which originated from a technology transfer agreement executed by and between Ituran Brazil and OGM Investments B.V. (also a Dutch company held by us). The decision of the administrative court of the first level was unfavourable to us and therefore the company have filed an appeal to the Administrative Court of Appeals in São Paulo. In October 2013, the company were notified that the Court of Appeal has partially accepted their administrative defense in order to reduce the percentage of penalty imposed on us and the company currently await the decision of the Administrative Court of Appeal. Based on the legal opinion of the subsidiary's Brazilian legal counsel the company believes that such claim is without merit and the company will continue to vigorously defend their selves in the appeal proceedings. As of December 31, 2014, the aggregate sum claimed pursuant to the tax assessment (principal amount, interest and penalties) is estimated at R\$9.8 million (approximately \$3.7 million) and the company are waiting for the admissibility of their special appeal. Based on the above as of December 31, 2014, no provision has been made with respect to the Brazilian IRS claim.

5. On October 29, 2014, Brazilian Federal Communication Agency – Anatel issued an additional tax assessment for FUST contribution (contribution on telecommunication services) levied on the monitoring services rendered by the company regarding the year of 2010 in amount of R\$ 2,678,226 (approximately US\$ 1 million) including interest and penalties. This amount added up to the previous Anatel tax assessment for the years 2007 and 2008 which was issued on October 20, 2011, and at time was R\$ 3,350,165 (approximately US\$ 1.9 million) including interest and penalties, which on December 31, 2014 amounts to R\$ 4,630,000 (approximately US\$ 1.7 million). Due to the 2010 tax assessment, on December 31, 2014, the aggregate amount claimed by Anatel increased to approximately R\$ 7.3 million (approximately US\$ 2.7 million). The reason Anatel demand the payment of FUST from the company is the fact that in order to provide monitoring services the company needs to operate telecommunication equipment in a given radio frequency. The company hold a telecommunication license from Anatel. The authorities have construed that the company render telecommunication services and FUST should be levied in relation to Net Revenues. Based on the legal opinion of the subsidiary's Brazilian legal counsel the company believes that such claim is without merit, the interpretation of the legislation is mistaken, given that the company doesn't render telecommunication services, but rather services of monitoring goods and persons for security purposes. The company has filed the defense for the years 2007 and 2008 on December 1, 2011. The company's Defense for the year 2010 was filed on November 27, 2014. The company is currently awaiting the Lower Court decision on all the aforementioned Anatel claims. As a result of the above as of December 31, 2014, no provision has been made with respect to the Brazilian FUST contribution.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 11 - CONTINGENT LIABILITIES (cont.)

## A. Claims (cont.)

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

- B. 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.

## C. Commitments

1. As of December 31, 2014, minimum future rentals under operating leases of buildings for periods in excess of one year were as follows: 2015 – US\$ 1.9 million; 2016 – US\$ 1.3 million; 2017 – US\$ 1.1 million, 2018 – US\$ 1 million and 2019 – US\$ 0.9 thousand.

The leasing fees expensed in each of the years ended December 31, 2014, 2013 and 2012, were US\$ 2.5 million, US\$ 2.5 million and US\$ 2.5 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 11A1, 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 was 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, 2014, the Company is obliged to purchase from Telematics products in an aggregate amount of approximately US\$ 4.5 million.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 12 - STOCKHOLDERS' EQUITY

## A. Share capital

1. Composition:

<u>December 31, 2013 and 2012</u>	<u>Registered</u>	<u>Issued and fully paid</u>
Ordinary shares of NIS 0.33½ 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. As of December 31, 2014, 2013 and 2012, 2,507,314 ordinary shares representing 10.7% of the share capital of the Company is held by the Group as treasury shares.
5. 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 (presented as a separate item in the statement of changes in equity) must be deducted from the amount of retained earnings.
2. On February 21, 2012, the board of directors of the Company revised its dividend policy so that dividends will be declared and distributed on a quarterly basis in an amount not less than 50% of its net profits, calculated on the basis of the interim financial statements.
3. Dividends are declared and paid in NIS. Dividends paid to stockholders outside Israel are converted into dollars on the basis of the exchange rate prevailing at the date of declaration. See also B1, above.
4. During 2012, the Company declared dividends totaling an amount of approximately US\$ 36.1 million (NIS 135.4 million). These dividends were paid during 2012 and January 2013.
5. During 2013, the Company declared dividends totaling an amount of approximately US\$ 17.2 million (NIS 61.1 million). These dividends were paid during 2013 and January 2014.
6. During 2014, the Company declared dividends totaling an amount of approximately US\$ 20.5 million (NIS 72.4 million). These dividends were paid during 2014 and January 2015.
7. In February 2015, the Company declared a dividend in the amount of US 0.33 dollar per share, totaling approximately US\$ 7 million (NIS 27.3 million). The dividend was paid in April 2015.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 13 - OTHER EXPENSES, NET

(in thousands)	US dollars		
	Year ended December 31,		
	2014	2013	2012
Adjustment of purchase price of subsidiary sold (1)	-	200	-
Impairment of goodwill and intangible assets (2)	922	4,620	672
Write-off of account receivable in respect of sale of subsidiary (3)	-	-	484
Other	(66)	(60)	461
	<u>856</u>	<u>4,760</u>	<u>1,617</u>

(1) See Note 11A1.

(2) See Note 7 and 8.

(3) 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 receivable, the entire amount was written-off.

NOTE 14 - FINANCING INCOME, NET

(in thousands)	US dollars		
	Year ended December 31,		
	2014	2013	2012
Short-term interest expenses, commissions and other	309	(1,201)	(873)
Gains in respect of marketable securities	133	-	2
Interest expenses in respect of long-term loans	-	(4)	(8)
Interest income in respect of deposit	982	1,998	1,770
Exchange rate differences and others, net	280	(555)	96
	<u>1,704</u>	<u>238</u>	<u>987</u>

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

**NOTE 15 - INCOME TAX**

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

(in thousands)	US dollars		
	Year ended December 31,		
	2014	2013	2012
<b>Income taxes (tax benefit):</b>			
Current taxes:			
In Israel	7,564	6,060	4,896
Outside Israel	7,630	8,194	6,013
	<u>15,194</u>	<u>14,254</u>	<u>10,909</u>
Deferred taxes:			
In Israel	(471)	(503)	(249)
Outside Israel	(432)	(1,309)	1,204
	<u>(903)</u>	<u>(1,812)</u>	<u>955</u>
<b>Taxes in respect of prior years:</b>			
In Israel	-	-	(126)
Outside Israel	(45)	5	(48)
	<u>(45)</u>	<u>5</u>	<u>(174)</u>
	<u>14,246</u>	<u>12,447</u>	<u>11,690</u>

**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.

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

- On December, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which introduces a new status of "Preferred Company" and "Preferred Enterprise". The amendment allows enterprises meeting certain required criteria to enjoy grants as well as tax benefits. The amendment also introduces certain changes to the map of geographic development areas for purposes of the Investments Law, which will take effect in future years. The amendment generally abolishes the previous tax benefit routes that were afforded under the Investment Law, specifically the tax-exemption periods previously allowed, and introduces new tax benefits for industrial enterprises meeting the criteria of the law, which include among others the following:

A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise's entire preferred income so that in the tax years 2011-2012 the reduced tax rate will be 15% for preferred income derived from industrial facilities located in located in areas which are not classified as area A. In the tax years 2013, the reduced tax rate was 12.5%.

On August 5, 2013 the Israeli Parliament amended the Investments Law, by which, inter alia, it canceled the scheduled progressive reduction in the corporate tax rate for Preferred Enterprises and set it at 16% for enterprises located elsewhere as of January 1, 2014.

The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - INCOME TAX (cont.)

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

2. As of December 31, 2014, only one Israeli subsidiary is entitled to a "Preferred Company" status pursuant to the investment law.

**D. Israeli corporate tax rates**

On December 6, 2011, the Law for the Change in the Tax Burden (Legislative Amendments) – 2011 was published. As part of this law, among other things, commencing from 2012 the Israeli corporate income tax rate was increased to 25%. In addition, commencing in 2012, the tax rate on capital gains in real terms and the tax rate applicable to betterment in real terms were increased to 25%.

On July 30, 2013, the Israeli parliament approved the Law for the Change in National Priorities (Legislative Amendments to Achieve Budgetary Goals for 2013 and 2014) – 2013 (hereinafter – the "Law for the Change in National Priorities"), which, among other things increased the standard Israeli corporate income tax rate from 25% to 26.5% effective as of January 1, 2014.

This change of tax rate did not have material effect on the deferred tax assets of the Company and its Israeli subsidiaries.

**E. Non-Israeli subsidiaries**

Non-Israeli subsidiaries are taxed according to the tax laws and rates in their country of residence.

**F. Use of assumptions and judgements**

The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and can be ambiguous; the Company is, therefore, obliged to make many subjective assumptions and judgments regarding the application of such laws and regulations to its facts and circumstances. In addition, interpretations of and guidance surrounding income tax laws and regulations are subject to changes over time. Any changes in the Company's subjective assumptions and judgments could materially affect amounts recognized in its consolidated balance sheets and statements of income.

**G. Tax assessments**

The Company has received final tax assessments through the 2009 tax year.

On August 4, 2014, the Company announced that it received from the Israeli tax authority ("ITA") tax assessments for the years 2010-2012 amounting to NIS 36 million (approximately US\$ 10.5 million). Approximately 50% is due to disallowance of various deductions and the remaining balance is due to timing differences of the deduction of certain expenses, which will be deducted in the coming years.

The Company filed an objection with the ITA for the above Tax Assessments. The Company believes, considering the advice of professional advisors, that the Tax Assessments should be significantly reduced or overruled and that the ITA assessment is without merits and intends to vigorously defend its position.

As a result of the above, no adjustment was required to be recorded with respect to amounts that were previously recorded for the respective tax matters.

A certain Israeli subsidiary has received final tax assessments through the 2008 tax year. The subsidiary in Brazil has received final tax assessments through the 2009 tax year and the subsidiary in America through 2006. The other subsidiaries have not been assessed since incorporation.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - INCOME TAX (cont.)

H. Carry forward tax losses

As of December 31, 2014, the Company and its subsidiaries in Brazil and Argentina have no carry forward tax losses.

Carry forward tax losses of a certain Israeli subsidiary as of December 31, 2014 amount to approximately US\$ 0.8 million. Carry forward tax losses in Israel may be utilized indefinitely.

As of December 31, 2014, the Company's non-Israeli subsidiary in the United States has available estimated carry forward foreign tax credits tax approximately US\$ 13.6 million. Such carry forward tax losses may be utilized until 2022.

I. 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		
	2014	Year ended December 31,	
		2013	2012
Pretax income	47,574	38,002	37,689
Statutory tax rate	26.5%	25%	25%
Tax computed at the ordinary tax rate	12,607	9,500	9,422
Nondeductible expenses	757	1,701	418
Losses in respect of which no deferred taxes were generated (including reduction of deferred tax assets recorded in prior period)	(304)	137	1,087
Deductible financial expenses recorded to other comprehensive income	(365)	(312)	(244)
Taxes in respect of prior years	45	5	(174)
Tax adjustment in respect of different tax rates	1,662	1,877	1,734
Taxes in respect of withholding at the source from royalties and dividends	615	817	853
Adjustment in respect of tax rate deriving from "approved enterprises"	(558)	(467)	(233)
Others	(213)	(811)	(1,173)
	<u>14,246</u>	<u>12,447</u>	<u>11,690</u>

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

NOTE 15 - INCOME TAX (cont.)

J. Summary of deferred taxes

Composition:

(in thousands)	US dollars	
	Year ended December 31,	
	2014	2013
<b>Deferred taxes included in other current assets:</b>		
Provision for employee related obligations	130	139
Provision for legal obligation and other	3,519	3,553
	3,649	3,692

Composition:

(in thousands)	US dollars	
	Year ended December 31,	
	2014	2013
<b>Long-term deferred income taxes:</b>		
Provision for employee related obligations	678	533
Carry forward tax losses and foreign tax credit	3,223	4,029
Temporary differences, net	1,010	1,982
	4,911	6,544
Valuation allowance	(2,175)	(2,979)
	2,736	3,565

Composition:

(in thousands)	US dollars	
	Year ended December 31,	
	2014	2013
Deferred income taxes included in long-term investments and other assets	2,886	3,781
Deferred income taxes included in long-term liabilities	(150)	(216)
	2,736	3,565

K. Income before income taxes is composed as follows:

(in thousands)	US dollars		
	Year ended December 31,		
	2014	2013	2012
The Company and its Israeli subsidiaries	26,021	17,296	20,060
Non-Israeli subsidiaries	21,553	20,706	17,629
	47,574	38,002	37,689

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - INCOME TAX (cont.)

L. 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
<b>(in thousands)</b>	
Balance at January 1, 2013	439
Translations differences related to the current year	33
Balance at December 31, 2013	472
Translations differences related to the current year	(51)
Balance at December 31, 2014	421

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, 2014, the liability with respect to uncertain tax positions is presented as short-term liability in the balance sheet (within "Other current liabilities").

NOTE 16 - EARNINGS PER SHARE

During the periods, there were no potential instruments that could be exercised or converted to ordinary shares. 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, 2014, 2013 and 2012, are as follows:

	US dollars		
	Year ended December 31,		
<b>(in thousands)</b>	2014	2013	2012
Net income attributable to stockholder's used for the computation of basic and diluted earnings per share	30,429	23,762	24,880

  

	Number of shares		
	Year ended December 31,		
<b>(in thousands)</b>	2014	2013	2011
Weighted average number of shares used in the computation of basic and diluted earnings per share	20,968	20,968	20,968

NOTE 17 - RELATED PARTIES

- A. The Tzivit Insurance Ltd. ("Tzivit 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, Tzivit 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 2014, US\$ 324 thousand and US\$ 189 thousand, respectively (In 2013 US\$ 303 thousand and US\$ 193 thousand, respectively.)

Tzivit Insurance is entitled to commissions in an aggregate amount of NIS 187 thousand (US\$ 52 thousand) to be paid to Tzivit Insurance by the insurance company on account of these policies. (US\$ 80 thousand and US\$ 72 thousand in 2013 and 2012, respectively.)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - RELATED PARTIES (cont.)

- B.** 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 exceeded 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 remained in force and effect until May 11, 2014.

See section F below with respect to the approval of a new service agreement with A. Sheratzky Holdings during February 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\$ 12,600 and US\$ 12,700), 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 exceeded 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 remained in force and effect until May 11, 2014.

See section F below with respect to the approval of a new service agreement with A. Sheratzky Holdings during February 2014.

The aggregate amounts paid to A. Sheratzky Holdings in 2014, 2013 and 2012 (including with respect to B. above but excluding amounts paid to A. Sheratzky Holdings in 2014 under the new service agreement, described in F. below), were approximately US\$ 793,000, US\$ 3,470,000 and US\$ 2,691,000, respectively (all numbers include value added tax).

- 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\$ 3,900) a month, linked to the Israeli Consumer Price Index. The aggregate amount paid to Professor Kahane in each of the years 2014, 2013 and 2012 was approximately US\$ 62,000, US\$ 59,000 and US\$ 56,000, 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\$ 6,400), 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - RELATED PARTIES (cont.)

## E. (cont.)

The aggregate amount paid to Mr. Gil Sheratzky in 2014, 2013 and 2012 was approximately US\$ 1,131,000, US\$ 145,000 US\$ 196,000, respectively.

Whereas the term of the agreement exceeded 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 remained in force and effect until May 11, 2014.

See section F below with respect to the approval of a new service agreement with A. Sheratzky Holdings during February 2014.

F. In February 2014, following the approval of the Company's general meeting of shareholders on January 28, 2014, the Company entered into new service agreements, setting forth the terms of service of its President and Co-Chief Executive Officers in compliance with the Company's compensation policy for office holders; and E-Com entered into a service agreement setting forth the terms of service of its Chief Executive Officer in compliance with the Company's compensation policy for officer holders. The principal terms of these agreements are as follows:

Mr. Izzy Sheratzky shall provide his services as an independent contractor through A. Sheratzky Holdings Ltd., which shall be entitled to a monthly payment of NIS 225,000 (or \$57,900) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses, subsistence allowance abroad and participation in work-related home telephone expenses. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon 180 days' advance notice of termination; however, the Company may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards the Company; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of Company's secrets or competition with the Company.

The aggregate amounts paid to A. Sheratzky according this new service agreement in 2014 were approximately \$2,387,000 (includes value added tax).

Mr. Eyal Sheratzky shall provide his services as an independent contractor through ORAS Capital Ltd, which shall be entitled to a monthly payment of NIS 175,000 (or \$45,000) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses and subsistence allowance abroad. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon 180 days' advance notice of termination; however, the Company may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards the Company; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of Company's secrets or competition with the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 17 - RELATED PARTIES (cont.)

F. (cont.)

The aggregate amounts paid to ORAS Capital Ltd (for new and old agreements combined) in 2014 were approximately \$1,552,000 (include value added tax).

Mr. Nir Sheratzky shall provide his services as an independent contractor through Galnir Management and Investments Ltd., which shall be entitled to a monthly payment of NIS 175,000 (or \$45,000) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses and subsistence allowance abroad. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon 180 days' advance notice of termination; however, the Company may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards the Company; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of Company's secrets or competition with the Company.

The aggregate amounts paid to Galnir Management and Investments Ltd, (for new and old agreements combined) were approximately \$1,418,000 (includes value added tax).

Mr. Gil Sheratzky shall provide his services as an independent contractor through ZERO-TO-ONE S.B.L. INVESTMENTS LTD., which shall be entitled to a monthly payment of NIS 125,000 (or \$32,000) plus VAT, linked to the consumer price index for December 2013. At the request of the service provider, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car for the use of Mr. Sheratzky and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include Mr. Sheratzky's entitlement for a 25 days' vacation and sick days as provided by law. The service provider shall also be entitled to payment or reimbursement of expenses, including hosting expenses and subsistence allowance abroad. The service provider shall be entitled to Target-based Cash Incentives and Excess Return Cash Incentives as detailed below. The agreement shall be in force for a period of 3 years and may be terminated upon two months' advance notice of termination; however, E-Com may terminate the agreement without an advance notice and without compensation if the following shall occur: (a) Mr. Sheratzky is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has breached his fiduciary duty towards E-Com; (c) a final court ruling (without the possibility of appeal) determines that Mr. Sheratzky has materially breached the agreement through the unauthorized disclosure of E-Com' and/or Company's secrets or competition with E-Com and/or the Company.

The aggregate amounts paid to ZERO-TO-ONE S.B.L. INVESTMENTS LTD, in 2014 were approximately \$948,000 (includes value added tax).

Each of the above agreements also provides that the executives may request to provide their services to the Company as an employee, and not through a service provider, and in such event, they shall execute an employment agreement with the Company, in lieu of the above service agreements, which shall also set forth the provisions of social security and other benefits that the Company usually grants its senior executive officers (which may not deviate from the provisions of the Compensation Policy in this respect). In any event, it was agreed that the nature of the agreement pursuant to which the services are provided shall not affect the cost to the Company of the provision of the services as set forth in the service agreements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - RELATED PARTIES (cont.)

## F. (cont.)

The terms of the Cash Incentives applicable to each of Messrs. Izzy Sheratzky, Eyal Sheratzky, Nir Sheratzky and Gil Sheratzky (the "Executive Offices Holders"), as set forth in their agreements referred to above (the "Agreements"), are as follows:

- "Target-based Cash Incentives" means a cash incentive awarded to the Executive Office Holders for the Company's achievement of the following Profit-Before-Tax targets in each calendar year following the effective date of the above agreements, in which the Minimum Threshold (as defined below) has been achieved:

## Company's Profit-Before-Tax Targets

(in USD thousands)      Level of Incentive - As a Percentage of the Executive Office Holder's Annual Cost of Pay

24,001- 27,500	20%
27,501-31,000	45%
31,001-35,000	75%
35,001-39,000	110%
Above 39,001	150%

"Minimum Threshold" means, with respect to a particular calendar year, a minimum Company's Return on Equity (as defined below) of 15%, and a minimum company's Profit Before Tax of USD 24 million.

"Excess Return Cash Incentives" means that at the end of each calendar year, the Company shall examine the Company's Stock Yield since January 1 of such year or, with respect to the first year of such grant – since the date of its approval (an "Examined Period"), as compared to the TA 100 Index's Yield over such Examined Period; and to the extent that the Company's Stock Yield exceeds the TA 100 Index's Yield for such period, each of the Executive Office Holders shall receive an amount equal to 50% of his monthly Cost of Pay for each 1% of excess return (in percentage points' terms), or a relative amount in the event of a partial excess return. For the avoidance of doubt, in the event that the Company's Stock Yield during such period is negative, no grant shall be awarded.

The Excess Return Cash Incentive for each year shall not exceed an amount equal to the Executive Officer Holder's annual Cost of Pay.

- In the event that an Agreement is terminated during a calendar year, the Company's compensation committee and board of directors shall determine the relative amounts out of the Target-based Cash Incentives and/or Excess Return Cash Incentives to which the relevant Executive Office Holder is entitled for the portion of the year during which the Agreement was in force; and these amounts shall be paid within 30 days after the termination of service/employment, as the case may be.
- On the date of determination of each Executive Office Holder's entitlement for a Target-based Cash Incentive for a particular year, the Company's compensation committee shall examine whether the total amount of grants to which Executive Officers are entitled with respect to such calendar year and which constitute variable components of their terms of services (the "Total Amount of Grants to Executive Officers"), exceed an amount equal to 10% of the Company's EBITDA for such year (the "EBITDA's Threshold"), as calculated in accordance with data extracted from the Company's audited consolidated annual financial statements, after taking into account the Executive Officers' fixed compensation but excluding their variable compensation. In such event, the amount by which the Total Amount of Grants to Executive Officers exceeds the EBITDA's Threshold shall be referred to as the "Excess Amount".

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 17 - RELATED PARTIES (cont.)

## F. (cont.)

- In the event that the Total Amount of Grants to Executive Officers exceeds the EBITDA's Threshold, then the Target-based Cash Incentive and the Excess Return Cash Incentive to which an Executive Office Holder is entitled (together, the "Grants") shall be reduced by an amount equal to the Executive Office Holder's Rate of Grants (as defined below) out of the Excess Amount. The term "Executive Office Holder's Rate of Grants" means, with respect to a particular Executive Office Holder, the percentage which such Executive Office Holder's Grants constitute out of the Total Amount of Grants to Executive Officers.
- The Company's board of directors shall have the right, under special circumstances at its discretion, to reduce the amount of Grants to which the Executive Office Holders are entitled, upon a 60 days prior notice.
- The Executive Office Holder shall be required to return any compensation paid to them on the basis of results included in financial statements that turned out to be erroneous and were subsequently restated in the Company's financial statements published during the three year period following publication of the erroneous financial statements; to the extent they would not have been entitled to the compensation actually received had it been determined based on the restated financial statements. In such case, compensation amounts will be returned within 60 days from the date of publication of the restated financial statements, net of taxes that were withheld thereon. If the Executive Office Holder has a right to reclaim such tax payments with respect to Grants which were paid in excess, from the relevant tax authorities, then the Executive Office Holder shall reasonably act to reclaim such amounts from the tax authorities and upon their receipt, shall remit them to the Company. In 2014 Executive Offices Holders were ineligible to Target based cash incentives at the maximum rate of (150%).

- G. On January 28, 2014, the Company's general meeting of the of shareholders re-approved the terms of engagement of Mr. Avner Kurz as a consultant to Ituran Sistemas de Monitoramento Ltda, a Brazilian subsidiary of the Company, in accordance with an agreement dated February 23, 2012. Pursuant to the terms of this agreement, Mr. Kurz provided consultation services to the Brazilian subsidiary as an independent contractor, including services concerning: general strategy of the subsidiary, developing connections with the private market, infrastructure development and in any other area as is required from time to time. In addition, he was in direct contact with the chief executive officer of the subsidiary and its office holders, he was directly reporting to the Company's president and advised him regarding the aforementioned; Mr. Kurz undertook to stay at least eight times per year in Brazil at the subsidiary's offices and to invest no less than twenty monthly hours in providing the services; the term of the agreement automatically renews every two years, although each party may terminate it with a 180 days prior notice; and in consideration for the services described above, the Brazilian subsidiary paid Mr. Kurz a monthly amount of \$8,000, against the receipt of a tax invoice; and Mr. Kurz was entitled to receive a cellular phone and reimbursement of related expenses from the Company, payable against receipts. The aggregate amounts paid to Mr Kurz by virtue of this agreement for each of the years 2014, 2013 and 2012 were approximately \$80,000, \$81,105 and \$99,771, respectively. The agreement with Mr. Kurz was terminated on September 15, 2014 as the date of his resignation from the board.

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

**NOTE 18 - 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 locator 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.

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

(in thousands)	US dollars		
	Location based services	Wireless communications products	Total
<b>Year ended December 31, 2014</b>			
Revenues	133,692	48,435	182,127
Operating income	42,603	3,267	45,870
Assets	63,795	11,094	74,889
Goodwill	1,544	2,497	4,041
Expenditures for assets	12,574	598	13,172
Depreciation and amortization	8,920	148	9,068
Impairment of goodwill and intangible assets	34	888	922
<b>Year ended December 31, 2013</b>			
Revenues	126,951	43,216	170,167
Operating income (loss)	38,470	(540)	37,930
Assets	66,300	10,564	76,864
Goodwill	1,730	3,703	5,433
Expenditures for assets	12,312	264	12,576
Depreciation and amortization	9,360	358	9,718
Impairment of goodwill and intangible assets	2,816	1,804	4,620
<b>Year ended December 31, 2012</b>			
Revenues	114,565	35,753	150,318
Operating income	29,850	97	29,947
Assets	65,332	10,629	75,961
Goodwill	3,692	4,351	8,043
Expenditures for assets	7,636	77	7,713
Depreciation and amortization	11,471	130	11,601

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

**NOTE 18 - SEGMENT REPORTING (cont.)**

**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, non-operating 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.

**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,		
	2014	2013	2012
<b>Total revenues of reportable segment and consolidated revenues</b>	182,127	170,167	150,318
<b>Operating income</b>			
Total operating income for reportable segments	45,870	37,930	29,947
Unallocated amounts:			
Other income (expenses) income	-	(166)	6,755
Financing income, net	1,704	238	987
Consolidated income before taxes on income	47,574	38,002	37,689
<b>Assets</b>			
Total assets for reportable segments (*)	78,930	82,297	84,004
Other unallocated amounts:			
Current assets	57,159	61,530	48,512
Investments in affiliated and other companies	1,095	1,511	242
Property and equipment, net	7,786	8,644	9,187
Other unallocated amounts	7,367	6,560	5,394
Consolidated total assets (at year end)	152,337	160,542	147,339
<b>Other significant items</b>			
Total expenditures for assets of reportable segments	13,172	12,576	7,713
Unallocated amounts	2,021	1,387	2,320
Consolidated total expenditures for assets	15,193	13,963	10,033
Total depreciation, amortization and impairment for reportable segments	9,990	14,338	11,601
Unallocated amounts	2,229	1,858	3,070
Consolidated total depreciation and amortization	12,219	16,196	14,671

(\*) Including goodwill.

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

NOTE 18 - SEGMENT REPORTING (cont.)

E. Geographic information

(in thousands)	Revenues		
	Year ended December 31,		
	2014	2013	2012
Israel	90,061	83,331	70,595
United States	7,568	4,876	4,749
Brazil	66,462	63,454	58,242
Argentina	13,792	15,190	13,546
Others	4,244	3,316	3,186
<b>Total</b>	182,127	170,167	150,318

  

(in thousands)	Property and equipment, net		
	December 31,		
	2014	2013	2012
Israel	8,563	9,051	9,440
United States	120	155	146
Brazil	17,801	19,178	20,132
Argentina	5,424	4,162	4,438
<b>Total</b>	31,908	32,546	34,156

- 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 2014, 2013 and 2012 there were no sales exceeding 10% of total revenues to none of our customers.

NOTE 19 - 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 short-term investments (and investments in trading marketable securities), as of December 31, 2014 and 2013, were deposited with major banks (mostly in Israel). 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, Brazil, Argentina 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

## NOTE 19 - 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.

During 2013 and 2014, the Company entered 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.

During 2013 and 2014, all the financial derivatives were designated and accounted for as hedging instruments.

The following table summarizes a tabular disclosure of (a) fair values of derivative instruments in the balance sheets and (b) the effect of derivative instruments in the statements of income:

**Fair values of derivative instruments:**

<u>As of December 31, 2014</u>	<u>Asset derivatives</u>	
	<u>Thousands of US dollars</u>	
	<u>Balance sheet location</u>	<u>Fair value</u>
Derivatives designated as hedging instruments:		
Foreign exchange contracts	Other Assets	<u>2,564</u>

<u>As of December 31, 2013</u>	<u>Liability derivatives</u>	
	<u>Thousands of US dollars</u>	
	<u>Balance sheet location</u>	<u>Fair value</u>
Derivatives designated as hedging instruments:		
Foreign exchange contracts	Other liabilities	<u>(568)</u>

**Amounts reclassified to statement of income:**

<u>Derivatives designated as hedging instruments</u>	<u>Location of loss recognized in income</u>	<u>Amount of gain recognized in income</u>
<u>Year ended December 31, 2014</u>		<u>Thousands of US dollars</u>
Foreign exchange contracts	Cost of revenues	<u>68</u>
<u>Derivatives designated as hedging instruments</u>	<u>Location of loss recognized in income</u>	<u>Amount of loss recognized in income</u>
<u>Year ended December 31, 2013</u>		<u>Thousands of US dollars</u>
Foreign exchange contracts	Cost of revenues	<u>(295)</u>

As of December 31, 2013 and 2014, the notional amount of forward exchange contracts with respect to cash flow hedge of anticipated transactions amounted to US\$ 28.5 million (US\$ 1.5 million per month for the next 19 months).



ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19 - FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (cont.)

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 and derivative financial instruments at fair value. Such financial instruments are measured at fair value, on a recurring basis. The measurement of cash equivalents are classified within Level 1. 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.

The fair value of the financial instruments included in the working capital of the Group (cash and cash equivalents, deposit in escrow, accounts receivable, accounts payable and other current assets and liabilities) approximates their carrying value, due to the short-term maturity of such instruments.

See also Note 1W.

The Company's financial assets measured at fair value on a recurring basis, consisted of the following types of instruments as of December 31, 2014:

(in thousands)	December 31, 2014		
	Level 1	Level 2	Level 3
<b>Derivatives</b>			
Derivatives designated as hedging instruments	-	2,564	-
<b>December 31, 2013</b>			
(in thousands)	Level 1	Level 2	Level 3
<b>Derivatives</b>			
Derivatives designated as hedging instruments	-	568	-

NOTE 20 - SUBSEQUENT EVENTS

In January 2015, the Company purchased an additional 13.3% of Bringg shares for an amount of \$1.1 million.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of

**Ituran Argentina S.A.**

We have audited the accompanying balance sheets of Ituran Argentina S.A. (the "Company") as of December 31, 2014 and 2013 and the related statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014. 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). 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013 and the results of its operations, changes in shareholders' equity and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 12, 2015 expressed an unqualified opinion.



Gonzalo Urien Berri  
Estudio Urien & Asociados  
Buenos Aires, Argentina  
February 12, 2015

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**ITURAN LOCATION AND CONTROL LTD.**  
(Registrant)

By: /s/ Eyal Sheratzky /s/ Nir Sheratzky

\_\_\_\_\_  
Eyal Sheratzky          Nir Sheratzky  
Co-Chief Executive Officers

Dated: April 28, 2015

The Companies Law, 5759 - 1999

Articles of Association

of

ITURAN LOCATION AND CONTROL LTD.

איתוראן איתור ושליטה בע"מ

A COMPANY LIMITED BY SHARES

GENERAL

1. Definition and Interpretation

1.1 The following terms in these Articles of Association shall have the respective meanings ascribed to them below:

<b>Articles</b>	The Articles of Association of the Company, as set forth herein and or as amended, from time to time.
<b>Board</b>	The Board of Directors of the Company.
<b>Business Day</b>	Sunday to Thursday, inclusive, with the exception of holidays and official days of rest in the State of Israel.
<b>Company</b>	איתוראן איתור ושליטה בע"מ Ituran Location and Control Ltd.
<b>Companies Law</b>	The Israeli Companies Law, 1999, as may be amended from time to time, and any law replacing it.
<b>Companies Regulations</b>	Regulations issued pursuant to the Companies Law.

<b>Law</b>	The provisions of any law as defined in the Interpretation Law, 1981.
<b>General Manager</b>	The general manager of the Company pursuant to the Companies Law, which is known also by the term Chief Executive Officer or CEO.
<b>Ordinary Majority</b>	More than fifty percent (50%) of the votes of the Shareholders who are entitled to vote and who voted in a General Meeting in person, by means of a proxy or by means of a proxy card.
<b>Securities Law</b>	The Securities Law, 1968, as may be amended from time to time, and any law replacing it.
<b>Securities Regulations</b>	Regulations issued pursuant to the Securities Law.
<b>Shareholder</b>	Anyone registered as a shareholder in the Shareholder Register of the Company, or anyone who is a bearer of a share deed of the Company; or anyone person who is a shareholder according to the Companies Law.
<b>Special Majority</b>	A majority of at least three quarters (75%) of the votes of the Shareholders who are entitled to vote and who voted in a General Meeting, in person, by means of a proxy or by means of a proxy card.
<b>The Company</b>	Ituran Location and Control Ltd., or any other name by which it will be called, in the event of the Company replacing or changing its name.
<b>In writing</b>	In script, in print, by means of a typewriter, photocopying, telex, cable, facsimile, electronic mail or in any other legible form, or which is produced in any other visual substitute for writing, including a combination of two or more methods, and "signed" shall be understood accordingly.

- 1.2 Unless the subject or the context otherwise requires, each word and expression not specifically defined herein and defined in the Companies Law as in effect on the date when these Articles or any amendment hereto, as the case maybe first became effective, shall have the same meaning herein, and to the extent that no meaning is attached to it in the Companies Law, the meaning ascribed to it in the Companies Regulations, and if no meaning is ascribed thereto in the Companies Regulations, the meaning ascribed to it in the Securities Law or Securities Regulations; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender and vice versa; and words and expressions importing persons shall include corporate entities.
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1.3 The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

1.4 The specific provisions of these articles supersede the provisions of the companies Law to the extent permitted under the companies Law with respect to any matter that is not specifically addressed in these articles, the provisions of the companies Law shall govern.

2. **Public Company**

The Company is a public company.

3. **The Purpose and objectives of the Company**

Subject to the provisions of the Company's Memorandum of Association, the purpose of the Company is to engage, directly or indirectly, in any lawful business activity or occupation whatsoever; provided, however, that the Company may donate reasonable amounts to worthy causes, as the Board may determine in its discretion, even if such donations are not within the framework of business considerations.

4. **Limited Liability**

The liability of each Shareholder for the company's obligations is limited to the unpaid sum, if any, owing to the company in consideration for the issuance of the shares allotted to him.

**SHARE CAPITAL**

5. **Share Capital**

5.1 The authorized share capital of the Company is 20 million New Israeli Shekels (NIS Twenty Million Shekels) divided into 60 million Ordinary Shares NIS 0.331/3 par value each.

5.2 The ordinary shares of the Company confer on the holders thereof rights to receive notice of, attend, and vote in meetings of the shareholders, rights to receive dividends, rights to receive a distribution of assets upon liquidation and certain other rights all as specified in these Articles.

6. **Increase of Share Capital**

6.1 The Company may, from time to time, by a resolution of the General Meeting adopted by an Ordinary Majority, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal value, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution of the General Meeting shall provide.

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6.2 Except to the extent otherwise provided in such resolution of the General Meeting, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

7. **Special Rights; Modifications of Rights**

7.1 Without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by a resolution of the Board, issue shares with such preferred or deferred rights or rights of redemption or other special rights and/or restrictions, whether with respect to liquidation, dividends, voting, conversion, repayment of share capital or otherwise, as may be stipulated in such resolution.

7.2 If at any time the issued share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by a resolution of the General Meeting adopted by an Ordinary Majority, subject to the consent of the holders of more than fifty percent (50%) of the issued shares of such class or the sanction of a resolution of a separate General Meeting of the holders of the shares of such class adopted by an Ordinary Majority, except if no rights in the Company are attached to that class of shares other than the receipt of their par value on a winding-up of the Company (“**Deferred Shares**”) and unless the issue terms of those shares provide otherwise.

7.3 Unless otherwise provided by these Articles, the increase of the authorized number of shares of an existing class of shares, or the issuance of additional shares thereof or the creation of a new class of shares identical to an existing class of shares in all respects, shall not be deemed, for purposes of this Article 7, to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

8. **Consolidation. Subdivision. Cancellation and Reduction of Share Capital**

8.1 The Company may, from time to time, by a resolution of the General Meeting adopted by an Ordinary Majority (subject, however, to the provisions of Articles 7.2 and 7.3 hereof and to the Companies Law):

8.1.1 Consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares;

8.1.2 Subdivide its shares, issued or unissued, or any of them, into shares of smaller nominal value than is fixed by these Articles, subject to the provisions of the Companies Law, and the resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

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- 8.1.3 Cancel any shares which, at the date of the adoption of such resolution of the General Meeting, have not been allotted, so long as the Company is not under an obligation to allot these shares, and diminish the amount of its share capital by the amount of the shares so cancelled; or
- 8.1.4 Reduce its share capital in any manner, subject to any authorization or consent required by Law.
- 8.2 With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board may settle any difficulty which may arise with regard thereto, as it deems appropriate, including *inter alia*, resort to one or more of the following actions:
  - 8.2.1 Determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;
  - 8.2.2 Allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
  - 8.2.3 Redeem, in the case of redeemable shares, and subject to applicable Law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
  - 8.2.4 Cause the transfer of fractional shares by certain Shareholders to other Shareholders so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of the fractional shares so transferred, and the Board is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this Article 8.2.4.

#### SHARES

9. **Issuance of Share Certificates: Replacement of Lost Certificates**

- 9.1 Share certificates shall be issued under the seal or stamp of the Company and shall bear the signature of a Director, or of any other person or persons so authorized by the Board.
  - 9.2 Each Shareholder shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if the Board so approves, to several certificates, each for one or more of such shares. Each certificate may specify the serial numbers of the shares represented thereby and may also specify the amount paid up thereon.
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- 9.3 A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Shareholder Register in respect of such co-ownership (“**the first Co-Owner**”).
- 9.4 If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board may deem appropriate.

10. **Registered Holder**

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, shall be entitled to treat the holder of any share in trust as a Shareholder and to issue to him a share certificate, in condition that the trustee notifies the Company of the identity of the beneficiary, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by Law, be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person.

11. **Issuance of Shares and other Securities**

- 11.1 The unissued shares from time to time shall be under the control of the Board, which shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including *inter alia* terms relating to calls as set forth in Article 13 (“Calls on Shares”) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board may deem appropriate, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board may deem appropriate.
- 11.2 The Board may determine to issue a series of bonds or other debt securities, as part of its authority or to take a loan on behalf of the Company, and within the limits of such authority.
- 11.3 The Shareholders of the Company at any given time shall not have any preemptive right or priority or any other right whatsoever with respect to the acquisition of securities of the Company. The Board, in its sole discretion, may decide to offer securities of the Company first to existing Shareholders or to anyone or more of them.
- 11.4 The Company is entitled to pay a commission (including underwriting fees) to any person, in consideration for underwriting services, or the marketing or distribution of securities of the Company, whether reserved or unreserved, as determined by the Board. Payments, as stated in this Article 11.4, may be paid in cash or in Securities of the Company, or in a combination thereof or in any other manner.
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12. **Payment in Installments**

If by the terms of issuance of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share or the person(s) entitled thereto.

13. **Calls on Shares**

13.1 The Board may, from time to time, make such calls as it may deem appropriate upon Shareholders in respect of any sum unpaid in respect of shares held by such Shareholders which is not, by the terms of issuance thereof or otherwise, payable at a fixed time, and each Shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board (and in the notice referred to in Article13.2), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

13.2 Notice of any call shall be given in writing to the applicable Shareholder(s) not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made; provided, however, that before the time for any such payment, the Board may, by notice in writing to such Shareholder(s), revoke such call in whole or in part, extend such time, or alter such designated person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

13.3 If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board and of which due notice had been given, and all the provisions herein contained with respect to calls shall apply to each such amount.

13.4 Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board may prescribe.

13.5 Upon the allotment of shares, the Board may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof

13.6 The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

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14. **Prepayment**

With the approval of the Board, any Shareholder may pay to the Company any amount not yet payable in respect of his shares, and the Board may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board. The Board may, at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 14 shall derogate from the right of the Board to make any call before or after receipt by the Company of any such advance.

15. **Forfeiture and Surrender**

- 15.1 If any Shareholder fails to pay any amount payable in respect of a call, or interest thereon as provided herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board, may at any time thereafter, so long as such amount or interest remains unpaid, forfeit all or any of the shares in respect of which such call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.
- 15.2 Upon the adoption of a resolution of forfeiture, the Board shall cause notice thereof to be given to the Shareholder whose shares are the subject of such forfeiture, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board may nullify such resolution of forfeiture, but no such nullification shall estop the Board from adopting a further resolution of forfeiture in respect of the non-payment of such amount.
- 15.3 Whenever shares are forfeited as herein provided, all distributions theretofore declared in respect thereof and not actually paid or distributed shall be deemed to have been forfeited at the same time.
- 15.4 The Company, by resolution of the Board, may accept the voluntary surrender of any share.
- 15.5 Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board deems appropriate.
- 15.6 Any Shareholder whose shares have been forfeited or surrendered shall cease to be a Shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 13.4 above, and the Board, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board, may accelerate the date(s) of payment of any or all amounts then owing by the Shareholder in question (but not yet due) in respect of all shares owned by such Shareholder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.
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15.7 The Board may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it deems appropriate, but no such nullification shall estop the Board from re-exercising its powers of forfeiture pursuant to this Article 15.

16. **Lien**

16.1 Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each Shareholder which are not fully paid up (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for the amount payable to the Company in respect of such unpaid shares, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all distributions from time to time declared in respect of such shares. Unless otherwise provided, the registration by the company of a transfer of shares shall be deemed to be a waiver on the part of the company of the lien (if any) existing on such shares immediately prior to such transfer.

16.2 The Board may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board may deem appropriate, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the Company's intention to sell shall have been served on such Shareholder, his executors, administrators or assignees.

16.3 The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such Shareholder in connection with such unpaid shares (whether or not the same have matured), or any specific part of the same (as the Board may determine), and the balance, if any, shall be paid to the Shareholder, his executors, administrators or assigns.

17. **Sale after Forfeiture or Surrender or in Enforcement of Lien**

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board may appoint a person to execute a proper instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Shareholders Register in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after his name has been entered in the Shareholder Register in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

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18. **Redeemable Shares**

The Company may, by resolution of the Board, issue redeemable securities and the provisions of section 312 of the Companies Law will apply to the issue of such securities. The Board shall determine which securities of the redeemable securities shall be redeemed, from time to time, and it shall furnish written notice thereof of at least 14 days to the holders of the above-mentioned securities, regarding the place, the date and the conditions of the redemption.

19. **Transfer of Shares**

19.1 No transfer of shares shall be registered unless the Company receives a deed of transfer or other proper instrument of transfer (in form and substance satisfactory to the Board), together with any share certificate(s). Until the transferee has been registered in the Shareholders Register in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board may, from time to time, prescribe a reasonable fee for registration of a transfer. A Deed of Transfer shall be in the following form or in any substantially similar form, including any such form as is acceptable to the transfer agent for the Company's shares, or in any form otherwise approved by the board.

**Deed of transfer**

"I, .....(hereinafter: "The Transferor") of, ..... do hereby transfer, in consideration for ..... to (hereinafter: "The Transferee"), .....share (s) NIS ..... par value each of Ituran Location and Control Ltd. (hereinafter: "The Company") to be held by the Transferee and/or his executors, administrators and assigns, subject to the same terms and conditions under which I held the same at the time of execution hereof; and I, the said Transferee, do hereby agree to take the said share(s) subject to the conditions aforesaid.

In witness whereof we hereby execute this Deed of Transfer, this .... day of ..... 20..."

The Transferee

The Transferor

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Witness to Signature

Witness to Signature

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_



- 19.2 The transfer of shares which were not fully paid for, or shares on which the Company has a lien, shall have no validity unless approved by the Board, which may, in its absolute discretion and without giving any reason thereto, decline the registration of such transferor impose conditions on the transfer.
- 19.3 The board may suspend the registration of transfers for such periods as it deems appropriate, and no such transfers shall be registered during any period in which the shareholders is so closed, provided such periods shall not exceed 30 days each year and provided that no such suspension shall take place in any 14 days precluding the recode date for any general meeting or to any distribution.
- 19.4 Upon the death of a Shareholder
- 19.4.1 In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof.
- 19.4.2 Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grand of probate or letters of administration or deceleration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a shareholder in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such share.
- 19.5 The Company may recognize the receiver or liquidator of any corporate Shareholder in liquidation or dissolution, or the receiver or trustee in bankruptcy of any Shareholder, as being entitled to the shares registered in the name of such Shareholder, after receipt of evidence to the entitlement thereto, as determined by the Board.
- 19.6 A person acquiring a right in shares as a result of being a custodian, administrator of the estate, executor of a will or the heir of a Shareholder, or a receiver, liquidator or a trustee in a liquidation, dissolution or bankruptcy of a Shareholder or according to another provision of Law, is entitled, after producing evidence of his right to the satisfaction of the Board, to be registered as the Shareholder or to transfer such shares to another person, subject to the provisions of this Article 19.

20. **Bearer Share**

The Company shall not issue bearer shares.

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## GENERAL MEETINGS

### 21. **Annual Meeting**

An annual General Meeting shall be held once in every calendar year at such time within a period of not more than fifteen (15) months after the last preceding annual General Meeting and at such place either within or outside of the State of Israel as may be determined by the Board. These General Meetings shall be referred to as "Annual Meetings."

### 22. **Extraordinary Meetings**

22.1 All General Meetings other than Annual Meetings shall be referred to as "Extraordinary Meetings".

22.2 The Board may, whenever it deems appropriate, convene an Extraordinary Meeting at such time and place, within or outside of the State of Israel, as may be determined by the Board, and shall be obliged to do so upon the demand in writing of one of the following:

22.2.1 Any two Directors or a quarter of the Directors, whichever is lower; or

22.2.2 One or more Shareholders, holding alone or together at least five percent (5%) of the issued share capital of the Company, and at least one percent (1%) of the voting rights in the company; or

22.2.3 One or more Shareholders holding at least five percent (5%) of the voting rights in the company. The demand shall set forth the reasons for convening of the meeting and shall be delivered to the registered office of the Company.

22.3 The Board, upon demand to convene an Extraordinary Meeting in accordance with Article 22.2.2 above, shall announce the convening of the General Meeting within twenty one (21) days from the receipt of a demand in that respect; provided, however, that the date fixed for the Extraordinary Meeting shall not be more than thirty five (35) days from the date of the announcement of the Extraordinary Meeting, or such other period as may be permitted by the Companies Law or Companies Regulations.

### 23. **Class Meetings**

The provisions of these Articles of Association with respect to General Meetings shall apply, *mutatis mutandis*, to meetings of the holders of a class of shares of the Company (hereinafter: "Class Meetings"); provided, however, that the requisite quorum at any such Class Meeting shall be one or more Shareholders present in person, by proxy or by proxy card, and holding together not less than fifty percent (50%) of the issued shares of such class.

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24. **Notice of General Meetings**

- 24.1 The Company is not required to give notice under section 69(b) of the Companies Law, to the extent that such section is in effect.
- 24.2 General Meeting requires prior notice of at least 21 days.

**PROCEEDINGS AT GENERAL MEETINGS**

25. **The Agenda of General Meetings**

- 25.1 The agenda of General Meetings shall be determined by the Board and shall also include issues for which an Extraordinary Meeting is being convened in accordance with Article 22 above, or as otherwise may be required in accordance with the provisions of the Companies Law.
- 25.2 The General Meeting shall only adopt resolutions on issues or act upon items which are on its agenda.
- 25.3 The General Meeting is entitled to accept or reject a proposed resolution which is on the agenda of the General Meeting. Subject to applicable Law, the General Meeting may adopt a resolution which is different from the description thereof included in the announcement of the General Meeting, provided that such resolution is not materially different from the proposed resolution.
- 25.4 Any Shareholder entitled to be present and vote in a General Meeting may bring any proposal with respect to any of the matters on the agenda of such General Meeting, provided however the Shareholder submits his written proposal specifying his intention to present it to the General Meeting at the Company's Registered office, within three (3) days of the announcement of the convening of the General Meeting.

26. **Quorum**

- 26.1 No business shall be transacted at a General Meeting, or at any adjournment thereof, unless a lawful quorum is present when the meeting proceeds to business.
  - 26.2 Subject to the requirements of the Companies Law, the rules of Nasdaq National Market and any other exchange on which the Company's securities are or may become quoted or listed, and the provisions of these Articles, any two or more Shareholders (not in default in payment of any sum referred to in Article 13 hereof), present in person or by proxy, or who have delivered to the Company proxy card indicating their manner of voting, and who hold or represent shares conferring in the aggregate at least thirty-three and one-third percent (33 1/3%) of the voting power of the Company, shall constitute a lawful quorum at General Meetings. A Shareholder or his proxy, who also serves as a proxy for other Shareholder(s), shall be regarded as two or more Shareholders, in accordance with the number of Shareholders he is representing.
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26.3 If within an hour from the time appointed for the General Meeting a quorum is not present, the meeting, if convened by the Board upon demand under Article 22.2 or, if not convened by the Board, if convened by the persons making or court demanding in accordance with the provisions of the Companies Law, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any number of Shareholders present in person or by proxy or by proxy card, shall constitute a lawful quorum.

27. **Chairman**

The Chairman of the Board shall preside as Chairman at every General Meeting. If there is no such Chairman, or if the Chairman is not present within fifteen (15) minutes after the time fixed for holding such meeting or is unwilling to act as Chairman, the Shareholders present shall choose someone of their number or any other person to be Chairman. The position of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a Shareholder or proxy of a Shareholder if, in fact, he is also a Shareholder or proxy, respectively).

28. **Adjourned Meeting**

A General Meeting at which a lawful quorum is present (hereinafter: "The Original General Meeting"), may resolve by an Ordinary Majority to adjourn the General Meeting, from time to time, to another time and/or place (hereinafter: an "Adjourned Meeting"). In the event that a General Meeting is adjourned for twenty one (21) days or more, a notice of the Adjourned Meeting shall be given in the same manner as the notice of the Original General Meeting. With the exception of the aforesaid, a Shareholder shall not be entitled to receive a notice of an Adjourned Meeting or of the issues which are to be discussed in the Adjourned Meeting. The Adjourned Meeting shall only discuss issues that could have been discussed at the Original General Meeting, and with respect to which no resolution was adopted.

29. **Adoption of Resolutions at General Meetings**

29.1 Except with respect to matters which require the approval of a special majority under the Companies Law or these Articles, all resolutions of the General Meeting, shall be deemed adopted if approved by an Ordinary Majority. A resolution of the General Meeting approving an amendment to the "Appointment of Directors" (Article 40 of these Articles) shall be deemed adopted only if approved by Special Majority.

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29.2 Every matter submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any Shareholder present in person, by proxy or by proxy card and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another Shareholder may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

29.3 A declaration by the Chairman of the meeting that a resolution has been adopted unanimously, or adopted by a particular majority, or rejected, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

30. **Power to Adjourn**

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjournment meeting except business which might lawfully have been transacted at the meeting as originally called. (b) It shall not be necessary to announce an adjournment, unless the meeting is adjourned for thirty (30) days or more in which event announcement thereof shall be given in the manner required for the meeting as originally called.

31. **Voting Power**

Subject to the provisions of Article 32.1 and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every Shareholder shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote thereon is conducted in person, by proxy or by proxy card, by a show of hands, by written ballot or by any other means.

32. **Voting Rights**

32.1 No Shareholder shall be entitled to vote at any General Meeting (or be counted as a part of the lawful quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid.

32.2 A company or other corporate entity being a Shareholder of the Company may authorize any person to be its representative at any General Meeting. Any person so authorized shall be entitled to exercise on behalf of such Shareholder all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the General Meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.

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- 32.3 Any Shareholder entitled to vote may vote either personally (or, if the Shareholder is a company or other corporate entity, by a representative authorized pursuant to Article 32.2) or by proxy (subject to Article 34 below), or by proxy card.
- 32.4 The Board may determine, in its discretion, matters that may be voted upon at the meeting by proxy card in addition to the matters listed in section 87(a) to the Companies Law.
- 32.5 If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person, by proxy or by proxy card, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority shall be determined by the order in which the names stand in the Shareholder Register.

33. **The Record Date with Respect to Participation and Voting**

The Shareholders who are entitled to participate and vote at a General Meeting shall be those Shareholders who are registered in the Shareholder Register of the Company on the date determined by the Board, provided that such date is not be more than twenty one (21) days, nor less than four (4) days, prior to the date of the General Meeting, except as otherwise permitted by the Companies Law or the Companies Regulations.

**PROXIES**

34. **Voting by Means of a Proxy**

- 34.1 A Shareholder is entitled to appoint by deed of authorization a proxy (who is not required to be a Shareholder of the Company) to participate and vote in his stead, whether at a certain General Meeting or generally at General Meetings of the Company (e.g. until the occurrence of such date or event as is specified in the deed of authorization), whether personally, by proxy or by means of a proxy card.
- 34.2 In the event that the deed of authorization is not limited to a certain General Meeting, then the deed of authorization, which was deposited prior to a certain General Meeting, shall also be good for other General Meetings thereafter, subject to the terms of the deed of authorization. This Article 34 shall also apply to a Shareholder which is a corporation, appointing a person to participate and vote in a General Meeting in its stead.

35. **A Deed of Authorization**

- 35.1 The deed of authorization shall be in writing and shall be substantially in the form specified below, or in any usual or common form or in such other form as may be approved by the Board. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate entity, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s). signed by the appointing shareholder or by his attorney duly authorized in writing, and shall be in the following form or any form similar thereto:
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ITURAN LOCATION AND CONTROL LTD ("the Company")

I..... of ..... being a shareholder of the Company hereby appoint Mr. .... of ..... or, in his absence, Mr. .... of ..... as proxy to vote for me and on my behalf at the general (ordinary or special) meeting of the Company (as the case may be) to be convened on the .... day of ..... and at every adjournment thereof.

Signed this ..... day of .....“.

(Signature of Appointer)

35.2 The deed of authorization (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its registered office, or at its principal place of business, or at the office of its registrar and/or transfer agent or at such place as the Board may specify) not less than twenty four (24) hours before the time fixed for the meeting, at which the person named in the deed of authorization proposes to vote, or presented to the Chairman at such meeting.

36. **Effect of Death of Appointer or Revocation of Appointment**

A vote cast pursuant to a deed of authorization shall be valid notwithstanding the previous death, incapacity or bankruptcy, or if a company or other corporate entity, the liquidation, of the appointing Shareholders (or of his attorney-in fact, if any, who signed such instrument), or the revocation of the appointment provided no written notice of any such event shall have been received by the Company or by the Chairman of the General Meeting before such vote is cast and provided, further, that the appointing Shareholder, if present in person at said General Meeting, may revoke the appointment by means of a written or oral notification to the Chairman, or otherwise.

37. **The Disqualification of Proxy Cards and Deed of Authorization**

Subject to the provisions of applicable Law, the corporate secretary of the Company and/or the Chairman of the Board may, in his discretion, disqualify proxy card and deed of authorization and so notify the Shareholder who submitted a proxy card or deed of authorization in the following cases:

37.1 If there is a reasonable suspicion that they are forged or falsified;

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- 37.2 If they are not duly executed or completed, as set forth in Article 35.1 above, if applicable
- 37.3 If they are given with respect to shares for which one or more proxy cards or deeds of authorization have been given and not withdrawn;
- 37.4 If more than one choice is marked for the same resolution; or
- 37.5 With respect to resolutions which require that the majority for their adoption include a certain percentage of those not having a personal interest in the approval of the resolution, where it was not marked, or otherwise notified to the Company, whether or not the relevant Shareholder has a personal interest.

#### **BOARD OF DIRECTORS**

38. **The Authority of the Board**

- 38.1 The authority of the Board is as specified in the Companies Law and in the provisions of these Articles. Without derogating from the generality of the aforesaid, The management of the business of the Company shall be vested in the Board, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the company in a General Meeting. The authority conferred on the Board by this Article 38 shall be subject to the provisions of the Companies Law, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in a General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board which would have been valid if such regulation or resolution had not been adopted.
  - 38.2 Without derogating from the generality of Articles 38.1 above, the Board's authority shall include the following:
    - 38.2.1 The Board may, from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it deems appropriate, including, without limitation, by the issuance of bonds, perpetual or redeemable debentures or other securities, or any mortgages, charges, or other liens on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital.
    - 38.2.2 Subject to the provisions of Article 35 below and subject to the provisions of any applicable law, the Board may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board, in its sole discretion, shall deem appropriate, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or re-designate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board may from time to time deem appropriate.
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38.2.3 Subject to the provisions of any Law, the Board may, from time to time, authorize any person to be the representative of the Company with respect to those objectives with such powers, discretions and authorities subject to those conditions and for that time period, as the Board deems appropriate, and any such appointment may contain such provisions for the protection and convince of persons dealing with such representative as the board may deem it and may also grant any such representative the authority to delegate any or all of the authorities, powers and discretions vested in him by the Board.

38.2.4 The Board may, at any time in its sole discretion, adopt protective measures to prevent or delay a coercive takeover of the company, including without limitation the adoption of a "Shareholder Rights Plan".

39. **Board Meetings**

39.1 **Convening Meetings of the Board**

39.1.1 The Chairman of the Board may convene a meeting of the Board at any time; provided that a meeting of the Board be convened at least once every three (3) months.

39.1.2 The Chairman of the Board shall convene a meeting of the Board at any time or in any event that such meeting is required by the provisions of the Companies Law.

39.2 **Notice of a Meeting of the Board**

39.2.1 Any notice with respect to a meeting of the Board may be given orally or in writing, so long as the notice is given at least seven (7) days prior to the date fixed for the meeting, unless all members of the Board or their Alternate Directors (as described in Article 41 below) or their representatives agree on a shorter time period. Such notice shall be delivered personally, by mail, or transmitted via facsimile or e-mail or through another means of communication, to the address, facsimile number or to the e-mail address or to an address where messages can be delivered through other means of communication, as the case may be, as the Director or its alternate informed the Company in advance.

39.2.2 A notice with respect to a meeting of the Board shall include the venue, date and time of the meeting of the Board, the issues on its agenda and any other material that the Chairman of the Board requests to be included in the notice with respect to the meeting.

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39.3 The Agenda of Board Meetings

The agenda of any meeting of the Board shall be as determined by the Chairman of the Board, and shall include the following matters:

39.3.1 Matters for which the meeting is required to be convened in accordance with the Companies Law;

39.3.2 Any matter requested by a Director or by the Chief Executive Officer to be included in the agenda of the meeting within at least 24 hours (taking into account the nature of the matter) prior to the meeting;

39.3.3 Any other matter determined by the Chairman of the Board.

39.4 Quorum

Unless otherwise unanimously decided by the Board, a quorum at a meeting of the Board shall be constituted by the presence of a majority of the members of the Board then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Board), but shall not be less than two Directors.

39.5 Conducting a Meeting through Means of Communication

The Board may conduct a meeting of the Board through the use of any means of communication, provided all of the participating Directors can hear each other simultaneously. A resolution approved by use of means of communications as aforesaid, shall be deemed to be a resolution lawfully adopted at a meeting of the Board.

39.6 Voting in the Board

Unless otherwise provided by these Articles, issues presented at meetings of the Board shall be decided upon by a majority of the votes of Directors present (or participating, in the case of a vote through a permitted means of communications) and lawfully voting thereon (as conclusively determined by the Chairman of the Board). Subject to the provision of Article 41.2 below, with respect to representatives of Directors that are companies, each Director shall have a single vote.

39.7 Written Resolution

A resolution in writing signed by all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Board) or to which all of such Directors have given their consent (by letter, telegram, telex, facsimile, e-mail or other written forms), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board), shall be deemed to have been adopted by a meeting of the board duly convened and held. In the event of the adoption of a resolution pursuant to this article, the Chairman of the Board shall state in the minutes the manner in which each Director voted in the resolution and the fact that such Directors consented to the adoption of a resolution without the convening of a meeting.

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40. **The Appointment of Directors**

40.1 The Number of Directors

The Board shall consist of such number of Directors, not less than two (2) nor more than twelve (12) (including External Directors, as defined by the Companies Law).

40.2 Classes & Term of Directors Office

The Directors on the Board, other than the External Directors, are divided into three classes, Class A, Class B and Class C, consisting of up to 3 Directors each.

The term of office of the directors assigned to Class A will expire at the Company's second Annual Meeting to be convened following the adoption of these Articles, and at each third succeeding Annual Meeting thereafter.

The term of office of the directors assigned to Class B will expire at the third annual meeting of shareholders, to be convened following the adoption of these Articles and at each third succeeding Annual Meeting thereafter.

The term of office of the directors assigned to Class C will expire at the fourth annual meeting of shareholders, to be convened following the adoption of these Articles and at each third succeeding Annual Meeting thereafter.

External Directors shall be elected and serve terms in accordance with the Companies Law.

40.3 **Directors Generally**

40.3.1 Subject to the provisions of the Companies Law, a Director may hold another position in the Company.

40.3.2 A company or other corporate entity may serve as a Director in the Company.

40.3.3 The Board shall include External Directors as may be required to comply with the requirements of the Companies Law, and shall include Independent Directors as may be required to comply with the Nasdaq Stock Market or any other securities exchange on which the securities of the Company are or may become quoted or listed.

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40.4 **The Election of Directors and their Terms of Office**

- 40.4.1 Directors (other than the External Directors) shall be elected only at Annual Meetings, unless otherwise provided in these Articles, and shall so serve until the expiration of their term of office pursuant to these Articles. A Director whose office is terminated shall be eligible for re-election (subject to the provisions of the Companies Law applicable to External Directors). The Annual Meeting and in the case of External Directors also the Extraordinary Meeting, at the time of election of a Director, shall classify such Director to Class A, Class B or Class C as set forth above, subject however to the provisions of the Companies Law.
- 40.4.2 The Annual Meeting may elect any person(s) as Director(s) if such person served as a Director up until the date of the Annual Meeting, if such person was nominated by the Board or if such person was elected by a Shareholder in accordance with Article 40.4.1 above.
- 40.4.3 The Annual Meeting at a Special Majority shall be entitled to remove from office any Director.
- 40.4.4 The Board of Directors may elect any person or persons as a Director(s), to fill an office which became vacant to the same class of directors and the same duration of office which would have been applicable to the Director whose office became vacant, had his/her office would not have been terminated.
- 40.4.5 In addition to the aforesaid, and subject to the provisions of the Companies Law with respect to External Directors, the office of a Director shall vacate with the occurrence of one or more of the events listed in section 228 of the Companies Law (with the exception of section 230 of the Companies Law which shall not apply) as well as in the event the Director dies, is declared by the court to be incapable or, in the event of a company or another corporate entity upon adaptation of a resolution for its voluntary liquidation or the issuance of a liquidation order.
- 40.4.6 (a) Notwithstanding anything to the contrary herein, the term of a Director may commence on a date later than the date of the Shareholders Resolution electing said Director, if so specified in said Shareholders Resolution. (b) The election and removal of External Directors shall be governed by the Companies Law, provided, however, that the company shall not have more than three "External Directors".

41. **Alternate Directors and Representative of a Director that is a Company**

41.1 **Alternate Directors**

- 41.1.1 Subject to the provisions of the Companies Law, any Director may, by written notice to the Company, appoint an alternate for himself (in these Articles, an "Alternate Director"), dismiss such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever, whether for a certain meeting or a certain period of time or generally. Any notice given to the Company pursuant to this Article shall be in writing, delivered to the Company and signed by the appointing or dismissing Director, and shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.
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41.1.2 Anyone who is not qualified to be appointed as a Director and/or anyone serving as a Director or as an existing Alternate Director may not be appointed and may not serve as an Alternate Director.

41.2 **Representative of a Director that is a Company**

41.2.1 A Director that is a company or other corporate entity shall appoint an individual, qualified to be appointed as a Director in the Company, in order to serve on its behalf, either for a certain meeting or for a certain period of time or generally and such company or other entity may also dismiss that individual and appoint another in his stead (hereinafter: "Director's Representatives"). Any notice given to the Company pursuant to this Article shall be in writing, delivered to the Company and signed by the appointing or dismissing body, and shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

41.2.2 Subject to Article 41.2.1, any person, whether or not a Director may serve as a Director's Representative. One person may act as a Director's Representative of several Directors, and in such event he shall have a number of votes (and shall be treated as the number of persons for purposes of establishing a quorum) equal to the number of Directors for whom he acts as a Director's Representative. If a Director's Representative is also a Director in his own right, his rights as a Director's Representative shall be in addition to his rights as a Director.

41.3 **Provisions with Respect to Alternate Directors and Director's Representatives**

41.3.1 An Alternate Director and a Director's Representative shall have all the authority of the Director who appointed him, provided, however, that an appointment by such alternate or a representative for himself may only be made in compliance with the provisions of the Companies Law, provided further that an Alternate Director and a Director's Representative shall have no standing at any meeting of the Board or any committee thereof while the Director who appointed him is present.

41.3.2 The office of an Alternate Director or a Director's Representative shall be vacated under the circumstances, *mutatis mutandis*, set forth in Article 40.4.5, and such office shall *ipso facto* be vacated if the Director who appointed such Alternate Director or Director's Representative ceases to be a Director.

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42. **Continuing Directors in the Event of Vacancies**

In the event of one or more vacancies in the Board, the continuing Directors may continue to act in every matter; provided, however, that if the number of continuing Directors is less than the minimum number provided for pursuant to Article 40.1 hereof, and unless the vacancy or vacancies is filled by the Board of Directors pursuant to Article 40.4.4, they may only act for the convening of a General Meeting for the purpose of electing Director(s) to fill any or all vacancies.

43. **Personal Interest of a Director**

Subject to compliance with the provisions of the Companies Law and the Nasdaq rules, the Company may enter into any contract or otherwise transact any business with any Director and may enter into any contract or otherwise transact any business with any third party in which contract or business a Director has a personal interest, directly or indirectly.

44. **Committees of the Board of Directors**

44.1 Subject to the provisions of the Companies Law, the Board may delegate its authorities or any part of thereof to committees, as it deems appropriate, and it may from time to time cancel the delegation of any such authority. Any such committee shall, in the exercise of the powers delegated, fulfill all of the instructions given to it from time to time by the Board.

44.2 Subject to the provisions of the Companies Law, the rules of the Nasdaq National Market or any other exchange on which the Company's securities are or may become quoted or listed, each committee of the Board shall consist of at least two (2) Directors, of which at least one shall be an External Director; provided that the audit committee shall consist of at least three (3) Directors, and all of the External Directors of the Company shall be members of it.

44.3 The provisions of these Articles with respect to meetings of the Board shall apply, mutatis mutandis, to the meetings and discussions of each committee of the Board, so far as they are not superseded by any regulations adopted by the Board under this Article, and provided that the lawful quorum for the meetings of the committee, as stated, shall be at least a majority of the members of the committee, unless otherwise Required by Law.

45. **Chairman of the Board**

45.1 **Appointment**

45.1.1 The Board shall choose one of its members to serve as the Chairman of the Board. Unless otherwise provided in the appointing resolution, the Chairman of the Board shall serve until otherwise resolved by the Board.

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45.1.2 In the event that the Chairman of the Board ceases to serve as a Director in the Company, the Board, in its first meeting held thereafter, shall appoint one of its members to serve as a new Chairman who will serve in his position for the term set in the appointment resolution, and if no period is set, until the appointment of a new Chairman, as provided in this Article.

45.1.3 In the event that the Chairman of the Board is absent from a meeting of the Board within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to preside at the meeting, the Board shall appoint one of the Directors present to preside at the meeting.

45.2 **Authority**

45.2.1 The Chairman of the Board shall preside over meetings of the Board and shall sign the minutes of the meetings.

45.2.2 In the event of deadlock vote, the Chairman of the Board shall not have an additional or casting vote.

45.2.3 The Chairman of the Board is entitled, at all times, at his initiative or pursuant to a resolution of the Board, to require reports from the General Manager in matters pertaining to the business affairs of the Company.

45.2.4 The Chairman of the Board shall not serve as the General Manager of the Company, unless he is appointed in accordance with the provisions of the Companies Law.

45.2.5 The Chairman of the Board shall not serve as a member of the audit committee.

46. **Validity of Acts despite Defects**

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board, or of a committee of the Board, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there was no such defect or disqualification.

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## MINUTES

### 47. Minutes

- 47.1 minutes of each General Meeting and of each meeting of the Board shall be recorded and duly entered in books provided for that purpose. Such minutes shall set forth all resolutions adopted at the meeting and, with respect to minutes of board meetings, the names of the persons present at the meeting
- 47.2 Any minutes as aforesaid, if purporting to be signed by the Chairman of the meeting or by the Chairman of the next succeeding meeting, shall constitute *prima facie* evidence of the matters recorded therein.

## OFFICERS; AUDITOR

### 48. The General Manager

- 48.1 The Board shall appoint a General Manager, and may appoint more than one General Manager. Subject to Article 45.2.4, the General Manager may be a Director. Such appointment (s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.
- 48.2 The Authority of the General Manager
- 48.2.1 The General Manager is responsible for the day-to-day management of the affairs of the Company within the framework of the policies set by the Board and subject to its instructions.
- 48.2.2 The General Manager shall have all managerial and operational authorities, which were not conferred by Law or pursuant to these Articles to any other organ of the Company, and he shall be under the supervision of the Board.
- 48.2.3 In the event the Board appoints more than one General Manager, the Board may determine the respective positions and functions of the General Managers and allocate their authorities as the Board may deem appropriate.
- 48.2.4 The Board may assume the authority granted to the General Manager, either with respect to a certain issue or for a certain period of time.
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48.2.5 In the event that the General Manager is unable to exercise his authority, the Board may exercise such authority in his stead, or authorize another to exercise such authority.

48.2.6 The General Manager, with the approval of the Board, may delegate to his subordinates any of his authority.

49. **Internal Auditor**

49.1 The Board shall appoint an internal auditor to the Company in accordance with the proposal of the audit committee and with the provisions of the Companies Law. The internal auditor shall report to the Chairman of the Board, the General Manager and the Chairman of the audit committee, all to the extent required by Law.

49.2 The internal auditor shall file with the Audit Committee (after consulting with the Chairman of the Board) a proposal for an annual or other periodic work plan, which shall be approved by the Audit Committee, subject to any changes it deems appropriate.

50. **Other Officers of the Company**

The Board may appoint, in addition to the General Manager and the internal auditor, other officers, define their positions and authorities, and set their compensation and terms of employment. Unless otherwise resolved by the Board, the General Manager is authorized to exercise any or all of its authorities stated in this Article.

50A. **Limitations on the Eligibility of the Company's Officeholders**

Any person serving in the following positions in the Company:

- (a) The chairman of the Board and one third of the members of the Board, provided that these officers are authorized to discuss and decide on the subject of security.
- (b) The CEO, his deputy and their substitutes.
- (c) The deputy in charge of engineering.
- (d) Legal Counsel, his deputy and substitute.
- (e) The head of security and his staff.

shall be eligible to serve in such position provided that such person shall meet all of the following criteria (without derogating from additional criteria set under the applicable laws):

50.A.1 Such person is a citizen and resident of the State of Israel; and

50.A.2 Such person received security approval from the General Security Service ("Shabak"), that there is no objection to their appointment.

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51. **The Auditor**

- 51.1 The Shareholders at the Annual Meeting shall appoint an auditor for a period until the close of the following Annual Meeting or for a period not to extend beyond the close of the third Annual Meeting following the Annual Meeting in which he was appointed. Subject to the provisions of the Companies Law, the General Meeting is entitled at any time to terminate the service of the auditor.
- 51.2 The Board shall fix the compensation of the auditor of the Company for his auditing activities, and shall also fix the compensation of the auditor for additional services, if any, which are not auditing activities, and, in each case, shall report thereon to the Annual Meeting.

**DISTRIBUTIONS**

52. **General**

The Company may effect a distribution to its Shareholders to the extent permitted by the Companies Law.

53. **Dividend and Bonus Shares**

53.1 **Right to Dividend or Bonus Shares**

53.1.1 A shareholder shall be entitled to receive dividends or bonus shares, upon the resolution of the Company in accordance with Article 53.2 below, consistent with the rights attached to the shares held by such Shareholder.

53.1.2 The Shareholders entitled to receive dividends or bonus shares shall be those who are Shareholders on the date of the resolution approving the distribution or allotment, or on such later date, as may be determined in such resolution.

53.2 **Resolution of the Company with Respect to a Dividend or Bonus Shares**

The resolution of the Company with respect to the distribution of a dividend or bonus shares shall be adopted by the Board in accordance with the provisions of the Companies Law.

53.3 **Specific Dividend**

The Board will determine the way and method of payment of any dividend or bonus shares.

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53.4 Deductions from Dividends

The Board may deduct from any distribution or other moneys payable to any Shareholder in respect of a share any and all relevant withholding tax, and any and all sums of money then payable by him to the Company on account of calls or otherwise in respect of shares of the Company.

53.5 Retention of Dividends

53.5.1 The Board may retain any dividend, bonus shares or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

53.5.2 The Board may retain any dividend, bonus shares or other moneys payable or property distributable in respect of a share in respect of which any person is, under Article 19.5, entitled to become a Shareholder, or which any person is, under said Articles, entitled to transfer, until such person shall become a Shareholder in respect of such share or shall transfer the same.

53.6 Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check sent by registered mail to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto as a result of the death or bankruptcy of the holder or otherwise, to anyone of such persons or to his bank account), or to such person and at such address as the person entitled thereto may direct in writing. Every such check shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check shall be sent at the risk of the person entitled to the money represented thereby.

53.7 An Unclaimed Dividend

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. The payment by the Board of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company; provided, however, that the Board may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

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53.8 Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto as a result of the death or bankruptcy of the holder or otherwise, anyone of them may give effectual receipts for any dividend, bonus shares or other moneys payable or property distributable in respect of such share.

53.9 Manner of Capitalization of Profits and the Distribution of Bonus Shares

Upon the resolution of the Board the Company may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for distribution, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed as capital among such of the Shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, or may cause any part of such capitalized fund to be applied on behalf of such Shareholders in paying up in full, either at par or at such premium as the resolution may provide, any un issued shares or debentures or other securities of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or other securities, and may cause such distribution or payment to be accepted by such Shareholders in full satisfaction of their interest in such capitalized sum.

53.10 The Board may settle, as it deems fit, any difficulty arising with regard to the distribution of bonus shares, distributions referred to in Articles 53.2 and 53.9 hereof or otherwise, and in particular, to issue certificates for fractions of shares and sell such fractions of shares in order to pay their consideration to those entitled thereto, to set the value for the distribution of certain assets and to determine that cash payments shall be paid to the Shareholders on the basis of such value, or that fractions whose value is less than NIS 1.00 shall not be taken into account. The Board may pay cash or convey these certain assets to a trustee in favor of those people who are entitled to a dividend or to a capitalized fund, as the Board shall deem appropriate.

53.11 The provisions of this chapter shall also apply to the distribution of Securities.

54. Acquisition of Shares

54.1 The Company is entitled to acquire or to finance an acquisition, directly or indirectly, of shares of the Company or securities convertible or exercisable into shares of the Company, including incurring an obligation to take any of these actions, subject to the fulfillment of the conditions of a permitted distribution under the Companies Law. In the event that the Company so acquired any of its shares, any such share shall become a dormant share, and shall not confer any rights, so long as it held by the Company.

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54.2 A subsidiary or another company controlled by the Company is entitled to acquire or finance an acquisition, directly or indirectly, of shares of the Company or securities convertible or exercisable into shares of the Company, or incur an obligation with respect thereto, to the same extent that the Company may make a distribution, subject to the terms of, and in accordance with the Companies Law. In the event a subsidiary or such controlled company so acquired any of the Company's shares, any such share shall not confer any voting rights, so long as it is held by such subsidiary or controlled company.

#### **INSURANCE AND INDEMNIFICATION OF OFFICE HOLDERS**

55. **Definition**

For purposes of Articles 56 and 57 below, the term "Office Holder" shall have the meaning ascribed to such term in the Companies Law.

56. **Insurance of Office Holders**

56.1 The Company may, to the extent permitted by the Companies Law, enter into a contract for the insurance of the liability of an Office Holder of the Company, in respect of a liability imposed on him as a result of an act done by him in his capacity as an Office Holder of the Company, in any of the following:

56.1.1 A breach of his duty of care to the Company or to another person;

56.1.2 A breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable grounds to assume that such act would not harm the Company;

56.1.3 A financial liability imposed on him in favor of another person.

56.1.4 A payment which he is obligated to make to an injured party as set forth in Section 52(BBB)(a)(1)(a) of the Securities Law;

56.1.5 Expenses that he incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, Sections 363a-363c of the Companies Law and Chapter G1 of the Antitrust Law, 1988, including reasonable legal expenses, which term includes attorney fees.

57. **Indemnification of Office Holders**

57.1 The Company may, to the extent permitted by the Companies Law, indemnify an Office Holder of the Company for liability or expense he incurs as a result of an act done by him in his capacity as an Office Holder of the Company, as follows:

57.1.1 A financial liability imposed on him in favor of another person by a court judgment, including a settlement judgment or an arbitrator's award approved by a court;

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57.1.2 reasonable litigation expenses, including attorneys' fees, expended by an Office Holder pursuant to an investigation or a proceeding commenced against him by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on him in exchange for a criminal procedure (as such terms are defined in the Companies Law), or that was terminated without an indictment but with a monetary charge imposed on him in exchange for a criminal procedure in a crime that does not require the finding of criminal intent, or in connection with a financial sanction.

57.1.3 reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to him by a court, in a proceeding filed against him by the Company or on its behalf or by another person, or in a criminal charge from which he was acquitted, or in a criminal charge of which he was convicted of a crime which does not require a finding of criminal intent.

57.1.4 A payment which an Office Holder is obligated to make to an injured party as set forth in Section 52(BBB)(a)(1)(a) of the Securities Law.

57.1.5 Expenses that an Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, Sections 363a-363c of the Companies Law and Chapter G1 of the Antitrust Law, 1988 including reasonable legal expenses, which term includes attorney fees.

57.2 The Company may indemnify an Office Holder of the Company pursuant to this Article 57 retrospectively, and may also undertake in advance to indemnify an Office Holder of the Company with respect to matters set forth in Articles 57.1.1, 57.1.2, 57.1.3, 57.1.4 and 57.1.5 provided that an undertaking with respect to matters set forth in Article 57.1.1 is limited to events of a kind which the Board believes can be anticipated in light of the Company's activities at the time of such undertaking, and in an amount or criteria that the Board determines is reasonable under the circumstances, and that the indemnification undertaking will specify the events of that the Board believes can be anticipated in light of the Company's activities at the time of such undertaking, and the amount or criteria that the Board determines is reasonable under the circumstances.

57.3 Indemnification pursuant to this Article 57 shall not exceed the rate of twenty five percent (25%) of the Company's capital, calculated based on the Company's most recent consolidated financial statements published prior to the actual indemnification.

58. **General**

The provisions of Articles 56 and 57 above are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or in respect of indemnification and/or release from liability in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, or in connection with any Office Holder to the extent that such insurance and/or indemnification and/or release from liability is permitted under the law.

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## LIQUIDATION

### 59. Liquidation

- 59.1 Subject to applicable Law and to the rights of shares with special rights upon liquidation, the assets of the Company available for distribution among the Shareholders shall be distributed to them in proportion to the amount paid or credited as paid on the par value of their respective holdings of the shares in respect of which such distribution is being made.
- 59.2 In the event that the Company is liquidated, whether voluntarily or otherwise, the liquidator, with the approval of a General Meeting, may make a distribution in kind to the Shareholders of all or part of the property of the Company, and he may, with the approval of the General Meeting, deposit any part of the property of the Company with trustees in favor of the Shareholders, as the liquidator with the aforementioned approval, deems appropriate and subject to applicable law.

## ACCOUNTS

### 60. Books of Account

The Board shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable Law. Such books of account shall be kept at the registered office of the Company, or at such other place or places as the Board may deem appropriate, and they shall always be open to inspection by all Directors. No Shareholder, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by Law or authorized by the Board or by a resolution of the General Meeting adopted by an Ordinary Majority.

### 61. Audit

Without derogating from the requirements of any applicable law, at least once in every fiscal year the accounts of the Company shall be audited and the accuracy of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

## RIGHTS OF SIGNATURE, STAMP AND SEAL

### 62. Rights of Signature, Stamp and Seal

- 62.1 The Board shall be entitled to authorize any person or persons (who may not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.
- 62.2 The Company shall have at least one official stamp.
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- 62.3 The Board may provide for a seal. If the Board so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

#### NOTICES

63. **Notices**

- 63.1 Any written notice or other document may be served by the Company upon any Shareholder either personally or by sending it by prepaid registered mail (airmail if sent to a place outside Israel) addressed to such Shareholder at his address as described in the Shareholder Register or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any Shareholder upon the Company by tendering the same in person to the corporate secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its registered office. Any such notice or other document shall be deemed to have been served two (2) Business Days after it has been posted (seven (7) Business Days if sent internationally), or when actually received by the addressee if sooner than two days or seven days, as the case may be, after it has been posted, or when actually tendered in person, to such Shareholder (or to the corporate secretary or the General Manager), provided, however, that notice may be sent by cablegram, telex, facsimile or other electronic means and confirmed by registered mail as aforesaid, and such notice shall be deemed to have been given twenty four (24) hours after such cablegram, telex, facsimile or other electronic communication has been sent or when actually received by such Shareholder (or by the Company), whichever is earlier. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 63.1. Unless otherwise provided in these Articles, the provisions of this Article 63.1 shall also apply to written notices permitted or required to be given by the Company to any Director or by any Director to the Company.
- 63.2 All notices to be given to the Shareholders shall, with respect to any share held by persons jointly, be given to whichever of such persons is named first in the Shareholder Register, and any notice so given shall be sufficient notice to the holders of such share.
- 63.3 Any Shareholder whose address is not described in the Shareholder Register, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.
- 63.4 Any Shareholder and any Director may waive his right to receive notices generally or during a specific time period and he may consent that a General Meeting of the Company or a meeting of the Board, as the case may be, shall be convened and held notwithstanding the fact that he did not receive a notice with respect thereto, or notwithstanding the fact that the notice was not received by him within the required time, in each case subject to the provisions of any Law prohibiting any such waiver or consent.
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**List of Significant Subsidiaries**

<b>Name of Subsidiary</b>	<b>Country of Incorporation</b>
Ituran USA Holdings Inc.	USA
Ituran USA Inc.	USA
Ituran de Argentina S.A.	Argentina
Ituran Sistemas de Monitoramento Ltda.	Brazil
Ituran Instalacoes Ltda.	Brazil
Teleran Holding Ltda.	Brazil
E.R.M. Electronic Systems Limited	Israel
Mapa Internet Ltd.	Israel
Mapa Mapping & Publishing Ltd.	Israel
Ituran servicios Ltda.	Brazil
Ituran Road Truck Ltda.	Brazil

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**CERTIFICATION OF THE CO-CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT**

I, Eyal Sheratzky, certify that:

1. I have reviewed this annual report on Form 20-F of Ituran Location and Control Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: April 28, 2015

/s/ Eyal Sheratzky  
Eyal Sheratzky  
Co-Chief Executive Officer

**CERTIFICATION OF THE CO-CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT**

I, Nir Sheratzky, certify that:

1. I have reviewed this annual report on Form 20-F of Ituran Location and Control Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: April 28, 2015

/s/ Nir Sheratzky  
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Nir Sheratzky  
Co-Chief Executive Officer

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**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT**

I, Eli Kamer, certify that:

1. I have reviewed this annual report on Form 20-F of Ituran Location and Control Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: April 28, 2015

/s/ Eli Kamer  
Eli Kamer  
Chief Financial Officer

**CERTIFICATION OF THE COMPANY'S CO-CHIEF EXECUTIVE OFFICERS  
AS REQUIRED BY RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT AND  
SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

In connection with the Annual Report on Form 20-F of Ituran Location and Control Ltd. (the "Company") for the period ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Co-Chief Executive Officers of the Company, certify that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 28, 2015

/s/ Eyal Sheratzky  
Eyal Sheratzky  
Co-Chief Executive Officer

/s/ Nir Sheratzky  
Nir Sheratzky  
Co-Chief Executive Officer

**CERTIFICATION OF THE COMPANY'S CHIEF FINANCIAL OFFICER  
AS REQUIRED BY RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT AND  
SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

In connection with the Annual Report on Form 20-F of Ituran Location and Control Ltd. (the "Company") for the period ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Company, certify that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 28, 2014

/s/ Eli Kamer  
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Eli Kamer  
Chief Financial Officer

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