

Ituran Location & Control Ltd.
Form 20-F/A
August 31, 2017

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2016

Commission file no. 001-32618

ITURAN LOCATION AND CONTROL LTD.
(Exact name of Registrant as specified in its charter and
translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

3 Hashikma Street, Azour, Israel
(Address of principal executive offices)

Eli Kamer, Chief Financial Officer, 3 Hashikma Street, Azour, Israel, Tel: 972-3-5571314,
Facsimile: 972-3-5571327
(Name, Telephone, E-mail and/or Facsimile number and Address of Company contact person)

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

Title of each class Name of each exchange on which registered

Ordinary Shares, par value NIS 0.33¹/₃ Nasdaq Global Select
Market per share

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

None
(Title of Class)

Securities for which there is reporting obligation pursuant to Section 15(d) of the Act:

None

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Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

23,475,431 Ordinary Shares

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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 o No

Explanatory Note

This Amendment No.1 to the Annual Report on Form 20-F for the fiscal year ended December 31, 2016, originally filed with the Securities and Exchange Commission on April 27, 2017 (the "2016 Form 20-F"), is being solely filed for purpose of filing the report of independent registered public accounting firm of Mazars Estudio Urien & Asociados dated February 6, 2017, which was inadvertently omitted from the 2016 Form 20-F.

Other than as expressly set forth above, this Form 20-F/A does not, and does not purport to, amend, update or restate the information in any other item of the 2016 Form 20-F, or reflect any events that have occurred after the 2016 Form 20-F was originally filed. This Amendment should be read in conjunction with the Company's SEC filings made subsequent to the filing of the 2016 Form 20-F.

ITEM 18. FINANCIAL STATEMENTS

The following consolidated financial statements and related registered public accounting firms' reports are filed as part of this annual report:

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ITEM 19. EXHIBITS

Description of Document

- 1.1 Amended and Restated Articles of Association of the Company**
- 1.2 Form of Memorandum of Association of the Company (English Translation) ⁽¹⁾
Shareholders Agreement, dated May 18, 1998, by and between Moked Ituran Ltd., Moked Services,
- 2.1 Information, Management, Investments, Yehuda Kahane Ltd., F.K. Generators and Equipment Ltd., Gideon Ezra, Ltd., Efraim Sheratzky, and Yigal Shani (English translation). ⁽¹⁾
Form of Amendment to Shareholders Agreement dated May 18, 1998, by and between Moked Ituran Ltd.,
- 2.2 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⁾
Form of the second Amendment to Shareholders Agreement dated May 18, 1998, by and between Moked Ituran
- 2.3 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). ⁽⁵⁾
- 4.1 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⁾
- 4.2 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⁾
- 4.2(a) Addendum to February 7, 2002 Unprotected Lease Agreement, by and between Mofari Ltd. and the Registrant, dated October 31, 2012. ⁽⁶⁾

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- 4.3 Lease Agreement, dated May 29, 2002, by and between Rinat Yogev Nadlan and Ituran Cellular Communication Ltd. (English translation). (1)(4)
- 4.4 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)
- 4.5 Form of Directors' Letter of Indemnity (English translation). (6)
- 4.6 Frame Product and Services Purchase Agreement dated January 1, 2008 by and between Ituran Location and Control Ltd. and Telematics Wireless Ltd. (2) *
- 4.7 Radio Location System License Agreement, dated July 13, 2004, by and between Teletrac, Inc., and Telematics Wireless Ltd. (1)
- 4.8 Ituran Location & Control Compensation Policy, as approved on November 7, 2016**
- 4.9 Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., Izzy Sheratzky and A. Sheratzky Holdings Ltd. (English Translation). (6)
- 4.9(a) Addendum dated April 4, 2017 to the Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., Izzy Sheratzky and A. Sheratzky Holdings Ltd.**
- 4.10 Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., ORAS Capital Ltd. and Eyal Sheratzky. (6)
- 4.10(a) Addendum dated April 4, 2017 to the Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., ORAS Capital Ltd. and Eyal Sheratzky.**
- 4.11 Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., Galnir Management and Investments Ltd. and Nir Sheratzky. (6)
- 4.11(a) Addendum dated April 4, 2017 to the Service Agreement, dated as of February 1, 2014, by and among Ituran Location & Control Ltd., Galnir Management and Investments Ltd. and Nir Sheratzky**
- 4.12 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. (6)
- 4.12(a) Addendum dated April 4, 2017 to the 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.**
- 8 List of significant subsidiaries**
- 11 Code of Business Conduct and Ethics as amended on February 26, 2017.**
- 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) The current lessee under this agreement is the Registrant.

(5) 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.

(6) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2013 and incorporated herein by reference.

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* 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

**Previously filed as an exhibit to the 2016 Form 20-F.

*** Filed herewith

The interactive data file was already provided with the 2016 Form 20-F.

ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements
as of December 31, 2016

ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements
as of December 31, 2016

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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, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. 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 7.3% and 9.2%, respectively, of consolidated total assets as of December 31, 2016 and 2015, and revenues of 7.4%, 9.9% and 7.6%, respectively, of consolidated total revenues for the years ended December 31, 2016, 2015 and 2014 respectively. Those financial statements were audited by other auditors, whose report 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 report 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 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 27, 2017 expressed an unqualified opinion.

FAHN KANNE & CO. GRANT THORNTON ISRAEL
Certified Public Accountants (Isr.)
Tel-Aviv, Israel
April 27, 2017

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

EXHIBIT M

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of

Ituran de Argentina S.A.

We have audited the accompanying balance sheets of Ituran de Argentina S.A. (the "Company") as of December 31, 2016 and 2015 and the related statements of operations (and comprehensive income), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and 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, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015 and the results of operations (and comprehensive income), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 6, 2017 expressed an unqualified opinion.

Gonzalo Urien Berri
Estudio Urien & Asociados
Buenos Aires, Argentina
February 6, 2017

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED BALANCE SHEETS

| (in thousands) | US dollars | |
|--|----------------------|---------|
| | December 31, 2016 | 2015 |
| Current assets | | |
| Cash and cash equivalents | 31,087 | 27,016 |
| Investment in marketable securities | 398 | 2,035 |
| Accounts receivable (net of allowance for doubtful accounts) | 33,865 | 27,436 |
| Other current assets (Note 2) | 35,522 | 22,437 |
| Inventories (Note 3) | 14,351 | 12,781 |
| | 115,223 | 91,705 |
| Long-term investments and other assets | | |
| Investments in affiliated company (Note 4A) | 11,975 | 4,705 |
| Investments in other company (Note 4B) | 85 | 78 |
| Other non-current assets (Note 5) | 1,515 | 1,166 |
| Deferred income taxes (Note 15) | 2,280 | 2,279 |
| Funds in respect of employee rights upon retirement | 7,868 | 7,174 |
| | 23,723 | 15,402 |
| Property and equipment, net (Note 6) | 35,644 | 31,514 |
| Intangible assets, net (Note 7) | 23 | 26 |
| Goodwill (Note 8) | 3,406 | 3,356 |
| Total assets | 178,019 | 142,003 |

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 | |
|---|------------|-----------|
| | 2016 | 2015 |
| Current liabilities | | |
| Credit from banking institutions (Note 9) | 3 | 155 |
| Accounts payable | 18,624 | 10,466 |
| Deferred revenues | 10,762 | 9,210 |
| Other current liabilities (Note 10) | 26,738 | 21,750 |
| | 56,127 | 41,581 |
| Long-term liabilities | | |
| Liability for employee rights upon retirement | 11,751 | 10,637 |
| Provision for contingencies | 435 | 622 |
| Deferred revenues | 1,034 | 973 |
| Other non-current | 501 | 369 |
| | 13,721 | 12,601 |
| Contingent liabilities (Note 11) | | |
| Equity: | | |
| Stockholders' equity (Note 12) | | |
| Share capital – ordinary shares of NIS 0.33 par value: | 1,983 | 1,983 |
| Authorized – December 31, 2016 and 2015 – 60,000,000 shares | | |
| Issued and outstanding – December 31, 2016 and 2015 – 23,475,431 shares | | |
| Additional paid- in capital | 71,550 | 71,550 |
| Accumulated other comprehensive income | (12,967) | (17,520) |
| Retained earnings | 71,717 | 57,739 |
| Treasury stock at cost – December 31, 2016 and 2015 – 2,507,314 shares | (30,054) | (30,054) |
| Stockholders' equity | 102,229 | 83,698 |
| Non-controlling interests | 5,942 | 4,123 |
| Total equity | 108,171 | 87,821 |
| Total liabilities and equity | 178,019 | 142,003 |

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, 2016 | 2015 | 2014 |
| Revenues: | | | |
| Location based services | 141,940 | 127,683 | 133,692 |
| Wireless communications products | 57,634 | 47,945 | 48,435 |
| | 199,574 | 175,628 | 182,127 |
| Cost of revenues: | | | |
| Location based services | 48,916 | 46,823 | 46,852 |
| Wireless communications products | 48,627 | 38,924 | 38,142 |
| | 97,543 | 85,747 | 84,994 |
| Gross profit | 102,031 | 89,881 | 97,133 |
| Research and development expenses | 2,895 | 2,401 | 2,526 |
| Selling and marketing expenses | 10,074 | 9,303 | 9,264 |
| General and administrative expenses | 40,228 | 37,801 | 38,617 |
| Other (income) expenses, net (Note 13) | 836 | (268) | 856 |
| Operating income | 47,998 | 40,644 | 45,870 |
| Financing income, net (Note 14) | 2,056 | 1,189 | 1,704 |
| Income before income tax | 50,054 | 41,833 | 47,574 |
| Income tax expenses (Note 15) | (14,877) | (12,822) | (14,246) |
| Share in losses of affiliated companies, net (Note 4A) | (449) | (2,439) | (421) |
| Net income for the year | 34,728 | 26,572 | 32,907 |
| Less: Net income attributable to non-controlling interest | (2,589) | (1,601) | (2,478) |
| Net income attributable to the Company | 32,139 | 24,971 | 30,429 |
| Basic and diluted earnings per share attributable to Company's stockholders (Note 16) | 1.53 | 1.19 | 1.45 |
| Basic and diluted weighted average number of shares outstanding | 20,968 | 20,968 | 20,968 |

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (in thousands) | US dollars | | |
|---|-------------------------|----------|----------|
| | Year ended December 31, | | |
| | 2016 | 2015 | 2014 |
| Net income for the year | 34,728 | 26,572 | 32,907 |
| Other comprehensive gain (loss), net of tax: | | | |
| Foreign currency translation adjustments | 5,558 | (14,703) | (13,354) |
| Unrealized gains (losses) in respect of derivative financial instruments designated for cash flow hedge | (50) | 85 | 2,331 |
| Reclassification of net gains realized to net income | (731) | (1,188) | (29) |
| Other comprehensive gain (loss), net of tax | 4,777 | (15,806) | (11,052) |
| Comprehensive income | 39,505 | 10,766 | 21,855 |
| Less: comprehensive income attributable to non-controlling interests | (2,813) | (1,465) | (1,884) |
| Comprehensive income attributable to the Company | 36,692 | 9,301 | 19,971 |

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 | | | | | | | | |
| | Number | Share | Additional | Accumulated | Retained | Treasury | Non-controlling | |
| US dollars (except for number of shares) | of | capital | paid in | other | earnings | stock | interests | Total |
| | shares | amount | capital | comprehensive | | | | |
| Balance as of January 1, 2014 | 23,476 | 1,983 | 71,550 | 8,608 | 38,831 | (30,054) | 4,567 | 95,485 |
| Changes during 2014: | | | | | | | | |
| 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) |
| Balance as of December 31, 2014 | 23,476 | 1,983 | 71,550 | (1,850) | 49,067 | (30,054) | 3,887 | 94,583 |
| Changes during 2015: | | | | | | | | |
| Net income | - | - | - | - | 24,971 | - | 1,601 | 26,572 |
| Other comprehensive loss | - | - | - | (15,670) | - | - | (136) | (15,806) |
| Dividend paid to non-controlling interests | - | - | - | - | - | - | (1,229) | (1,229) |
| Dividend paid | - | - | - | - | (13,171) | - | - | (13,171) |
| Dividend declared | - | - | - | - | (3,128) | - | - | (3,128) |
| Balance as of December 31, 2015 | 23,476 | 1,983 | 71,550 | (17,520) | 57,739 | (30,054) | 4,123 | 87,821 |

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (cont.)

(in thousands)

COMPANY STOCKHOLDERS

Ordinary shares

| | Number of shares | Share capital amount | Additional paid in capital | Accumulated other comprehensive income | Retained earnings | Treasury stock | Non-controlling interests | Total |
|---|------------------------|----------------------------|----------------------------------|---|----------------------|-------------------|------------------------------|-----------|
| US dollars (except for number of shares) | | | | | | | | |
| Balance as of January 1, 2016 | 23,476 | 1,983 | 71,550 | (17,520) | 57,739 | (30,054) | 4,123 | 87,821 |
| Changes during 2016: | | | | | | | | |
| Net income | - | - | - | - | 32,139 | - | 2,589 | 34,728 |
| Other comprehensive loss | - | - | - | 4,553 | - | - | 224 | 4,777 |
| Dividend paid to non-controlling interests | - | - | - | - | - | - | (994) | (994) |
| Dividend paid | - | - | - | - | (13,968) | - | - | (13,968) |
| Dividend declared | - | - | - | - | (4,193) | - | - | (4,193) |
| Balance as of December 31, 2016 | 23,476 | 1,983 | 71,550 | (12,967) | 71,717 | (30,054) | 5,942 | 108,171 |

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

ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | US dollars | | |
|---|-------------------------|----------|----------|
| | Year ended December 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| Cash flows from operating activities | | | |
| Net income for the year | 34,728 | 26,572 | 32,907 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation, amortization and impairment of goodwill and other intangibles | 11,635 | 11,962 | 12,219 |
| Gain from sale of subsidiary, net (Appendix A) | - | (951) | - |
| Exchange differences on principal of deposit and loans, net | - | - | (23) |
| Gains in respect of trading marketable securities | (115) | (666) | (133) |
| Increase in liability for employee rights upon retirement | 890 | 717 | 1,655 |
| Share in losses of affiliated companies, net | 449 | 2,439 | 421 |
| Deferred income taxes | (1,114) | (85) | (737) |
| Capital (gain) losses on sale of property and equipment, net | (52) | (31) | (270) |
| Decrease (increase) in accounts receivable | (4,552) | 117 | (1,864) |
| Decrease (increase) in other current and non-current assets | (5,033) | (879) | (4,749) |
| Decrease (increase) in inventories | (1,424) | (658) | 783 |
| Increase (decrease) in accounts payable | 5,884 | (1,176) | 927 |
| Increase (decrease) in deferred revenues | (1,122) | (246) | 749 |
| Increase (decrease) in other current and non-current liabilities | 1,298 | (1,201) | (4,154) |
| Net cash provided by operating activities | 41,472 | 35,914 | 37,731 |
| Cash flows from investment activities | | | |
| Increase in funds in respect of employee rights upon retirement, net of withdrawals | (644) | (804) | (708) |
| Capital expenditures | (13,645) | (18,724) | (14,976) |
| Investment in affiliated company | (8,920) | (5,966) | - |
| Investment in marketable securities | (3,154) | (11) | (2,771) |
| Repayment of loans from affiliated companies | 1,512 | - | - |
| Deposit in escrow | - | - | 5,005 |
| Proceeds from (Investment in) long - term deposit | 16 | (341) | (283) |
| Proceeds from sale of property and equipment | 342 | 406 | 489 |
| Sale of marketable securities | 4,633 | - | - |
| Sale of subsidiary (Appendix A) | - | (266) | - |
| Net cash used in investment activities | (19,860) | (25,706) | (13,244) |
| Cash flows from financing activities | | | |
| Short term credit from banking institutions, net | (152) | 160 | (38) |
| Acquisition of non-controlling interests | - | - | (500) |
| Dividend paid | (17,088) | (17,590) | (19,324) |
| Dividend paid to non-controlling interests | (994) | (1,229) | (2,564) |
| Net cash used in financing activities | (18,234) | (18,659) | (22,426) |
| Effect of exchange rate changes on cash and cash equivalents | 693 | (2,951) | (5,340) |
| Net increase (decrease) in cash and cash equivalents | 4,071 | (11,402) | (3,279) |
| Balance of cash and cash equivalents at beginning of year | 27,016 | 38,418 | 41,697 |

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| | | | |
|---|--------|--------|--------|
| Balance of cash and cash equivalents at end of year | 31,087 | 27,016 | 38,418 |
|---|--------|--------|--------|

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

During the years, 2016 and 2015, the Company purchased property and equipment in an amount US\$ 224 thousand and US\$ 40 thousand, respectively, using a directly related liability.

In November 2016, the Company declared a dividend in the amount of US\$ 4.2 million. The dividend was paid in January 2017.

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.

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ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)

Appendix A – Sale of subsidiary

| (in thousands) | US dollars Year ended December 31, 2015 |
|--|---|
| Working capital (excluding cash and cash equivalents), net | (1,797) |
| Receivables from sale of subsidiary | 582 |
| Funds in respect of employee rights upon retirement | 250 |
| Property and equipment , net | 23 |
| Liability for employee rights upon retirement | (275) |
| Gain from sale of subsidiary | 951 |
| | (266) |

Supplementary disclosure of cash flow information

| (in thousands) | US dollars Year ended December 31, | | |
|-----------------------------------|---------------------------------------|--------|--------|
| | 2016 | 2015 | 2014 |
| Interest paid | 324 | 203 | 397 |
| Income taxes paid, net of refunds | 17,699 | 10,181 | 15,078 |

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

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

1. Operations

Ituran Location and Control Ltd. (the “Company”) commenced operations in 1994. The Company and its 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.

The Group operates through subsidiaries in Brazil and Argentina, which generates revenues in their respective local currencies. The local currencies of such countries have been subject to significant fluctuations in recent years and the exchange rate of the Argentinian Pezo to the US Dollar (the presentation currency of the Group) was decreased significantly during fiscal year 2016.

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)”. Translation gains and losses resulting from changes in exchange rates used in the translation of intercompany balances that are long term investment nature (i.e. which their settlement is not planned or anticipated) are also included in 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 as applicable.

The following table presents data regarding the dollar exchange rate of relevant currencies and the Israeli CPI:

| At December 31, | Exchange rate of one US dollar | | | Israeli CPI ^(*) |
|-----------------|-----------------------------------|--------|--------|-------------------------------|
| | NIS | Real | Pezo | |
| 2016 | 3.845 | 3.2591 | 15.850 | 112.59 |
| 2015 | 3.902 | 3.9048 | 13.005 | points |

| | | | | |
|--------------------------------------|----------|-----------|---------|---------|
| | | | | 112.82 |
| | | | | points |
| | | | | 113.96 |
| | | | | points |
| 2014 | 3.889 | 2.6562 | 8.552 | |
| Increase (decrease) during the year: | | | | |
| 2016 | (1.46)% | (16.54)% | 21.87 % | (0.2)% |
| 2015 | 0.33 % | 47.01 % | 52.07 % | (1.0)% |
| 2014 | 12.04 % | 13.39 % | 31.21 % | (0.2)% |

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

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. General (cont.)

3. Basis of presentation

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

4. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from the estimates.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to legal contingencies, revenue recognition and related deferred expenses, 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 non-controlling 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 non-controlling 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. 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 years 2016, 2015 and 2014 amounted to approximately US\$ 115,000, US\$ 666,000 and US\$ 133,000 respectively.

E. Treasury stock

Company shares held by the Company 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. 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, 2016 and 2015 was US\$ 2,180,000 and US\$ 2,063,000, respectively.

G. 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).

H. 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.

In accordance with ASC Topic 323-10-40-1, a change in the Company's proportionate share of an investee's equity, resulting from issuance of shares by the investee to third parties, is accounted for as if the Company had sold a proportionate share of its investment. Any gain or loss resulting from an investee's share issuance is recognized in earnings.

Management evaluates investments in affiliated companies, for evidence of other-than-temporary declines in value. Such evaluation is dependent on the specific facts and circumstances and includes analysis of relevant financial information (e.g. budgets, business plans, financial statements, etc.). During 2016 and 2015, no impairment was identified.

Investments in companies in which the company no longer has significant influence, are classified as "investments in other companies". See I. below.

I. Investment in other company

Non-marketable investment in other company in which the Company does not have a controlling interest nor significant influence is accounted for at cost, net of write down for any permanent decrease in value.

J. 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 monthly 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. 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. 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.

K. Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the 1. straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated on the straight-line method over the shorter of the estimated useful life of the property or the duration of the lease.

2. Rates of depreciation:

| | |
|---|--|
| | % |
| Operating equipment (mainly 20%-33%) | 6.5-33 |
| Office furniture, equipment and computers | 7-33 |
| Buildings | 2.5 |
| Vehicles | 15 |
| Leasehold improvements | Duration of the lease which is less or equal to useful life. |

L. Impairment of long-lived assets

The Group's long-lived assets (including finite-lived intangible 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 1N).

M. 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.

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 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 15L.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Income taxes (cont.)

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.

N. Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in business combinations accounted for 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 (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").

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.

As of December 31, 2016 the company had two reporting units that include goodwill (three in 2015 and four in 2014)

The Company performed a qualitative assessment for two reporting units as of December 31, 2016 and 2015, 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 units (two in 2014, one in 2015 and zero in 2016), operating in Israel, the Company elected to bypass the qualitative assessment and proceeded directly to performing the first step of the goodwill impairment test.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Goodwill and intangible assets (cont.)

1.(cont.)

As a result, during 2015 and 2014, the Company recorded a goodwill impairment loss in an amount of US\$ 674,000 and US\$ 879,000, 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 of December 31, 2016 the remaining intangible assets are amortized over a period of 10 years.

Recoverability of intangible assets is measured as described in Note 1L above. During 2015, the Company recorded an intangible assets impairment loss in an amount of US\$ 255,000. See Note 7.

O. 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.

P. 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, 2016, 2015 and 2014, amounted to US\$ 1,595,000 US\$ 1,386,000 and US\$ 1,460,000, respectively.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Q. 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).

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. Amounts earned by the Brazilian subsidiary for arranging a bundle transaction of SVR services subscription and installation services together with insurance services to be supplied by a third party insurance company, are recognized ratably on a straight-line basis over the subscription period, since the amount allocated to the company, is contingent upon the delivery of the SVR services. As the insurance company is the primary obligor of the insurance component, the company recognizes only the net amounts as revenues, after deduction of amounts related to the insurance component.

4. 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.

5. Extended warranty

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

R. 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

S. 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.

T. Advertising costs

Advertising costs are expensed as incurred.

Advertising expenses for the years ended December 31, 2016, 2015 and 2014 amounted to US\$ 6.9 million, US\$ 6.8 million and US\$ 6.7 million, respectively. Advertising expenses are presented among "selling and marketing expenses".

U. 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 effect of any potential dilutive ordinary shares. During the reporting periods there were no such potential shares.

V. 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.

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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

V. Fair value measurements (cont.)

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 1N and 1L above).

As of December 31, 2015, the Company measured the fair value of goodwill with a total carrying amount of US\$ 0.7 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\$ 0.7 million, to its implied fair value of US\$ 0 million. The fair value measurement of the non-financial assets was classified as level 3.

As of December 31, 2016, management determined based on qualitative assessment, that there is no need to perform fair value measurement of the remaining balance of goodwill.

W. Deferred installation expenses and prepaid 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 was 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 estimated 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.

Prepaid expenses, consist of amounts paid by the Brazilian subsidiary to insurance companies as a prepaid insurance on behalf of its customers as part of bundle transactions of SVR services together with insurance services to be supplied by a third party insurance company. Under such transactions, the customers are required accordingly to pay the Brazilian subsidiary a monthly fee for all the bundled services (see Note 1Q regarding the revenue recognition of bundle transactions). The insurance companies are obligated to refund any unearned insurance amounts to the Brazilian subsidiary in the event of cancelation by the customers. The prepaid expenses are amortized over the contractual life of the insurance service with the insurance company (usually 12 months) by the straight-line method. The amortization is netted against the monthly receipts from customers for the bundled services.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

X. Stock-based compensation

The Company measures and recognizes compensation expense for cash bonuses to senior employees, which are based, or partly based, on the price of the Company's shares in accordance with ASC 718 -30, "Compensation-Stock Compensation - Awards Classified as Liabilities" (See Note 17 C regarding "Excess Return Cash Incentives").

The awards are measured at the grant date at their fair value and remeasured at the end of each reporting period through settlement, with changes in the fair value recognized as compensation cost over the requisite service period. Compensation cost for awards that are subject to market conditions are attributed separately for each vesting tranche of the award (generally calendar year).

Y. Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation. Such reclassifications did not have any significant impact on the Company's equity, net income or cash flows.

Z. Recently issued accounting pronouncements

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

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.

During 2016, the FASB issued several Accounting Standard Updates that focuses on certain implementation issues of the new revenue recognition guidance including Narrow-Scope Improvements and Practical Expedients, Principal versus Agent Considerations and Identifying Performance Obligations and Licensing.

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 (full retrospective method), or, 2. Retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application (the cumulative catch-up transition method or modified retrospective method). 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 (including the amendments introduced through recent ASU's) are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period (the first quarter of fiscal year 2018 for the Company). Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

The Company intends to adopt ASU 2014-09 as of January 1, 2018. The Company currently anticipates adopting the standard using the modified retrospective method rather than full retrospective method.

The Company is in the process of evaluation the impact of ASU 2014-09 on its revenue streams and selling contracts, if any, and on its financial reporting and disclosures. At this stage, management believes that the standard will not have significant effect on the timing of recognizing revenues from SVR services subscription fees, as such services are recognized monthly, or the timing of recognizing revenues from sales of products. However, the process of evaluation the impact of ASU 2014-09 implications has not been completed yet. Management is expecting to complete the evaluation of the impact of the accounting and disclosure changes on the business processes, controls and systems throughout 2017.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Z. Recently issued accounting pronouncements (cont.)

Accounting Standard Update 2015-11, "Simplifying the Measurement of Inventory"

In July, 2015, The FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330) ("ASU 2015-11").

ASU 2015-11 outlines that inventory within the scope of its guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out (LIFO) and the retail inventory method (RIM) are not impacted by the new guidance. Prior to the issuance of ASU 2015-11, inventory was measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and floor of net realizable value less a normal profit margin).

For a public entity, the amendments in ASU 2015-11 are effective, in a prospective manner, 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 adoption is permitted as of the beginning of an interim or annual reporting period.

The Company does not believe this ASU will have a significant impact on its consolidated financial statements.

Accounting Standards Update 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes"

In November 2015, the FASB has issued Accounting Standards Update (ASU) No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which changes how deferred taxes are classified on organizations' balance sheet.

The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, all deferred tax assets and liabilities will be required to be classified as noncurrent.

The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods (i.e., in the first quarter of 2017 for calendar year-end companies).

Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period.

The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). If applied prospectively, entities are required to include a statement that prior periods were not retrospectively adjusted. If applied retrospectively, entities are also required to include quantitative information about the effects of the change on prior periods.

The Company does not believe this ASU will have a significant impact on its consolidated financial statements.

Accounting Standards Update 2016-02, "Leases"

In February, 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842).

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1. A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and, 2. A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Z. Recently issued accounting pronouncements (cont.)

Accounting Standards Update 2016-02, "Leases" (cont.)

Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year Company). Early application is permitted for all public business entities upon issuance.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

The Company is in the process of assessing the impact, if any, of ASU 2016-02 on its consolidated financial statements.

Accounting Standards Update 2016-18, "Restricted Cash"

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230) ("ASU 2016-18").

The amendments in ASU 2016-18 apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

For public business entities, ASU 2016-18 will be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented.

Management does not believe that the provisions of ASU 2016-18 will have a significant effect on its consolidated financial statements.

Accounting Standards Update No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04").

ASU 2017-04 eliminate Step 2 from the goodwill impairment test, to simplify the subsequent measurement of goodwill. In accordance with the new guidance, the annual, or interim, goodwill impairment test is performed by

comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable.

The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Z. Recently issued accounting pronouncements (cont.)

Accounting Standards Update No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" (cont.)

The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition.

A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

Management does not believe that the provisions of ASU 2017-04 will have a significant effect on its consolidated financial statements.

Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"

In June 2016, The FASB has issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13").

The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations.

ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.

Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances.

ASU 2016-13 requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements.

In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

ASU 2016-13 is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities).

Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Company is in the process of assessing the impact, if any, of ASU 2016-13 on its consolidated financial statements.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 - OTHER CURRENT ASSETS

| | US dollars | |
|--------------------------------|--------------|--------|
| | December 31, | |
| (in thousands) | 2016 | 2015 |
| Prepaid expenses | 22,358 | 10,960 |
| Government institutions | 4,068 | 1,910 |
| Deferred installation expenses | 3,000 | 2,403 |
| Deferred income taxes (*) | 4,034 | 2,752 |
| Advances to suppliers | 127 | 84 |
| Employees | 540 | 389 |
| Forward Exchange Contracts | - | 1,063 |
| Others | 1,395 | 2,876 |
| | 35,522 | 22,437 |

(*)See Note 15.

NOTE 3 - INVENTORIES

| | US dollars | |
|-------------------|--------------|--------|
| | December 31, | |
| (in thousands) | 2016 | 2015 |
| Finished products | 7,793 | 8,833 |
| Raw materials | 6,558 | 3,948 |
| | 14,351 | 12,781 |

NOTE 4 - INVESTMENTS IN AFFILIATED AND OTHER COMPANY

A. Investment in affiliated companies

| | US dollars | |
|----------------------|--------------|--------|
| | December 31, | |
| (in thousands) | 2016 | 2015 |
| Bringg (see 1 below) | 3,408 | 3,082 |
| RTI (see 2 below) | 8,387 | (666) |
| IRT (see 2 below) | (266) | 1,662 |
| IRTA (see 2 below) | 446 | 627 |
| | 11,975 | 4,705 |

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

In December 2013, the Company invested \$1.4 million in Bringg Delivery Technologies Ltd. ("Bringg") (formerly Overvyoo Ltd.), an Israeli start-up company developing solutions for the management of mobile/field workforce. In January and July 2015, the Company invested additional amounts of \$1.1 million and US\$2 million in Bringg, respectively. During November 2015 and July 2016, additional investors not related to Ituran, invested in Bringg, which reduced the percentage from 45% to 38.96% of the shares held by Ituran in Bringg, as at December 31, 2016.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 4 - INVESTMENTS IN AFFILIATED AND OTHER COMPANY (Cont.)

A. Investment in affiliated companies
(Cont.)

In September 2015, one of the largest global road vehicles manufacturers signed a four year agreement with Ituran Road Track Monitoramento De Veiculos Ltda. ("IRT") to offer Ituran's services in the Brazilian market (such as vehicle security, personal safety, remote diagnostic, web and app application and concierge). The agreement has a long-term timeframe.

On May 2016, the same global automaker signed a four year agreement with Ituran Road Track Argentina S.A ("IRTA") to offer telematics services in the Argentinian market.

These services are provided through a joint venture as follows:

2.1 ITURAN ROAD TRACK MONITORAMENTO De Veiculos Ltda.

In February 2015, IRT was established as a joint venture between Ituran and Road Track in order to offer Ituran's services to the Brazilian market. Since IRT's inception and as at balance sheet date, Ituran holds 50% of the shares of IRT. IRT is jointly controlled and therefore is not consolidated in the company's financial statements.

2.2 RTI URUGUAY S.A. ("RTI")

In March 2015, RTI was established as a joint venture between Ituran and Road Track in order to provide automatic vehicle location equipment to the same global road vehicles manufacturers as mentioned in section 2 above. Since RTI's inception and as at balance sheet date, Ituran holds 50% of the shares of RTI. RTI is jointly controlled and therefore is not consolidated in the company's financial statements.

As of December 31, 2016, the Company's investment included long-term loans in the amount of US\$ 7.5 million. The loan bears an annual interest of Libor plus 3.5%. The maturity of the loan has not yet been determined.

2.3 ITURAN ROAD TRACK ARGENTINA S.A

In October 2015, IRTA was established as a joint venture between Ituran and Road Track in order to offer Ituran's services in the Argentinian market. Since IRTA's inception and as at balance sheet date, Ituran holds 50% of the shares of IRTA. IRTA is jointly controlled and therefore is not consolidated in the company's financial statements.

As of December 31, 2016, the Company's investment included long-term loans in the amount of US\$ 1 million. The loan bears an annual interest of 25%. The maturity of the loan has not yet been determined

B. Investment in other company

Locationet Systems Ltd. ("Locationet")

The Company holds 19.15% of the shares of Locationet.

The balance of the Company's investment in Locationet as of December 31, 2016 and 2015 was US\$ 85,000 and US\$ 78,000 respectively.

NOTE 5 - OTHER NON-CURRENT ASSETS

| (in thousands) | US dollars | |
|--------------------------------|----------------------|-------|
| | December 31, 2016 | 2015 |
| Deferred installation expenses | 682 | 488 |
| Deposits | 833 | 678 |
| | 1,515 | 1,166 |

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 6 - PROPERTY AND EQUIPMENT, NET

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

| (in thousands) | US dollars | |
|---|----------------------|----------|
| | December 31, 2016 | 2015 |
| Cost : | | |
| Operating equipment (*) | 48,598 | 43,740 |
| Office furniture, equipment and computers | 26,992 | 24,790 |
| Land | 1,022 | 1,022 |
| Buildings | 1,888 | 1,845 |
| Vehicles | 4,924 | 3,810 |
| Leasehold improvements | 4,176 | 3,616 |
| | 87,600 | 78,823 |
| Less – accumulated depreciation and amortization (**) | (51,956) | (47,309) |
| Total property and equipment, net | 35,644 | 31,514 |

(*) As December 31, 2016 and 2015, an amount of US\$ 28.6 million and US\$ 26 million is subject to operating lease transactions, respectively.

(**) As at December 31, 2016 and 2015, an amount of US\$ 12.5 million and US\$ 10.4 million is subject to operating lease transactions, respectively.

In the years ended December 31, 2016, 2015 and 2014, depreciation expense was US\$ 11.6 million, US\$ 10.9 million and US\$ 11.2 million, respectively and additional equipment was purchased in an amount of US\$ 13.6 million, US\$ 18.7 million and US\$ 15 million, respectively.

NOTE 7 - INTANGIBLE ASSETS, NET

A. Intangible assets

As December 31, 2016 and 2015, the remaining balance of intangible assets consists of unamortized balance of patents in an amount of 23,000 and 26,000 respectively.

Amortization and impairment of intangible assets amounted to US\$ 0, US\$ 430,000 and US\$ 231,000 for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, the estimated aggregate amortization of intangible assets for the next five years is as follows: 2017-3,000 and thereafter – 20,000.

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

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 8 - GOODWILL

A. The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2015 are as follows:

| | US dollars | | |
|-----------------------------------|-------------------------|----------------------------------|-------|
| | Location based services | Wireless communications products | Total |
| (in thousands) | | | |
| Balance as of January 1, 2015 (*) | 1,544 | 2,497 | 4,041 |
| Changes during 2015: | | | |
| Impairment (see B. below) | - | (674) | (674) |
| Translation differences | (5) | (6) | (11) |
| Balance as of December 31, 2015 | 1,539 | 1,817 | 3,356 |
| Changes during 2016: | | | |
| Translation differences | 23 | 27 | 50 |
| Balance as of December 31, 2016 | 1,562 | 1,844 | 3,406 |

(*) The accumulated amount of impairment loss as of December 31, 2016, December 31, 2015 and December 31, 2014 was US\$ 7,098,000, US\$ 7,098,000 and US\$ 6,424,000, respectively.

B. During 2015 and 2014, the Company recorded an amount of US\$ 674,000 and US\$ 879,000, respectively, as impairment with respect to goodwill. No impairment was recognized in 2016.

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

The Company performed its annual impairment test as of December 31, 2015 and recorded goodwill impairment in the total amount of US\$ 0.7 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 2 years of projected net cash flows, a discount rate of 20% and a long-term growth rate of 0%

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 two 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 16.9% and a long-term growth rate of 0%

See Note 1V regarding fair value measurements.

NOTE 9 - CREDIT FROM BANKING INSTITUTIONS

Lines of credit

Unutilized short-term lines of credit of the Group as of December 31, 2016, aggregated to US\$ 0.8 million.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 10 - OTHER CURRENT LIABILITIES

Composition:

| (in thousands) | US dollars | |
|-----------------------------------|----------------------|--------|
| | December 31, 2016 | 2015 |
| Accrued expenses | 12,048 | 7,439 |
| Accrued payroll and related taxes | 5,002 | 4,255 |
| Government institutions | 4,747 | 5,742 |
| Related party | 3 | 2 |
| Accrued dividend | 4,191 | 3,128 |
| Others | 747 | 1,184 |
| | 26,738 | 21,750 |

NOTE 11 - CONTINGENT LIABILITIES

A. Claims

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.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 11 - CONTINGENT LIABILITIES (cont.)

A. Claims (cont.)

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 Administrative Court of Appeal has partially accepted our administrative defense in order to reduce the percentage of penalty imposed on us. Subsequently, Ituran Brazil filed a Special Appeal to the Superior Court of Tax Appeals, an administrative venue. ² The Special Appeal lodged by Ituran Brazil was not accepted by the Superior Court of Tax Appeals. Ituran Brazil challenged the tax assessment before a Federal Court of Law by our special appeal, which was rejected on January 18th, 2016, and terminated the administrative venue. On March 15, 2016, we have taken the dispute to Judiciary venue, and filed a lawsuit in order to challenge the administrative decision. On July 2016 the federal government filed its defense, and on Sept. 2016 we filed counterarguments and request for the drafting of an accounting report to be made by a court-appointed expert. We are currently waiting for the court to analyze our last request. Based on the legal opinion of the subsidiary's Brazilian legal counsel we believe that such claim is without merit, as the assessment based on wrong assumption, since offsetting proceedings did not have any tax effect and the chances of our success are more likely than not. As of December 31, 2016, the aggregate sum claimed pursuant to the tax assessment (principal amount, interest and penalties) is estimated at R\$12.1 million.

3. On January 12, 2016, 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 2012 which amounts on December 31, 2016 to R\$ 3,049,156 (approximately US\$ 915,000) including interest and penalties. This amount added up to the previous FUST tax assessments for the years 2007 and 2008 which was issued on October 20, 2011, and including interest and penalties, on December 31, 2016 amounts to R\$ 4,689,289 (approximately US\$ 1,407,000), to FUST tax assessment for the year 2010 which including interest and penalties, on December 31, 2016 amounts to R\$ 3,350,843 (approximately US\$ 1,005,000) and to FUST tax assessment for the year 2011 (and January 2012) which including interest and penalties, on December 31, 2016 amounts to R\$ 3,191,219 (approximately US\$ 957,000). Due to the such last tax assessment, on December 31, 2015, the aggregate amount claimed by Anatel increased to approximately R\$ 14.3 million (approximately US\$ 4.3 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 and therefore the chances of our success are more likely than not and accordingly no provision has been made. We have filed our

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defense for the years 2007 and 2008 on December 2011. Our Defense for the year 2010 was filed on November 2014,our defense for the year 2011 (and January 2012) was filed on February 2016 and our Defense for the year 2012 was filed on February 2016. We are currently awaiting the Lower Court decisions on all the aforementioned FUST claims.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 11 - CONTINGENT LIABILITIES (cont.)

A. Claims (cont.)

- On November 22, 2016, Brazilian Federal Communication Agency - Anatel – issued an additional tax assessment for FUNTELL contribution (contribution to Fund for the Technological Development of Telecommunication) levied on the monitoring services rendered by us regarding the year of 2012 which on December 31, 2016 amounts to R\$ 1,313,719 (approximately US\$ 395,000) including interest and penalties. This amount added up to the previous FUNTELL tax assessments for the year 2007, which was issued on July 13, 2011, and including interest and penalties, on December 31, 2016 amounts to R\$ 880,140 (approximately US\$ 264,000), to FUNTELL tax assessment for the year 2008 which including interest and penalties, on December 31, 2016 amounts to R\$ 861,599 (approximately US\$ 260,000), to FUNTELL tax assessment for the year 2010 which including interest and penalties, on December 31, 2016 amounts to R\$ 1,198,362 (approximately US\$ 360,000) and 2011 which on December 31, 2016 amounts to R\$ 1,185,316 (approximately US\$ 356,000) including interest and penalties. Due to the such last tax assessment, on December 31, 2016, the aggregate amount claimed by Anatel increased to approximately R\$ 5.4 million (approximately US\$ 1.64 million). The reason Anatel demands the payment of FUNTELL 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 FUNTELL 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 and therefore the chances of our success are more likely than not and accordingly no provision has been made. We have filed our defenses as follows: for the year 2007 on July 2011, for the year 2008 on June 2011, for the year 2010 on December 2014, for the year 2011 on October 2015, and for the year 2012 on November 2016. We are currently awaiting the Lower Court decisions on all the aforementioned FUNTELL
5. On July 13, 2015 we received a purported class action lawsuit which was filed against the Company in the District Court of Central Region in Tel-Aviv, Israel, by one plaintiff who is a subscriber of the Company, alleging that the Company, which was declared a monopoly under the Israeli Restrictive Trade Practices Law, 1988, unlawfully abused its power as a monopoly and discriminated between its customers. The plaintiff claims that the alleged discrimination resulted from the Company charging higher monthly subscription fees from customers who are obliged by insurance company requirements to install location and recovery systems in their vehicles than the monthly subscription fees that are charged from customers who are not required by insurance companies to install location and recovery systems in their vehicles. In addition, the plaintiff claims that the Company offers to customers who are not required by insurance companies to install location and recovery systems in their vehicles, a discounted warrantee service to their location and recovery systems. The plaintiff claims in addition to the above, that such actions raise additional causes of action against the Company such as negotiations without good faith, executing contract without good faith, breach of contract, unjust enrichment, breach of consumer protection laws, tort laws, and breach of statutory duty. The lawsuit is yet to be approved as a class action. The total amount claimed if the lawsuit is approved as a class action was estimated by the plaintiff to be approximately NIS 300 million (approximately USD 77 million). Our defense against the approval of the class action lawsuit was filed on January 3, 2016. The plaintiff has responded to our defense on February 29, 2016, and a first preliminary hearing took place on January 4th, 2017 A class action lawsuit based on similar claims, against the Company, which description was filed with sect on form 6-K on March 22, 2011, was dismissed by the court on the request of both parties, on March

5, 2012 for a small compensation to the plaintiff and his attorneys, in a total amount of NIS 30,000 (approximately USD 7,900). Such dismissal of a similar class action lawsuit may have a positive effect on the Company's defense against the current lawsuit. Based on an opinion of its legal counsels, at this preliminary stage, the Company is unable to assess the lawsuit's chances of success, however based on the documents of the claim, the Company has good defense arguments in respect of claims made by the plaintiff and that the chances that the lawsuit will not be approved as a class action lawsuit are higher than it will be approved. While we cannot predict the outcome of this case, if we are not successful in defending our claim, we could be subject to significant costs, adversely affecting our results of operations.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 11 - CONTINGENT LIABILITIES (cont.)

A. Claims (cont.)

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.

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

As of December 31, 2016, minimum future rentals under operating leases of buildings and base station sites for periods in excess of one year were as follows: 2017 – US\$ 2.4 million, 2018 – US\$ 1.6 million, 2019 – US\$ 1.3 million, 2020 – US\$ 0.7 million and 2021 – US\$ 0.3 million.

The leasing fees expensed in each of the years ended December 31, 2016, 2015 and 2014, were US\$ 2.6 million, US\$ 2.5 million and US\$ 2.5 million, respectively.

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), 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, 2016, the Company is obliged to purchase from Telematics products in an aggregate amount of approximately US\$ 13.1 million (2017 – US\$ 7.1 million, 2018 – US\$ 6 million).

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 - STOCKHOLDERS' EQUITY

A. Share capital

1. Composition:

| | December 31, 2016 and 2015 | Registered | Issued and outstanding |
|--|-----------------------------|-----------------|---------------------------|
| | Ordinary shares of NIS 0.33 | each 60,000,000 | 23,475,431 |

2. Since May 1998, the Company has been trading its shares on the Tel-Aviv Stock Exchange ("TASE"). On September 2005, the Company registered its Ordinary shares for trade in the United States.

3. The Ordinary shares of the Company confer upon their holders the right to receive notice to participate and vote in general meetings of the Company and the right to receive dividends, if and when, declared.

4. As of December 31, 2016, 2015 and 2014, 2,507,314 ordinary shares representing 10.7% of the share capital of the Company is held by the company as treasury shares.

5. Shares of the Company held by the company have no voting rights.

6. On February 24, 2016 the company issued a press release announcing that its Board of Directors has resolved to act to voluntarily delist its ordinary shares from trading on the Tel Aviv Stock Exchange. Such delisting became effective as of May 25, 2016 with the last trading date on the Tel Aviv Stock Exchange being May 23, 2016.

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. On February 27, 2017, the board of directors approved a change in the dividend policy. The new policy calls for a dividend of \$5 million, at minimum per quarter, this new policy goes into force starting from the dividend for the first quarter 2017.

4. 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.

5. During 2014, the Company declared dividends totaling an amount of approximately US\$ 20.2 million. These dividends were paid during 2014 and January 2015.

6. During 2015, the Company declared dividends in an amount of approximately US\$ 16.3 million. These dividends were paid during 2015 and January 2016.
7. During 2016, the Company declared dividends in an amount of approximately US\$ 18.2 million. These dividends were paid during 2016 and January 2017.
8. In February 2017, the Company declared a dividend in the amount of US 0.40 dollar per share, totaling approximately US\$ 8.5 million. The dividend was paid in April 2017.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 13 - OTHER (INCOME) EXPENSES, NET

| | US dollars | | |
|--|--------------|-------|------|
| | Year ended | | |
| | December 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| Adjustment of purchase price of subsidiary sold | - | (101) | - |
| Impairment of goodwill and intangible assets (2) | - | 929 | 922 |
| Gain on sale of subsidiary (1) | - | (951) | - |
| prior years expenses | 940 | - | - |
| Other | (104) | (145) | (66) |
| | 836 | (268) | 856 |

(1) On December 31, 2015, the Company sold its entire holding in the subsidiary Mapa Internet Ltd. for a total consideration of NIS 2.3 million (approximately US\$ 600,000).

Management does not believe that the sale of Mapa internet Ltd represents a strategic shift for the company. As a result, the above transaction has not been reflected in the accompanying consolidated financial statements as discontinued operations

(2) See Notes 7, 8 and 1N.

NOTE 14 - FINANCING INCOME, NET

| | US dollars | | |
|---|---------------------|-------|-------|
| | Year ended December | | |
| | 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| Short-term interest expenses, commissions and other | 46 | 77 | 14 |
| Gains in respect of marketable securities | 115 | 666 | 133 |
| Interest income in respect of long-term loans | 225 | - | - |
| Interest income in respect of deposits | 1,944 | 773 | 982 |
| Exchange rate differences and others, net | (274) | (327) | 575 |
| | 2,056 | 1,189 | 1,704 |

NOTE 15 - INCOME TAX

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

| | US dollars | | |
|-----------------------------|-------------------------|-------|-------|
| | Year ended December 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| Income taxes (tax benefit): | | | |
| Current taxes: | | | |
| In Israel | 5,581 | 6,279 | 7,564 |
| Outside Israel | 10,303 | 6,089 | 7,630 |

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| | | | |
|----------------------------------|----------|--------|--------|
| | 15,884 | 12,368 | 15,194 |
| Deferred taxes: | | | |
| In Israel | 91 | (121) | (471) |
| Outside Israel | (1,179) | 206 | (432) |
| | (1,088) | 85 | (903) |
| Taxes in respect of prior years: | | | |
| In Israel | 81 | 369 | - |
| Outside Israel | - | - | (45) |
| | 81 | 369 | (45) |
| | 14,877 | 12,822 | 14,246 |

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - INCOME TAX (cont.)

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 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 9% for enterprises located in zone A and 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.

On December 22, 2016, the Israeli parliament passed the Law for Economic Efficiency (Legislative Amendments for Achieving Budget Objectives in the Budget Years 2017 and 2018) – 2016 (hereinafter – the "Economic Efficiency Law") and on December 29, 2016, the Law was publicized in the Official Gazette. The Economic Efficiency Law, among other things, reduced the tax rate applicable to a preferred enterprise located in Development Zone A from 9% to 7.5% (the tax rate applicable to a preferred enterprise not located in Development Zone A remained unchanged at 16%). The Economic Efficiency Law also outlined new benefit tracks for preferred technology enterprises.

As of December 31, 2016, 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 corporate income tax rate from 25% to 26.5% effective as of January 1, 2014.

On January 4, 2016, the plenary Knesset passed the Law for Amendment of the Income Tax Ordinance No. 216 which provides, inter alia, for a reduction of the corporate tax rate commencing from 2016 and thereafter by the rate of 1.5% such that the rate will be 25%.

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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - INCOME TAX (cont.)

F. Use of assumptions and judgments

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

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. In July 2015, the Company reached an agreement with the ITA in respect of the above tax assessment according to which there was no significant impact on the Company's provision with respect to prior years.

The Company and a certain Israeli subsidiary have received final tax assessments through the 2012 tax year. One of the subsidiaries in Brazil has received final tax assessments through the 2010 tax year. The other subsidiaries have not yet been assessed since incorporation.

H. Carry forward foreign tax credits and tax losses

As of December 31, 2016, the Company's non-Israeli subsidiary in the United States has available carry forward foreign tax credits in an amount of approximately US\$ 3.6 million. Most of such carry forward tax credits may be utilized until 2022.

I. The following is reconciliation between the theoretical tax on pretax income, at the applicable Israeli tax rate, and the tax expense reported in the financial statements:

| (in thousands) | US dollars | | |
|--|-------------------------|--------|--------|
| | Year ended December 31, | | |
| | 2016 | 2015 | 2014 |
| Pretax income | 50,054 | 41,833 | 47,574 |
| Statutory tax rate | 25 % | 26.5 % | 26.5 % |
| Tax computed at the ordinary tax rate | 12,514 | 11,086 | 12,607 |
| Nondeductible expenses (income) | 766 | 526 | 10 |
| Losses in respect of which no deferred taxes were generated (including changes in valuation allowance) | (151) | 831 | (304) |
| Deductible financial expenses recorded to other comprehensive income | 90 | (439) | (365) |
| Tax adjustment in respect of different tax rates | 2,040 | 1,411 | 1,662 |

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| | | | |
|--|--------|--------|--------|
| Taxes in respect of withholding at the source from royalties and dividends | 95 | 78 | 615 |
| Adjustment in respect of tax rate deriving from “approved enterprises” | (501) | (405) | (558) |
| Others | 24 | (266) | 579 |
| | 14,877 | 12,822 | 14,246 |

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - INCOME TAX (cont.)

J. Summary of deferred taxes

Composition:

| | US dollars | |
|--|--------------|-------|
| | Year ended | |
| | December 31, | |
| (in thousands) | 2016 | 2015 |
| Deferred taxes included in other current assets: | | |
| Provision for employee related obligations | 166 | 145 |
| Provision for legal obligation and other | 3,868 | 2,607 |
| | 4,034 | 2,752 |

Composition:

| | US dollars | |
|---|--------------|---------|
| | Year ended | |
| | December 31, | |
| (in thousands) | 2016 | 2015 |
| Long-term deferred income taxes: | | |
| Provision for employee related obligations | 771 | 718 |
| Carry forward tax losses and foreign tax credit | 3,600 | 4,321 |
| Temporary differences, net | 1,185 | 1,237 |
| | 5,556 | 6,276 |
| Valuation allowance | (3,276) | (3,997) |
| | 2,280 | 2,279 |

| | US dollars | |
|--|--------------|-------|
| | Year ended | |
| | December 31, | |
| (in thousands) | 2016 | 2015 |
| Deferred income taxes included in long-term investments and other assets | 2,280 | 2,279 |
| | 2,280 | 2,279 |

K. Income before income taxes is composed as follows:

| | US dollars | | |
|--|-------------------------|--------|--------|
| | Year ended December 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| The Company and its Israeli subsidiaries | 22,634 | 23,987 | 26,021 |
| Non-Israeli subsidiaries | 27,420 | 17,846 | 21,553 |
| | 50,054 | 41,833 | 47,574 |

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 |
|--|---------------|
| (in thousands) | |
| Balance at January 1, 2014 | 472 |
| Translations differences related to the current year | (51) |
| Balance at December 31, 2014 | 421 |
| Decrease related tax positions of prior years | (419) |
| Translations differences related to the current year | (2) |
| Balance at December 31, 2015 | - |

As of December 31, 2016 there are no uncertain tax positions

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, 2016, 2015 and 2014, are as follows:

| | US dollars | | |
|---|-------------------------|--------|--------|
| | Year ended December 31, | | |
| | 2016 | 2015 | 2014 |
| (in thousands) | | | |
| Net income attributable to stockholder's used for the computation of basic and diluted earnings per share | 32,139 | 24,971 | 30,429 |
| | | | |
| | Number of shares | | |
| | Year ended December 31, | | |
| | 2016 | 2015 | 2014 |
| (in thousands) | | | |
| 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 Tzivtit Insurance Ltd. ("Tzivtit Insurance"), owned by a director of the Company, serves as the Company's insurance agent and provides the Company with elementary insurance and managers insurance.

In respect of these insurance services, Tzivtit Insurance is entitled to receive commissions at various rates, paid by the insurance company (which is not considered a related party).

With respect to basic insurance policies, and directors and offices insurance policies, the Company paid to the insurance company in 2016, US\$ 331 thousand and US\$ 160 thousand, respectively (In 2015 US\$ 304 thousand and US\$ 168 thousand, respectively.)

Tzivtit Insurance is entitled to commissions in an aggregate amount of NIS 368 thousand (US\$ 96 thousand) to be paid to Tzivtit Insurance by the insurance company on account of these policies, (US\$ 79 thousand and US\$ 52 thousand in 2015 and 2014, respectively).

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 17 - RELATED PARTIES (cont.)

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 2016, 2015 and 2014 was approximately US\$ 52,000, US\$ 57,000 and US\$ 62,000, respectively.

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:

Messrs. Izzy Sheratzky, Eyal Sheratzky, Nir Sheratzky and Gil Sheratzky (the "Executive Offices Holders" or "the Executives"), shall provide services as independent contractors, which shall be entitled to a monthly payment of NIS 225,000, 175,000, 175,000 and 125,000 respectively plus VAT, linked to the consumer price index for December 2013. At the request of the service providers, part of the fixed monthly pay may be granted through benefits, such as the provision of a company car and the payment of its maintenance costs and the cost of tax resulting therefrom. The fixed monthly pay shall also include 25 days' vacation and sick days as provided by law. The service providers 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 providers 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 (On November 7, 2016 the Company's general meeting of shareholders has reapproved the service agreements for additional 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) The service provider is convicted of a criminal offense involving moral turpitude; (b) a final court ruling (without the possibility of appeal) determines that The service provider has breached his fiduciary duty towards the Company; (c) a final court ruling (without the possibility of appeal) determines that the service provider has materially breached the agreement through the unauthorized disclosure of Company's secrets or competition with the Company.

Each of the above agreements also provides that the executives may request to provide their services to the Company as employees, 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 company's provision of the services as set forth in the service agreements.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 17 - RELATED PARTIES (cont.)

C. (cont.)

The terms of the Cash incentives applicable to 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 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 benchmark Yield over such Examined Period; and to the extent that the Company's Stock Yield exceeds the benchmark 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".

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 17 - RELATED PARTIES (cont.)

C. (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 2016 and 2015 Executive Offices Holders were entitle to Target based cash incentives at the maximum rate of (150%).

Herein below is attached table regards the aggregate amounts paid to Executive Offices Holders:

| | US dollars | | |
|----------------|---------------------|-------|-------|
| | Year ended December | | |
| | 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| Izzy Sheratzky | 1,874 | 2,249 | 3,180 |
| Eyal Sheratzky | 1,672 | 1,565 | 1,552 |
| Nir Sheratzky | 1,478 | 1,802 | 1,419 |
| Gil Sheratzky | 1,118 | 1,175 | 948 |

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 locater services and concierge services.

The Group provides Location based services in Israel, Brazil, Argentina and the United States.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 - SEGMENT REPORTING (cont.)

A. General information: (cont.)

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.

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

| (in thousands) | US dollars | | Total |
|--|-------------------------|----------------------------------|---------|
| | Location based services | Wireless communications products | |
| Year ended December 31, 2016 | | | |
| Revenues | 141,940 | 57,634 | 199,574 |
| Operating income | 45,747 | 2,251 | 47,998 |
| Assets | 84,777 | 15,793 | 100,570 |
| Goodwill | 1,562 | 1,844 | 3,406 |
| Expenditures for assets | 9,063 | 268 | 9,331 |
| Depreciation and amortization | 8,980 | 180 | 9,160 |
| Impairment of goodwill and intangible assets | - | - | - |
| Year ended December 31, 2015 | | | |
| Revenues | 127,683 | 47,945 | 175,628 |
| Operating income | 38,328 | 2,316 | 40,644 |
| Assets | 62,236 | 10,463 | 72,699 |
| Goodwill | 1,539 | 1,817 | 3,356 |
| Expenditures for assets | 14,478 | 393 | 14,871 |
| Depreciation and amortization | 8,636 | 152 | 8,788 |
| Impairment of goodwill and intangible assets | - | 929 | 929 |
| Year ended December 31, 2014 | | | |
| 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 |

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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 - SEGMENT REPORTING (cont.)

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

| (in thousands) | US dollars | | |
|---|-------------------------|---------|---------|
| | Year ended December 31, | | |
| | 2016 | 2015 | 2014 |
| Total revenues of reportable segment and consolidated revenues | 199,574 | 175,628 | 182,127 |
| Operating income | | | |
| Total operating income for reportable segments | 47,998 | 40,644 | 45,870 |
| Unallocated amounts: | | | |
| Other income (expenses) income | - | - | - |
| Financing income, net | 2,056 | 1,189 | 1,704 |
| Consolidated income before taxes on income | 50,054 | 41,833 | 47,574 |
| Assets | | | |
| Total assets for reportable segments (*) | 103,976 | 76,055 | 78,930 |
| Other unallocated amounts: | | | |
| Current assets | 43,874 | 46,119 | 57,159 |
| Investments in affiliated and other companies | 12,060 | 4,783 | 1,095 |
| Property and equipment, net | 10,912 | 8,730 | 7,786 |
| Other unallocated amounts | 7,197 | 6,316 | 7,367 |
| Consolidated total assets (at year end) | 178,019 | 142,003 | 152,337 |
| Other significant items | | | |
| Total expenditures for assets of reportable segments | 9,331 | 14,871 | 13,172 |
| Unallocated amounts | 4,498 | 3,676 | 1,917 |
| Consolidated total expenditures for assets | 13,829 | 18,547 | 15,089 |
| Total depreciation, amortization and impairment for reportable segments | 9,160 | 9,717 | 9,990 |
| Unallocated amounts | 2,475 | 2,245 | 2,229 |
| Consolidated total depreciation, amortization and impairment | 11,635 | 11,962 | 12,219 |

(*)Including goodwill.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 - SEGMENT REPORTING (cont.)

E. Geographic information

| | Revenues | | |
|----------------|-------------------------|---------|---------|
| | Year ended December 31, | | |
| (in thousands) | 2016 | 2015 | 2014 |
| Israel | 101,273 | 88,556 | 90,061 |
| United States | 8,697 | 7,811 | 7,568 |
| Brazil | 70,982 | 58,403 | 66,462 |
| Argentina | 14,772 | 17,324 | 13,792 |
| Others | 3,850 | 3,534 | 4,244 |
| Total | 199,574 | 175,628 | 182,127 |

| | Property and equipment, net | | |
|----------------|--------------------------------|--------|--------|
| | December 31, | | |
| (in thousands) | 2016 | 2014 | 2013 |
| Israel | 11,973 | 9,934 | 8,563 |
| United States | 106 | 73 | 120 |
| Brazil | 19,188 | 17,228 | 17,801 |
| Argentina | 4,377 | 4,279 | 5,424 |
| Total | 35,644 | 31,514 | 31,908 |

-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 2016, 2015 and 2014 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, marketable securities and derivatives.

Most of the Group's cash and cash equivalents, deposits in short-term investments (and investments in trading marketable securities), as of December 31, 2016 and 2015, were deposited with major banks with high credit rating. 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.

From time to time the company entered into foreign exchange forward contracts intended to protect against the increase in the purchase price of forecasted inventory purchases dominated in currencies other than the functional currency of the purchasing entity.

As of December 31, 2016 no such transactions were outstanding

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ITURAN LOCATION AND CONTROL LTD.

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. As of December 31, 2016, none of the transactions that originated in 2014 remain outstanding.

During 2014, 2015 and 2016, 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:

| As of December 31, 2015 | Liability derivatives Thousands of US dollars | Fair value |
|--|--|---------------|
| | Balance sheet location | |
| Derivatives designated as hedging instruments: | | |
| Foreign exchange contracts | Other current Assets | 1,063 |

Amounts reclassified to statement of income:

| Derivatives designated as hedging instruments | Location of loss recognized in income | Amount of gain recognized in income Thousands of US dollars |
|---|---------------------------------------|---|
| Year ended December 31, 2016 | | |
| Foreign exchange contracts | Cost of revenues | 975 |
| Derivatives designated as hedging instruments | Location of loss recognized in income | Amount of gain recognized in income Thousands of US dollars |
| Year ended December 31, 2015 | | |

| | | |
|----------------------------|------------------|-------|
| Foreign exchange contracts | Cost of revenues | 1,616 |
|----------------------------|------------------|-------|

As of December 31, 2016, there are no longer forward exchange contracts.

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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, marketable securities 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 1V.

The Company's financial assets measured at fair value on a recurring basis, consisted of the following types of instruments as of December 31, 2016 and 2015:

| | December 31, 2016 | | |
|---|----------------------|------------|------------|
| | Level 1 | Level 2 | Level 3 |
| (in thousands) | | | |
| Trading securities | 398 | - | - |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| (in thousands) | Level 1 | Level 2 | Level 3 |
| Trading securities | 2,035 | | |
| Derivatives designated as hedging instruments | - | 1,063 | - |

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F (as amended by this Form 20-F/A Amendment No. 1) 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 Officer

Date: August 31, 2017
